November 27, 2020

V.S.T. Tillers Tractors Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital Facilities	5.00	5.00	[ICRA]AA- (Stable); Reaffirmed
Non-fund Based Working Capital Facilities	5.00	5.00	[ICRA]A1+; Reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation remains supported by the dominant market position of V.S.T. Tillers Tractors Limited (VST) in the domestic tiller market supported by its long presence and widespread dealer network. VST has a market share of ~55.4% in domestic power tillers as of H1 FY2021. The ratings also favourably consider the promoter's extensive experience in the industry, VST's strong financial risk profile marked by improving revenues and profit margins in H1 FY2021, sizeable cash and liquid investments and debt-free status as on September 30, 2020.

In FY020, VST's revenues and net profits declined by 11.6% and 60.9%, respectively, on a YoY basis due to weak demand. However, with improving demand for both tillers and tractors, the company's top line grew by 22.0% YoY in H1 FY2021. With higher scale, its operating profit margin (OPM) expanded by 870 bps to 14.8% in H1 FY2021 aided by an increase in scale of operations and various cost-reduction measures undertaken by the company.

The ratings also consider the cyclicality inherent in the tractor and tiller industry in addition to the competition that limits the company's pricing flexibility to a certain extent and makes its profitability susceptible to fluctuations in input costs. The dependence of the power tiller segment on Government subsidies also exposes VST's revenues and margins to any changes in Government policies. Nevertheless, the company has launched a subsidy-neutral tiller in Tamil Nadu. These factors mitigate the subsidy risk to a certain extent.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that VST's long presence and dominant market position in the domestic power tiller industry and its increasing presence in the tractor segment will continue to support its business prospects. The company will also continue to benefit from its strong financial profile.

Key rating drivers and their description

Credit strengths

Established market position in domestic tiller market supported by long presence and widespread dealer network – VST has an established market position and a well-reputed brand presence in the power tiller segment in India with a market share of ~55.4% in H1 FY2021 (up from 45.4% in FY2020). This, coupled with addition of new dealers to its widespread dealer network of over ~330–340 dealers in H1 FY2021, continues to support the company's business operations.

Strong financial profile characterised by nil debt and sizeable cash balances and liquid investments – VST's financial profile is strong, supported by its sizeable net worth of Rs. 624.3 crore as on September 30, 2020, healthy cashflows and debt-free status. The company's liquidity position is strong with cash balance and liquid investments of Rs. 295.2 crore as on September 30, 2020. This apart, its working capital facilities of Rs. 5.0 crore remain unutilised. VST's debt indicators are expected to remain comfortable going forward, despite moderate capex in the near term.

Healthy revenue growth and margin expansion in H1 FY2021 on the back of demand growth in tractors and tillers – In FY020, VST revenues and net profits declined by 11.6% and 60.9%, respectively, on a YoY basis amid weak demand. However, the company's revenues grew 22.0% YoY during H1 FY2021 on the back of strong demand growth under both tractors and tillers segment. Additionally, tillers volumes increased 23.3% YoY on the back of VST benefitting from Government restrictions on Chinese imports of power tillers. During H1 FY2021, operating margin expanded 870 bps YoY to 14.8%, primarily on the back of higher scale of operations, various cost-reduction measures undertaken by the company and reduction in discretionary spends amid the ongoing Covid-19 pandemic. Going forward, the company's ability to grow its revenues with sustenance of margins will be a key monitorable.

Credit challenges

Exposed to cyclicality in industry with strong linkages to agricultural production and monsoon – VST derived 50.5% and 37.9% of its revenues from the power tiller and tractor segments, respectively, in H1 FY2021. The company's revenues and earnings remain exposed to the cyclicality inherent in these industries owing to the dependence on monsoon and crop production in the country.

Dependence of the power tiller segment on Government subsidies – To a large extent, power tiller sales are driven by the state government subsidies, which exposes VST's revenues and margins to any adverse changes in Government policies. Nevertheless, in the current year, it is observed that customers are purchasing tillers without waiting for subsidy (~30% of overall sales in the present quarter). Additionally, the company has launched subsidy neutral tiller in Tamil Nadu. These factors mitigate the subsidy risk to a certain extent.

Competition and pricing risks – The tractor and power tiller industries are characterised by intense competition, thus limiting VST's pricing flexibility amid fluctuating input costs. With declining imports in the current year, the pricing scenario has been relatively better.

Liquidity position: Strong

VST's liquidity position is **strong** with a cash balance of Rs. 295.2 crore as on September 30, 2020 and a Rs. 5.0-crore buffer available as working capital facilities, which have largely remained unutilised. Despite regular dividend payouts, the company's liquidity position has remained strong on the back of healthy operating cashflows, which are expected to continue in future as well. VST remains debt free and has moderate capex in the current fiscal.

Rating sensitivities

Positive triggers – The long-term rating could be upgraded on a sustained improvement in scale of operations and earnings profile. VST's ability to achieve business diversification, strengthen market share in the domestic tractor and farm equipment segment aided by product launches and geographical spread shall be key monitorables.

Negative triggers – The ratings may be revised downwards with any sharp deterioration in financial profile of the company arising from weak earnings and/or deterioration in credit metrics. Any large debt-funded acquisition or capex or any large impact on operations amid the Covid-19 pandemic will be critical monitorables.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractor Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

V.S.T. Tillers Tractors Limited (VST) was promoted in 1967 as a 60:20:20 joint venture between (1) Mr. V.T. Velu along with his two brothers in technical and financial collaboration, (2) Mitsubishi, Japan (Mitsubishi Heavy Industries Limited) and Mitsubishi Corporation) and (3) Mysore State Industrial Investment Corporation Limited, for the manufacture of power tillers and diesel engines. The commercial production of tillers commenced in 1970. Later, an additional technical and financial collaboration was entered into with Mitsubishi Agricultural Machinery Company Limited, Japan in 1984 for the manufacture of 18.5 horse power (HP) four-wheel drive tractors. However, the collaborations with all the above entities have expired. The current shareholding of the Indian promoters in VST is 51.84%, while Mitsubishi's stake is 2.93%.

VST manufactures farm equipment, namely power tillers, tractors, power weeders, diesel engines and other precision agricultural and automotive components. It also trades in certain other farm equipment (mainly rice transplanters), which are sourced from China. Headquartered in Bangalore, VST derives over ~96% of its revenues from the domestic market and has a nationwide network of more than 300 active dealers to support sales and provide after-sales services.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	614.8	543.7
PAT (Rs. crore)	46.1	18.0
OPBDIT/OI (%)	9.2%	5.8%
PAT/OI (%)	7.5%	3.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	22.8	19.4

Source: Company annual report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current rating	FY2020	FY2019		FY2018
				30-Sep-2020	27-Nov-2020	23-May-2019	21-Dec-2018	5-Apr-2018	-
1	Fund Based	Long Term	5.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	-
2	Non-fund Based	Short Term	5.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Facilities	-	NA	-	5.00	[ICRA]AA- (Stable)
NA	Non-fund Based Facilities	-	NA	-	5.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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