

International business drives earnings...

Revenues grew 24.1% to ₹ 1359.1 crore led by 12.3% overall volume growth and 11.8% realisation growth mainly due to a change in product mix in favour of juices and higher realisations from international operations. EBITDA increased 26.5% to ₹ 218.4 crore while operating margins improved 29 bps to 16.1% driven by 85 bps & 101 bps improvement in gross margins and employee expenses to sales, respectively. Led by strong operating profit growth, net profit more than doubled to ₹ 40 crore.

Increasing focus on non-carbonated space

VBL has been delivering robust volume growth aided by territory acquisition and distribution rights for Tropicana. Non-carbonated (NCD) and bottled water segments now contributes more than 29% of total volumes vs. <15% share in CY16. In CY18, sales volume for Tropicana juices grew 57% YoY and contributed ~6% to total sales volumes. With the launch of NCB's like Masala Nimbooz, Tropicana Fruitz, 7 Up Revive & Sting, VBL can establish its leadership position in the NCD segment, going forward. VBL's ongoing capex plan of ₹ 450 crore for the production of both Tropicana and Gatorade would be supportive of margins as its manufacturing plant at Pathankot is expected to turn operational by H2CY19. We expect the NCD segments to clock revenue CAGR of 28.5% in CY18-21E (increase in revenue contribution from 8.8% in CY18 to 10.5% in CY21E).

Witnessing revenue growth visibility for foreseeable future

VBL's key strategic focus is on garnering higher market share in the existing domestic market as well as increased geographical presence through acquisition of new territories in India and overseas. Continuous acquisition of territories has helped VBL increase its share of PepsiCo's beverage sales to ~80%. We believe the company's aspiration to aim for 100% share of PepsiCo's beverage sales and PepsiCo's intention to exit manufacturing operations from India (aim to become asset light), provides VBL sufficient revenue visibility for years to come. With recently acquired franchise rights of West & South India from Pepsi India, VBL would be able to increase PepsiCo's market share in these regions (25% vs. 40% in North & East) and thereby achieve economies of scale in the future.

Valuation & Outlook

We remain positive on VBL as it is continuously looking for newer territories to expand its base in untapped geographies. It remains a proxy play on the soft drink industry in India. We expect revenue and PAT to grow at a CAGR of 21.1% and 26%, respectively, in CY18-21E. As volume growth picks up in new territories and the company participates in the manufacturing segment of Tropicana, the EBITDA margin is expected to improve to 18.7% in CY21E. On earnings visibility and expected improvement in return ratios, we increase our target price to ₹ 1040/share.

Key Financial Summary

Key Financials	CY17	CY18	CY19E	CY20E	CY21E	CAGR (FY19-21E)
Net Sales	4003.5	5105.3	7069.5	7998.2	9060.3	13.2%
EBITDA	835.9	1006.6	1325.4	1517.7	1691.8	13.0%
EBITDA Margin %	20.9	19.7	18.7	19.0	18.7	
Net Profit	214.0	299.9	358.6	471.0	600.3	29.4%
EPS (₹)	11.72	16.42	18.62	24.45	31.16	
P/E	77.6	55.4	48.9	37.2	29.2	
RoNW %	12.1	15.0	11.0	12.9	14.6	
RoCE (%)	12.7	14.2	13.3	15.9	18.4	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	17530
Total Debt (CY18)	2,600.0
Cash & Investments (CY18)	43.0
EV	19,480.7
52 week H/L (₹)	948 / 660
Equity capital	182.6
Face value	10.0

Key Highlights

- Maintain HOLD with a revised target price of ₹ 1040/share
- Total sales volumes rose to 90 mn cases from 80 mn cases in Q1CY18
- India sales volume growth was a tad slower at 4.6% to 72 mn cases due to extended winter in Q1CY19
- International volumes were at 18 mn cases (up 58% YoY) mainly on account of commissioning of second line of water in Morocco

