

Focus on consolidating operations & debt repayment

Varun Beverages reported healthy results with 9.1% revenue growth & 48.8% growth in operating profit. The strong revenue growth was aided by 5.7% organic volume growth & 3.2% realisation growth. The company sold 87 million cases in Q4CY20, which constitutes 63% carbonated soft drinks (CSD), 5% juices & 32% water. With substantial improvement in out of home activity & opening up of HORECA segment, the company saw strong recovery in volumes in H2CY20. Operating profit increased 48.8% to ₹ 172.2 crore led by 472 bps improvement in gross margins & 91 bps saving in employee spends. The lower PET chips prices & stable sugar prices aided gross margins. Other overhead increased 218 bps as percentage of sales. Operating margins improved 345 bps to 12.9%. The company reported net loss of ₹ 7.2 crore during the quarter vs. loss of ₹ 53.9 crore in the corresponding quarter. We believe consolidation of south & west geographies has helped the company to reduce losses in non-peak season. The reduction in losses was also aided by lower interest cost & tax reversals.

Aggressive volumes push in summer to drive recovery, growth

VBL suffered 13.7% volume decline in CY20 due to pandemic induced lockdown at the peak summer season. With the considerable increase in out of home activity & fully operational HORECA channel, VBL looks to push volumes aggressively in CY21 summer season. It has launched convenient SKUs & new products in last two quarters to propel demand for CSD. The company launched lemon fruit juice based drink under 'Mountain Dew' brand in February 2021. We expect 14.4% CAGR revenue growth during CY20-22E largely backed by volume recovery in CY21 and improvement in market standing from acquired south & west regions business. Further, a better product mix in favour of juices would also aid revenues

Favourable RM, sustained cost efficiency to aid margin recovery

Given significant dip in volumes, negative operating de-leverage resulted in 170 bps operating margin contraction in CY20 despite several cost rationalisation measures. We believe many of these measures would sustain over a period of time, which would help in margin improvement in the next two years. Further, favourable PET chip prices in last six months helped the company to improve gross margins. Moreover, with the ensured RM supplies, it would not be impacted by any increase in PET chip prices. Sugar prices have also been stable in last one year. We also expect operating margins to recover to pre-Covid levels above 20% in CY21E and CY22E.

Valuation & Outlook

Given beverages is largely a discretionary category and a large part of demand is contributed by 'On-the-go' activity, the category was impacted heavily in last 10 months. We believe VBL would be able to substantially reduce its debt in next two years. We expect 45.2% CAGR earnings growth during CY20-22E aided by low base, margin improvement and reduction in interest cost. The stock is fairly valued at current valuation multiples. We value the stock at 18x CY22 EV/EBITDA with a revised target price of ₹ 965/share (earlier ₹ 730). We maintain our **HOLD** rating.



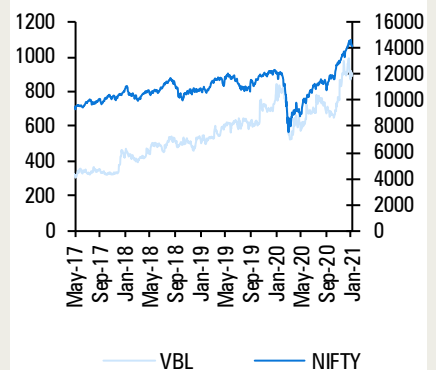
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	26,010.8
Total Debt (CY19)	2,822.5
Cash & Investments (CY19)	138.0
EV	28,695.4
52 week H/L (₹)	1066 / 485
Equity capital	288.7
Face value	10.0

Key Risk

- With sustainability of favourable raw material prices, operating margin improvement can be better than our estimate
- Possibility of second wave of Covid19 & subsequent lockdowns still remains. This would result in recovery getting impeded

Price Performance



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Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-22E)
Net Sales	5105.3	7129.6	6450.1	7695.6	8448.5	14.4%
EBITDA	1006.6	1447.7	1201.9	1553.6	1715.8	19.5%
EBITDA Margin %	19.7	20.3	18.6	20.2	20.3	
Net Profit	299.9	472.2	362.1	605.1	763.6	45.2%
EPS (₹)	16.42	16.36	12.54	20.96	26.45	
P/E	54.9	55.1	71.8	43.0	34.1	
RoNW %	15.0	14.2	10.3	15.1	16.5	
RoCE (%)	14.2	15.5	10.9	17.2	20.1	

