VST Industries (VSTIND)

ICICI direct Research

CMP: ₹ 4500 | Target: ₹ 5200 (16%) | Target Period: 12 months | **BUY**

January 23, 2020

Encouraging volume growth trajectory continues…

Revenue (net of GST) for the quarter increased 17.3% YoY to ₹ 343.8 crore. Cigarette sales increased 9% to ₹ 268 crore led by ~8% YoY volume growth along with a change in the product mix. Tobacco sales witnessed splendid growth of 43% to ₹ 100 crore. The company has been able to maintain double digit volume growth (~10%) YoY in 9MFY20. VST sells ~55% of cigarettes (largely *Charms*, *Total*) at ₹ 5-6 price points. *Edition*, at ₹ 10 price point, is contributing 5% to volumes. *Moments* and *Charminar* at below ₹ 5 price point contribute the remaining 40% of sales. Aided by higher EBITDA and reduction in corporate tax rate, net profit surged 47% YoY to ₹ 81.5 crore in Q3FY20.

Stable tax environment helps robust volume growth

The company witnessed volume growth of ~10% in 9MFY20 on account of a stable tax environment over the last two years post implementation of GST structure. In the last two years, VST has changed its product mix in favour of ₹ 5-6 price point, which now accounts for 55% of the portfolio. Moreover, *Edition* brand at ₹ 10/stick accounts for 5% of volumes. Also, the company has been gaining market share from the industry leader as reflected in its volume growth, which is over & above industry average volume growth of 4%. As a result, we change our volume growth estimates from 8% to 9% for FY20E. However, we believe volume growth will stabilise at 4% in the next two years (FY21E & FY22E). We estimate revenue and earnings CAGR of 10.8% and 17.3% in FY19-22E, respectively.

Boost in margins on account of change in product mix

Revenues have increased ~15% YoY in 9MFY20 driven by ~10% volume growth and ~5% product mix change. The company has been witnessing superior volume growth in high priced cigarettes as contribution of premium brands *Charms*, *Total* and *Edition* have increased to 60% of volumes in the last few years. With a favourable product mix, EBITDA/stick has grown at a CAGR of 12% from ₹ 0.24 in FY14 to ₹ 0.42 in FY19. Given higher sales mix of high price cigarettes (60%+) and healthy volume growth, we estimate a further improvement in EBITDA/stick to ₹ 0.45 in FY20E, ₹ 0.49 in FY21E and ₹ 0.52 in FY22E. At the CMP, dividend yield is ~2.1% while dividend payout is 65%. With low capex requirement, maximum cash flows are distributed as dividend. With high dividend payout, the business enjoys healthy return ratios (FY19: RoCE – 53.2%, RoNW – 34.6%).

Valuation & Outlook

With a wide presence at the lower price points and strong distribution of 1 million retail outlets, VST's brand has been especially popular in West Bengal, Bihar, Uttar Pradesh, Andhra Pradesh and Telangana contributing ~60% of volumes. The company's fundamentals are driven by a strong capital structure, steady cash flow and consistent dividend payment. With robust volume growth in 9MFY20 change in product mix towards high priced cigarettes, we maintain our **BUY** rating on the stock with a revised target price of ₹ 5,200/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Net Sales	946.4	1097.6	1254.9	1367.6	1491.4	10.8%
EBITDA	294.0	353.1	417.6	470.9	518.7	13.7%
EBITDA Margin %	31.1	32.2	33.3	34.4	34.8	
Net Profit	181.9	226.8	306.4	337.3	366.2	17.3%
EPS (₹)	117.81	146.90	198.44	218.43	237.19	
P/E	38.2	30.6	22.7	20.6	19.0	
RoNW %	31.3	34.2	38.8	37.0	35.8	
RoCE (%)	46.9	51.4	53.6	50.2	48.4	

Source: Company, ICICI Direct Research

VST Industries Ltd.

