

Varun Beverages

Estimate change



TP change



Rating change


CMP: INR1,059
TP: INR 1,230 (+16%)
Buy

Operating leverage and higher realization drive earnings

Earnings above our estimates

- VBL posted robust sales growth, supported by strong (19% YoY) volume growth across geographies and higher (6% YoY) realization. Volume growth was led by the early onset of summer in India, translating into higher demand.
- Despite higher input cost, operating performance improved significantly due to higher realization and operating leverage. Consequently, EBIDTA/unit-case improved by 17% YoY to INR29.5.
- Factoring in its 1QCY22 performance, we raise our CY22/CY23 earnings estimate by 7%/6% as the growth trajectory is expected to continue with robust demand from out-of-home consumption and strong support from newly launched products. We maintain our Buy rating with a TP of INR1,230/share.

Demand growth across geographies drives sales

- Revenue rose 26% YoY to INR28.3b (est. INR26.6b), led by strong volume growth and a 6.3% increase in realization per unit case. Overall volumes grew 19% YoY to 179.7m cases. Gross margin contracted by 427bp to 51.5% (est. 54%) on the back of ~30% YoY higher preform/PET chip prices. Gross margin/unit-case declined by 2% YoY to INR81.
- EBITDA/unit-case grew 17% YoY to INR29.5, led by price hikes in select SKUs and higher realization in international markets. EBITDA margin expanded by 175bp YoY to 18.8% (est. 17%). EBITDA grew 39% YoY to INR5.3b due to higher realization and operating leverage, led by strong volume growth. Employee cost/other expenses, as a percentage of revenue, fell 91bp/511bp to 10%/23%.
- Adjusted PAT stood at INR2.5b (est. INR2b) v/s a PAT of INR1.3b in 1QCY21, led by margin improvement, higher profitability in international operations, lower taxation, and lower financing cost. The latter fell by 19% to INR469.6m in 1QCY22 due to lower average cost of borrowing.
- Subsidiary (consolidated less standalone) sales/EBITDA grew 46%/111% YoY to INR6.8b/INR1.3b in 1QCY22. Adjusted PAT grew 14.7x YoY to INR589m.
- CSD volumes increased by 18.5% YoY to 126m unit cases due to growing out-of-home consumption, which was driven by resumption of offices and an increase in traveling activity.
- NCB volumes grew 18% YoY to 13m unit cases on the back of robust growth and growing acceptance of newly launched Sting and Tropicana.
- Water volumes surged 20.6% YoY to 41m unit cases on the back of higher growth from the international segment.
- VBL declared a bonus issue in the proportion of 1:2, increasing the total number of equity shares to 649.5m after the bonus issue.

Highlights from the management interaction

- **Strong demand environment:** VBL sees a strong demand environment across geographies, led by out of home consumption and the early onset of summer. Demand has been robust in new product segments such as Sting, Value Added Dairy, and Tropicana. However, growth was limited due to capacity constraints (100% utilization at present). Once new capacities come on stream (may be by CY23), growth will be exponential.

Bloomberg	VBL IN
Equity Shares (m)	433
M.Cap.(INRb)/(USDb)	458.6 / 6
52-Week Range (INR)	1140 / 603
1, 6, 12 Rel. Per (%)	13/33/53
12M Avg Val (INR M)	515

Financials & Valuations (INR b)

Y/E Dec	2021E	2022E	2023E
Sales	88.2	107.6	118.4
EBITDA	16.5	22.1	24.4
PAT	6.9	11.3	13.3
EBITDA (%)	18.8	20.5	20.6
EPS (INR)	16.0	26.2	30.6
EPS Gr. (%)	113.5	63.3	17.1
BV/Sh. (INR)	94.2	117.4	144.5

Ratios

Net D/E	0.7	0.4	0.1
RoE (%)	18.3	24.7	23.4
RoCE (%)	12.5	18.0	20.2
Payout (%)	15.6	11.5	11.4

