

Volume recovery to be prolonged...

VST Industries posted revenue growth of 9.4% but, net of excise, revenues saw 4.6% de-growth. Cigarette sales witnessed growth of 12% to ₹ 347.4 crore with flattish YoY volumes. However, on a sequential basis, cigarettes volumes grew 15% during the quarter. Tobacco sales declined 45.3% to ₹ 35 crore on account of adverse exports due to the non-availability of containers. The company has not taken a price increase in last nine months and does not intend to make any price changes in the next six months. High priced cigarettes (at a price point of ₹ 6, ₹ 7, ₹ 11) contribute ~45% of total volumes. On an annual basis, the company witnessed 17% cigarettes volume decline in FY21. Though cigarette volumes recovered considerably in the last three months, we believe state wise lockdowns would impact volumes in Q1FY22E. Operating profit increased 3.8% given the overhead spends were down 13.7% during the quarter. PAT increased 3.1% to ₹ 72.8 crore. The company declared a final dividend of ₹ 114 / share.

Lockdowns to slow recovery

VST saw 17% volume decline in FY21 on the back of supply problems due to lockdown in Q1FY21 and subsequent demand destruction due to reduced out of home activity. We were expecting volumes to recover significantly in FY22E but with the second wave of Covid-19, we believe recovery would be prolonged. We expect 6%, 3% volume growth in FY22E, FY23E, respectively. We believe taxation on cigarettes would be stable for the next few years given the industry is facing stiff challenges. The company is looking to increase contribution from its high price cigarettes, which would help it grow through realisations, going forward. We expect 8.8% revenue CAGR for FY21-23E. With stable taxation and rationalisation of overhead spends, net profit is expected to grow at a CAGR of 8%.

Strong free cash flows; high dividend payout

Despite a beleaguered year, VST was able to generate ₹ 286.2 crore of operating cash flows. It generated ~₹ 300 crore (on an average) free cash flow every year from FY18 onwards. The company declared a dividend ₹ 114 per share for FY21 (56% dividend payout). Moreover, it has consistently paid ~50-60% dividend in last six years. We believe payout would increase to 65-70% in coming years given it is holding more than ₹ 800 crore of cash & equivalent and does not have any capex requirement in future. Despite expected subdued earning, we expect RoCE, RoE to improve to 48.2%, 36.1%, respectively, by FY23E.

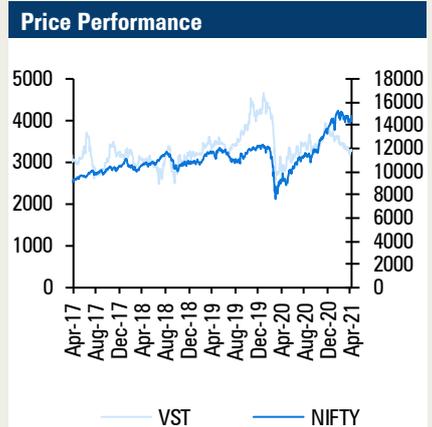
Valuation & Outlook

VST maintaining its profitability despite severe volume challenges shows its ability to manoeuvre pricing & promotion to its advantage. We believe stable taxation would help it to recover volume in future, which would help it grow revenue, earnings trajectory for the next few years. However, localised lockdowns due to severe second wave of Covid-19 would restrict out of activity and, in turn, cigarettes volumes in H2FY22. We maintain **HOLD** with a revised target price of ₹ 3600 (earlier ₹ 4200), valuing it at 15x FY23E P/E.



VST Industries Ltd.

Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	5,089.7
Total Debt (FY21)	0.0
Cash and Investments (FY21)	905.2
EV	4,184.4
52 week H/L (₹)	4538 / 2750
Equity capital	₹ 15.4
Face value (₹)	10.0



- ### Key risk
- Any severe & prolonged lockdown conditions could adversely impact volumes for second consecutive year
 - Increase in contribution of higher price cigarettes can improve margins, going forward