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	6,948.9
Total Debt (FY19)	0.0
Cash and Investments (FY19)	609.9
EV	6,338.9
52 week H/L (₹)	4856 / 3082
Equity capital	₹ 15.4
Face value (₹)	10.0

Key Highlights

- Cigarette sales up 9% YoY with ~8% volume growth during the quarter. Tobacco sales grew 43% YoY
- The company has *Edition* brand in King Size category, which contributed 5% to volumes. The ₹ 5-6 price point contributed ~55% of volumes for the quarter whereas ~₹ 4 or below price point contributed ~40% of portfolio
- Maintain BUY rating on stock with target price of ₹ 4,600 per share

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Exhibit 1: Variance Analysis

	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Total Operating Income	343.8	293.0	17.3	299.4	14.8	Net sales increased 17.3% on account of ~8% volume growth during the quarter coupled with a stable tax environment
Other Operating Income	0.6	0.3	88.2	0.2	166.7	
Raw Material Expenses	178.2	157.7	13.0	146.4	21.7	Gross margins increased 200 bps YoY on account of higher contribution of high price cigarettes in the portfolio
Employee Expense	30.5	24.1	26.7	24.8	23.1	
Excise Duty	24.7	22.7	8.7	23.7	4.4	
Other operating Expenses	26.7	24.1	10.9	31.7	-15.7	
EBITDA	108.4	87.1	24.4	96.5	12.3	Operating profit increased 24.4% during the quarter
EBITDA Margin (%)	31.5	29.7	180 bps	32.2	-69 bps	Operating margins expanded 180 bps mainly due to expansion in gross margins
Depreciation	10.3	10.1	1.9	9.3	10.3	
Interest	0.0	0.0	NA	0.0	NA	
Other Income	11.1	9.3	19.2	12.3	-9.9	
PBT	109.2	86.3	26.5	99.4	9.8	
Tax Outgo	27.7	30.9	-10.3	23.1	19.8	
PAT	81.5	55.4	47.0	76.3	6.8	Net profit surged 47% led by higher operating profit and reduction in corporate tax rates
Key Metrics						
Cigarette Sales (₹ crore)	262.6	245.4	7.0	265.8	-1.2	Cigarettes volumes grew ~8% during the quarter
Tobacco Sales (₹ crore)	100.0	70.0	42.9	57.0	75.4	Tobacco sales witnessed growth of 43% during the quarter

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			FY22E	Comments
(₹ Crore)	Old	New	% change	Old	New	% change	New	
Net sales	1284.2	1254.9	-2.3	1,389.3	1,367.6	-1.6	1,493.7	We introduce FY22E estimates. We slightly revise growth estimates downwards considering moderation in volume growth, going forward
EBITDA	448.0	417.6	-6.8	488.7	470.9	-3.6	518.7	
EBITDA Margin (%)	34.9	33.3	-161 bps	35.2	34.4	-74 bps	34.7	
PAT	308.3	306.4	-0.6	341.2	337.3	-1.2	366.2	
EPS (₹)	199.67	198.44	-0.6	220.99	218.43	-1.2	237.19	

Source: Company, ICICI Direct Research

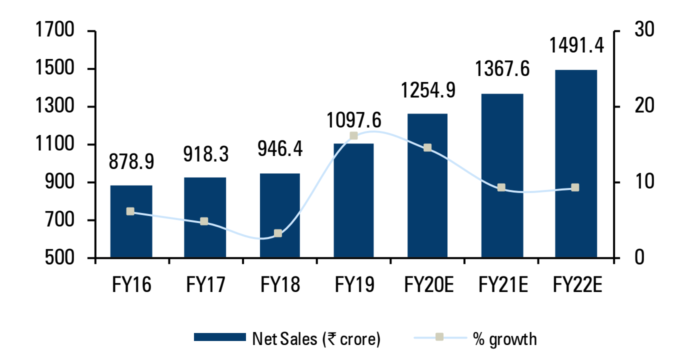
Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY20E	FY21E	
Cig. Vol. (mn sticks)	7,370.0	8,031.1	8,753.9	9,104.1	9,468.2	8,753.9	9,104.1	FY22E numbers introduced. Slight change in estimates
Cig. Vol. Growth (%)	1.2	9.0	9.0	4.0	4.0	9.0	4.0	
Realization/cig (₹)	2.9	1.2	1.2	1.3	1.4	1.3	1.3	
Tobacco Sales(₹ crore)	250.0	259.5	270.0	280.9	292.3	270.0	280.9	
% of <64mm in sales	50.0	40.0	40.0	40.0	40.0	40.0	40.0	
% of >64mm in sales	50.0	60.0	60.0	60.0	60.0	60.0	60.0	

