

Varun Beverages

BSE SENSEX

54,334

S&P CNX

16,245



Stock Info

Bloomberg	VBL IN
Equity Shares (m)	433
M.Cap.(INRb)/(USDb)	403.5 / 5.3
52-Week Range (INR)	1020 / 583
1, 6, 12 Rel. Per (%)	5/9/26
12M Avg Val (INR M)	450
Free float (%)	35.1

Financials Snapshot (INR b)

Y/E DEC	2021	2022E	2023E
Sales	88.2	105.9	116.5
EBITDA	16.5	21.5	23.6
Adj. PAT	6.9	10.9	12.7
EBITDA margin (%)	18.8	20.3	20.3
Adj. EPS (INR)*	16.0	25.1	29.3
EPS Gr. (%)	113.5	56.6	16.8
BV/Sh. (INR)	94.2	116.3	142.1

Ratios

Net D:E	0.7	0.4	0.1
RoE (%)	18.3	23.8	22.7
RoCE (%)	12.5	17.3	19.6
Payout (%)	15.6	11.9	11.9

Valuations

P/E (x)	58.1	37.1	31.8
EV/EBITDA (x)	26.3	19.7	17.5
Div. Yield (%)	0.3	0.3	0.4
FCF Yield (%)	1.2	3.3	3.3

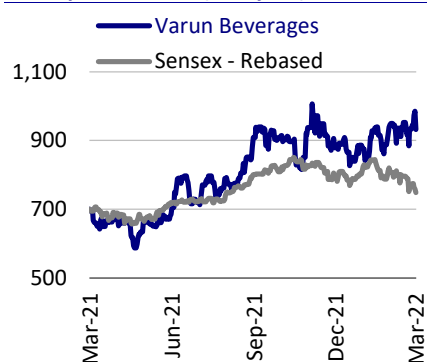
* Cons.

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	64.9	64.9	66.4
DII	7.1	6.8	5.9
FII	21.2	21.7	20.5
Others	6.8	6.6	7.3

FII Includes depository receipts

Stock performance (one-year)



CMP: INR932

TP: INR1,175 (+26%)

Buy

Underpenetrated market paving the way for growth

VBL has a diversified growth strategy, with multiple levers in place to drive its long-term growth. We expect volume growth momentum to continue, with: a) a gradual gain in market share on increasing penetration in underpenetrated markets, b) higher acceptance of recently launched products, and c) ramp-up of operations in new regions (South and West India). Key insights are highlighted below:

Greenshoots will continue to propel growth

- We expect the out-of-home consumption mix for VBL to return to normal levels (~65%) after the lifting of COVID-related restrictions, with increasing intensity in domestic and international travel.
- Apart from increasing out-of-home consumption in existing territories, the pick-up in volumes in the newly acquired territories of South and West India will drive overall sales volumes as these markets have not seen normal sales after their acquisition due to the COVID-19 pandemic. Strong demand for newly launched products (Mountain Dew – Ice, Sting, and Dairy Beverages) will continue to grow at a faster pace.
- At the time of acquisition (in CY19), South and West India recorded volumes of 135m units v/s 205m units in the preceding two years. VBL plans to achieve similar volumes over the next one-to-two years. Post that, its focus will be to increase penetration levels, which, in turn, will support volume growth.
- Around 90% of sales occur via the general trade channel and the balance from the HORECA segment and modern trade channel, whose performance is expected to improve. Lower occupancy in theaters and COVID-related travel restrictions are affecting HORECA volumes. Going forward, it expects to see a strong recovery in this segment as travel increases.
- The company saw an increasing volume mix (~5%) from Sting, which is a relatively new addition to its portfolio. Product launches (Mountain Dew – Ice), ambient temperature dairy beverages, etc., were unable to make a significant contribution as the soft launch was impacted by COVID-related restrictions. With the lifting of lockdown restrictions, VBL aims to aggressively distribute and market these products.
- The company signed a co-packing agreement to manufacture 'Kurkure Puffcorn' for PepsiCo India Holdings in Feb'22. Kurkure is a brand of crunchy puffs made up of rice, lentils, and corn. It is produced and marketed by PepsiCo India. VBL is setting up a new manufacturing facility in Uttar Pradesh at a dedicated capex of INR200-250m. This is the first time that it has ventured into the manufacture of non-Beverages. Pepsi's Snacking business is valued at INR40-43b as per industry sources. In the long-term, the company may acquire additional manufacturing and distribution rights of other food products of PepsiCo. The contribution of this business in the short-term is neither significant to revenue nor profit.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Global market continues to propel growth