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Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q1CY19	Q1CY19E	Q1CY18	YoY (%)	Q4CY18	QoQ (%)	Comments
Net Sales	1,359.1	1,201.8	1,094.8	24.1	785.6	73.0	Net sales witnessed growth of 24% mainly led by 12.3% overall volume growth and 11.8% realisation increase. Organic India volume growth was 4.6%
Operating Income	0.0	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	598.8	536.9	491.6	21.8	267.0	124.3	Gross margins improved mainly due to benign sugar prices during the quarter
Employee Expenses	158.4	159.1	138.6	14.2	144.7	9.5	
Other operating Expenses	383.6	312.9	291.9	31.4	326.2	17.6	
EBITDA	218.4	192.9	172.7	26.5	47.8	356.9	
EBITDA Margin (%)	16.1	16.0	15.8	29 bps	6.1	998 bps	Operating margins improved 29 bps driven by 85 bps improvement in gross margins and 101 bps improvement in employee expenses to sales, partly offset by 156 bps increase in other overheads to sales
Depreciation	99.0	103.1	91.1	8.8	94.1	5.3	Depreciation increased on account of inorganic expansion
Interest	59.0	66.8	59.9	-1.5	53.7	9.9	
Other Income	1.4	7.2	8.2	-82.8	12.7	-89.0	
PBT	61.7	37.2	29.9	106.6	-87.3	-170.7	
Exceptional Items	0.0	0.0	0.0		0.0		
Tax Outgo	22.5	13.4	11.2	100.0	-15.8	-242.5	
PAT	40.0	24.7	19.7	102.9	-70.8	-156.5	Led by strong operating profit growth, net profit more than doubled to ₹ 40 crore positively impacted by increase in sales volumes and realisations
Adj. PAT	40.0	24.7	19.7	102.9	-70.8	-156.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY19E			CY20E			CY21E		Comments
	Old	New	% Change	Old	New	% Change	New		
Net Sales	5,679.5	7,069.5	24.5	6,446.3	7,998.2	24.1	9,060.3		We introduce FY21E numbers
EBITDA	1170.0	1325.4	13.3	1,300.4	1,517.7	16.7	1,691.8		
EBITDA Margin(%)	20.6	18.7	-185 bps	20.2	19.0	-120 bps	18.7		
PAT	365.8	358.6	-2.0	435.8	471.0	8.1	600.3		
EPS (₹)	20.06	18.62	-7.2	23.90	24.45	2.3	31.16		

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Particulars (₹ crore)	Current					Earlier		Comments
	CY17	CY18	CY19E	CY20E	CY21E	CY19E	CY20E	
Carbonated Products	124.9	145.9	220.3	242.4	266.6	168.5	185.4	Introduce FY21E numbers
% Growth	-1.3	16.8	51.0	10.0	10.0	10.0	10.0	
Non Carbonated Products	7.9	12.5	15.6	18.7	22.5	16.1	19.3	
% growth	-11.1	57.1	25.0	20.0	20.0	25.0	25.0	
Drinking Water	25.6	34.6	39.8	45.4	51.8	34.8	39.7	
% growth	21.4	35.6	15.0	14.0	14.0	15.0	14.0	
Raw Material Cost								
Sugar	616.6	698.4	1,047.5	1,159.2	1,293.7	769.9	853.6	
% of sales	13.4	14.2	14.4	14.1	13.9	13.1	12.8	
cost/kg (₹)	38.9	37.0	35.5	35.5	37.3	35.0	35.0	

