



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Revenue, EBITDA and PAT grew by 26%, 39% and 98% respectively led by robust volume growth of 18.7% on the back of early onset of summer.
- Volume sales stood at 17.97 Cr cases vs 15.14 Cr cases in Q1CY21.
- Revenue contribution for CSD, Juice and PDW stood at 70%, 7.2% and 22.8% respectively.
- PAT almost doubled to 694 Cr from 329 Cr driven by lower interest expense, lower cost of borrowings and higher margins.

### 2. MANAGEMENT COMMENTARY:

- Management expect robust performance in coming quarters driven by strengthening demand, strong distribution network and success of new products.
- According to management, 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).
- 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. Company is already witnessing accelerated growth from South and West India.
- According to management margins should remain in the range of 20%-22% as they have enough stock of PET and sugar, so no challenge on that front and concentrate prices are also stable.

### 3. SEGMENTAL ANALYSIS:

- CSD volumes increased by 18.5% YoY to 12.6 Cr 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 1.3 Cr unit cases on the back of robust growth and growing acceptance of newly launched Sting and Tropicana.
- Water volumes surged 20.6% YoY to 4.1 Cr unit cases on the back of higher growth from the international segment.

### CONCALL SUMMARY:

- During Q1CY22, the new beverage manufacturing plant in Bihar and the new backward integration plant in Jammu & Kashmir commenced commercial production.
- Company has entered into an agreement to manufacture Kurkure Puffcorn for PepsiCo India Holdings Private Limited as part of their network of co-packers.
- Company has been aggressively installing visi-coolers to ensure volume growth in the coming months and meet demand.
- Net debt was 3100 Cr at end of March 2022 which was higher on account of PET stocking and capex in Jammu, Bihar and Chandila plants.
- Most of operating cash flow generated this year will be used for debt reduction, capex requirements also expected to increase.
- The capex for J&K and the Bihar greenfield project is 700 Cr, of which it has spent 500 Cr in CY21 and plans to incur 200 Cr in CY22.

### 4. VALUATION AND OUTLOOK:

We expect VBL to maintain its growth trajectory led by increased demand environment, acceptance of new products by customers, growing out of home consumption with opening of offices, schools, colleges and relaxation on travelling activities.

We expect healthy revenue, EBITA and PAT growth by 15%, 20% and 35% in coming years hence we maintain BUY rating on the stock with target price of 898 which implies an upside of 20%

## RECOMMENDATION - BUY

CMP – 749

TARGET – 898 (20%)

Industry	Consumer Food
NSE CODE	VBL
BSE CODE	540180
Market Cap (₹ Cr)	71427.72
Shares Outstanding (in Cr)	43.30
52 wk High/Low (₹)	1166.9 / 688
P/E	58.21
P/BV	11.7
Face Value (₹)	10.00
Book Value (₹)	62.8
EPS (CY21) (₹)	10.69
Dividend Yield (%)	0.28
Debt / Equity	0.82
Interest Coverage	7.75

## SHAREHOLDING PATTERN

	Mar 22	Dec 21	Sep 21
Promoters	64.89	64.89	64.89
MF/ DII	5.89	5.96	5.86
FII/FPI	21.03	21.23	21.72
Retail & Others	6.87	6.82	6.62
Promoter Pledging	0.04	0.04	0.00

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
<b>Crore</b>			
Sales	8823.23	10,146.71	11,668.72
Sales Gr. (%)	36.79	15	15
EBITDA	1676.91	2029.06	2455.16
EBITDA %	18.74	20	21
PAT	694.05	958.11	1268.42
EPS (₹)	16.03	14.74	19.51
EPS Gr. (%)	110.96	-8.05	32.39
BV/Sh. (₹)	94.22	120	145
<b>Ratios</b>			
RoE (%)	19.62	25	23
RoCE (%)	17.13	16	20
Payout (%)	15.60	12	12
<b>Valuation</b>			
P/E (x)	55.31	60.92	64.06
P/BV (x)	9.41	8	6.5
EV/EBITDA	23.73	20	18.5