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	Comments
Net Sales	1,330.9	1,220.2	9.1	1,802.6	-26.2	Net sales increased 9.1% led by 5.7% organic volumes growth & 3.2% realisation growth mainly on account of better product mix Gross margins expanded 472 bps on account of benign PET Chips prices, which were down 12.5% for the full year. Moreover, sugar prices were also stable
Raw Material Expenses	530.4	543.9	-2.5	801.0	-33.8	
Employee Expenses	231.7	223.6	3.6	229.6	0.9	
Other operating Expenses	396.5	336.9	17.7	391.3	1.3	
EBITDA	172.2	115.8	48.8	380.8	-54.8	Operating profit witnessed strong growth led by improvement in gross margins
EBITDA Margin (%)	12.9	9.5	345 bps	21.1	-818 bps	
Depreciation	134.7	136.8	-1.6	134.6	0.1	
Interest	62.0	79.1	-21.6	58.0	6.9	Reduction in cost of debt & lower debt levels led to decline in interest cost
Other Income	5.6	36.0	-84.5	3.5	60.2	
PBT	-18.9	-64.2	-70.6	191.7	-109.8	
Exceptional Items	0.0	0.0		0.0		
Tax Outgo	-11.6	-10.2	13.8	30.2	-138.4	
PAT	-7.2	-53.9	-86.6	161.5	-104.5	The loss during the quarter was ₹ 7.2 crore as against ₹ 53.9 crore mainly due to lower tax outgo as some international geographies saw strong profitability & lower taxes given tax credits were available from previous years
Adj. PAT	-7.2	-53.9	-86.6	161.5	-104.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY21E			CY22E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	7,753.0	7,695.6	-0.7	8,513.4	8,448.5	-0.8	No major change in our estimates
EBITDA	1,562.3	1,553.6	-0.6	1,709.3	1,715.8	0.4	
EBITDA Margin(%)	20.2	20.2	4 bps	20.1	20.3	23 bps	
PAT	627.1	605.1	-3.5	768.0	763.6	-0.6	The change in interest cost due to delay in debt reduction would change our profit estimates slightly
EPS (₹)	21.72	20.96	-3.5	26.60	26.45	-0.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Particulars (in million cases)	Current						Earlier		Comments
	CY17	CY18	CY19E	CY20E	CY21E	CY22	CY21E	CY22	
Carbonated Products	220.0	257.0	388.1	345.4	414.5	443.5	414.5	443.5	No major change in operational estimates
% Growth	-1.3	16.8	51.0	-11.0	20.0	7.0	20.0	7.0	
Non Carbonated Products	14.0	22.0	29.7	22.3	26.3	27.9	33.3	35.3	
% growth	-11.1	57.1	35.0	-25.0	18.0	6.0	18.0	6.0	
Raw Material Cost									
Sugar	616.6	698.4	1,086.0	907.9	1,097.1	1,231.9	1,114.6	1,251.3	
% of sales	13.4	14.2	15.1	14.0	14.0	14.4	14.1	14.5	
cost/kg (₹)	38.9	37.0	36.6	34.8	36.5	38.4	36.5	38.4	