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	1097.6	1238.1	1109.8	1216.3	1313.0	8.8%
EBITDA	353.1	414.7	410.6	452.4	483.7	8.5%
EBITDA Margin %	32.2	33.5	37.0	37.2	36.8	
Net Profit	226.8	304.1	310.8	337.8	362.7	8.0%
EPS (₹)	146.90	196.95	201.29	218.80	234.93	
P/E	22.4	16.7	16.4	15.1	14.0	
RoNW %	34.2	38.6	33.0	33.9	36.1	
RoCE (%)	51.4	52.1	43.4	45.6	48.2	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	278.1	306.3	291.5	-4.6	286.9	-3.1	Revenues witnessed de-growth of 4.6% largely due to lower tobacco sales. Cigarette volumes were flat during the quarter
Other Operating Income	0.3	0.5	0.2	47.4	0.3	-17.6	
Raw Material Expenses	121.5	131.1	139.9	-13.2	129.4	-6.1	
Employee Expense	27.6	28.0	21.3	29.8	29.4	-6.1	
Excise Duty	104.6	100.2	58.2	79.8	93.5	11.9	
Other operating Expenses	30.8	31.5	35.7	-13.7	28.2	9.3	
EBITDA	98.3	115.7	94.7	3.8	100.0	-1.7	Operating profit grew 3.8% backed by cut down in overhead spends
EBITDA Margin (%)	35.3	37.8	32.5	285 bps	34.8	50 bps	
Depreciation	7.9	10.9	12.9	-38.9	9.4	-16.5	
Interest	0.0	0.0	0.0	NA	0.0	NA	
Other Income	6.3	10.8	12.3	-48.6	9.2	-31.3	
PBT	96.7	115.6	94.1	2.8	99.7	-3.0	
Tax Outgo	23.9	27.6	23.5	1.6	26.0	-8.1	
PAT	72.8	88.0	70.6	3.1	73.7	-1.2	PAT grew 3.1%
Key Metrics							
Cigarette Sales (₹ crore)	347.4	316.0	310.7	11.8	320.1	8.5	Cigarette sales witnessed growth of 11.8% largely driven by price hike in February last year and small change in mix
Tobacco Sales (₹ crore)	35.0	90.0	64.0	-45.3	60.0	-41.7	Tobacco exports were adversely impacted by container non-availability

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	
Net sales	1,237.8	1,216.3	-1.7	1,336.3	1,313.0	-1.7	No major changes in our estimates
EBITDA	446.5	452.4	1.3	486.4	483.7	-0.6	
EBITDA Margin (%)	36.1	37.2	112 bps	36.4	36.8	39 bps	
PAT	337.7	337.8	0.0	363.2	362.7	-0.1	
EPS (₹)	218.7	218.80	0.0	235.2	234.9	-0.1	

Source: Company, ICICI Direct Research

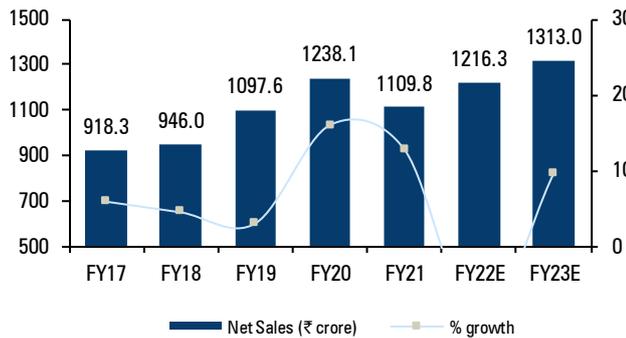
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Cig. Vol. (mn sticks)	8,031.1	8,753.9	7,265.8	7,701.7	7,932.8	7,794.5	8,028.3	No major change in estimates
Cig. Vol. Growth (%)	9.0	9.0	-17.0	6.0	3.0	6.0	3.0	
Realization/cig (₹)	1.2	1.3	1.7	1.7	1.8	1.7	1.8	
Tobacco Sales(₹ crore)	238.9	238.8	226.0	271.9	285.6	271.9	285.6	
% of <64mm in sales	40.0	40.0	40.0	40.0	40.0	40.0	40.0	
% of >64mm in sales	60.0	60.0	60.0	60.0	60.0	60.0	60.0	