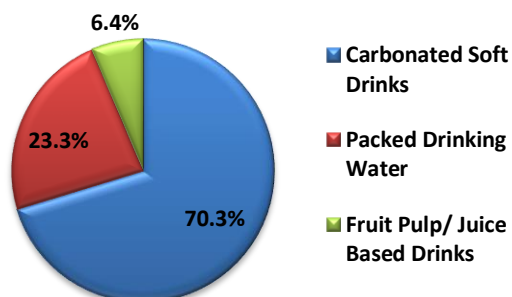
## Historical & Industrial Val Ratios

Historical P/E	56.98
Industry P/E	58.42
Historical P/B	7.39
Industry P/B	10.71

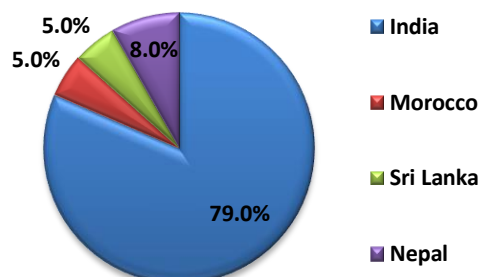


## REVENUE SPLIT (CY22)

Product Wise Break-up (CY22)



Location Wise Break-up (CY22)



## QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

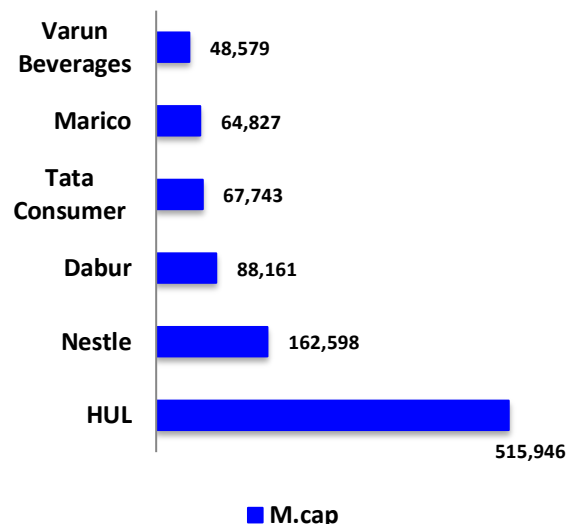
Y/E March	CY20			CY21			CY22		CY22E*	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		Q2E*
<b>Net sales</b>	<b>1640</b>	<b>1803</b>	<b>1331</b>	<b>2241</b>	<b>2450</b>	<b>2398</b>	<b>1734</b>	<b>2827</b>	<b>3670.1</b>	<b>10,146.7</b>
YoY change (%)	-41.64%	-3.62%	9.07%	33.67%	49.36%	33.04%	30.31%	26.18%	49.8%	15%
<b>Total Expenditures</b>	<b>1262</b>	<b>1422</b>	<b>1159</b>	<b>1859</b>	<b>1879</b>	<b>1904</b>	<b>1527</b>	<b>2296</b>	<b>2936.08</b>	<b>8,117.3</b>
<b>EBITDA</b>	<b>378</b>	<b>381</b>	<b>172</b>	<b>382</b>	<b>571</b>	<b>495</b>	<b>208</b>	<b>531</b>	<b>734.02</b>	<b>2,029.06</b>
Margins (%)	23%	21%	13%	17%	23%	21%	12%	19%	20%	20%
Depreciation	124	135	135	135	129	138	129	131	135	535
Interest	74	58	62	58	47	43	37	47	50	200
Other income	3	3	6	6	24	37	1	9	15	75
<b>PBT</b>	<b>182</b>	<b>192</b>	<b>-19</b>	<b>195</b>	<b>420</b>	<b>350</b>	<b>42</b>	<b>361</b>	<b>564.02</b>	<b>1,369.06</b>
Rate (%)	21%	16%	62%	30%	24%	26%	22%	25%	25%	26%
<b>Adjusted PAT</b>	<b>141</b>	<b>153</b>	<b>-20</b>	<b>129</b>	<b>308</b>	<b>240</b>	<b>16</b>	<b>254</b>	<b>423.01</b>	<b>958.11</b>
<b>EPS in Rs</b>	<b>3.25</b>	<b>3.53</b>	<b>-0.46</b>	<b>2.99</b>	<b>7.12</b>	<b>5.55</b>	<b>0.38</b>	<b>5.87</b>	<b>6.50</b>	<b>14.74</b>

Source: Company, Hem Securities Research.