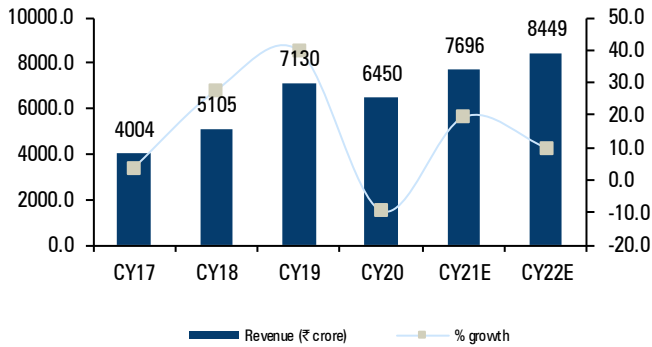
Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenue witnessed 9.1% growth led by 5.7% organic volume growth & 3.2% realisation growth. Volume growth was led by strong volumes in international geographies & realisation growth was aided by better product mix (water volumes were still impacted due to gradual opening up of HORECA segment)
- The company sold 87 million cases during the quarter, which constitutes 55 million cases (63%) of CSD, 4 million cases (5%) of juice & 28 million cases (32%) of water. On a full year basis, volumes declined 13.7% to 425.3 million cases, which constitutes 72.6% CSD, 6.3% Juices & 21.2% water volumes
- Water & juices segment volumes were impacted the most in CY20 given categories are largely consumed 'On-the-go'. The decline in Out of Home volumes in CSD segment was partially compensated by at-home consumption of smaller, convenient SKUs
- The company launched lemon fruit juice based drink under 'Mountain Dew' Brand in February 2021. It has launched two SKUs of 250 ml PET & 600 ml PET. The lemon beverages category market size in India is 600 million cases. VBL sees large opportunity in this sub-category
- Out of the 425.3 million cases, international geographies contributed 87.7 million cases in CY20. Volumes in Nepal, Sri-Lanka, Morocco, Zimbabwe & Zambia contributed 16, 10.5, 18, 34 & 9.2 million cases, respectively
- On an average PET chip prices were down 12.5%, which benefited the company through gross margins expansion during H2CY20. Though PET chip prices have started moving up in recently but the company is sufficiently covered for the year & any significant price increase in PET chip prices will not impact gross margins adversely. Similarly, sugar prices have also remained stable in last one year
- During the quarter, October saw slight growth, November was marginally negative & December has seen 34% growth. January onwards volumes have been back to pre-Covid levels
- The company has shut down two plants in CY20 & the permanent cost saving would be to the tune of ₹ 60 crore from these plants
- The company would not be taking any prices hikes in near future
- Net debt is at ₹ 3015.8 crore. The company would be focusing on reducing substantial portion of debt over the next two to three years. The company incurred a capex of ₹ 320 crore in CY20 for the brownfield expansion for some of the plants & acquisition of assets for the value added dairy beverage in Zambia

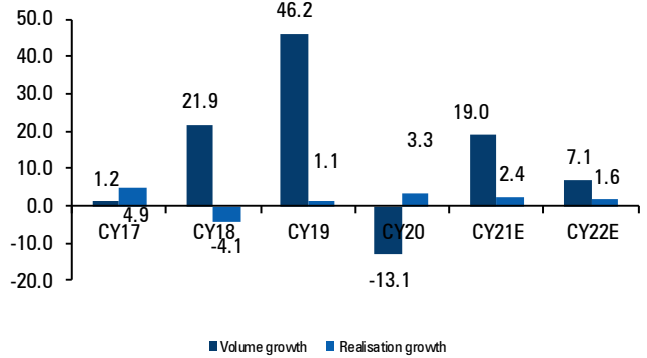
Key Metrics

Exhibit 4: Revenue growth trend (₹ crore)



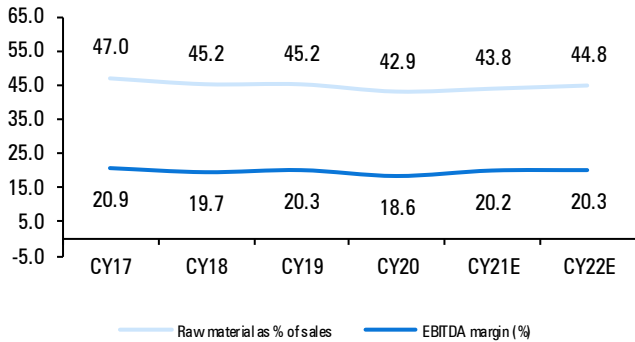
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth to drive growth



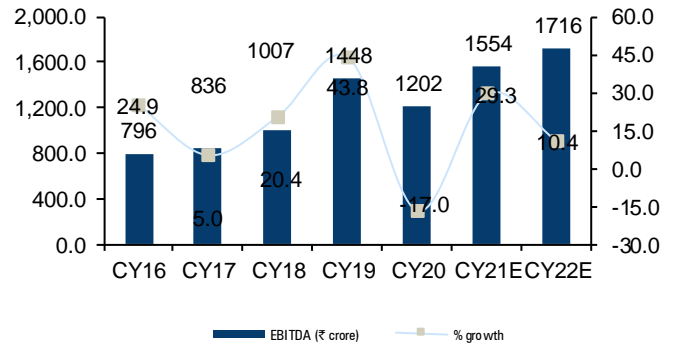
Source: Company, ICICI Direct Research

Exhibit 6: Raw material to sales & EBITDA margins (%)