Valuations

P/E (x)	66.1	40.5	34.6
EV/EBITDA (x)	29.6	21.7	19.2
Div Yield (%)	0.2	0.3	0.3
FCF Yield (%)	1.0	2.9	3.1

Shareholding pattern (%)

	Mar-22	Dec-21	Mar-21
Promoter	64.9	64.9	66.4
DII	7.2	7.1	5.9
FII	21.0	21.2	20.3
Others	6.9	6.8	7.4

Note: FII includes depository receipts

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- **Gross margin to improve in 2QCY22:** Lower other expense, as a percentage of sales, in 1QCY22 is mostly due to operating leverage, led by higher sales volume. This time around higher discounts were offered due to strong demand. The same is partly reflected in the lower gross margin. The management expects gross margin in 2Q to be higher than 1QCY22 as most of the discounts would be curtailed back.
- **Market update from South and West India:** Post-acquisition of new markets, the company could do very little as the last two peak seasons were affected due to the COVID-19 pandemic. The management has been focusing on enhancing distribution. This is the first year since it has augmented its distribution and the same is delivering results. VBL is already witnessing accelerated growth from South and West India.

Valuation and view

- We expect the strong recovery to continue going forward, led by: a) growing out-of-home consumption, with the opening up of offices and traveling activity, b) uptick in volumes in new territories, c) robust growth in launched products, and d) growing refrigeration in rural/semi-rural areas.
- Factoring in its 1QCY22 performance, we raise our CY22/CY23 earnings estimate by 7%/6% as the growth trajectory is expected to continue with robust demand from out-of-home consumption and strong support from newly launched products.
- We expect a revenue/EBITDA/PAT CAGR of 16%/21%/38% over CY21-23. We value the stock at 40x CY23E EPS. Our TP of INR1,230 per share implies 16% upside. We maintain our **Buy** rating.

Consolidated quarterly earning

(INR m)

Y/E December	CY21				CY22				CY21	CY22	CY22E	Var. %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Gross Sales	22,409	24,498	23,982	17,343	28,275	32,053	27,813	19,473	88,232	1,07,614	26,575	6
YoY Change (%)	33.7	49.4	33.0	30.3	26.2	30.8	16.0	12.3	36.8	22.0	18.6	
Total Expenditure	18,593	18,790	19,035	15,268	22,965	24,330	21,391	16,843	71,686	85,529	22,048	
EBITDA	3,816	5,708	4,947	2,076	5,310	7,723	6,422	2,630	16,546	22,085	4,527	17
Margin (%)	17.0	23.3	20.6	12.0	18.8	24.1	23.1	13.5	18.8	20.5	17.0	
Depreciation	1,347	1,288	1,385	1,293	1,313	1,388	1,485	1,393	5,313	5,579	1,447	
Interest	579	468	427	373	470	400	380	375	1,847	1,625	380	
Other Income	57	244	369	9	85	275	416	92	679	867	65	
PBT before EO expense	1,947	4,197	3,504	419	3,612	6,210	4,973	954	10,066	15,748	2,765	
Extra-Ord. expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,947	4,197	3,504	419	3,612	6,210	4,973	954	10,066	15,748	2,765	
Tax	579	1,009	925	93	901	1,490	1,193	229	2,606	3,814	664	
Rate (%)	29.8	24.0	26.4	22.1	25.0	24.0	24.0	24.0	25.9	24.2	24	
Minority Interest and P/L of Asso. Cos.	75	106	178	161	169	112	186	131	520	598	79	
Reported PAT	1,293	3,082	2,401	165	2,542	4,608	3,593	594	6,941	11,336	2,023	
Adj. PAT	1,293	3,082	2,401	165	2,542	4,608	3,593	594	6,941	11,336	2,023	26
YoY change (%)	153.5	118.9	56.9	-183.6	96.7	49.5	49.6	260.1	113.5	63.3	56.5	
Margin (%)	5.8	12.6	10.0	1.0	9.0	14.4	12.9	3.0	7.9	10.5	7.6	