- The international business, which contributed 20% of overall volume and 25% of consolidated sales in CY21, has shown buoyant revenue growth (20% CAGR over CY16-21). EBITDA grew at 38% CAGR over CY16-21.
- The company has incorporated a new subsidiary – 'Varun Beverages RDC SAS' – in the Democratic Republic of the Congo (DRC). It will initially import finished products (carbonated and non-carbonated beverages) from Morocco and Zambia and distribute it in the DRC to test and establish the market before setting-up a local manufacturing facility.
- Volumes in Zimbabwe have doubled in the last couple of years on the back of market share gains. It is difficult from here on to increase market share as the company already has a market share of 50%. Growth from here on will be driven by expanding the market and by launching new products.

Capacity expansion and focus on underpenetrated markets to drive growth

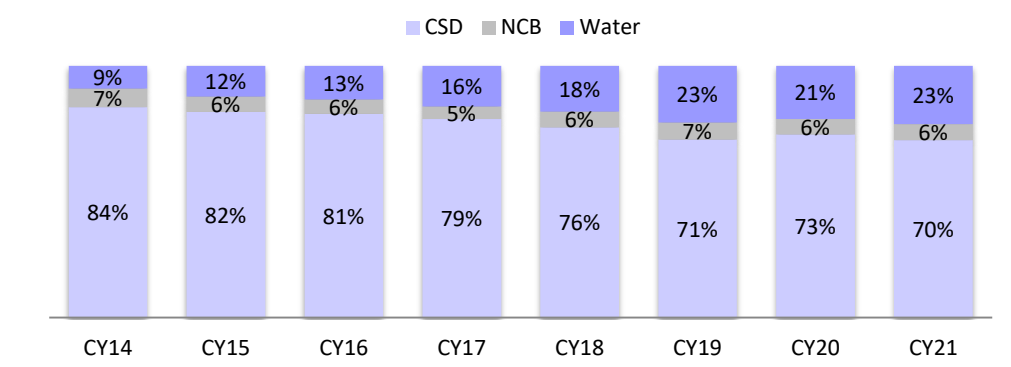
- VBL announced its plans to set up new manufacturing facilities in Bihar (for carbonated soft drinks, juices, and packaged drinking water) and Jammu & Kashmir (for plastic preforms and plastic closures) in CY21.
- This expansion in Bihar will support its structural expansion strategy to grow in underpenetrated territories like Bihar, Odisha, Chhattisgarh, Jharkhand, and Madhya Pradesh, where per capita consumption is low. Bihar, Odisha, and Chhattisgarh are under penetrated states and provide a huge potential for growth and to gain market share. As Bihar's per capita consumption of carbonated drinks is one-third that of the national average, the management sees huge potential for growth there.
- Its Bihar and J&K plants are expected to be ready before the beginning of the CY22 summer season, so that it can immediately take advantage of the same.
- The company is setting up four lines at its Bihar facility, which will be able to service the entire Bihar territory. The CSD PET line has a capacity of 720 bottles per minute, juice PET line: 300 bottles per minute, packaged drinking water line: 300 bottles per minute and CSD glass line: 600 bottles per minute.
- Its diversified presence across geographies has led to a robust distribution and supply chain network for the company. Currently, VBL faces higher freight cost in regions where it does not have a manufacturing presence as goods have to be transported from the nearest plant. Average five-year (over CY16-20) freight cost as a percentage of total cost/sales stands at 7%/6% for the company (*refer Exhibit 1*). Thus, setting up of plants in newer geographies is expected to reduce the overall freight cost for VBL.
- The capex for J&K and the Bihar greenfield project is INR7b, of which it has spent INR5b in CY21 and plans to incur INR2b in CY22.