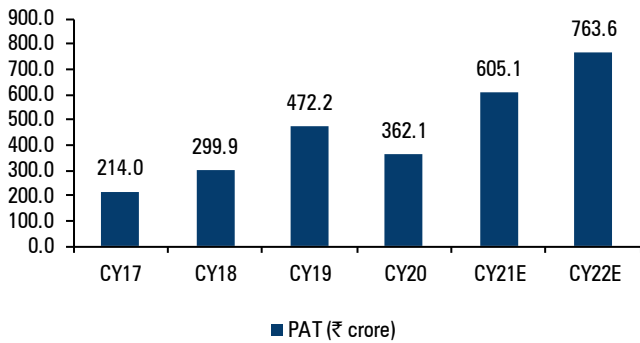
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA (₹ crore) & EBITDA growth (%) trend



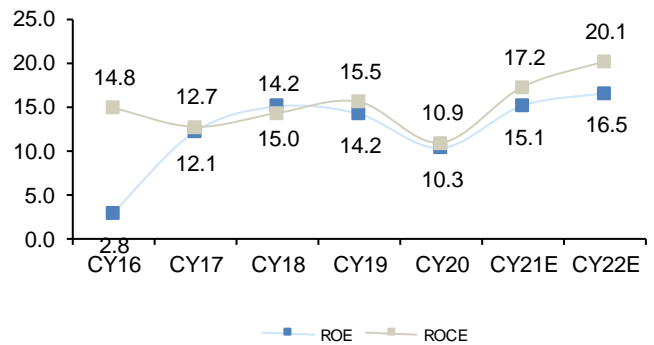
Source: Company, ICICI Direct Research

Exhibit 8: Earnings to grow on low base in CY21E (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio trend (%)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY19	7129.6	39.7	16.4	-0.4	55.1	19.8	14.2	15.5
CY20	6450.1	-9.5	12.5	-23.3	71.8	23.8	10.3	10.9
CY21E	7695.6	19.3	21.0	67.1	43.0	17.8	15.1	17.2
CY22E	8448.5	9.8	26.5	26.2	34.1	15.6	16.5	20.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Total operating income	7129.6	6450.1	7695.6	8448.5
Growth (%)	39.7	-9.5	19.3	9.8
Raw Material Expenses	3219.4	2763.9	3367.5	3782.5
Employee Expenses	810.8	889.7	1000.4	1081.4
Marketing Expenses	122.1	0.0	117.9	128.2
Other expenses	1529.6	1594.6	1656.1	1740.7
Total Operating Expenditure	5681.9	5248.3	6142.0	6732.8
EBITDA	1,447.7	1,201.9	1,553.6	1,715.8
Growth (%)	43.8	-17.0	29.3	10.4
Depreciation	488.6	528.7	555.5	580.3
Interest	309.6	281.1	249.5	156.0
Other Income	42.5	37.0	40.5	44.6
PBT	691.9	429.0	789.2	1024.1
Total Tax	224.1	5.2	189.4	266.3
Minority interest	0.0	0.0	0.0	0.0
Profit from Associates	4.4	4.8	5.3	5.8
PAT	472.2	428.6	605.1	763.6
Growth (%)	57.5	-23.3	67.1	26.2
EPS (₹)	16.4	12.5	21.0	26.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Profit After Tax	907.7	599.6	849.3	913.8
Add: Depreciation	482.6	523.2	555.5	580.3
(Inc)/dec in Current Assets	-319.3	-98.6	214.2	-135.5
Inc/(dec) in CL and Provisions	234.1	-12.3	144.0	187.8
CF from operating activities	1,305.2	1,012.0	1,762.9	1,546.3
(Inc)/dec in Investments	73.1	107.4	0.0	0.0
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,358.2	-535.6	-386.1	-429.3
Others	22.1	8.7	0.0	0.0
CF from investing activities	-2,319.2	-471.1	-386.1	-429.3
Issue/(Buy back) of Equity	900.2	0.0	0.0	0.0
Inc/(dec) in loan funds	648.7	-470.9	-900.0	-800.0
Dividend paid & dividend tax	-78.2	-72.2	-121.0	-152.7
Others	-317.5	-277.4	-249.5	-156.0
CF from financing activities	1,109.7	-573.7	-1,313.7	-1,086.1
Net Cash flow	95.7	-32.8	63.1	31.0
Opening Cash	106.9	138.0	104.6	167.6
Other Bank balance	33.1	85.5	85.5	85.5
Closing Cash	171.1	104.6	167.6	198.6

