

**VST Industries Ltd.**CMP Rs. 552.15  
HOLDResult Update  
Q4FY10

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VST Industries reported an average performance for the quarter ending March 2010, standalone basis.

For Q4 FY10, on a yoy standalone basis, Net Revenues grew by 11% from Rs. 949.7 Mn to Rs. 1,052.8 Mn. The Company generates its revenues through 2 sources, namely cigarette sales and leaf tobacco exports. Cigarette volumes grew by only 1% this quarter. The rest can be attributed to exports. On the other hand, Raw Material costs saw a dip from Rs. 580.2 Mn to Rs. 559.4 Mn, an improvement of 800 bps (as a % of Sales). As a result, Total Expenditure remained flattish and the Operating Profits registered a huge 180% increase. Operating Margins increased from 5.1% to 13%, a phenomenal improvement. However a big drop in Other Income and an Exceptional Item expense saw the Net Profits being reduced to only Rs. 34.4 Mn. Other Income reduced by half from Rs. 120.2 Mn to Rs. 61.2 Mn. Exceptional expenditure was of Rs. 124.1 Mn for employee VRS. This stood against an Exceptional gain of Rs. 126.1 Mn in Q4 FY09 for a successful claim of excise duty refund. Hence the bottomline saw a steep fall from Rs. 181 Mn to Rs. 34.4 Mn. Thus, on the operational front, we believe that the Company has done satisfactorily.

On an annual consolidated basis, FY10 Revenues grew by 23.9% over that of FY09, from Rs. 3,810.8 Mn to Rs. 4,721.7 Mn. This included a 5% volume growth for cigarettes and 44% value growth for exports. Cigarettes volume growth stood in line with that of the industry. The growth in Exports was appealing however this should not be considered as any indication for future trends. This is because, Exports are highly based on trading opportunities available at a particular point of time and which may vary according to the demand supply situation. Tobacco prices remained higher by an average 20% during the year. Other Expenses reduced by 24.7% primarily due to forex gains on exports. The Company registered a 32.5% increase at the PBT and Exceptional Items level, however, due to the one-off exceptional items, as mentioned above, Net Profit remained flat at Rs. 620.1 Mn against Rs. 619.2 Mn last year.

The Company's cash position remains strong with over Rs. 2,000 Mn at year end. The company has declared a dividend of Rs. 30 per share. VST's market share remains steady at about 7%. In response to the changed excise duty structure, in the last Budget, the Company has taken an average 20% price hike, hence passing on the duty to the consumers. Lastly, the management does not see any steep price hikes for tobacco in the near future. At the CMP of Rs. 552.15, the stock currently trades at a PE(FY10) of 13.7. We recommend a **'HOLD'**.

