

Varun Beverages

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR946 **TP: INR1,090 (+15%)** **Buy**

Volume growth and higher realization drive sales

Earnings in line with our estimates

- Varun Beverages (VBL) reported a revenue growth of 22% YoY in 3QCY23, led by strong volume growth (up 15.4% YoY) and high realization (up 5.6% YoY to INR176/case) in both India and international regions.
- PET chip prices softened for another quarter, resulting in a 160bp YoY gain in gross margins. Gross margin/EBITDA per unit case each grew by 9% YoY to INR97.8/INR40.1, supported by lower raw material prices.
- We maintain our CY23/CY24/CY25 estimates and reiterate our BUY rating on the stock with a TP of INR1,090.

Low RM prices aids margin expansion

- VBL's revenue grew 22% YoY to INR38.7b (est. INR38.2b), driven by healthy volume growth (up 15.4% YoY to 220m cases) and higher realization (up ~5% YoY to INR176/case). Volume growth was driven by both India (14.8% YoY) and international markets (17.5% YoY), while realization growth was mainly driven by the international market.
- EBITDA margin expanded 80bp YoY to 22.8% (est. 22.9%), primarily driven by improvements in gross margins (up 160bp YoY to 55.3%, due to softening of PET chip prices). EBITDA grew 26% YoY to INR8.8b (est. INR8.8b).
- Adj. PAT increased by 32% YoY to INR5b (est. INR4.8b), driven by higher sales growth and improvement in margins.
- CSD/water volumes grew 19%/8% YoY to 159m/50m unit cases, while Juices volumes remained flat YoY at 11m unit cases.
- For 9MCY23, Revenue/EBITDA/PAT grew 22%/29%/35% to INR136b/INR31.9b/INR19.2b. Volumes grew 13% YoY to 758m cases.

Highlights from the management commentary

- **Energy Drink:** The company is currently working with PepsiCo to launch one more energy drink brand next year.
- **International Business:** VBL is setting up a greenfield plant in Democratic Republic of Congo with an annual capacity of ~35-40m cases. The plant will be ready for production by Apr-May'24. It has also formed a subsidiary in Mozambique for beverage distribution.
- **Capex:** The company has incurred a total capex of ~INR24b in 9MCY23, of which INR8b was spent for capacities (both greenfield and brownfield), which was commissioned in 9MCY23, and the balance INR16b was for capacities coming up by Mar'24.

Valuation and view

- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in South and West India, 2) higher acceptance of newly launched products, 3) continued expansion in capacity and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.
- We expect a CAGR of 17%/20%/26% in revenue/EBITDA/PAT over CY22-25. We value the stock at 47x CY25E EPS to arrive at a TP of INR1,090. We reiterate our BUY rating on the stock.

Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USDb)	1228.6 / 14.8
52-Week Range (INR)	979 / 538
1, 6, 12 Rel. Per (%)	3/23/59
12M Avg Val (INR M)	2291

Financials & Valuations (INR b)

Y/E Dec	2023E	2024E	2025E
Sales	159.7	185.1	212.3
EBITDA	35.8	41.5	48.0
Adj. PAT	20.4	24.7	30.2
EBITDA (%)	22.4	22.4	22.6
EPS (INR)	15.7	19.0	23.2
EPS Gr. (%)	36.4	21.0	22.2
BV/Sh. (INR)	53.2	70.3	91.5

Ratios

Net D/E	0.5	0.3	-0.0
RoE (%)	34.0	30.8	28.7
RoCE (%)	23.5	24.0	25.7
Payout (%)	11.1	10.5	8.6

Valuations

P/E (x)	60.1	49.7	40.7
EV/EBITDA (x)	35.3	30.2	25.6
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.4	1.2	2.1

Shareholding pattern (%)

	Sep-23	Jun-23	Sep-22
Promoter	63.1	63.6	63.9
DII	3.4	3.2	4.5
FII	27.6	26.7	25.0
Others	6.0	6.5	6.6