Source: Company, ICICI Direct Research

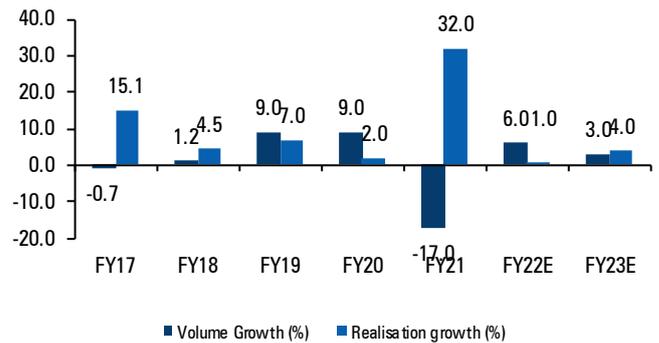
Key Metrics

Exhibit 4: Net revenue to grow at 8.8% CAGR over FY21-23E



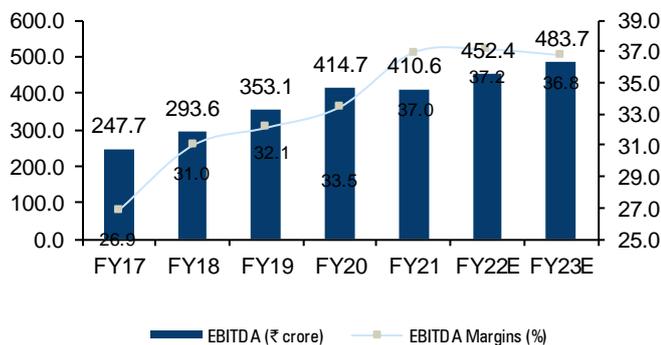
Source: ICICI Direct Research, Company

Exhibit 5: Steeper than expected volume decline in FY23E



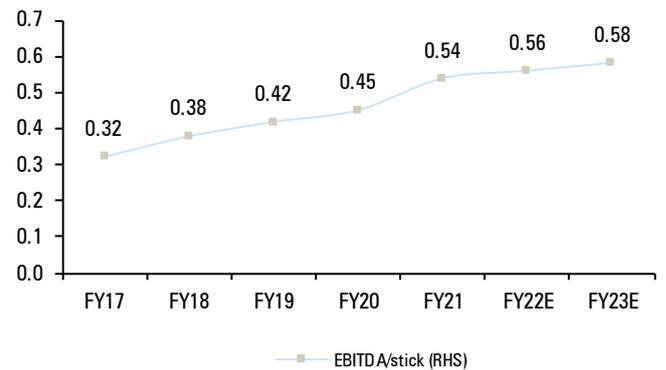
Source: ICICI Direct Research, Company

Exhibit 6: Improved product mix to aid EBITDA margins



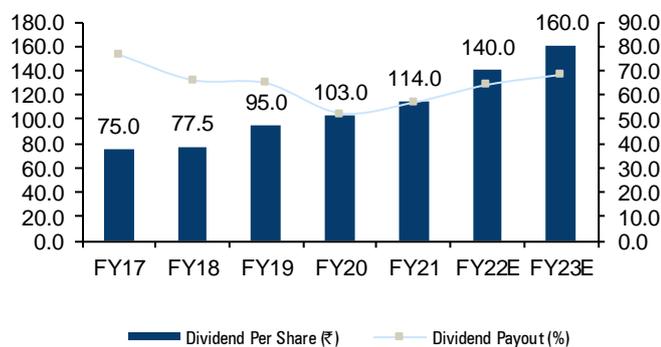
Source: Company, ICICI Direct Research

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



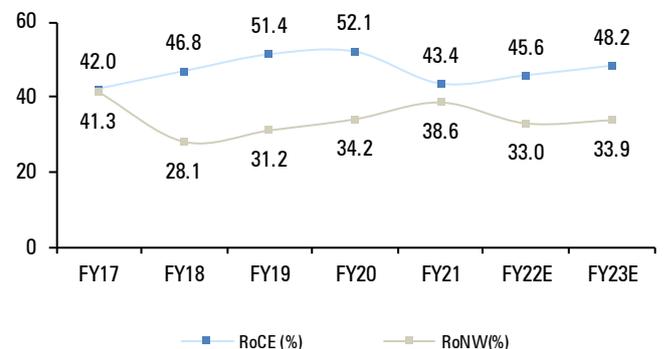
Source: Company, ICICI Direct Research

Exhibit 8: High dividend payout to continue



Source: Company, ICICI Direct Research

Exhibit 9: Attractive return ratios % (except bump in FY21)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	1238.1	12.8	196.9	34.1	16.7	12.1	38.6	52.1
FY21	1109.8	-10.4	201.3	2.2	16.4	12.3	33.0	43.4
FY22E	1216.3	9.6	218.8	8.7	15.1	11.1	33.9	45.6
FY23E	1313.0	8.0	234.9	7.4	14.0	10.4	36.1	48.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	1239.4	1111.0	1217.7	1314.7
Growth (%)	12.8	-10.4	9.6	8.0
Raw Material Expenses	598.6	478.9	528.1	573.7
Employee Expenses	102.4	114.4	121.6	132.6
Excise Duty	131.1	361.9	381.4	392.9
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	123.7	107.1	115.5	124.7
Total Operating Expenditure	824.7	700.4	765.3	831.0
EBITDA	414.7	410.6	452.4	483.7
Growth (%)	17.4	-1.0	10.2	6.9
Depreciation	41.8	35.1	38.1	41.1
Interest	0.0	0.0	0.0	0.0
Other Income	0.0	0.0	0.0	0.0
PBT	420.3	417.3	456.5	486.9
Others	47.4	41.8	42.2	44.3
Total Tax	116.2	106.5	118.7	124.2
PAT	304.1	310.8	337.8	362.7
Growth (%)	34.1	2.2	8.7	7.4
EPS (₹)	196.9	201.3	218.8	234.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	314.8	310.8	337.8	362.7
Add: Depreciation	41.8	35.1	38.1	41.1
(Inc)/dec in Current Assets	-29.0	-103.6	-50.8	-60.3
Inc/(dec) in CL and Provisions	49.6	-66.8	16.6	42.9
CF from operating activities	331.4	175.4	341.7	386.4
(Inc)/dec in Investments	-133.3	-0.9	1.0	-0.1
(Inc)/dec in Fixed Assets	-21.9	-41.4	-35.0	-35.0
(Inc)/dec in LT Loans & Adv.	0.0	0.0	0.0	0.0
Others	0.5	7.6	-18.4	0.3
CF from investing activities	-154.8	-34.7	-52.4	-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	-176.9	-159.0	-280.9	-354.5
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	-176.9	-157.4	-280.9	-354.5
Net Cash flow	-0.2	-16.7	8.3	-2.9
Opening Cash	26.4	26.2	9.6	17.9
Closing Cash	37.4	20.8	29.1	26.2