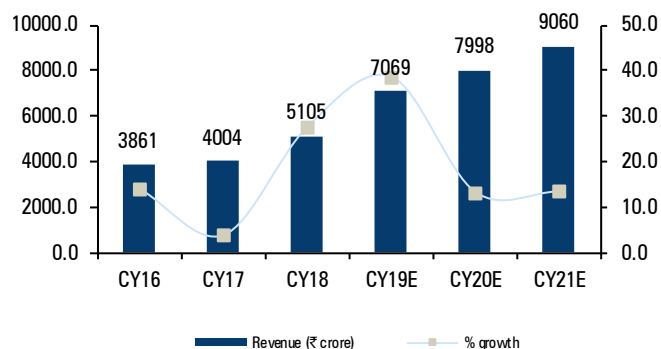
Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenue increased 24.1% YoY to ₹ 1359.1 crore led by 12.3% overall volume growth and higher contribution from Zimbabwe and Morocco
- Total sales volumes rose to 90 million (mn) cases from 80 mn cases in Q1CY18. However, domestic volume growth was a tad slower at 4.6% to 72 mn cases. It was lower on account of an extended winter and late onset of season with Holi in March end
- VBL has indicated that India volume growth has revived. It expects double digit organic volume growth in Q2CY19
- International volumes were at 18 mn cases (up 58% YoY) on account of the full impact of commissioning of a second line of water in Morocco and double digit growth in Zimbabwe, which contributed 6.2 mn cases
- Gross margins expanded 85 bps YoY to 55.9% led by higher realisations in Zimbabwe
- EBITDA increased 26.5% to ₹ 218.4 crore translating into blended EBITDA margins of 16.1% (up 29 bps YoY). Margin improvement was driven by benefit from consolidation of sub-territories acquired in CY18
- PAT more than doubled to ₹ 40 crore on the back of strong volumes in Zimbabwe & Morocco geographies
- QIP is expected by July-August 2019
- Debt is at ₹ 4000 crore as on date
- Capex for CY20 would be around 40% of depreciation cost (around ₹ 150 crore)
- The Pathankot facility for manufacturing Tropicana juices is expected to start by June 2019 and can contribute 10 mn cases annually. Asset turn would be 2x in Pathankot accounting for seasonality and at full utilisation

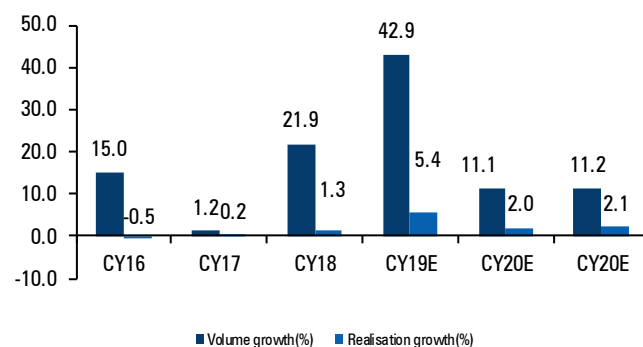
Key Metrics

Exhibit 4: Revenue growth trend



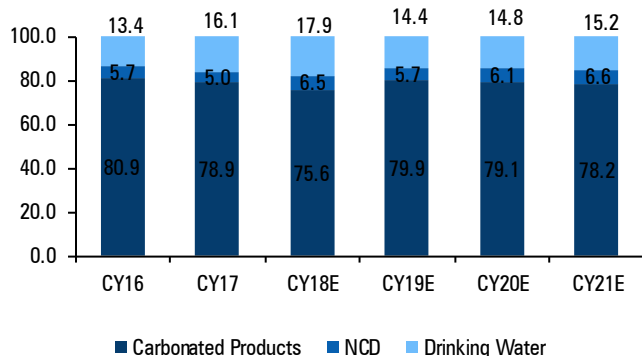
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth to drive revenue



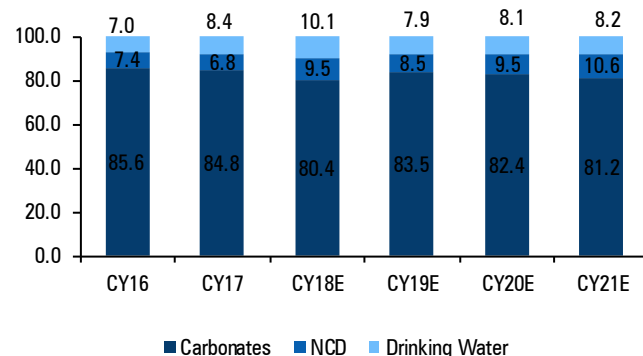
Source: Company, ICICI Direct Research

Exhibit 6: Segment wise volume contribution (%)