Note: FII includes depository receipts

Consolidated - Quarterly earning model

(INRm)

Y/E December	CY22				CY23				CY22	CY23E	CY23E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3Q	%
Gross Sales	28,275	49,548	31,766	22,142	38,930	56,114	38,705	25,915	1,31,731	1,59,664	38,175	1
YoY Change (%)	26.2	102.3	32.5	27.7	37.7	13.3	21.8	17.0	49.3	21.2	20.2	
Total Expenditure	22,965	37,042	24,776	19,067	30,949	41,004	29,884	22,043	1,03,850	1,23,880	29,423	
EBITDA	5,310	12,506	6,990	3,075	7,980	15,110	8,821	3,873	27,881	35,784	8,752	1
Margins (%)	18.8	25.2	22.0	13.9	20.5	26.9	22.8	14.9	21.2	22.4	22.9	
Depreciation	1,313	1,531	1,531	1,797	1,722	1,719	1,708	1,795	6,172	6,944	1,790	
Interest	470	464	453	475	626	694	625	570	1,861	2,514	660	
Other Income	85	105	106	92	101	416	185	106	388	809	122	
PBT before EO expense	3,612	10,616	5,112	896	5,734	13,113	6,673	1,614	20,236	27,134	6,424	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	3,612	10,616	5,112	896	5,734	13,113	6,673	1,614	20,236	27,134	6,424	
Tax	901	2,596	1,157	81	1,348	3,057	1,529	355	4,735	6,288	1,413	
Rate (%)	25.0	24.5	22.6	9.0	23.5	23.3	22.9	22.0	23.4	23.2	22	
Minority Interest & Profit/ Loss of Asso. Cos.	169	146	144	68	95	118	130	78	527	421	166	
Reported PAT	2,542	7,874	3,810	748	4,291	9,938	5,015	1,181	14,974	20,425	4,844	
Adj PAT	2,542	7,874	3,810	748	4,291	9,938	5,015	1,181	14,974	20,425	4,844	4
YoY Change (%)	96.7	155.5	58.7	353.3	68.8	26.2	31.6	58.0	115.8	36.4	27.1	
Margins (%)	9.0	15.9	12.0	3.4	11.0	17.7	13.0	4.6	11.4	12.8	12.7	

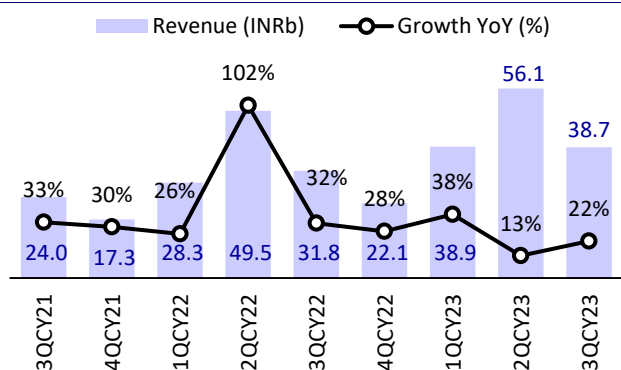
Exhibit 1: Key performance indicators

Y/E December	2QCY21	3QCY21	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23	2QCY23
Segment Volume Gr.										
CSD	33	22	24	18	85	23	25	27	6	19
NCB	38	33	50	18	139	38	17	23	-13	0
Water	188	54	36	21	140	25	5	17	7	8
Cost Break-up										
RM Cost (% of sales)	46	47	45	48	49	46	44	48	48	45
Employee Cost (% of sales)	10	11	15	10	6	10	14	9	6	10
Other Cost (% of sales)	20	21	28	23	19	22	28	23	19	23
Gross Margins (%)	54	53	55	52	51	54	56	52	52	55
EBITDA Margins (%)	23	21	12	19	25	22	14	20	27	23
EBIT Margins (%)	18	15	5	14	22	17	6	16	24	18