Source: Company, ICICI Direct Research

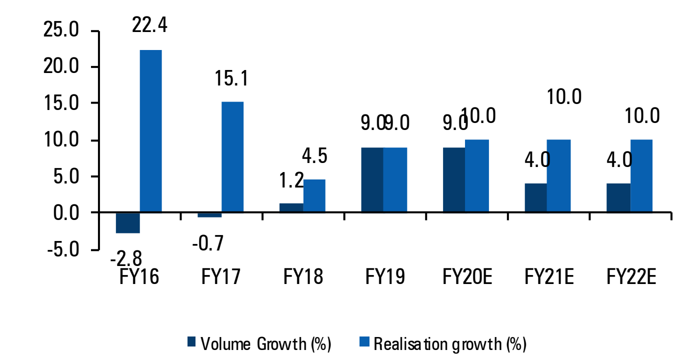
Key Metrics

Exhibit 4: Net revenue to grow at 10.8% CAGR over FY19-22E



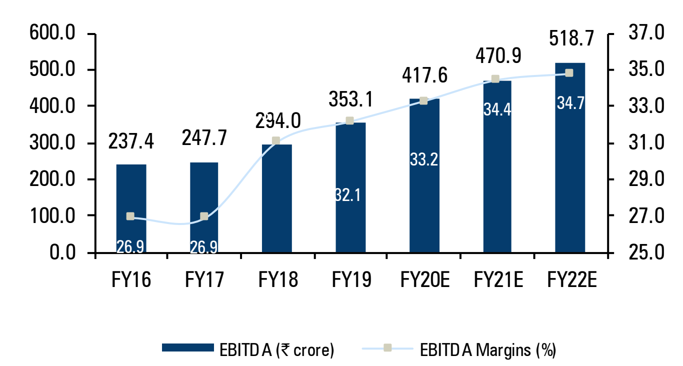
Source: ICICI Direct Research, Company

Exhibit 5: Volume growth to stabilise, going forward



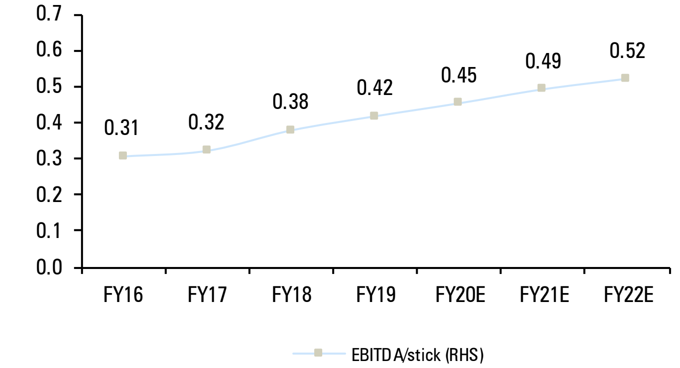
Source: ICICI Direct Research, Company

Exhibit 6: Improved product mix to aid EBITDA margins



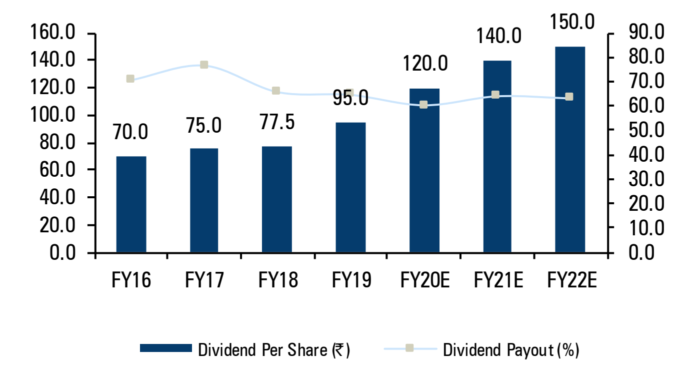
Source: Company, ICICI Direct Research

Exhibit 7: Healthy growth in EBITDA/stick (₹)