**Financials >>**

## VST : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q4FY10	Q3FY10	Q-Q(%)	Q4FY09	Y-Y(%)	FY10	FY09	Y-Y(%)
Net Revenues	1,052.8	1,258.2	-16.32%	949.7	10.86%	4,721.7	3,810.8	23.90%
Cost of Materials	559.4	728.6	-23.22%	580.2	-3.58%	2,618.5	1,809.3	44.72%
Gross Profit	493.4	529.6	-6.84%	369.5	33.53%	2,103.2	2,001.5	5.08%
Staff Costs	189.8	129.1	47.02%	151.0	25.70%	571.3	488.9	16.85%
Other Expenses	167.0	143.1	16.70%	169.7	-1.59%	633.4	841.4	-24.72%
Total Expenditure	916.2	1,000.8	-8.45%	900.9	1.70%	3,823.2	3,139.6	21.77%
Operating Profit	136.6	257.4	-46.93%	48.8	179.92%	898.5	671.2	33.86%
OPM (%)	13.0%	20.5%		5.1%		19.0%	17.6%	
Other Income	61.2	33.7	81.60%	120.2	-49.08%	247.6	214.8	15.27%
EBITDA	197.8	291.1	-32.05%	169.0	17.04%	1,146.1	886.0	29.36%
Depreciation	53.9	45.4	18.72%	42.0	28.33%	179.6	159.1	12.88%
EBIT	143.9	245.7	-41.43%	127.0	13.31%	966.5	726.9	32.96%
Interest	(4.7)	(1.9)	147.37%	(9.5)		(12.6)	(12.0)	
PBT and Exceptional Items	148.6	247.6	-39.98%	136.5	8.86%	979.1	738.9	32.51%
Exceptional Items	(124.1)	-		126.1		(124.1)	126.1	
PBT	24.5	247.6	-90.11%	262.6	-90.67%	855.0	865.0	-1.16%
Tax	(9.9)	74.0		81.6		234.9	245.8	
PAT	34.4	173.6	-80.18%	181.0	-80.99%	620.1	619.2	0.15%
Equity Capital (FV Rs 10)	154.4	154.4		154.4		154.4	154.4	
EPS	2.2	11.2	-80.18%	11.7	-80.99%	40.2	40.1	0.15%
Ratio Analysis								
Profitability								
YE March	Q3FY10	Q2FY10	Q-Q(bps)	Q3FY09	Y-Y(bps)	FY10	FY09	Y-Y(%)
OPM (%)	13.0%	20.5%	(748.3)	5.1%	783.6	19.0%	17.6%	141.6
EBITDA (%)	18.8%	23.1%	(434.8)	17.8%	99.3	24.3%	23.2%	102.3
EBIT (%)	13.7%	19.5%	(586.0)	13.4%	29.6	20.5%	19.1%	139.5
PAT (%)	3.3%	13.8%	(1053.0)	19.1%	(1579.1)	13.1%	16.2%	(311.6)
Operational Parameters								
YE March	Q3FY10	Q2FY10	Q-Q(bps)	Q3FY09	Y-Y(bps)	FY10	FY09	Y-Y(%)
RM Consumed	53.1%	57.9%	(477.4)	61.1%	(795.8)	55.5%	47.5%	797.9
Staff Cost	18.0%	10.3%	776.7	15.9%	212.8	12.1%	12.8%	(73.0)
Other Expenditure	15.9%	11.4%	448.9	17.9%	(200.6)	13.4%	22.1%	(866.5)
Effective Tax Rate	N.A.	29.9%		31.1%		27.5%	28.4%	

## VST : Financials

Earnings Statement				
Particulars (Rs Mn)	FY07	FY08	FY09	FY10
Total Revenues	3,362.0	3,399.7	3,810.8	4,721.7
- Growth (%)	-2.6%	1.1%	12.1%	23.9%
Total Expenditure	2,559.2	2,560.6	2,984.7	3,823.2
Operating Profit	802.7	839.1	826.1	898.5
Other Income	168.1	161.5	71.9	247.6
EBITDA	970.9	1,000.6	898.0	1,146.1
Depreciation	115.6	138.1	159.1	179.6
EBIT	855.2	862.5	738.9	966.5
Interest	-	-	-	(12.6)
PBT and Exceptional Items	855.2	862.5	738.9	979.1
Other Exceptional Items	-	-	(126.1)	124.1
PBT	855.2	862.5	865.0	855.0
Tax	299.3	277.8	245.8	234.9
PAT Before Minority Interest	555.9	584.8	619.2	620.1
- Growth (%)	25.2%	5.2%	5.9%	0.1%
Minority Interest (share in loss)	-	-	-	-
Reported PAT	555.9	584.8	619.2	620.1

  