Valuation and view

- We expect VBL to maintain its earnings momentum, led by: a) increased penetration in newly acquired territories of South and West India, b) higher acceptance of newly launched products, c) growing out-of-home consumption with the opening up of offices and traveling activity, d) growing refrigeration in rural and semi-rural areas, and e) ramping-up of operations in domestic as well as international territories on the back of growing demand.
- With a ramp-up in operations due to increased demand and impact of the COVID-19 pandemic gradually subsiding, we expect operating leverage to kick-in and complement margin expansion.

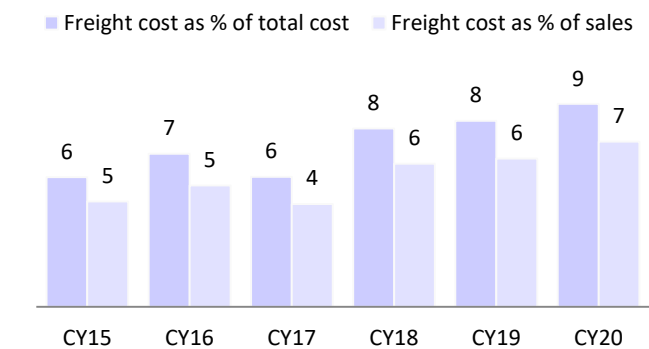
- VBL has maintained its positive free cash flow for the last eight years, with an average annual run-rate of INR3.3b over CY14-21. With no major capex and expansion plan in the near term, the management is looking to improve its cash flows and reduce debt. We expect the company to generate a FCF of INR26.7b over CY22-23. Its overall debt should reduce to INR9.9b in CY23E from INR33.4b in CY21.
- We expect a revenue/EBITDA/PAT CAGR of 15%/20%/35% over CY21-23. We value the stock at 40x CY23E EPS. Our TP of INR1,175 implies an upside of 24%. We maintain our **Buy** rating.