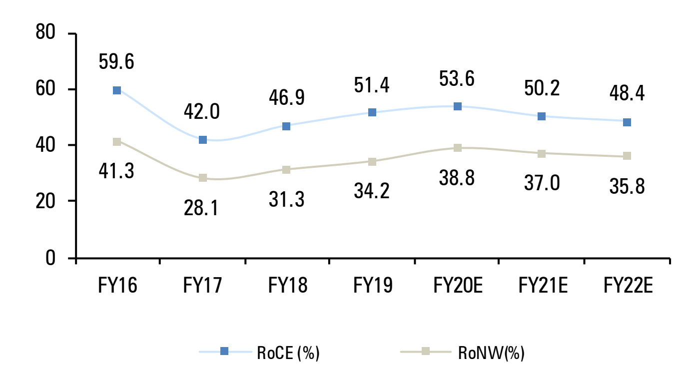
Source: Company, ICICI Direct Research

Exhibit 8: High dividend payout to continue



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios to improve



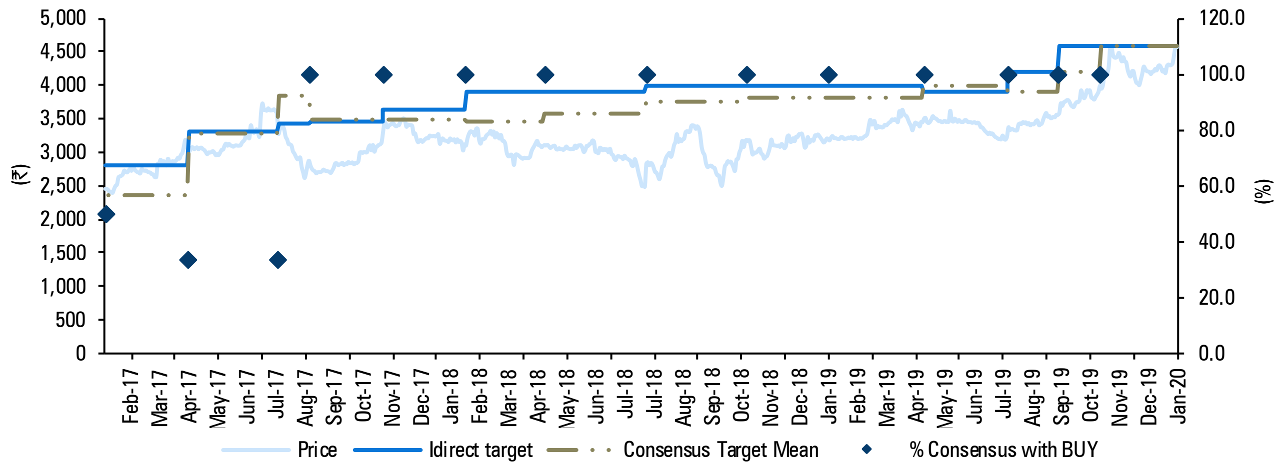
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	1097.6	16.0	146.9	24.7	30.6	19.5	34.2	51.4
FY20E	1254.9	14.3	198.4	35.1	22.7	16.5	38.8	53.6
FY21E	1367.6	9.0	218.4	10.1	20.6	14.6	37.0	50.2
FY22E	1491.4	9.0	237.2	8.6	19.0	13.2	35.8	48.4