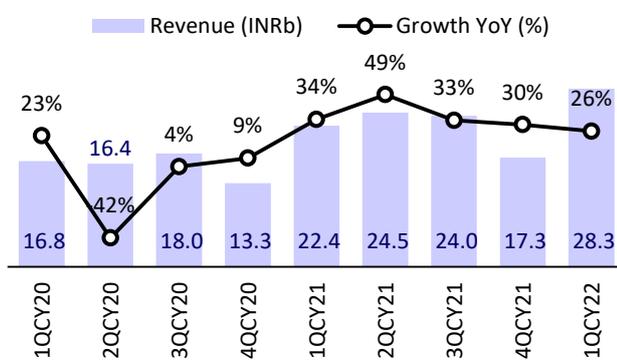
Exhibit 1: Key performance indicators

Y/E December	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21	3QCY21	4QCY21	1QCY22
Segment volume growth (%)									
CSD	19	-39	3	6	40	33	22	24	19
NCB	33	-47	-14	-20	38	38	33	50	18
Water	50	-77	-23	12	13	188	54	36	21
Cost break-up									
RM cost (as a percentage of sales)	41	45	44	40	44	46	47	45	48
Employee cost (as a percentage of sales)	14	12	13	17	11	10	11	15	10
Other cost (as a percentage of sales)	29	20	22	30	28	20	21	28	23
Gross margin (%)	59	55	56	60	56	54	53	55	52
EBITDA margin (%)	16	23	21	13	17	23	21	12	19
EBIT margin (%)	8	15	14	3	11	18	15	5	14

Source: Company, MOFSL

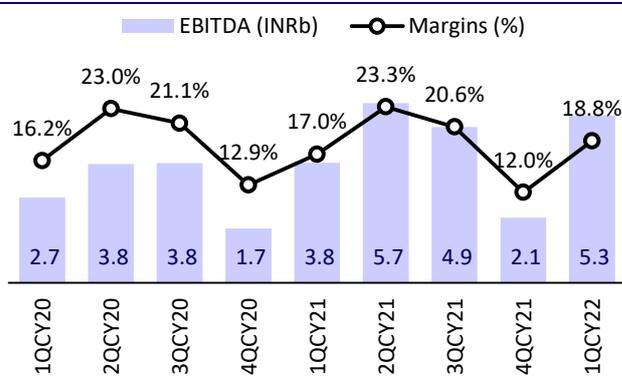
Key exhibits

Exhibit 2: Trend in consolidated revenue



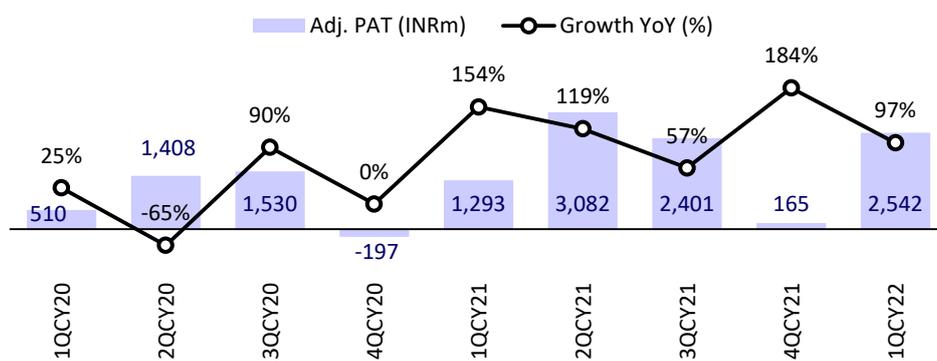
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA



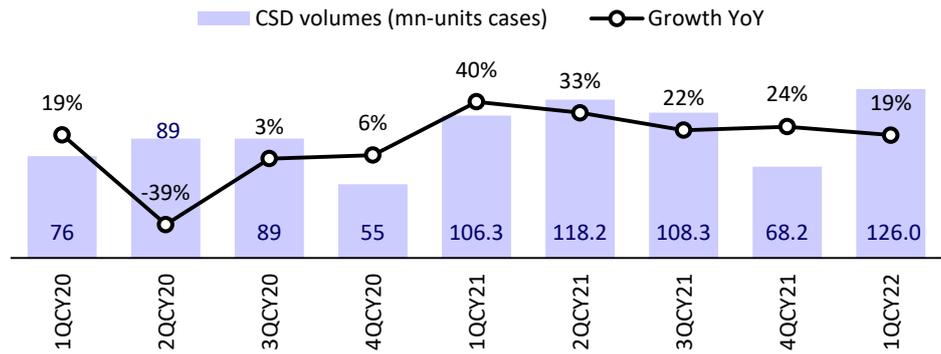
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT



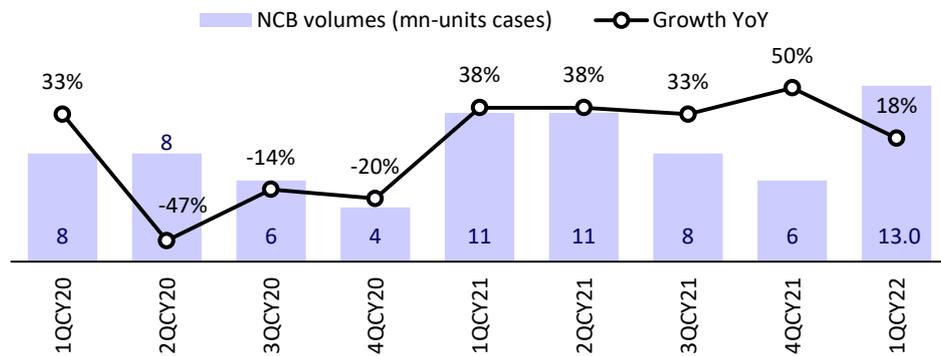
Source: Company, MOFSL

Exhibit 5: Out-of-home consumption drives CSD sales volumes



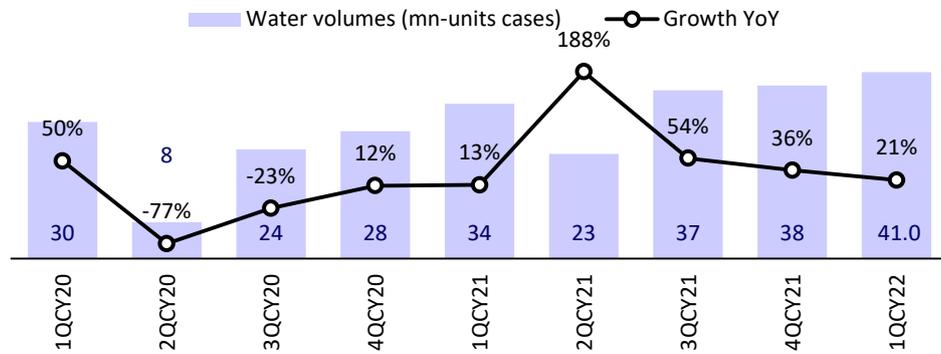
Source: Company, MOFSL

Exhibit 6: New launches support NCB volume growth



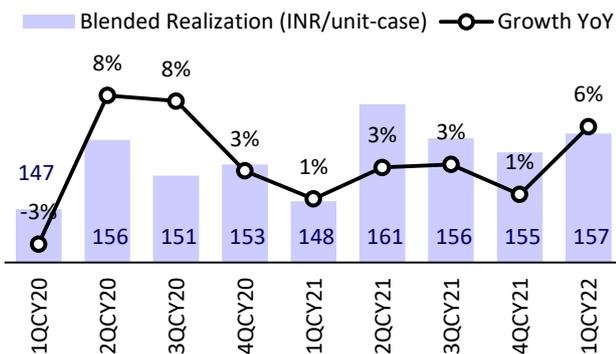
Source: Company, MOFSL

Exhibit 7: International geographies drive Water volumes



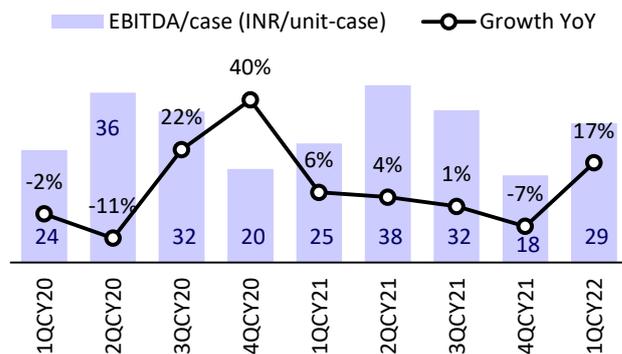
Source: Company, MOFSL

Exhibit 8: Trend in blended realization



Source: Company, MOFSL

Exhibit 9: Trend in EBITDA/case



Source: Company, MOFSL



Highlights from the management interaction

Demand scenario

- VBL sees a strong demand environment across geographies, led by out of home consumption and the early onset of summer. Demand has been robust in new product segments such as Sting, Value Added Dairy, and Tropicana. However, growth was limited due to capacity constraints (100% utilization at present). Once new capacities come on stream (may be by CY23), growth will be exponential.
- Out of home (~65% of demand) is the biggest growth driver, followed by home consumption (30-35% of demand).

Market update from South and West India

- Post-acquisition of new markets, the company could do very little as the last two peak seasons were affected due to the COVID-19 pandemic.
- The management has been focusing on enhancing distribution. This is the first year since it has augmented its distribution and the same is delivering results for the company.
- VBL is already witnessing accelerated growth from South and West India.
- This market constitutes around a third of domestic volumes (~49m unit cases).

Capex

- VBL tried to enhance capacity through brownfield expansion, but was unable to do so due to limited water availability. It is now looking at greenfield projects.
- In CY21, it doubled water capacity in Morocco, but due to the second COVID wave could not commercialize during the season time. The same was commercialized in Aug'21, the benefit of which will accrue in CY22. The plant is already running at 100% capacity.