Exhibit 1: Volume composition of VBL



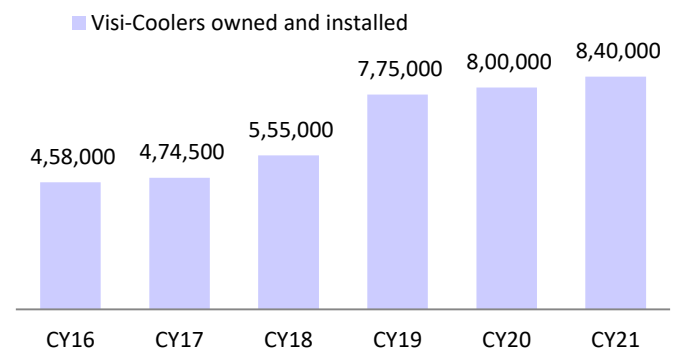
Source: MOSL

Exhibit 2: Freight cost as a percentage of sales/total cost



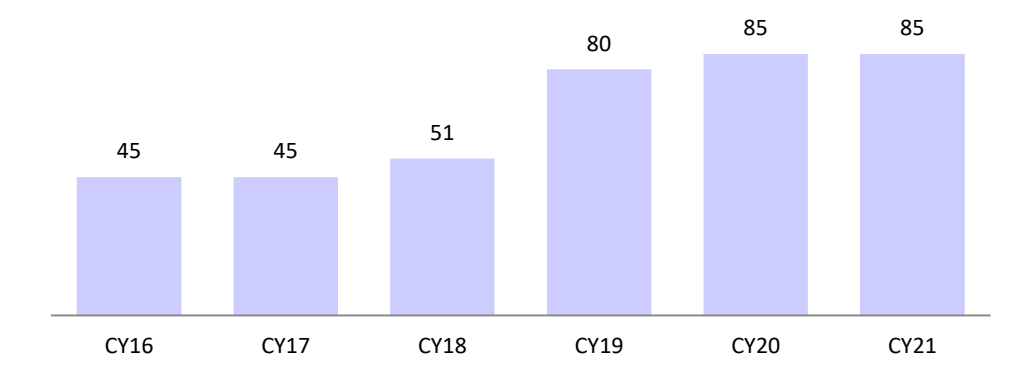
Source: Company, MOFSL

Exhibit 3: Consistent increase in visi-coolers to drive retail demand



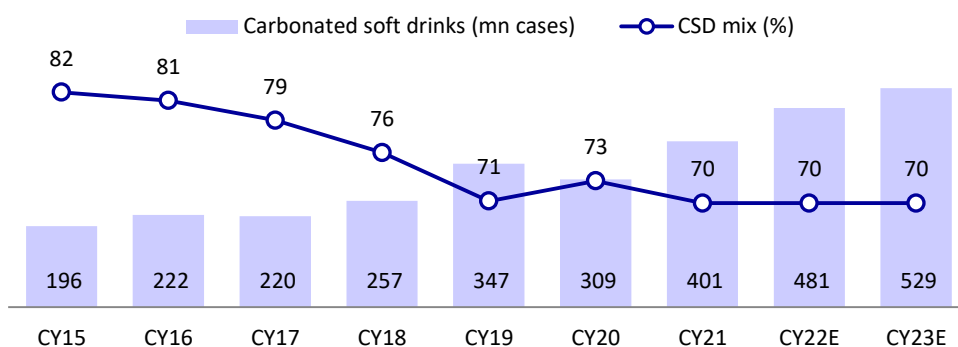
Source: Company, MOFSL

Exhibit 4: Increase in market share (handling PepsiCo domestic business) over the years, %



