

Robust Performance; Beat in Expectations on All Fronts

Varun Beverages Limited (VBL) Q3CY22 result was robust and ahead of our and consensus estimates. The strong performance was led by a healthy revenue growth of ~32% YoY (~22% on a 3-Year CAGR), volume growth of 24% to 190 Mn cases, and realization growth of ~7% to Rs 167/case.

The management alluded to strong volume growth of 22% (India business) and 31% (international), coupled with strong growth in Sting led the overall topline growth. Net realization per case stood at Rs 167/case, up 6.8% led by price hikes, a higher mix of high-margin Sting energy drink (250 ml). The company's gross margins stood at 53.7% (up 90bps YoY) while EBITDA margins stood at 22% (up 140bps YoY) aided by the higher realisation and operating leverage. PAT stood at Rs 395 Cr (up 53% YoY).

Key Concall Takeaways

- **Morocco:** The company will begin distribution of Lays, Doritos, and Cheetos from 1st January 2023 in Morocco. Pepsico currently generates Rs 150 Cr in annual sales from this products. Initially, VBL will distribute and sell this products on a commission basis. However, it has plans to manufacture these products locally going ahead. We expect Pepsico will further extend its products to VBL in the future for its different geographies, including India, which will aid in its overall topline growth.
- **Sting energy drink:** Sting distribution reach stands at ~2 Mn outlets (vs. the company's overall ~3 Mn outlets reach). Furthermore, Sting contributes ~8.5% of sales in Q3CY22 (~12% on 9MCY22). The management highlighted Sting's overall realization is higher by 65% vs. average realization which will give further fillip to the overall margins as it further expands Sting's portfolio.
- **Outlook:** The management has guided continued double-digit volume growth for the next 3-4 years, aided by the market share expansion in weaker territories (Bihar, Jharkhand, Chattisgarh, and West Bengal) and further indicated a strong potential expansion in these territories. It will be adding 8-10% new outlets every year going ahead.
- **Distribution reach:** VBL currently has over 3 Mn outlets reach – International (250,000), Domestic – overall (2.5 Mn) and Sting (400,000) outlets. The management highlighted it will add additional 8-10% outlets every year across geographies. Moreover, it will utilise current Sting outlets to distribute other core products.
- **Other business: Dairy business** – Currently, the company is restricted to only north markets due to capacity constraints. However, it plans to expand West and South India post the doubling of the capacity by the mid of CY23 end.
- **Recently announced new capacity in Rajasthan and Madhya Pradesh** is expected to be commissioned by Feb'23 before the start of the peak summer season.
- **Capex** –The company planned a Capex of Rs 1,200 Cr (already announced), which will increase its overall capacity by 20%.
- **Net debt** stood at Rs 2,300 Cr in Q3CY22 as against Rs 3,005 Cr in CY21.

Our Take

We believe the near-term challenges (RM inflation, top-line growth) are behind the company and VBL is expected to perform well moving forward on account of 1) Newly acquired territories that will see normalcy of operations and market share gains post COVID-19 disruptions, 2) The management's continued focus on the efficient go-to-market execution in acquired and underpenetrated territories as can be seen from its recently commissioned Bihar plant operations (it has started gaining market share), 3) Expansion in its distribution reach by 8-10% from the current 3 Mn outlets as it penetrates further into weaker territories, 4) Robust growth in the International geographies, 5) Focus on expanding high-margin Sting energy drink across outlets, and 6) Sustenance of healthy double-digit volume growth in the medium to longer term.

Based upon the above thesis, we factored in Revenue/EBITDA/PAT CAGR of 27%/35%/52% over CY21-24E and arrive at a revised TP of Rs 1,300/share vs. Rs 1150/share earlier, valuing it at 36x Sep-24E EPS. Maintain BUY.

Key Financials (Consolidated)

(Rs Cr)	CY21	CY22E	CY23E	CY24E
Net Sales	8,642	12,590	15,203	17,559
EBITDA	1,655	2,836	3,492	4,115
Net Profit	694	1,568	2,023	2,454
EPS (Rs)	16.0	24.1	31.1	37.8
PER (x)	64.1	45.7	35.4	29.2
EV/EBITDA (x)	30.0	25.7	20.4	16.8
P/BV (x)	11.7	13.1	9.8	7.4
ROE (%)	18.3	28.6	27.5	25.5

Source: Company, Axis Research

(CMP as of Nov 01, 2022)