- In Zimbabwe, it is adding capacity by May'21 or Jun'21, which coincides with the season there.
- VBL is currently looking to add one line internationally. For this, it will incur a capex of USD10-15m.
- It is running at full capacity across its domestic and international plants.

Operational update

- Growth has been broad-based. In international markets like Sri Lanka, VBL has grown by 30% in 1QCY22 (the same constitutes only 1-1.5% of the overall business). Morocco has grown by 50%, contributing reasonably to revenue.
- New products such as Sting, Dairy, and Tropicana have been a strong performer. Volume mix of new products in 1QCY22: Sting (6-7%), Value Added Dairy (0.5%), and Tropicana (2%).
- Lower other expense in 1QCY22 is mostly due to operating leverage, led by higher sales volume. This time around higher discounts were offered due to strong demand. The same is partly reflected in the lower gross margin. The management expects gross margin in 2Q to be higher than 1QCY22 as most of the discounts would be curtailed back.

- The impact of input cost inflation will be minimal as VBL has stored enough raw materials till 3QCY22. It borrowed additional funds for this, which is reflected in its higher interest cost.
- With the objective of consolidating manufacturing plants and improving operational efficiencies in 1QCY22, VBL wrote off its plant and machinery (CSD Glass and Can line) at its Roha plant (Maharashtra). The plant was operating at a sub-optimal capacity utilization mix (WDV of INR145.8m). Hence, it moved the packaged drinking water line to the Paithan plant (Maharashtra). The write-off of WDV has been recorded under other expenses. Excluding this, EBITDA margin stood ~19.3%.
- Net debt, ~INR31,000m as of Mar'22, includes additional borrowing for inventory stocking. No debt repayment occurred in 1QCY22 as the company has paid for the J&K and Bihar plant.
- The domestic/international volume split in 1QCY22 was 147m/33m unit cases.