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Liabilities				
Equity Capital	288.7	288.7	288.7	288.7
Reserve and Surplus	3039.7	3235.3	3719.4	4330.3
Total Shareholders funds	3328.4	3524.0	4008.1	4619.0
LT Borrowings & Provisions	2355.4	2004.1	1204.1	504.1
Deferred Tax Liability	282.5	225.9	237.2	249.1
Total Liabilities	6168.1	6023.4	5664.2	5597.7
Assets				
Gross Block	7,710.6	8,542.5	8,959.4	9,359.4
Less: Acc Depreciation	2,186.7	2,715.4	3,270.8	3,851.1
Net Block	5,892.5	5,827.2	5,688.5	5,508.2
Capital WIP	63.8	66.8	50.0	50.0
Net Intangible Assets	562.3	557.2	585.1	614.3
Non-current Investments	0.9	0.1	0.1	0.1
Goodwill	24.2	24.2	24.2	24.2
Current Assets				
Inventory	881.5	928.8	748.2	821.4
Debtors	172.6	241.8	192.4	211.2
Loans and Advances	6.9	10.0	213.8	234.7
Other Current Assets	219.8	251.8	17.1	18.8
Cash	138.0	104.6	167.6	198.6
Deferred Tax Assets	12.8	11.0	11.0	11.0
Current Liabilities				
Creditors	477.7	511.4	513.0	563.2
Provisions	30.0	33.2	64.1	70.4
Short term debt & other CL	1,697.5	1,886.5	1,896.5	1,921.9
Application of Funds	6,168.1	6,023.4	5,664.2	5,597.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
EPS	16.4	12.5	21.0	26.5
Cash EPS	33.3	30.9	40.2	46.6
BV	115.3	122.1	138.8	160.0
DPS	0.0	2.5	4.2	5.3
Cash Per Share	75.7	94.1	113.3	133.4
Operating Ratios (%)				
EBITDA Margin	20.3	18.6	20.2	20.3
PBT / Total Operating income	9.7	5.6	10.3	12.1
PAT Margin	6.6	5.6	7.9	9.0
Inventory days	45.1	52.6	35.5	35.5
Debtor days	8.8	13.7	9.1	9.1
Creditor days	24.5	28.9	24.3	24.3
Return Ratios (%)				
RoE	14.2	10.3	15.1	16.5
RoCE	15.5	10.9	17.2	20.1
Valuation Ratios (x)				
P/E	55.1	71.8	43.0	34.1
EV / EBITDA	19.8	23.8	17.8	15.6
EV / Net Sales	4.0	4.4	3.6	3.2
Market Cap / Sales	3.6	4.0	3.4	3.1
Price to Book Value	7.8	7.4	6.5	5.6
Solvency Ratios				
Debt/EBITDA	1.9	2.3	1.2	0.6
Debt / Equity	0.8	0.8	0.5	0.2
Current Ratio	0.6	0.7	0.6	0.6
Quick Ratio	0.1	0.2	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,581	1,860	Buy	43,654	35.0	37.8	40.5	45.1	41.8	39.1	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	523	620	Buy	91,067	9.9	11.0	12.3	52.7	47.5	42.6	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,196	2,600	Hold	561,507	33.6	40.5	45.0	65.3	54.3	48.8	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	218	245	Hold	267,970	10.7	12.8	14.1	20.4	17.1	15.5	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	152	175	Hold	5,728	5.9	6.4	7.1	25.9	23.8	21.4	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	409	490	Buy	53,156	9.1	9.8	10.9	45.0	41.9	37.4	6.8	6.1	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,217	18,000	Hold	152,970	223.4	253.4	284.2	77.1	67.9	60.6	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	628	700	Buy	53,448	11.0	12.5	14.1	57.0	50.3	44.5	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,621	4,200	Hold	5,809	202.4	218.7	235.2	17.9	16.6	15.4	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	901	965	Hold	26,011	12.5	21.0	26.5	71.8	43.0	34.1	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	1,880	2,500	Buy	12,343	19.0	60.3	71.3	99.1	31.2	26.3	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

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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