Source: Company, MOFSL

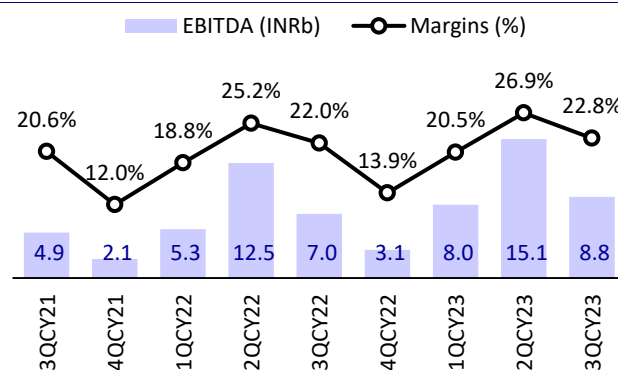
Key exhibits

Exhibit 2: Trend in consolidated revenue

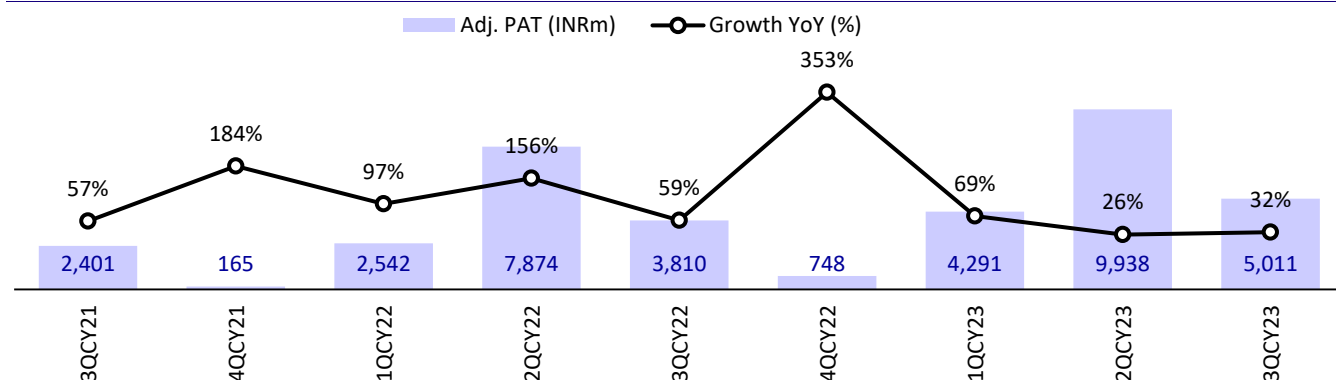


Source: Company, MOFSL

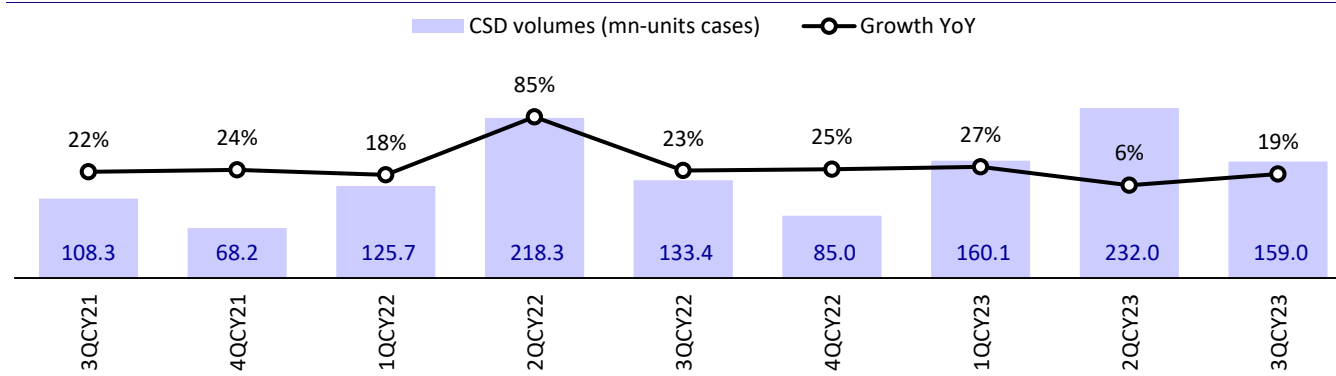
Exhibit 3: Trend in consolidated EBITDA



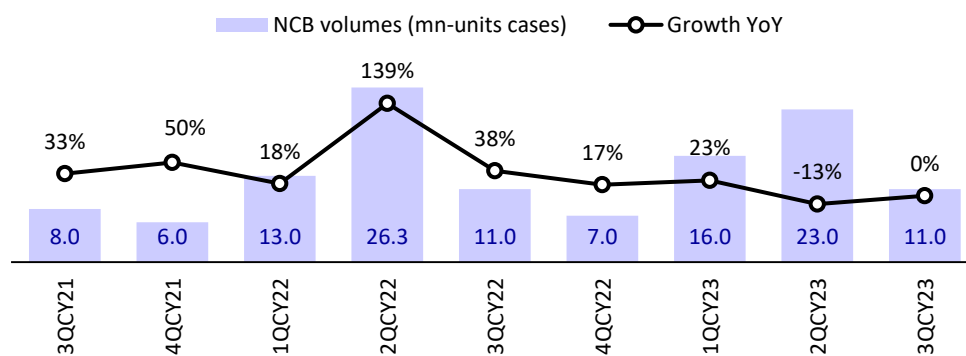
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT

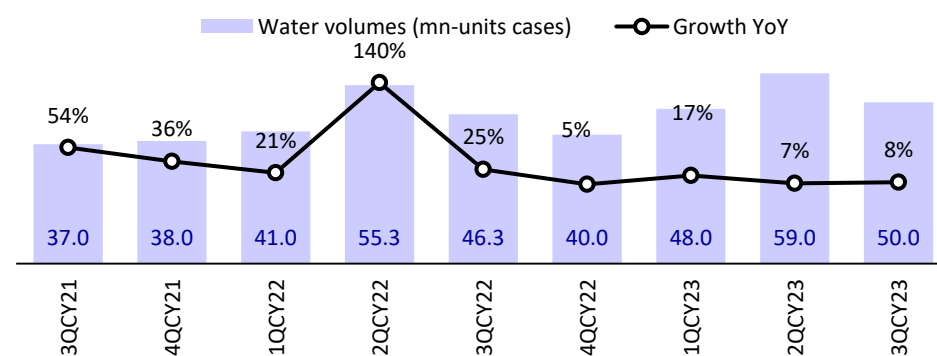
Source: Company, MOFSL

Exhibit 5: CSD sales volumes trend

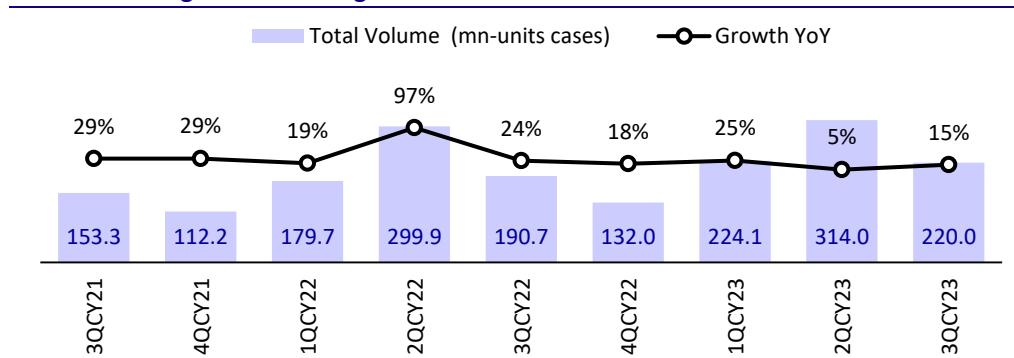
Source: Company, MOFSL

Exhibit 6: NCB sales volume trend

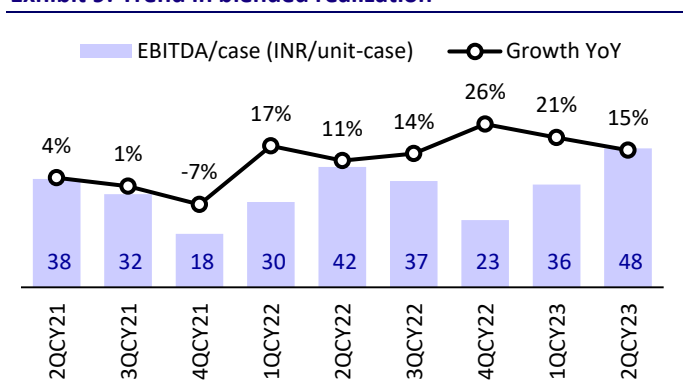
Source: Company, MOFSL

Exhibit 7: Water sales volumes trend

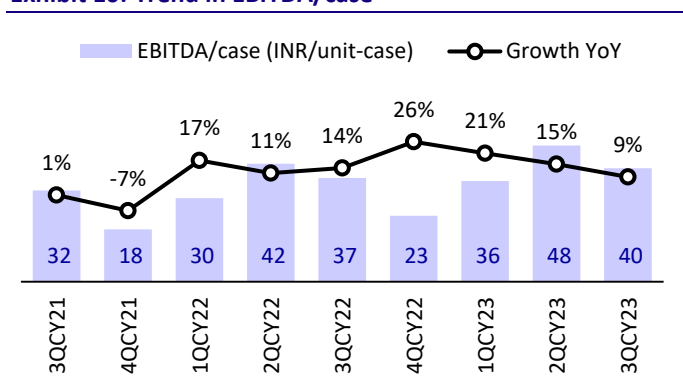
Source: Company, MOFSL

Exhibit 8: Strong Total Volume growth trend

Source: Company, MOFSL

Exhibit 9: Trend in blended realization

Source: Company, MOFSL

Exhibit 10: Trend in EBITDA/case

Source: Company, MOFSL



Highlights from the management interaction

Operating performance

- Consolidated sales volumes registered a solid growth of 15%, making a strong comeback after the unseasonal rains in 2QCY23 in India.
- Both Indian and international markets contributed to healthy volume growth.
- The margin improvement during the quarter was led by: 1) softening of PET Chip prices; 2) an increase in Sting mix resulting in better gross margins; and 3) limited discounts in the market.
- The management is confident of maintaining the current EBITDA margins (~21%) in the next few quarters.
- VBL has been able to register strong growth vs. other FMCG players mainly due to the aggressive expansion of its go-to-market and distribution reach deep into the rural markets (i.e., putting visi-coolers aggressively).
- Gatorade grew 17-18% in 3Q. Sting is also growing at a strong pace, including the newly launched Blue Sting.

Juices and value-added dairy

- Juices segment posted flat growth in 3Q, as the April-June quarter, which is usually a strong quarter for juices, saw a washout in CY23 due to unseasonal rains.
- Dairy segment also saw a muted quarter as capacity constraints restricted growth this year. However, with new capacity coming in next year, the management expects good growth in the dairy segment.

New and upcoming plants

- The greenfield facility in DRC is progressing well and is slated to be commissioned in the upcoming months.
- The company is also enhancing its capacity for juices and value-added dairy beverages to align with evolving consumer demands.

International business

- The increase in realization was led by improvement from international markets.
- Go to market for the company is improving. Currently, in all this market VBL has low market share and as the market share and mix is improving the realization is improving.
- After exiting in 2016, VBL has re-entered the Africa region by forming a subsidiary in Mozambique, Africa, as the market is witnessing robust growth over the last few years.
- VBL will have operations near the Zambia-Mozambique border, so it can utilize the capacity from its Zambia plant for distribution.
- In DRC (Congo), it has a greenfield plant and the capacity (~35-40m cases) will be ready for production by Apr-May'24.