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	15.4	15.4	15.4	15.4
Reserve and Surplus	771.7	925.0	981.9	990.2
Total Shareholders funds	787.1	940.5	997.3	1,005.6
Total Debt	0.0	0.0	0.0	0.0
Long Term Provisions	19.9	22.1	3.6	3.9
Total Liabilities	806.9	962.5	1001.0	1009.6
Assets				
Gross Block	345.0	365.8	395.8	425.8
Less: Acc Depreciation	157.9	193.0	231.1	272.2
Net Block	187.1	172.8	164.7	153.6
Capital WIP	12.7	33.3	38.3	43.3
Deferred Tax Asset	26.4	25.2	25.2	25.2
Non Current Investments	1.8	2.7	1.7	1.8
LT Loans & Advances/Others	5.4	1.1	1.1	1.1
Current Assets				
Inventory	297.7	297.2	293.2	316.6
Debtors	15.4	15.2	16.7	18.0
Cash	37.4	20.8	29.1	26.2
Loans & Advances	0.0	0.0	8.3	9.0
Current Investments	751.2	884.4	924.4	954.4
Other CA	62.0	33.1	38.1	43.1
Current Liabilities				
Creditors	142.8	131.5	140.0	151.1
Provisions	0.0	0.0	0.0	0.0
Other CL	447.3	391.8	399.9	431.7
Net Current Assets	573.6	727.4	770.0	784.5
Total Assets	806.9	962.5	1001.0	1009.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	196.9	201.3	218.8	234.9
Cash EPS	224.0	224.0	243.5	261.5
BV	509.8	609.1	645.9	651.3
DPS	103.0	114.0	140.0	160.0
Cash Per Share	24.3	13.5	18.8	17.0
Operating Ratios (%)				
EBITDA Margin	33.5	37.0	37.2	36.8
PBT / Net Sales	33.9	37.6	37.5	37.1
PAT Margin	24.6	28.0	27.8	27.6
Inventory days	87.8	97.7	88.0	88.0
Debtor days	4.5	5.0	5.0	5.0
Creditor days	42.1	43.2	42.0	42.0
Return Ratios (%)				
RoE	38.6	33.0	33.9	36.1
RoCE	52.1	43.4	45.6	48.2
RoIC	25.3	21.3	22.6	23.7
Valuation Ratios (x)				
P/E	16.7	16.4	15.1	14.0
EV / EBITDA	12.1	12.3	11.1	10.4
EV / Net Sales	4.1	4.5	4.1	3.8
Market Cap / Sales	4.1	4.6	4.2	3.9
Price to Book Value	6.5	5.4	5.1	5.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.9	2.4	2.4	2.3
Quick Ratio	1.4	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,491	1,860	Buy	43,654	35.0	37.8	40.5	42.6	39.4	36.8	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	541	620	Buy	91,067	9.9	11.0	12.3	54.6	49.2	44.1	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,406	2,600	Hold	561,507	33.6	40.5	45.0	71.5	59.4	53.5	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	205	245	Hold	267,970	10.7	12.8	14.1	19.2	16.1	14.5	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	150	175	Hold	5,728	5.9	6.4	7.1	25.6	23.5	21.1	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	411	490	Buy	53,285	9.1	9.8	10.9	45.2	42.1	37.6	6.8	6.2	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	16,633	19,300	Hold	164,840	216.0	254.8	283.8	77.0	65.3	58.6	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	677	700	Buy	53,448	11.0	12.5	14.1	61.4	54.2	47.9	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,296	3,600	Hold	5,090	201.3	218.8	234.9	16.4	15.1	14.0	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	942	965	Hold	26,011	12.5	21.0	26.5	75.1	44.9	35.6	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	2,123	2,500	Buy	12,343	19.0	60.3	71.3	111.9	35.2	29.8	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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