

## Company Update

# VST Industries Ltd

Bloomberg Code: VST IN

India Research - Stock Broking

**BUY**

## Revenue Impacted Due to De-stocking Ahead of Rolling Out of GST: Prospects Brighter

**Subdued Quarterly Earnings:** VST Industries Limited has registered moderation in its earnings wherein Q1FY18 revenue of Rs.5622 Mn slumped by 4.2% on YoY basis and 1.0% on QoQ basis. However, EBITDA at Rs.653 Mn de-grew by 2.4% on YoY basis but grew by 3.1% QoQ basis; and in the process recorded improvements in EBITDA margin of 22 bps on YoY basis and 45 bps on QoQ basis. PAT of the company stood at Rs.398 Mn in Q1FY18 which de-grew by 9.0% on YoY basis but grew 10.2% on QoQ basis. Revenue got adversely impacted because of significant increase in excise duty by 20.0% as a result of tax increase in 2017 Budget and de-stocking ahead of rolling out of GST. Nonetheless, growth drivers in the form of favourable demographics, increase in disposable income, availability of improved products, growing preference for low priced cigarettes etc. remain intact.

**Implementation of GST:** The implementation of long awaited GST would have reduced tax incidence on cigarette industry as compared with the total tax in pre-GST regime. Besides, the industry will not be subjected to abrupt rising of excise, VAT, entry tax etc. The GST council has fixed the rate for cigarettes in the highest tax slab of 28% and a cess over and above the tax rate. Rates have been changed for six categories of cigarettes. For non-filter cigarettes not exceeding 65 mm, the rate has been increased to 5% plus Rs.2076 per thousand sticks from existing 5% plus Rs.1591. Similarly, for filter cigarettes exceeding 65 mm length but not more than 70 mm, rate has been increased to Rs.2747 per thousand sticks. This has led to increase in indirect tax incidence on the company. However, with the rate and cess becoming clear, the company can leverage on its portfolio mix and shift in sales mix towards 64 mm cigarettes.

## Valuation and Outlook

Given the backdrop of implementation of GST which comes with clarity on tax rate, the industry is likely to undergo consolidation wherein unorganized players would be forced to seek refuge with industry leaders like VST Industries. Moves like this would provide for big push to sales. We believe that the company will have revenue growth at CAGR of 12.5% during FY17-19E. Besides, sound financial health of the company makes it attractive investment proposition. Accordingly, we maintain our **"BUY"** recommendation on stock valuing it at P/E 20x of FY19E EPS which gives upwardly revised target price of Rs.3584 with potential upside of 24%, for next 9-12 months period.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	17231	20630	22865	25563	28886
EBITDA	2426	2374	2462	3284	4201
EBITDA Margin (%)	14.1	11.5	10.8	12.8	14.5
Adj. Net Profit	1522	1531	1672	2181	2767
EPS (Rs.)	98.6	99.2	108.3	141.3	179.2
RoE (%)	45.1	42.7	36.9	37.8	40.4
PE (x)	16.3	16.3	26.6	20.5	16.2

Source: Company, Karvy Research, \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

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### Recommendation (Rs.)

CMP (as on Aug 07, 2017)	2902
Target Price	3584
Previous Target Price	3492
Upside (%)	24

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	44803 / 705
52-wk High/Low (Rs.)	3875 / 1967
3M Avg. daily volume	3542
Beta (x)	0.6
Sensex/Nifty	32274 / 10057
O/S Shares(mn)	15.4
Face Value (Rs.)	1.0

### Shareholding Pattern (%)

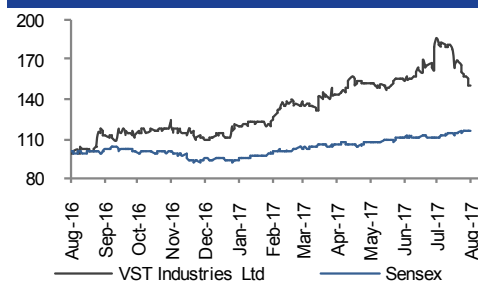
Promoters	32.2
FII	9.7
DII	14.4
Others	43.7

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	(20)	(4)	15	44
Relative to Sensex	(22)	(12)	1	25

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY18E	FY19E
Sales (%)	↑ 8.5	↑ 12.0
EBITDA (%)	↑ 19.7	↑ 31.7
PAT (%)	↑ 16.5	↑ 28.3

Source: Karvy Research

### Analyst Contact

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## Opportunities post implementation of GST

GST provides for a unique opportunity to address growing illegal cigarettes trade in the country. High incidence of tax and extreme tobacco regulations gave the rapid rise of illegal trade and drop in legal trade. Legal cigarette industry volumes remain under pressure while illegal industry experienced continued growth. The implementation of GST would bring about consolidation in the industry with unorganized players accounting for 89% of total volume and help the legal cigarettes industry to flourish.