Guidance

- Volume in 1Q contributes ~23% to the CY22 mix and fullyear volume can be extrapolated to get the estimates of CY22 volume..
- EBITDA in 2Q will be higher than 1QCY22, based on historic trends.
- Realization growth in 1QCY22 was ~6% and a similar trend can be expected going forward.
- The overall market is expected to grow by 10-15%. VBL's focus is on exceeding market growth. Major growth will accrue from on the go segment.

Valuation and view

- We expect the strong recovery to continue going forward, led by: a) growing out-of-home consumption, with the opening up of offices and traveling activity, b) uptick in volumes in new territories, c) robust growth in newly launched products, and d) growing refrigeration in rural/semi-rural areas.
- Factoring in its 1QCY22 performance, we raise our CY22/CY23 earnings estimate by 7%/6% as the growth trajectory is expected to continue with robust demand from out-of-home consumption and strong support from newly launched products.
- We expect a revenue/EBITDA/PAT CAGR of 16%/21%/38% over CY21-23. We value the stock at 40x CY23E EPS. Our TP of INR1,230 per share implies 16% upside. We maintain our Buy rating.

Exhibit 10: Revisions in our estimates

Earnings change (INR m)	Old		New		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Revenue	1,04,769	1,15,246	1,07,614	1,18,375	3	3
EBITDA	21,099	23,395	22,085	24,385	5	4
Adjusted PAT	10,573	12,498	11,336	13,270	7	6

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Total Income from Operations	33,941	38,612	40,035	51,053	71,296	64,501	88,232	1,07,614	1,18,375
Change (%)	35.7	13.8	3.7	27.5	39.7	-9.5	36.8	22.0	10.0
RM Cost	17,165	17,379	18,101	22,441	32,194	27,639	40,347	50,431	53,861
Employees Cost	3,238	4,210	4,628	5,830	8,108	8,897	10,077	11,067	12,311
Other Expenses	7,168	9,063	8,947	12,716	16,517	15,946	21,262	24,032	27,818
Total Expenditure	27,571	30,652	31,676	40,987	56,819	52,483	71,686	85,529	93,990
As a percentage of Sales	81.2	79.4	79.1	80.3	79.7	81.4	81.2	79.5	79.4
EBITDA	6,371	7,960	8,359	10,066	14,477	12,019	16,546	22,085	24,385
Margin (%)	18.8	20.6	20.9	19.7	20.3	18.6	18.8	20.5	20.6
Depreciation	3,174	3,222	3,466	3,851	4,886	5,287	5,313	5,579	6,066
EBIT	3,197	4,738	4,893	6,215	9,590	6,732	11,234	16,506	18,319
Int. and Finance Charges	1,688	4,325	2,122	2,126	3,096	2,811	1,847	1,625	940
Other Income	143	357	125	218	425	370	679	867	947
PBT bef. EO Exp.	1,652	770	2,896	4,308	6,919	4,290	10,066	15,748	18,326
EO Items	0	0	0	0	0	-665	0	0	0
PBT after EO Exp.	1,652	770	2,896	4,308	6,919	3,625	10,066	15,748	18,326
Total Tax	789	313	769	1,339	2,241	52	2,606	3,814	4,398
Tax Rate (%)	47.7	40.7	26.6	31.1	32.4	1.4	25.9	24.2	24.0
Share of profit from associates	13	24	14	30	44	0	0	0	0
Minority Interest	0	57	39	70	32	283	520	598	658
Prior period items	255	0	0	0	0	0	0	0	0
Reported PAT	1,130	424	2,102	2,928	4,690	3,290	6,941	11,336	13,270
Adjusted PAT	1,130	424	2,102	2,928	4,690	3,251	6,941	11,336	13,270
Change (%)	-520.2	-62.5	395.9	39.3	60.1	-30.7	113.5	63.3	17.1
Margin (%)	3.3	1.1	5.2	5.7	6.6	5.0	7.9	10.5	11.2