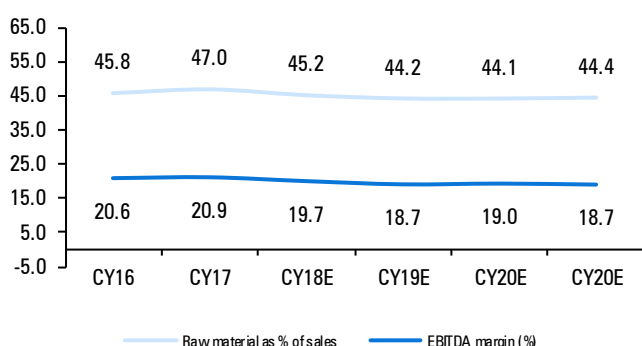
Source: Company, ICICI Direct Research

Exhibit 7: Segment wise value contribution (%)



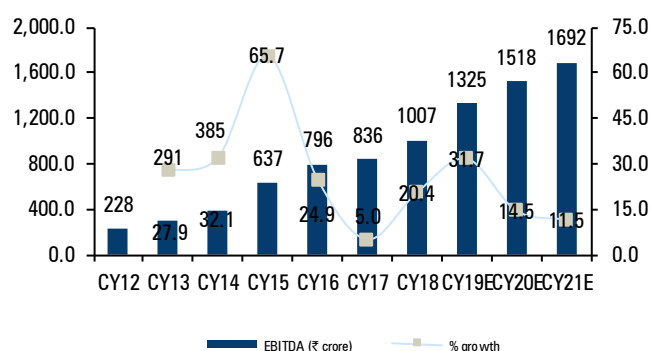
Source: Company, ICICI Direct Research

Exhibit 8: Raw material to sales & EBITDA margins (%)



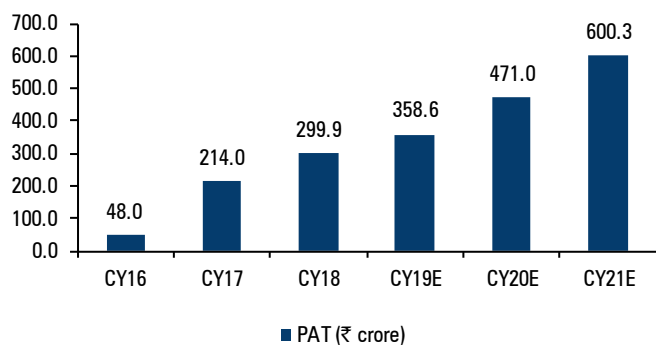
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA (₹ crore) & EBITDA growth (%)



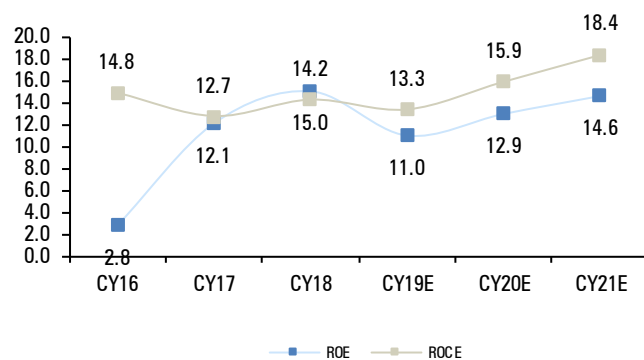
Source: Company, ICICI Direct Research

Exhibit 10: Earnings to witness CAGR of 32.8% (CY17-20E)



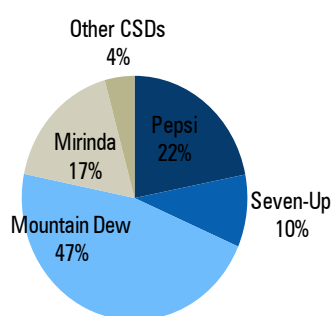
Source: Company, ICICI Direct Research

Exhibit 11: Return ratios to improve (%)



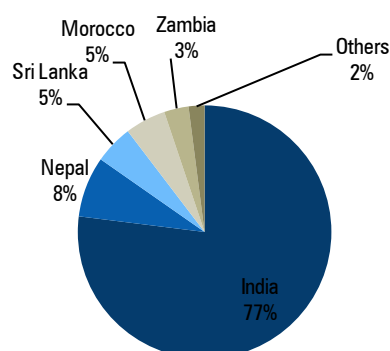
Source: Company, ICICI Direct Research

Exhibit 12: Brand wise volume contribution (%)