## INDUSTRY OVERVIEW

- The FMCG industry has evolved and exhibiting resilience to evolve in ways that create more value in the future for the entire chain after it bounced back from the second wave of Covid-19.
- The revenue growth of the FMCG sector is expected to double the increase in the coming fiscal year, owing to factors such as recovery in urban demand and discretionary segments, as well as price rises implemented to counter the impact of rising raw material prices.
- The pandemic has had a big impact on the FMCG sector where it not only changed consumer behavior but also made FMCG companies to re-invent their strategies for customer acquisition, retention and value propositions. The consumption basket has transformed during this period and some of these changes are likely to be permanent.
- Consumers are rapidly adapting the usage of technology and with the increase in the usage of smartphone and internet penetration will further help people in rural areas easily access online shopping on various e-commerce websites.
- Consumers of today can interact easily with other people who have bought the same product. As a result, brands are devising marketing strategies to build a brand community where they target consumers who are interested in their products.
- With the new government regulation regarding investments in FMCG companies and accepting foreign-directed investments, the sector has seen a sudden influx of funds.

## KEY PLAYERS IN FMCG SPACE



## PEER PERFORMANCE

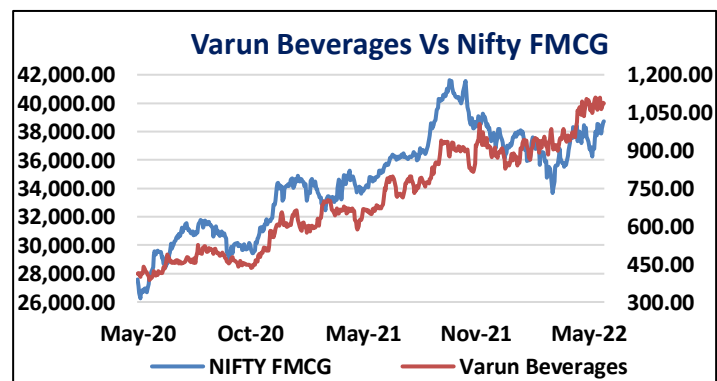
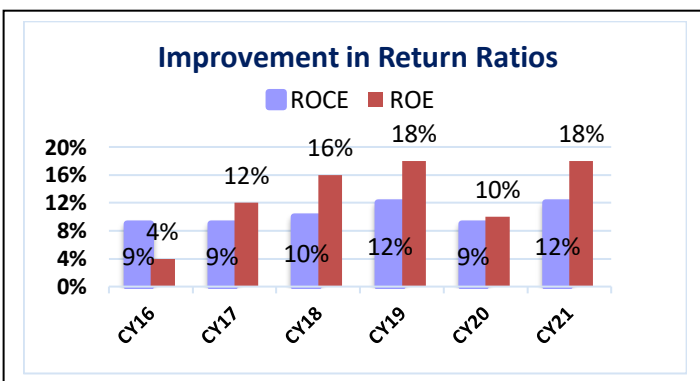
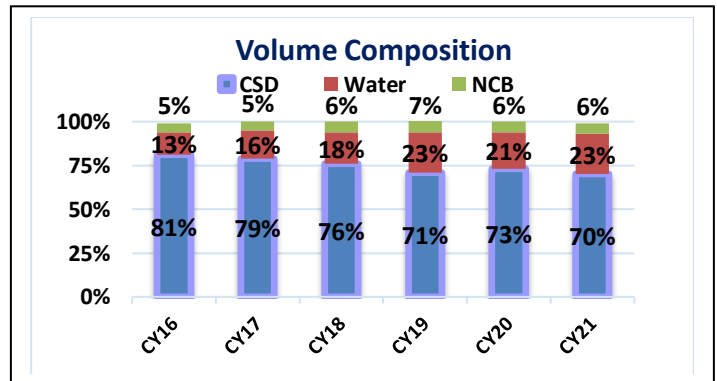
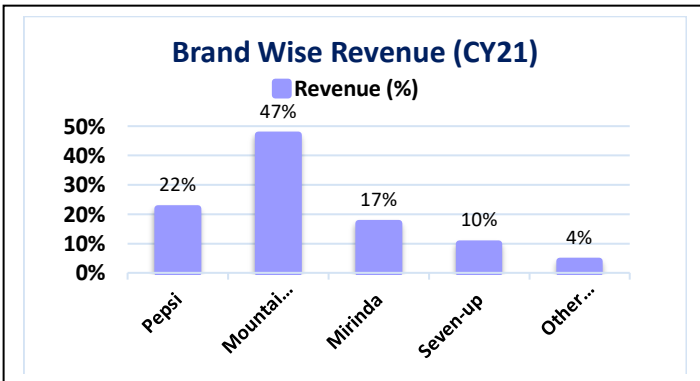
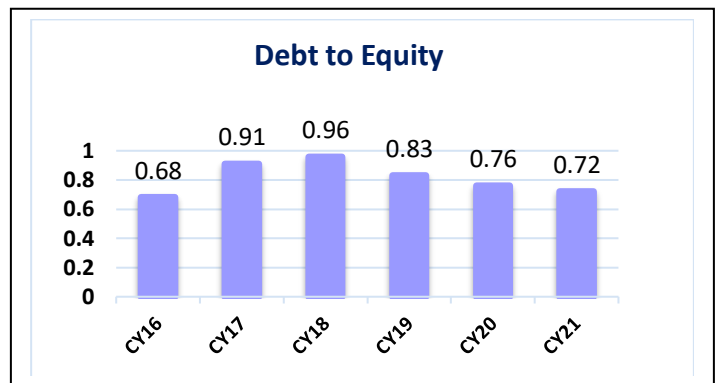
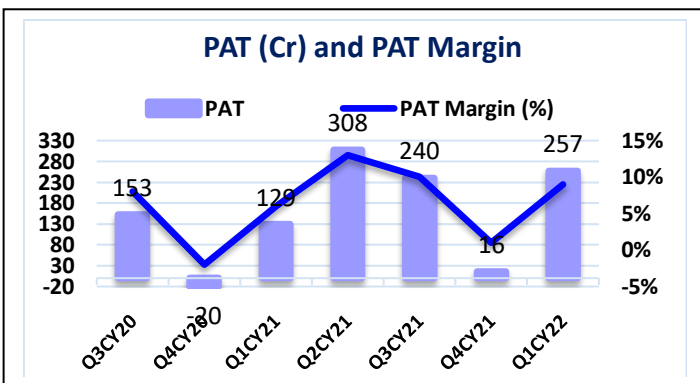
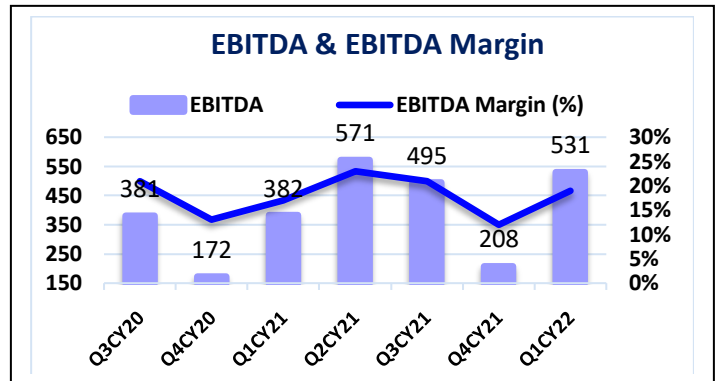
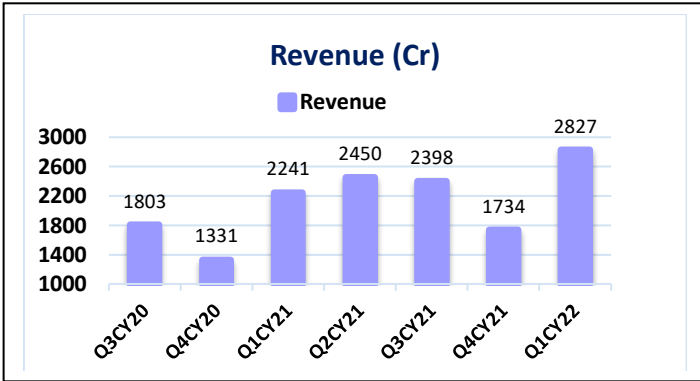
(₹ Cr)

Particulars	Varun Beverages Ltd	Marico Ltd	Tata Consumer	Dabur Ltd	HUL
Market Cap	48,579.8	64,827.3	67,743.3	88,161.2	5,15,946.7
Net Sales	8,823.2	8,048.0	12,425.4	9,546.6	52,446.0
EBITDA	1,676.9	1,588.0	1,718.8	2,002.7	12,857.0
PAT	694.1	1,172.0	935.8	1,693.3	8,879.0
EPS(Rs)	10.7	9.1	10.2	9.6	37.8
EBITDA MARGIN %	18.7	19.0	15.0	22.0	22.5
PAT MARGIN %	8.0	13.6	8.7	16.0	15.3
ROCE %	17.1	44.9	9.6	27.3	24.8
ROE %	19.6	38.7	7.3	24.1	18.4
P/E	59.3	52.9	72.4	50.7	58.1
P/B	10.6	19.4	4.5	10.5	10.5
EV/EBITDA					
Dividend Yield %	0.3	1.2	0.8	0.5	1.5
MCap/Sales	5.1	6.8	5.5	8.1	9.8