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Bright Star Investment	30-Jun-19	26.0	4.0	0.0
2	Raleigh Investment	30-Jun-19	23.5	3.6	0.0
3	British American Tobacco	30-Jun-19	8.7	1.3	0.0
4	Hdfc Asset Management	31-Dec-19	7.1	1.1	0.0
5	Matthews Intl Capital	30-Nov-19	6.9	1.1	-0.2
6	Dsp Blackrock Invest	31-Dec-19	3.8	0.6	0.0
7	L&T Mutual Fund	31-Dec-19	3.4	0.5	0.0
8	New India Assurance	30-Jun-19	1.5	0.2	0.0
9	Tata Asset Management	31-Dec-19	1.4	0.2	0.0
10	Idbi Asset Management	31-Dec-19	0.7	0.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	32.2	32.2	32.2	32.2	32.2
FII	9.2	8.9	8.8	7.8	6.8
DII	17.0	17.9	18.3	18.5	16.7
Others	41.6	41.1	40.8	41.5	44.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Gross Revenue	**1099.0**	**1256.5**	**1369.6**	**1493.7**
Growth (%)	16.0	14.3	9.0	9.1
Raw Material Expenses	550.2	609.0	651.1	703.6
Employee Expenses	92.3	110.6	117.6	128.3
Excise Duty	85.1	97.4	95.1	103.7
Administrative Expenses	13.7	0.0	0.0	0.0
Other expenses	82.4	119.4	129.9	143.2
Total Operating Expenditure	745.9	838.9	898.6	975.0
EBITDA	**353.1**	**417.6**	**470.9**	**518.7**
Growth (%)	20.1	18.3	12.8	10.1
Depreciation	41.3	38.4	53.8	58.0
Interest	0.0	0.0	0.0	0.0
Other Income	0.0	0.0	0.0	0.0
PBT	350.7	425.5	458.9	498.3
Others	38.9	46.4	41.8	37.6
Total Tax	123.8	119.1	121.6	132.0
PAT	**226.8**	**306.4**	**337.3**	**366.2**
Growth (%)	24.7	35.1	10.1	8.6
EPS (₹)	146.9	198.4	218.4	237.2

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	222.0	306.4	337.3	366.2
Add: Depreciation	41.3	38.4	53.8	58.0
(Inc)/dec in Current Assets	4.5	-73.4	-138.2	-141.4
Inc/(dec) in CL and Provisions	58.6	-67.1	37.3	44.8
CF from operating activities	**290.2**	**206.2**	**290.2**	**327.6**
(Inc)/dec in Investments	-122.3	0.5	-0.2	-0.2
(Inc)/dec in Fixed Assets	-25.8	-40.0	-40.0	-35.0
(Inc)/dec in LT Loans & Adv.	0.0	0.0	0.0	0.0
Others	0.0	-14.7	0.3	0.4
CF from investing activities	**-148.0**	**-54.2**	**-39.8**	**-34.8**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-144.3	-171.6	-216.8	-252.9
Inc/(dec) in Reval. Reserve	0.0	0.0	0.0	0.0
Inc/(dec) in Exch. Fluc. Res.	0.0	0.0	0.0	0.0
CF from financing activities	**-144.3**	**-171.6**	**-216.8**	**-252.9**
Net Cash flow	-2.1	-19.6	33.6	39.9
Opening Cash	28.5	26.4	6.7	40.4
Closing Cash	**26.4**	**6.7**	**40.4**	**80.2**

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	15.4	15.4	15.4	15.4
Reserve and Surplus	648.6	774.7	895.2	1,008.5
Total Shareholders funds	664.0	790.1	910.6	1,023.9
Total Debt	0.0	0.0	0.0	0.0
Long Term Provisions	18.5	3.8	4.1	4.5
Total Liabilities	**682.5**	**793.9**	**914.7**	**1028.4**
Assets				
Gross Block	329.5	369.5	399.5	429.5
Less: Acc Depreciation	116.2	154.6	208.5	266.5
Net Block	213.3	214.9	191.1	163.0
Capital WIP	0.3	0.3	10.3	15.3
Deferred Tax Asset	31.0	31.0	31.0	31.0
Non Current Investments	2.3	1.7	1.9	2.0
LT Loans & Advances/Others	1.3	1.3	1.3	1.3
Current Assets				
Inventory	281.9	343.8	374.7	408.6
Debtors	14.3	17.2	18.7	20.4
Cash	36.9	6.7	40.4	80.2
Loans & Advances	0.0	8.6	9.4	10.2
Current Investments	573.1	553.1	653.1	753.1
Other CA	52.5	72.5	77.5	82.5
Current Liabilities				
Creditors	83.0	44.7	45.0	49.0
Provisions	0.0	0.0	0.0	0.0
Other CL	441.3	412.6	449.6	490.3
Net Current Assets	434.3	544.6	679.1	815.7
Total Assets	**682.5**	**793.9**	**914.7**	**1028.4**