Source: Company, ICICI Direct Research

Exhibit 13: Geography wise revenue break up (%)



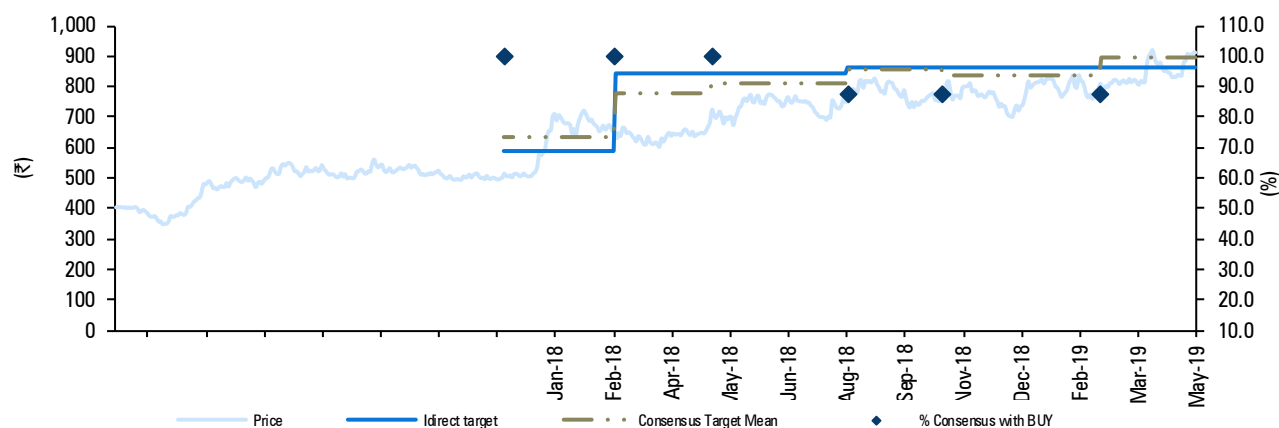
Source: Company, ICICI Direct Research

Exhibit 14: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
CY18	5105.3	27.5	16.4	40.1	55.4	19.7	15.0	14.2
CY19E	7069.5	38.5	18.6	13.4	48.9	15.0	11.0	13.3
CY20E	7998.2	13.1	24.5	31.3	37.2	12.9	12.9	15.9
CY21E	9060.3	13.3	31.2	27.4	29.2	11.2	14.6	18.4

Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	RJ Corp Ltd.	31-Mar-19	30.56	55.8	0.0
2	Jaipuria (Ravi Kant)	31-Mar-19	21.46	39.2	0.0
3	Jaipuria (Varun)	31-Mar-19	21.45	39.2	0.0
4	Capital Research Global Investors	31-Dec-18	3.97	7.2	1.0
5	Reliance Nippon Life Asset Management Limited	31-Mar-19	3.05	5.6	-0.5
6	Tata Asset Management Limited	30-Apr-19	2.09	3.8	0.0
7	Stichting Depository APG Emerging Markets Equity Pool	31-Mar-19	1.98	3.6	0.3
8	Sundaram Asset Management Company Limited	31-Mar-19	1.71	3.1	0.8
9	Aion Investments II Singapore Pte. Ltd.	31-Dec-18	1.58	2.9	-1.0
10	Marina IV (Singapore) Pte. Ltd.	31-Mar-19	1.52	2.8	-1.2

Source: Reuters, ICICI Direct Research

Exhibit 17: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Capital Research Global Investors	11.28m	1.00m	Nordea Funds Oy	-16.69m	-1.33m
Sundaram Asset Management Company Limited	9.76m	0.78m	Marina IV (Singapore) Pte. Ltd.	-14.41m	-1.15m
Stichting Depository APG Emerging Markets Equity Pool	4.32m	0.35m	Aion Investments II Singapore Pte. Ltd.	-11.51m	-1.02m
Capital International, Inc.	1.47m	0.12m	Reliance Nippon Life Asset Management Limited	-5.81m	-0.46m
Capital Investment Trust Corporation	1.24m	0.11m	Wellington Management Company, LLP	-0.63m	-0.06m