CMP (Rs)	1106
Upside /Downside (%)	18%
High/Low (Rs)	1194/545
Market cap (Cr)	71,888
Avg. daily vol. (6m) Shrs.	1491676
No. of shares (Cr)	65

Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	64.89	63.9	63.9
FII	21.03	23.93	25.01
MFs / UTI	5.89	4.38	3.5
Banks / FI	0	0	0.03
Others	8.19	7.79	7.56

Financial & Valuations

Y/E Mar (Rs Bn)	CY22E	CY23E	CY24E
Net Sales	125.9	152.0	175.6
EBITDA	28.4	34.9	41.1
Net Profit	15.7	20.2	24.5
EPS (Rs)	24.1	31.1	37.8
PER (x)	45.7	35.4	29.2
EV/EBITDA (x)	25.7	20.4	16.8
P/BV (x)	13.1	9.8	7.4
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ESG disclosure Score**

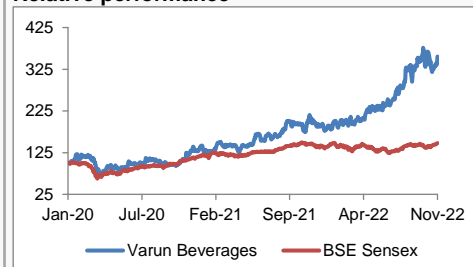
Particulars	Score
Environmental	NA
Social	NA
Governance	NA

Total ESG Disclosure ScoreNA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020/2021 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Q3CY22 Financial Highlights (Consolidated)

(Rs Cr)	Q3CY22	Axis Sec Estm	Var (%) Axis Sec Estm	Q2CY22	% Change (QoQ)	Q3CY21	% Change (YoY)
Total Revenue	3,177	2,915	9.0	4,955	(35.9)	2,398	32.5
COGS	1,471	1,415	3.9	2,452	(40.0)	1,132	29.9
Gross Profit	1,705	1,499	13.8	2,503	(31.9)	1,266	34.7
GM%	53.7	51.4	225bps	50.5	317bps	52.8	90bps
Expenditure							
Employee expenses	311	338	(7.9)	310	0.2	266	16.9
Other Exp	695	560	24.0	942	(26.2)	505	37.7
Total Expenditure	2,478	2,314	7.1	3,704	(33.1)	1,904	30.2
EBITDA	699	601	16.4	1,251	(44.1)	495	41.3
EBITDA Margin (%)	22.0	20.6	140bps	25.2	-324bps	20.6	138bps
Depreciation	153	141	8.4	153	0.0	138	10.6
EBIT	545.8	459.3	18.8	1,097.5	(50.3)	356.2	53.3
Interest	45	48	(5.5)	46	(2.4)	43	6.1
Oth. Inc.	11	9	23.6	10	1.4	37	(71.2)
PBT	511	420	21.7	1,062	(51.8)	350	45.9
Tax	116	105	10.2	260	(55.4)	93	25.1
Effective Tax Rate(%)	22.6	25.0	-237bps	24.5	-182bps	26.4	-377bps
PAT	395	315	25.6	802	(50.7)	258	53.3
PAT Margin (%)	12.45	10.81	164bps	16.19	-374bps	10.75	170bps
EPS (Rs.)	6.1	4.8	25.7	12.3	(50.7)	6.0	
No. of Shares	65.0	65.0	-	65.0	-	43.3	

	Q3CY22	Axis Sec Estm	Var (%) Axis Sec Estm	Q2CY22	% Change (QoQ)	Q3CY21	% Change (YoY)
Profitability Analysis (%)							
Gross Margin	53.7	51.4	225 bps	50.5	317 bps	52.8	90 bps
EBITDA Margin	22.0	20.6	140 bps	25.2	-324 bps	20.6	138 bps
PAT Margin	12.4	10.8	164 bps	16.2	-374 bps	10.8	170 bps
Cost Analysis (%)							
COGS	46.3	48.6	-225 bps	49.5	-317 bps	47.2	-90 bps
Staff Expenses	9.8	11.6	-180 bps	6.3	353 bps	11.1	-130 bps
Other Expenses	21.9	19.2	265 bps	19.0	287 bps	21.1	83 bps
Tax Rate	22.6	25.0	-237 bps	24.5	-182bps	26.4	-377 bps