Capex

- The company capitalized ~INR20b in 9MCY23 for setting up a new greenfield facility in Bundi (Rajasthan) and Jabalpur (MP) each (INR8.5b) and brownfield expansion in India and international markets.
- Of this capitalization, the total cash outflow was INR8b in 9MCY23 and the balance INR12b was spent in CY22 as advance.
- CY24 capex target of ~INR25b has been expedited with ~INR16b spent in 9MCY23 for three greenfield plants in India – UP, Maharashtra, Orissa, and one in DRC. The remaining INR9b will be split between 4QCY23 and 1QCY24.
- The cash capex for the rest of CY23 will be INR5b.
- All the plants will be under production before Mar'24. VBL will expand its India capacity by 45% over CY22 before the CY24 summer season.

Others

- The company is working with PepsiCo and will launch one more energy drink next year.
- **ESG:** As part of the long-term vision and in line with PepsiCo's global PEP+ objectives, the company is making investments that emphasize using green energy as well as reuse of PET, which will be instrumental in mitigating the environmental impact. The company is getting recycling PET and has entered into JV with Indorama.

Valuation and view

- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories of South and West India, 2) higher acceptance of newly launched products, 3) continued expansion in capacities and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.

- We expect a CAGR of 17%/20%/26% in revenue/EBITDA/PAT over CY22-25. We value the stock at 47x CY25E EPS to arrive at our TP of INR1,090. We reiterate our BUY rating on the stock.

Exhibit 11: Revision in our estimates

Earnings change (INR m)	Old			New			Change		
	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E
Revenue	1,59,134	1,84,442	2,11,529	1,59,664	1,85,076	2,12,270	0%	0%	0%
EBITDA	35,715	41,315	47,806	35,784	41,457	47,973	0%	0%	0%
Adj. PAT	20,231	25,079	30,563	20,420	24,700	30,189	1%	-2%	-1%

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Total Income from Operations	40,035	51,053	71,296	64,501	88,232	1,31,731	1,59,664	1,85,076	2,12,270
Change (%)	3.7	27.5	39.7	-9.5	36.8	49.3	21.2	15.9	14.7
RM Cost	18,101	22,441	32,194	27,639	40,347	62,612	73,753	86,431	99,130
Employees Cost	4,628	5,830	8,108	8,897	10,077	12,166	14,240	15,546	17,406
Other Expenses	8,947	12,716	16,517	15,946	21,262	29,072	35,886	41,642	47,761
Total Expenditure	31,676	40,987	56,819	52,483	71,686	1,03,850	1,23,880	1,43,619	1,64,297
% of Sales	79.1	80.3	79.7	81.4	81.2	78.8	77.6	77.6	77.4
EBITDA	8,359	10,066	14,477	12,019	16,546	27,881	35,784	41,457	47,973
Margin (%)	20.9	19.7	20.3	18.6	18.8	21.2	22.4	22.4	22.6
Depreciation	3,466	3,851	4,886	5,287	5,313	6,172	6,944	8,010	8,938
EBIT	4,893	6,215	9,590	6,732	11,234	21,709	28,840	33,447	39,035
Int. and Finance Charges	2,122	2,126	3,096	2,811	1,847	1,861	2,514	2,300	1,167
Other Income	125	218	425	370	679	388	809	1,110	1,486
PBT bef. EO Exp.	2,896	4,308	6,919	4,290	10,066	20,236	27,134	32,257	39,354
EO Items	0	0	0	-665	0	0	0	0	0
PBT after EO Exp.	2,896	4,308	6,919	3,625	10,066	20,236	27,134	32,257	39,354
Total Tax	769	1,339	2,241	52	2,606	4,735	6,288	7,097	8,658
Tax Rate (%)	26.6	31.1	32.4	1.4	25.9	23.4	23.2	22.0	22.0
Share of profit from associates	14	30	44	0	0	0	-7	0	0
Minority Interest	39	70	32	283	520	527	419	461	507
Reported PAT	2,102	2,928	4,690	3,290	6,941	14,974	20,420	24,700	30,189
Adjusted PAT	2,102	2,928	4,690	3,251	6,941	14,974	20,420	24,700	30,189
Change (%)	395.9	39.3	60.1	-30.7	113.5	115.8	36.4	21.0	22.2
Margin (%)	5.2	5.7	6.6	5.0	7.9	11.4	12.8	13.3	14.2