Consolidated Balance Sheet									
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Equity Share Capital	1,338	1,823	1,826	1,826	2,887	2,887	4,330	4,330	4,330
Total Reserves	905	15,113	15,866	18,158	30,397	32,353	36,469	46,506	58,260
Net Worth	6,743	16,936	17,692	19,985	33,284	35,240	40,799	50,836	62,591
Minority Interest	0	-129	-14	78	307	648	1,168	1,168	1,168
Total Loans	20,773	22,154	23,560	27,649	34,172	32,059	33,418	21,418	9,918
Deferred Tax Liabilities	1,429	1,218	1,422	1,588	2,697	2,149	3,087	3,087	3,087
Capital Employed	28,945	40,179	42,659	49,299	70,459	70,096	78,473	76,510	76,764
Gross Block	46,325	51,589	56,326	61,697	87,203	90,086	94,420	1,02,586	1,06,586
Less: Accum. Deprn.	11,369	14,434	16,540	17,847	22,655	26,242	31,555	37,133	43,199
Net Fixed Assets	34,956	37,155	39,786	43,850	64,548	63,844	62,865	65,453	63,387
Goodwill on Consolidation	0	0	19	19	242	242	242	242	242
Capital WIP	379	956	1,454	3,524	638	668	4,966	800	800
Total Investments	33	69	82	112	0	0	0	0	0
Current Investments	0	0	0	0	0	0	0	0	0
Curr. Assets, Loans, and Adv.	8,945	10,133	11,494	12,808	18,327	19,719	27,721	29,135	32,155
Inventory	4,247	4,899	4,389	5,784	8,815	9,288	14,481	14,060	15,450
Account Receivables	979	1,313	1,503	1,280	1,726	2,418	2,212	3,538	3,892
Cash and Bank Balance	581	657	945	935	1,711	1,901	3,366	2,194	2,534
Loans and Advances	3,138	3,263	4,658	4,809	6,076	6,113	7,661	9,344	10,279
Curr. Liability and Prov.	15,367	8,134	10,177	11,015	13,297	14,378	17,322	19,121	19,820
Account Payables	1,846	2,746	1,909	3,168	4,777	5,114	7,118	7,498	7,983
Other Current Liabilities	12,707	4,627	7,392	6,435	6,517	6,893	7,622	8,609	8,878
Provisions	815	761	875	1,412	2,003	2,371	2,583	3,013	2,959
Net Current Assets	-6,422	1,999	1,317	1,793	5,031	5,342	10,399	10,015	12,335
Misc. Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	28,945	40,179	42,659	49,299	70,459	70,096	78,473	76,510	76,764