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- VBL is well-placed to capitalize on the growth opportunity in the upcoming peak season due to:
  1. Efficient go-to-market execution in acquired and underpenetrated territories.
  2. Sustained growth in on-the-go and in-home consumption.
  3. Strong traction from new product launches.
  4. Distribution led market share gain opportunities.
  5. Robust growth in the international geographies.
  6. Growing refrigeration in rural and semi-rural areas.
- Despite higher input cost, operating performance improved significantly due to higher realization and operating leverage.
- Although volatile raw material continues to pose near-term margin pressure (the management has undertaken advance stocking for the summer season to counter raw material inflation), company remains confident of delivering healthy volume growth in the medium to longer-term.

## RISK / NEGATIVE FACTORS:

- Gross Debt remained at previous levels, as internal cash was utilized for the expansion.
- The year 2022 will likely be a “difficult year” as commodity prices are on the increase across global markets.

## COMPANY RECAP

- Varun Beverages is the second largest franchisee in the world (outside US) of carbonated soft drinks (CSDs) and non-carbonated beverages (NCBs) sold under trademarks owned by PepsiCo and a key player in the beverage industry.
- The company produce and distribute a wide range of CSDs, as well as a large selection of NCBs, including packaged drinking water.
- PepsiCo CSD brands sold by the company include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Seven-Up Nimbooz Masala Soda, Evervess Soda, Duke's Soda and Sting. PepsiCo NCB brands sold by the company include Tropicana (100%, Essentials & Delight), Tropicana Slice, Tropicana Frutz, Seven-Up Nimbooz, Gatorade and Quaker Oat Milk as well as packaged drinking water under the brand Aquafina. In addition, the company also been granted the franchise for Ole brand of PepsiCo products in Sri Lanka.
- The company has been associated with PepsiCo since the 1990s and has over two and half decades consolidated its business association with PepsiCo, increasing the number of PepsiCo licensed territories and sub-territories covered by the company, producing and distributing a wider range of PepsiCo beverages, introducing various SKUs in its portfolio, and expanding its distribution network. The company has been granted franchisees for various PepsiCo products spread across 27 States and 7 Union Territories in India.
- The management team of the company include Mr. Ravi Jaipuria, Mr. Kapil Agarwal, Mr. Raj Gandhi, Mr. Rajinder Jeet Singh Bagga and Mr. Varun Jaipuria.



## ANNUAL PERFORMANCE

### Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
<b>Revenue from operations</b>	<b>4,003.54</b>	<b>5,105.26</b>	<b>7,129.58</b>	<b>6,450.14</b>	<b>8,823.23</b>	<b>10,146.71</b>	<b>11,668.72</b>
Growth YoY (%)	3.69	27.52	39.65	-9.53	36.79	15%	15%
<b>Total Expenditure</b>	<b>3,165.22</b>	<b>4,088.43</b>	<b>5,667.26</b>	<b>5,235.64</b>	<b>7,146.32</b>	<b>8117.37</b>	<b>9233.22</b>
(%) of sales	79.06	80.08	79.49	81.17	80.99	80%	79%
<b>EBITDA</b>	<b>838.33</b>	<b>1,016.83</b>	<b>1,462.32</b>	<b>1,214.50</b>	<b>1,676.91</b>	<b>2,029.06</b>	<b>2,455.16</b>
EBITDA Growth (%)	2.03	22.07	44.88	-16.84	39.45	21%	21%
EBITDA Margin (%)	18.84	19.87	17.44	16.34	18.74	20%	21%
Depreciation	346.64	385.07	488.63	528.70	531.26	535	540
<b>EBIT</b>	<b>504.20</b>	<b>653.58</b>	<b>1,016.22</b>	<b>656.25</b>	<b>1,213.91</b>	<b>1,494.06</b>	<b>1,915.16</b>
EBIT Growth (%)	-1.47	29.63	55.48	-35.42	84.98	23.08%	28.19%
Net Interest Expenses	214.59	222.80	324.31	293.74	207.31	200	195
Other Income	12.51	21.82	42.53	36.97	68.26	75	75
<b>Earnings before Taxes</b>	<b>289.60</b>	<b>430.78</b>	<b>691.91</b>	<b>362.51</b>	<b>1,006.61</b>	<b>1,369.06</b>	<b>1,795.16</b>
EBT Margin (%)	6.41	8.24	8.02	4.73	10.81	13.49%	15.38%
Tax-Total	76.90	133.94	224.07	5.23	260.56	355.96	466.74
Rate of tax (%)	26.55	31.09	32.38	1.44	25.88	26	26
<b>Net Profit</b>	<b>212.71</b>	<b>296.84</b>	<b>467.84</b>	<b>357.27</b>	<b>746.05</b>	<b>1,013.11</b>	<b>1,328.42</b>
PAT Growth (%)	365.84	39.55	57.61	-23.63	108.82	35.80%	31.12%
PAT Margin (%)	4.71	5.68	5.42	4.66	8.01	9.98%	11.38%
Minority Interest	-3.91	-7.02	-3.23	-28.28	-52.00	-55	-60
<b>Adjusted PAT</b>	<b>210.15</b>	<b>292.84</b>	<b>468.98</b>	<b>329.00</b>	<b>694.05</b>	<b>958.11</b>	<b>1,268.42</b>
<b>EPS</b>	<b>5.12</b>	<b>7.13</b>	<b>10.83</b>	<b>7.60</b>	<b>16.03</b>	<b>14.74</b>	<b>19.51</b>
EPS Growth (%)	395.16	39.30	51.98	-29.85	110.96	-8.05%	32.39%

### Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	183	183	289	289	433
Reserves	1,587	1,816	3,040	3,235	3,647
<b>Net Worth</b>	<b>1,770</b>	<b>1,999</b>	<b>3,329</b>	<b>3,524</b>	<b>4,080</b>
Borrowings	2,654	2,808	3,417	3,216	3,356
Other Liabilities	852	1,192	1,630	1,707	2,144
<b>Total Liabilities &amp; Equity</b>	<b>5,276</b>	<b>5,998</b>	<b>8,376</b>	<b>8,447</b>	<b>9,579</b>
Fixed Assets	3,981	4,387	6,479	6,409	6,311
CWIP	145	352	64	67	497
Investments	8	11	0	0	0
Other Assets	1,141	1,247	1,833	1,972	2,772
<b>Total Assets</b>	<b>5,276</b>	<b>5,998</b>	<b>8,376</b>	<b>8,447</b>	<b>9,579</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	4.71	5.68	5.42	4.66	8.01
EBITDA margin (%)	18.84	19.87	17.44	16.34	18.74
EBIT margin (%)	11.16	12.50	11.77	8.57	13.04
ROE (%)	12.29	15.76	17.57	10.43	19.62
ROCE (%)	12.10	14.16	17.59	9.73	17.13
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	46.94	41.29	45.04	65.31	55.33
Inventory (Days)	37.53	35.51	30.87	43.13	46.59
Receivables (Days)	11.38	9.71	6.36	9.87	9.08
Current Ratio (x)	0.61	0.66	0.75	0.74	0.84
<b>Valuations Ratios</b>					
EV/sales (x)	3.61	3.35	3.32	4.57	4.69
EV/EBITDA (x)	16.99	16.46	15.74	23.54	23.73
P/E (x)	56.59	49.09	43.58	80.33	55.31
P/BV (x)	6.72	7.19	6.14	7.50	9.41
Dividend Yield (%)	0.38	0.32	0.35	0.27	0.28
<b>Leverage Ratio</b>					
Debt/Equity (x)	1.50	1.41	1.03	0.91	0.82

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>CF from Operating activities (A)</b>	<b>620</b>	<b>1,000</b>	<b>1,308</b>	<b>1,012</b>	<b>1,231</b>
<b>CF from Investing Activities (B)</b>	<b>-745</b>	<b>-873</b>	<b>-2,319</b>	<b>-471</b>	<b>-1010.639</b>
<b>CF from Financing Activities (C)</b>	<b>159</b>	<b>-84</b>	<b>1,107</b>	<b>-574</b>	<b>-178</b>
Net Cash Flow	33.128	41.966	95.686	-32.826	43
Add: Opening Bal.	33	65	43	138	105
<b>Closing Balance</b>	<b>65</b>	<b>43</b>	<b>138</b>	<b>105</b>	<b>151</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
14 <sup>th</sup> June 2022	Buy	898

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