Consolidated - Balance Sheet

(INRm)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Equity Share Capital	1,826	1,826	2,887	2,887	4,330	6,496	6,496	6,496	6,496
Total Reserves	15,866	18,158	30,397	32,353	36,469	44,528	62,675	84,777	1,12,368
Net Worth	17,692	19,985	33,284	35,240	40,799	51,024	69,171	91,272	1,18,863
Minority Interest	-14	78	307	648	1,168	1,131	1,550	2,011	2,518
Total Loans	23,560	27,649	34,172	32,059	33,418	36,948	36,948	26,948	8,948
Deferred Tax Liabilities	1,422	1,588	2,697	2,149	3,087	3,368	3,368	3,368	3,368
Capital Employed	42,659	49,299	70,459	70,096	78,473	92,471	1,11,037	1,23,600	1,33,698
Gross Block	56,326	61,697	87,203	90,086	94,420	1,06,807	1,26,807	1,51,807	1,61,807
Less: Accum. Deprn.	16,540	17,847	22,655	26,242	31,555	37,727	44,671	52,681	61,619
Net Fixed Assets	39,786	43,850	64,548	63,844	62,865	69,080	82,136	99,125	1,00,187
Goodwill on Consolidation	19	19	242	242	242	242	242	242	242
Capital WIP	1,454	3,524	638	668	4,966	6,066	11,066	3,066	3,066
Total Investments	82	112	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,494	12,808	18,327	19,719	27,721	40,794	46,595	53,490	66,180
Inventory	4,389	5,784	8,815	9,288	14,481	19,939	23,758	27,543	31,509
Account Receivables	1,503	1,280	1,726	2,418	2,212	2,993	3,937	4,564	5,234
Cash and Bank Balance	945	935	1,711	1,901	3,366	2,853	2,934	3,801	9,272
Loans and Advances	4,658	4,809	6,076	6,113	7,661	15,009	15,966	17,582	20,166
Curr. Liability & Prov.	10,177	11,015	13,297	14,378	17,322	23,711	29,002	32,324	35,979
Account Payables	1,909	3,168	4,777	5,114	7,118	8,243	9,842	11,411	13,054
Other Current Liabilities	7,392	6,435	6,517	6,893	7,622	13,135	15,966	17,582	19,104
Provisions	875	1,412	2,003	2,371	2,583	2,333	3,193	3,331	3,821
Net Current Assets	1,317	1,793	5,031	5,342	10,399	17,083	17,593	21,166	30,202
Appl. of Funds	42,659	49,299	70,459	70,096	78,473	92,471	1,11,037	1,23,600	1,33,698