Source: Company; Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs. cr	CY21	CY22E	CY23E	CY24E
Net sales	8,642	12,590	15,203	17,559
Growth, %	35.9	45.7	20.8	15.5
Other operating income	181	199	219	241
Total income	8,823	12,789	15,422	17,800
Raw material expenses	-4,035	-5,850	-6,962	-7,902
Employee expenses	-1,008	-1,209	-1,463	-1,683
Other Operating expenses	-2,126	-2,894	-3,505	-4,101
EBITDA (Core)	1,655	2,836	3,492	4,115
Growth, %	37.7	71.4	23.1	17.8
Margin, %	19.1	22.5	23.0	23.4
Depreciation	-531	-592	-630	-668
EBIT	1,123	2,244	2,862	3,447
Growth, %	66.9	99.8	27.5	20.4
Margin, %	13.0	17.8	18.8	19.6
Other Income	68	65	71	78
Non-recurring Items	0	0	0	0
Pre-tax profit	1,007	2,115	2,730	3,312
Tax provided	-261	-547	-707	-857
Profit after tax	746	1,568	2,023	2,454
Net Profit	76.0	110.1	29.1	21.3
Growth, %	694	1,568	2,023	2,454
Net Profit (adjusted)	43	65	65	65
Unadj. shares (Cr)	8,642	12,590	15,203	17,559

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	CY21	CY22E	CY23E	CY24E
Cash & bank	337	1,226	2,862	4,960
Debtors	221	322	354	415
Inventory	1,448	2,110	2,547	2,942
Loans & advances	9	9	9	9
Other current assets	531	531	531	531
Total current assets	2,546	4,198	6,304	8,858
Investments	0	0	0	0
Gross fixed assets	9,310	9,980	10,580	11,180
Less: Depreciation	-2,999	-3,591	-4,221	-4,889
Add: Capital WIP	497	497	497	497
Net fixed assets	6,807	6,885	6,856	6,788
Non-current assets	184	184	184	184
Total assets	9,582	11,312	13,388	15,874
Current liabilities	3,020	3,345	3,561	3,755
Provisions	209	209	209	209
Total current liabilities	3,229	3,554	3,769	3,963
Non-current liabilities	2,156	2,156	2,156	2,156
Total liabilities	5,385	5,710	5,926	6,120
Paid-up capital	433	650	650	650
Reserves & surplus	3,647	4,835	6,696	8,988
Shareholders' equity	4,197	5,601	7,462	9,754
Total equity & liabilities	9,582	11,312	13,388	15,874

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Mar, Rs. Cr	CY21	CY22E	CY23E	CY24E
Pre-tax profit	1,007	2,115	2,730	3,312
Depreciation	531	592	630	668
Chg in working capital	-57	-437	-254	-262
Total tax paid	-167	-547	-707	-857
Cash flow from operating activities	1,314	1,722	2,398	2,860
Capital expenditure	-863	-670	-600	-600
Chg in marketable securities	21	221	0	0
Cash flow from investing activities	-843	-449	-600	-600
Free cash flow	472	1,273	1,798	2,260
Equity raised/(repaid)	144	217	0	0
Dividend (incl. tax)	-108	-162	-162	-162
Cash flow from financing activities	-78	54	-162	-162
Net chg in cash	393	1,327	1,636	2,098
Opening cash balance	190	337	1,226	2,862
Closing cash balance	337	1,226	2,862	4,960