Source: Reuters, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	73.6	73.6	73.6	73.6	73.6
FII	13.4	13.3	12.7	13.0	13.5
DII	4.9	5.0	5.5	5.7	6.4
Others	8.1	8.1	8.2	7.7	6.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and loss statement ₹ crore				
	CY18E	CY19E	CY20E	CY21E
Total operating income	5105.3	7069.5	7998.2	9060.3
Growth (%)	27.5	38.5	13.1	13.3
Raw Material Expenses	2244.1	3121.8	3529.6	4025.3
Employee Expenses	583.0	883.7	999.8	1132.5
Marketing Expenses	112.7	109.3	123.7	140.1
Other expenses	1159.0	1629.3	1827.4	2070.6
Total Operating Expenditure	4098.7	5744.0	6480.4	7368.5
EBITDA	1,006.6	1,325.4	1,517.7	1,691.8
Growth (%)	20.4	31.7	14.5	11.5
Depreciation	385.1	570.6	600.2	629.8
Interest	212.6	260.3	259.3	215.3
Other Income	21.8	35.8	39.4	43.3
PBT	430.8	530.3	697.6	890.0
Total Tax	133.9	175.0	230.2	293.7
Minority interest	0.0	0.0	0.0	0.0
Profit from Associates	3.0	3.3	3.7	4.0
PAT	299.9	358.6	471.0	600.3
Growth (%)	40.1	19.6	31.3	27.4
EPS (₹)	16.4	18.6	24.5	31.2

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement ₹ crore				
(Year-end March)	CY18E	CY19E	CY20E	CY21E
Profit After Tax	664.8	615.6	726.7	811.6
Add: Depreciation	385.1	570.6	600.2	629.8
(Inc)/dec in Current Assets	-278.0	127.8	-387.3	-173.5
Inc/(dec) in CL and Provisions	227.9	-188.4	153.3	24.1
CF from operating activities	999.8	1,125.6	1,092.8	1,292.1
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-857.9	-1,844.9	-427.6	-428.9
Others	-15.5	0.0	0.0	0.0
CF from investing activities	-873.4	-1,844.9	-427.6	-428.9
Issue/(Buy back) of Equity	0.7	900.0	0.0	0.0
Inc/(dec) in loan funds	756.6	150.0	-300.0	-500.0
Dividend paid & dividend tax	-51.1	0.0	-94.2	-120.1
Others	-488.6	-260.3	-259.3	-215.3
CF from financing activities	-84.4	807.1	-637.6	-818.6
Net Cash flow	42.0	87.8	27.7	44.5
Opening Cash	64.9	93.5	149.2	176.9
Other Bank balance	50.5	0.0	0.0	0.0
Closing Cash	93.5	149.2	176.9	221.4

*calculated, Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet ₹ crore				
(Year-end March)	CY18E	CY19E	CY20E	CY21E
Liabilities				
Equity Capital	182.6	192.6	192.6	192.6
Reserve and Surplus	1815.9	3074.5	3451.3	3931.6
Total Shareholders funds	1998.5	3267.1	3644.0	4124.2
LT Borrowings & Provisions	1980.1	2180.1	1980.1	1680.1
Deferred Tax Liability	192.2	201.8	211.9	222.5
Total Liabilities	4290.5	5766.6	5959.4	6156.4
Assets				
Gross Block	5,558.2	7,710.6	8,110.6	8,510.6
Less: Acc Depreciation	1,698.0	2,268.6	2,868.8	3,498.6
Net Block	3,860.2	5,442.0	5,241.8	5,012.0
Capital WIP	352.4	50.0	50.0	50.0
Net Intangible Assets	524.9	551.1	578.7	607.6
Non-current Investments	0.8	0.8	0.8	0.8
Goodwill	1.9	1.9	1.9	1.9
Current Assets				
Inventory	578.4	687.3	888.7	1,006.7
Debtors	128.0	157.1	177.7	201.3
Loans and Advances	1.6	58.9	222.2	251.7
Other Current Assets	198.4	15.7	17.8	20.1
Cash	93.5	149.2	176.9	221.4
Deferred Tax Assets	33.4	33.4	33.4	33.4
Current Liabilities				
Creditors	316.8	490.9	555.4	604.0
Provisions	16.0	58.9	66.7	75.5
Short term debt & other CL	1,375.6	916.8	894.2	656.8
Application of Funds	4,290.5	5,766.6	5,959.4	6,156.4