### Exhibit 2: Q1FY18

YE Mar (Rs. Mn)	Q1FY18	Q4FY17	QoQ %	Q1FY17	YoY %
Turnover	5622	5677	(1.0)	5870	(4.2)
Expenditure	4969	5044	(1.5)	5201	(4.5)
EBITDA	653	634	3.1	669	(2.4)
Depreciation	94	105	(11.3)	82	14.4
Other Income	57	42	34.7	60.5	(5.6)
PBT	617	571	8.1	648	(4.8)
Tax	219	210	4.4	211	3.9
PAT	398	361	10.2	437.2	(9.0)
EBITDA Margin (%)	11.6	11.2	45 bps	11.4	22 bps
EBIT Margin (%)	11.0	10.1	92 bps	11.0	(7) bps
Net profit Margin (%)	7.1	6.4	71 bps	7.4	(37) bps

Source: Company, Karvy Research

### Exhibit 3: Financials

YE Mar (Rs. Mn)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Net Sales	23562	25563	8.5	25791	28886	12.0
EBITDA	2744	3284	19.7	3190.6	4201	31.7
EBITDA Margin (%)	11.6	12.8	120 bps	12.4	14.5	217 bps
Adj. Net profit	1873	2181	16.5	2157	2767	28.3
EPS (Rs.)	121.3	141.3	16.5	139.7	179.2	28.3

Note: At the time of generating ICR, Net sales figure was adjusted figure of excise duty. Now, it is part of expenses and hence excise duty has been added in old figure to make it representative.

Source: Karvy Research

## Key Risks

- Extreme regulations affect sales.
- Regional disruptions.
- Various Non-Governmental Organizations (NGO's) forums against use of tobacco.

## Financials

### Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	17231	20630	22865	25563	28886
Growth (%)	5.6	19.7	10.8	11.8	13.0
Operating Expenses	14805	18256	20403	22279	24685
EBITDA	2426	2374	2462	3284	4201
Growth (%)	11.2	(2.1)	3.7	33.4	27.9
Depreciation & Amortization	319	310	369	429	520
EBIT	2288	2266	2468	3233	4103
Other Income	181	202	376	378	421
PBT	2288	2266	2468	3233	4103
Tax	766	735	796	1051	1335
Adjusted PAT	1522	1531	1672	2181	2767
Growth (%)	1.4	0.6	9.2	30.5	26.9

Source: Company, Karvy Research

### Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
Cash & Cash Equivalents	421	212	199	489	970
Trade receivables	120	124	120	160	157
Loans & Advances	188	180	192	537	635
Investments	1713	1622	1723	1751	1758
Net Block	1978	2147	2208	2546	3182
Other Assets	3842	3985	3515	5257	4512
<b>Total Assets</b>	<b>8260</b>	<b>8271</b>	<b>7958</b>	<b>10739</b>	<b>11214</b>
Current Liabilities	4732	4474	2478	4567	3660
Debt	0	0	0	0	0
Other Liabilities	62	93	109	8	9
<b>Total Liabilities</b>	<b>4794</b>	<b>4566</b>	<b>2587</b>	<b>4575</b>	<b>3669</b>
Shareholders Equity	154	154	154	154	154
Reserves & Surplus	3312	3550	5216	6010	7390
<b>Total Network</b>	<b>3467</b>	<b>3704</b>	<b>5371</b>	<b>6165</b>	<b>7545</b>
<b>Total Network &amp; Liabilities</b>	<b>8260</b>	<b>8271</b>	<b>7958</b>	<b>10739</b>	<b>11214</b>

Source: Company, Karvy Research

**Exhibit 6: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17	FY18E	FY19E
PBT	2288	2266	2468	3233	4103
Depreciation	319	310	369	429	520
Tax Paid	(796)	(651)	(796)	(1051)	(1335)
Inc/dec in Net WC	(466)	(411)	(192)	(138)	(256)
Others	(169)	(193)	(376)	(378)	(421)
<b>Cash flow from operating activities</b>	<b>1175</b>	<b>1321</b>	<b>1474</b>	<b>2094</b>	<b>2609</b>
Inc/dec in capital expenditure	(238)	(525)	(431)	(767)	(1155)
Interest Received	4	0	376	378	421
Others	264	285	(100)	(29)	(7)
<b>Cash flow from investing activities</b>	<b>31</b>	<b>(240)</b>	<b>(155)</b>	<b>(417)</b>	<b>(741)</b>
Dividend & Dividend Tax	(1265)	(1301)	(1387)	(1387)	(1387)
<b>Cash flow from financing activities</b>	<b>(1265)</b>	<b>(1301)</b>	<b>(1387)</b>	<b>(1387)</b>	<b>(1387)</b>
Net change in cash	(59)	(219)	(69)	289	481

Source: Company, Karvy Research

**Exhibit 7: Key Ratios**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin (%)	14.1	11.5	10.8	12.8	14.5
EBIT Margin (%)	13.3	11.0	10.8	12.6	14.2
Net Profit Margin (%)	8.8	7.4	7.3	8.5	9.6
Dividend Payout Ratio (%)	71.0	70.6	69.3	53.1	41.8
Net Debt/Equity (x)	(0.12)	(0.06)	(0.04)	(0.08)	(0.13)
RoE (%)	45.1	42.7	36.9	37.8	40.4
RoCE (%)	67.8	63.2	54.4	56.1	59.9

Source: Company, Karvy Research

**Exhibit 8: Valuation Parameters**

YE Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	98.6	99.2	108.3	141.3	179.2
DPS (Rs.)	70.0	70.0	75.0	75.0	75.0
BVPS (Rs.)	224.5	239.9	347.8	399.2	488.6
PE (x)	16.3	16.3	26.6	20.5	16.2
P/BV (x)	7.2	6.8	8.3	7.3	5.9
EV/EBITDA (x)	10.1	10.4	18.0	13.5	10.4
EV/Sales (x)	1.4	1.2	1.9	1.7	1.5

Source: Company, Karvy Research, \*Represents multiples for FY15, FY16 & FY17 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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