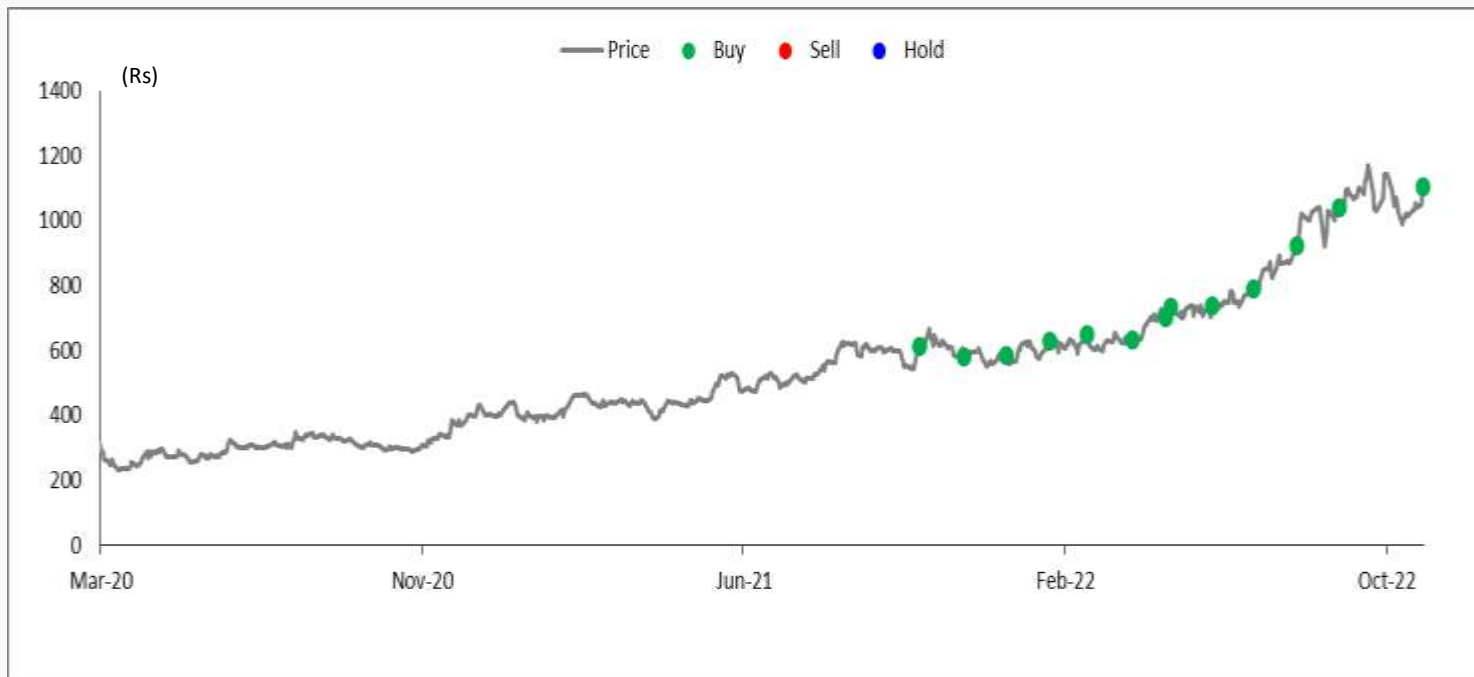
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E Mar	CY21	CY22E	CY23E	CY24E
EPS (INR)	16.0	24.1	31.1	37.8
Growth, %	17.4	40.1	29.1	21.3
Book NAV/share (INR)	94.2	84.4	113.1	148.4
FDEPS (INR)	17.2	24.1	31.1	37.8
CEPS (INR)	29.5	33.2	40.8	48.1
CFPS (INR)	32.0	25.5	35.8	42.8
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	10.3	16.9	18.0	18.2
Return on equity (%)	18.3	28.6	27.5	25.5
Return on capital employed (%)	14.8	24.2	25.0	24.3
Turnover ratios				
Asset turnover (x)	1.3	1.8	2.1	2.3
Receivable days	9.3	9.3	8.5	8.6
Inventory days	61.2	61.2	61.2	61.2
Payable days	36.2	38.0	38.3	38.6
Working capital days	(34.2)	(10.8)	(2.9)	3.0
Liquidity ratios				
Current ratio (x)	0.8	1.3	1.8	2.4
Quick ratio (x)	0.4	0.6	1.1	1.6
Interest cover (x)	6.1	11.6	14.1	16.1
Total debt/Equity (%)	0.6	0.4	0.3	0.3
Net debt/Equity (%)	0.2	(0.2)	(0.4)	(0.6)
Valuation				
PER (x)	64.1	45.7	35.4	29.2
PEG (x) - y-o-y growth	3.7	1.1	1.2	1.4
Price/Book (x)	11.7	13.1	9.8	7.4
EV/Net sales (x)	5.7	5.8	4.7	3.9
EV/EBITDA (x)	30.0	25.7	20.4	16.8
EV/EBIT (x)	44.2	32.5	24.9	20.1

Source: Company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research
01-Nov-21	BUY	1,050	Top Picks
03-Dec-21	BUY	1,050	Top Picks
03-Jan-22	BUY	1,050	Top Picks
03-Feb-22	BUY	1,050	Top Picks
03-Feb-22	BUY	1,080	Result Update
02-Mar-22	BUY	1,080	Top Picks
04-Apr-22	BUY	1,110	Top Picks
29-Apr-22	BUY	1,200	Result Update
02-May-22	BUY	1,200	Top Picks
01-Jun-22	BUY	1,200	Top Picks
01-Jul-22	BUY	880	Top Picks
02-Aug-22	BUY	1,100	Result Update
01-Sep-22	BUY	1,150	Top Picks
01-Oct-22	BUY	1,150	Top Picks
02-Nov-22	BUY	1,300	Result Update

Source: Axis Securities

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