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios ₹ crore				
(Year-end March)	CY18E	CY19E	CY20E	CY21E
Per share data (₹)				
EPS	16.4	18.6	24.5	31.2
Cash EPS	37.5	48.2	55.6	63.9
BV	109.4	169.6	189.2	214.1
DPS	0.0	0.0	4.9	6.2
Cash Per Share	93.0	117.8	148.9	181.6
Operating Ratios (%)				
EBITDA Margin	19.7	18.7	19.0	18.7
PBT / Total Operating income	8.4	7.5	8.7	9.8
PAT Margin	5.9	5.1	5.9	6.6
Inventory days	41.4	35.5	40.6	40.6
Debtor days	9.2	8.1	8.1	8.1
Creditor days	22.6	25.3	25.3	24.3
Return Ratios (%)				
RoE	15.0	11.0	12.9	14.6
RoCE	14.2	13.3	15.9	18.4
Valuation Ratios (x)				
P/E	55.4	48.9	37.2	29.2
EV / EBITDA	19.7	15.0	12.9	11.2
EV / Net Sales	3.9	2.8	2.4	2.1
Market Cap / Sales	3.4	2.5	2.2	1.9
Price to Book Value	8.3	5.4	4.8	4.3
Solvency Ratios				
Debt/EBITDA	2.3	1.9	1.5	1.0
Debt / Equity	1.2	0.8	0.6	0.4
Current Ratio	0.5	0.8	1.0	1.1
Quick Ratio	0.1	0.2	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,130	1,350	Hold	34,950	28.9	31.9	35.8	39.2	35.4	31.6	7.8	7.1	6.5	62.1	59.2	55.4	43.3	41.7	38.8
Dabur India (DABIND)	370	450	Buy	66,747	8.2	9.2	10.2	45.2	40.4	36.4	7.8	7.0	6.3	29.6	28.1	28.4	25.7	24.0	24.3
GSK CH (GLACON)	7,060	8,340	Buy	31,205	166.5	221.2	242.3	42.4	31.9	29.1	7.1	6.5	6.0	29.8	35.6	33.6	20.1	23.6	22.9
Hindustan Unilever (HINLEV)	1,700	1,900	Hold	378,000	28.5	32.9	37.9	59.6	51.7	44.9	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	300	340	Buy	340,127	10.3	11.3	12.4	29.0	26.5	24.1	7.6	6.9	6.4	35.8	35.7	37.5	24.9	24.7	26.0
Jyothy Lab (JYOLAB)	160	220	Buy	6,181	5.3	5.9	6.7	30.1	27.0	23.9	3.5	3.1	2.8	28.6	37.5	38.9	22.6	28.2	29.2
Marico (MARLIM)	360	425	Buy	46,963	8.8	8.7	9.8	40.9	41.5	36.9	6.4	5.5	4.9	38.0	42.6	41.7	31.6	35.8	34.6
Nestle (NESIND)	10,300	12,000	Buy	99,795	166.7	203.4	243.5	61.8	50.6	42.3	8.9	7.8	6.9	41.4	42.6	44.3	44.5	43.0	42.1
Tata Global Bev (TATGLO)	200	240	Buy	12,938	7.2	7.9	8.7	27.6	25.3	22.9	1.8	1.7	1.6	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,425	3,900	Buy	5,348	146.9	164.4	178.8	23.3	20.8	19.2	4.9	4.4	4.0	51.4	51.1	50.3	34.2	34.4	33.9
Varun Beverage (VARBEV)	910	1,040	Hold	17,530	11.7	16.4	18.6	77.6	55.4	48.9	4.4	3.4	2.5	12.7	14.2	13.3	12.1	15.0	11.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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