Financials and valuations

Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Basic (INR)									
EPS	1.6	2.3	3.6	2.5	5.3	11.5	15.7	19.0	23.2
Cash EPS	4.3	5.2	7.4	6.6	9.4	16.3	21.1	25.2	30.1
BV/Share	13.6	15.4	25.6	27.1	31.4	39.3	53.2	70.3	91.5
DPS	0.4	0.4	0.5	0.6	0.8	1.7	1.8	2.0	2.0
Payout (%)	26.1	17.5	16.7	21.9	15.6	15.2	11.1	10.5	8.6
Valuation (x)									
P/E	584.2	419.2	261.8	377.7	176.9	82.0	60.1	49.7	40.7
Cash P/E	220.5	181.1	128.2	143.8	100.2	58.1	44.9	37.5	31.4
P/BV	69.4	61.4	36.9	34.8	30.1	24.1	17.7	13.5	10.3
EV/Sales	31.2	24.6	17.7	19.5	14.3	9.6	7.9	6.8	5.8
EV/EBITDA	149.6	124.6	87.1	104.7	76.1	45.3	35.3	30.2	25.6
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	0.8	1.5	4.4	5.5	2.8	3.4	3.5	11.6	19.8
Return Ratios (%)									
RoE	12.1	15.5	17.6	9.5	18.3	32.6	34.0	30.8	28.7
RoCE	9.2	10.0	11.8	10.4	12.5	20.9	23.5	24.0	25.7
RoIC	9.1	10.1	11.5	9.8	12.1	21.6	24.5	24.4	25.6
Working Capital Ratios									
Fixed Asset Turnover (x)	0.7	0.8	0.8	0.7	0.9	1.2	1.3	1.2	1.3
Asset Turnover (x)	0.9	1.0	1.0	0.9	1.1	1.4	1.4	1.5	1.6
Inventory (Days)	40	41	45	53	60	55	54	54	54
Debtor (Days)	14	9	9	14	9	8	9	9	9
Creditor (Days)	17	23	24	29	29	23	23	23	22
Leverage Ratio (x)									
Current Ratio	1.1	1.2	1.4	1.4	1.6	1.7	1.6	1.7	1.8
Interest Cover Ratio	2.3	2.9	3.1	2.4	6.1	11.7	11.5	14.5	33.5
Net Debt/Equity	1.3	1.3	1.0	0.9	0.7	0.7	0.5	0.3	0.0

Consolidated - Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
(INRM)									
OP/(Loss) before Tax	2,896	4,308	6,919	3,625	10,066	20,236	27,134	32,257	39,354
Depreciation	3,466	3,851	4,826	5,287	5,313	6,172	6,944	8,010	8,938
Interest & Finance Charges	1,972	1,986	2,948	2,441	1,168	1,473	1,706	1,190	-319
Direct Taxes Paid	-571	-733	-1,201	-52	-2,606	-4,735	-6,288	-7,097	-8,658
(Inc)/Dec in WC	-1,965	-501	-827	-1,181	-1,627	-5,246	-429	-2,706	-3,565
CF from Operations	5,798	8,911	12,665	10,120	12,314	17,900	29,067	31,655	35,750
Others	400	1,087	411	0	0	0	419	461	0
CF from Operating incl EO	6,198	9,998	13,076	10,120	12,314	17,900	29,486	32,115	35,750
(Inc)/Dec in FA	-5,165	-8,088	-7,331	-2,913	-8,632	-13,487	-25,000	-17,000	-10,000
Free Cash Flow	1,033	1,910	5,745	7,207	3,682	4,414	4,486	15,115	25,750
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0	0
Others	-2,332	-647	-15,862	-1,798	-1,474	-3,559	809	1,110	1,486
CF from Investments	-7,496	-8,734	-23,192	-4,711	-10,106	-17,046	-24,191	-15,890	-8,514
Issue of Shares	3,041	7	9,002	0	0	0	0	0	0
Inc/(Dec) in Debt	-572	4,566	6,487	-2,113	1,359	3,530	0	-10,000	-18,000
Interest Paid	-1,557	-1,886	-3,011	-2,811	-1,847	-1,861	-2,514	-2,300	-1,167
Dividend Paid	-456	-456	-690	-722	-1,083	-2,274	-2,273	-2,598	-2,598
Others	1,130	-3,505	-895	427	829	-763	-426	-461	0
CF from Fin. Activity	1,586	-1,273	10,893	-5,219	-742	-1,368	-5,214	-15,359	-21,765
Inc/Dec of Cash	288	-10	776	190	1,466	-514	81	867	5,471
Opening Balance	657	945	935	1,711	1,901	3,367	2,853	2,934	3,801
Closing Balance	945	935	1,711	1,901	3,367	2,853	2,934	3,801	9,272

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