Financials and valuations

Ratios

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Basic (INR)									
EPS	2.6	1.0	4.9	6.8	10.8	7.5	16.0	26.2	30.6
Cash EPS	9.9	8.4	12.9	15.7	22.1	19.7	28.3	39.1	44.7
BV/Share	15.6	39.1	40.9	46.2	76.9	81.4	94.2	117.4	144.5
DPS	0.0	0.0	1.1	1.1	1.6	1.7	2.5	3.0	3.5
Payout (%)	0.0	0.0	26.1	17.5	16.7	21.9	15.6	11.5	11.4
Valuation (x)									
P/E	405.7	1,082.2	218.2	156.6	97.8	141.1	66.1	40.5	34.6
Cash P/E	106.5	125.8	82.4	67.6	47.9	53.7	37.4	27.1	23.7
P/BV	68.0	27.1	25.9	22.9	13.8	13.0	11.2	9.0	7.3
EV/Sales	14.1	12.4	12.0	9.5	6.9	7.6	5.6	4.5	3.9
EV/EBITDA	75.2	60.3	57.6	48.2	33.9	40.7	29.6	21.7	19.2
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.3
FCF per share	6.7	1.1	2.4	4.4	13.3	16.6	10.9	31.1	32.3
Return Ratios (%)									
RoE	22.7	3.6	12.1	15.5	17.6	9.5	18.3	24.7	23.4
RoCE	6.4	9.1	9.2	10.0	11.8	10.4	12.5	18.0	20.2
RoIC	7.3	9.1	9.1	10.1	11.5	9.8	12.1	17.4	18.9
Working Capital Ratios									
Fixed Asset Turnover (x)	0.7	0.7	0.7	0.8	0.8	0.7	0.9	1.0	1.1
Asset Turnover (x)	1.2	1.0	0.9	1.0	1.0	0.9	1.1	1.4	1.5
Inventory (Days)	46	46	40	41	45	53	60	48	48
Debtor (Days)	11	12	14	9	9	14	9	12	12
Creditor (Days)	20	26	17	23	24	29	29	25	25
Leverage Ratio (x)									
Current Ratio	0.6	1.2	1.1	1.2	1.4	1.4	1.6	1.5	1.6
Interest Coverage Ratio	1.9	1.1	2.3	2.9	3.1	2.4	6.1	10.2	19.5
Net Debt/Equity ratio	3.0	1.3	1.3	1.3	1.0	0.9	0.7	0.4	0.1

Consolidated Cash Flow Statement

(INR m)

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
OP/(Loss) before Tax	1,906	770	2,896	4,308	6,919	3,625	10,066	15,748	18,326
Depreciation	2,982	3,222	3,466	3,851	4,826	5,287	5,313	5,579	6,066
Interest and Finance Charges	1,424	4,166	1,972	1,986	2,948	2,441	1,168	758	-7
Direct Taxes Paid	-483	-581	-571	-733	-1,201	-52	-2,606	-3,814	-4,398
(Inc.)/Dec. in WC	-419	637	-1,965	-501	-827	-1,181	-592	-789	-1,980
CF from Operations	5,411	8,214	5,798	8,911	12,665	10,120	13,349	17,482	18,007
Others	137	44	400	1,087	411	0	0	0	0
CF from Operations incl. EO	5,548	8,258	6,198	9,998	13,076	10,120	13,349	17,482	18,007
(Inc.)/Dec. in FA	-2,645	-7,803	-5,165	-8,088	-7,331	-2,913	-8,632	-4,000	-4,000
Free Cash Flow	2,903	455	1,033	1,910	5,745	7,207	4,717	13,482	14,007
(Pur.)/Sale of Investments	-377	0	0	0	0	0	0	0	0
Others	71	-2,681	-2,332	-647	-15,862	-1,798	-1,474	867	947
CF from Investments	-2,951	-10,484	-7,496	-8,734	-23,192	-4,711	-10,106	-3,133	-3,053
Issue of Shares	3,200	8,814	3,041	7	9,002	0	0	0	0
Inc./(Dec.) in Debt	-6,652	-4,494	-572	4,566	6,487	-2,113	1,359	-12,000	-11,500
Interest Paid	-1,408	-2,186	-1,557	-1,886	-3,011	-2,811	-1,847	-1,625	-940
Dividend Paid	0	0	-456	-456	-690	-722	-1,083	-1,299	-1,516
Others	2,500	168	1,130	-3,505	-895	426	-206	-598	-658
CF from Fin. Activity	-2,360	2,302	1,586	-1,273	10,893	-5,219	-1,777	-15,522	-14,614
Inc./Dec. in Cash	237	76	288	-10	776	190	1,466	-1,173	341
Opening Balance	344	581	657	945	935	1,711	1,901	3,367	2,194
Closing Balance	581	657	945	935	1,711	1,901	3,367	2,194	2,534

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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