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore

(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	146.9	198.4	218.4	237.2
Cash EPS	173.7	223.3	253.3	274.8
BV	430.0	511.7	589.8	663.2
DPS	95.0	120.0	140.0	150.0
Cash Per Share	23.9	4.4	26.1	52.0
Operating Ratios (%)				
EBITDA Margin	32.1	33.2	34.4	34.7
PBT / Net Sales	31.9	33.9	33.6	33.4
PAT Margin	20.7	24.4	24.7	24.6
Inventory days	93.7	100.0	100.0	100.0
Debtor days	4.8	5.0	5.0	5.0
Creditor days	27.6	13.0	12.0	12.0
Return Ratios (%)				
RoE	34.2	38.8	37.0	35.8
RoCE	51.4	53.6	50.2	48.4
RoIC	51.0	50.4	50.3	51.3
Valuation Ratios (x)				
P/E	30.6	22.7	20.6	19.0
EV / EBITDA	19.5	16.5	14.6	13.2
EV / Net Sales	6.3	5.5	5.0	4.6
Market Cap / Sales	6.3	5.5	5.1	4.7
Price to Book Value	10.5	8.8	7.6	6.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.2	2.3	2.4
Quick Ratio	1.2	1.4	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP		M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,480	1,400	Hold	37,806	28.5	34.0	37.1	51.9	43.5	39.9	8.5	7.9	7.3	70.7	73.5	69.4	52.2	57.2	53.9
Dabur India (DABIND)	485	550	Buy	84,312	8.2	9.3	10.3	59.2	52.3	47.2	9.9	9.0	8.2	29.6	29.9	30.0	25.7	26.8	26.7
GSK CH (GLACON)	8,810	8,780	Hold	35,327	233.7	272.5	N.A.	37.7	32.3	N.A.	7.4	6.8	N.A.	36.1	32.6	N.A.	24.0	24.8	N.A.
Hindustan Unilever (HINLEV)	2,045	2,075	Hold	440,640	27.9	34.7	40.7	73.2	58.9	50.2	11.7	10.5	9.2	85.3	103.9	111.2	80.9	89.7	96.5
ITC Limited (ITC)	238	320	Buy	306,114	10.3	12.3	13.8	23.2	19.3	17.3	6.9	6.4	5.9	30.8	30.9	30.9	21.5	23.8	23.8
Jyothy Lab (JYOLAB)	157	185	Hold	6,363	5.3	5.9	6.5	29.6	26.6	24.1	3.6	3.3	3.0	28.6	28.5	30.6	22.6	22.4	23.5
Marico (MARLIM)	335	410	Hold	50,705	8.8	8.5	9.3	38.1	39.6	36.0	6.9	6.4	5.9	38.0	41.4	43.5	31.6	34.1	35.7
Nestle (NESIND)	15,500	14,575	Hold	137,881	166.7	209.8	254.4	93.0	73.9	60.9	12.3	11.1	9.8	42.9	41.8	43.3	45.6	47.2	47.6
Tata Global Bev (TATGLO)	397	450	Buy	24,676	7.2	9.2	9.7	54.8	43.2	41.0	3.4	3.2	2.4	8.4	9.6	8.7	6.5	7.7	6.6
VST Industries (VSTIND)	4,500	5,200	Buy	6,949	146.9	198.4	218.4	30.6	22.7	20.6	6.3	5.5	5.1	51.4	53.6	50.2	34.2	38.8	37.0
Varun Beverage (VARBEV)	800	820	Buy	19,877	11.7	16.4	14.4	68.2	48.7	55.4	5.0	3.9	2.8	12.7	14.2	14.1	12.1	15.0	12.0

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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