Balance Sheet				
Particulars (Rs Mn)	FY07	FY08	FY09	FY10
Equity Capital	154.4	154.4	154.4	154.4
Reserves	1975.3	2193.5	2269.6	2269.6
Shareholders Funds	2129.7	2347.9	2424.1	2424.1
Minority Interest	-	-	-	-
Loan Funds	-	-	-	-
Total Liabilities	2129.7	2347.9	2424.1	2424.1
Fixed Assets	986.1	1231.7	1322.2	1322.2
Investments	1841.7	2232.9	1940.6	1940.6
Deferred Tax, Net	107.6	89.6	82.3	82.3
Current Assets				
Inventory	580.0	761.0	1342.6	1342.6
Sundry Debtors	52.6	43.2	48.9	48.9
Loans & Advances	110.2	186.0	137.4	137.4
Cash & Bank Balance	344.7	46.4	137.1	137.1
Other Current Assets	14.2	2.1	5.0	5.0
Current Liabilities				
Liabilities	1539.4	1883.6	2049.9	2049.9
Provisions	368.1	361.3	542.0	542.0
Net Current Assets	-805.7	-1206.3	-921.0	-921.0
Miscellaneous Exp not W/Off	-	-	-	-
Total Assets	2129.7	2347.9	2424.1	2424.1

  

Ratio Analysis				
Particulars	FY07	FY08	FY09	FY10
OPM (%)	23.9%	24.7%	21.7%	21.7%
EBITDA (%)	28.9%	29.4%	23.6%	23.6%
PBIT (%)	25.4%	25.4%	19.4%	19.4%
PAT (%)	16.5%	17.2%	16.2%	16.2%
Interest Cover (x)	-	-	-	-
EPS (Rs.)	36.0	37.9	40.1	40.1
P/E (x)	15.3	14.6	13.8	13.8
P/BV (x)	4.0	3.6	3.5	3.5
BVPS (Rs.)	137.9	152.0	157.0	157.0
Market Cap (Rs. Mn.)	8,526.2	8,526.2	8,526.2	8,526.2
M Cap/Sales (x)	2.5	2.5	2.2	2.2
EV (Rs. Mn.)	8,181.6	8,479.8	8,389.2	8,389.2
EV/EBITDA (x)	8.4	8.5	9.3	9.3
EV/Sales (x)	2.4	2.5	2.2	2.2
ROCE (%)	40.2%	36.7%	30.5%	30.5%
RONW (%)	26.1%	24.9%	25.5%	25.5%
Debt/Equity Ratio (x)	-	-	-	-
Inventory T/o Days	62.1	80.6	126.8	126.8
Debtors T/o Days	5.6	4.6	4.6	4.6
Advances T/o Days	11.8	19.7	13.0	13.0
Creditors T/o Days	164.8	199.5	193.7	193.7
Working Cap T/o Days	(86.3)	(127.7)	(87.0)	(87.0)
Fixed Assets T/o (Gross)	1.7	1.5	1.5	1.5
DPS (Adjusted)(Rs.)	20.0	20.0	30.0	30.0
Dividend Payout (%)	55.6%	52.8%	74.8%	74.8%
Dividend Yield (%)	3.6%	3.6%	5.4%	5.4%

  

Cash Flow				
Particulars (Rs Mn)	FY07	FY08	FY09	FY10
Opening Cash & Bank	149.5	344.7	46.4	46.4
Profit After Tax	555.9	584.8	619.2	619.2
Investment Income	(168.1)	(161.5)	(71.9)	(71.9)
Interest Paid	-	-	-	-
Depreciation	115.6	138.1	159.1	159.1
Deferred Taxation	(64.5)	17.9	7.4	7.4
Others	(153.1)	(167.7)	(52.4)	(52.4)
Change in Working Cap	381.0	102.3	(194.6)	(194.6)
CF - Operating Activities	666.8	513.9	466.7	466.7
Change in Fixed Assets	(178.4)	(379.4)	(211.8)	(211.8)
Change in Investments	(229.6)	(391.2)	292.3	292.3
Investment Income	168.1	161.5	71.9	71.9
CF - Investing Activities	(239.9)	(609.0)	152.3	152.3
Increase in Equity	129.6	158.2	13.7	13.7
Changes in Minority Interest	0.0	0.0	0.0	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0
Dividend Paid	(361.3)	(361.3)	(542.0)	(542.0)
CF - Financing Activities	(231.7)	(203.1)	(528.3)	(528.3)
Net Change in Cash	195.2	(298.3)	90.7	90.7
Closing Cash & Bank Bal	344.7	46.4	137.1	137.1

# Disclaimer

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1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
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VST  
NO  
YES  
YES

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