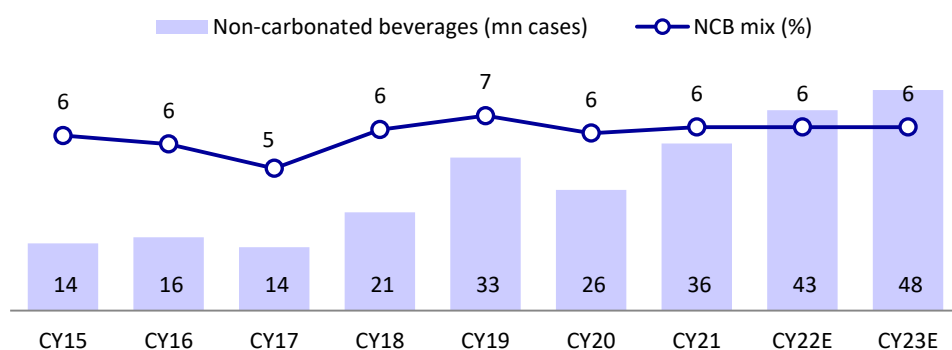
Source: Company, MOFSL

Exhibit 5: Diversification leading to reduced share of CSDs



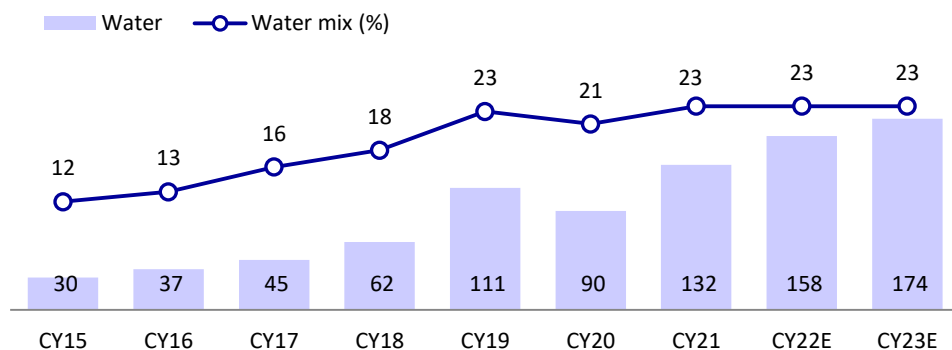
Source: Company, MOFSL

Exhibit 6: Expect NCB volume share to increase gradually



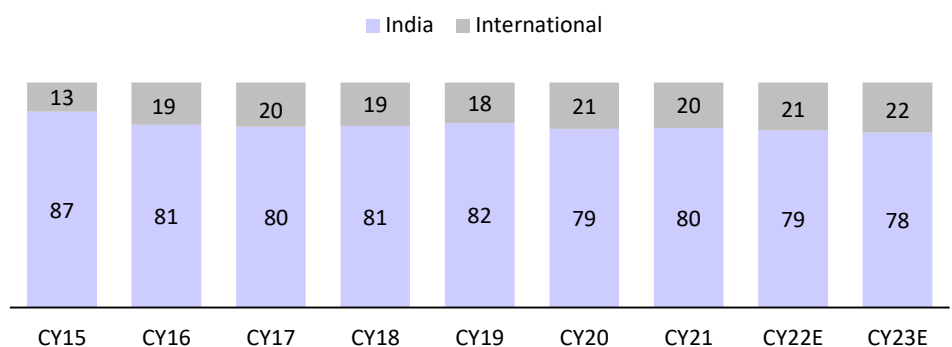
Source: Company, MOFSL

Exhibit 7: Water segment share sees a sharp increase



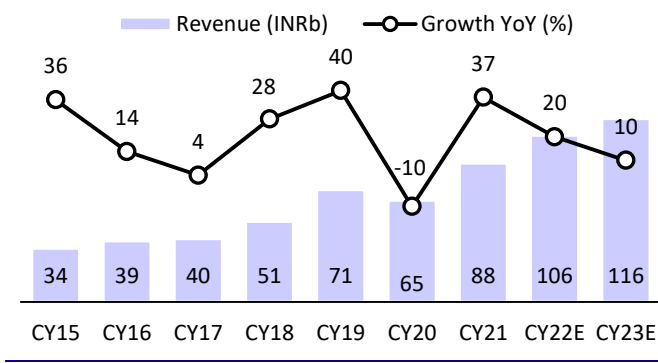
Source: Company, MOFSL

Exhibit 8: India v/s international volume mix (%)



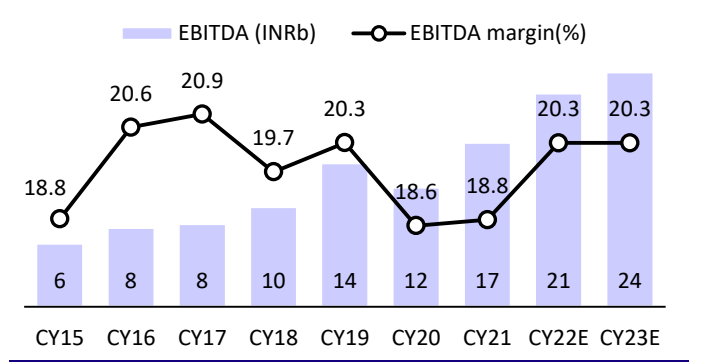
Source: Company, MOFSL

Exhibit 9: Expect 20% revenue CAGR over CY21-23E



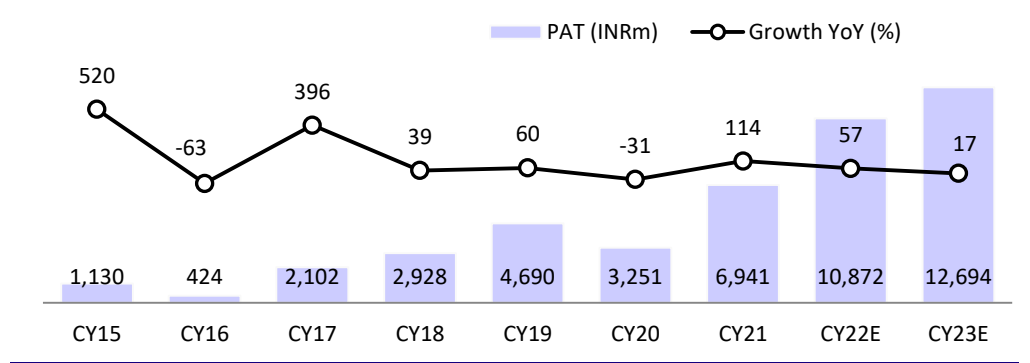
Source: Company, MOFSL

Exhibit 10: Expect 15% EBITDA CAGR over CY21-23E



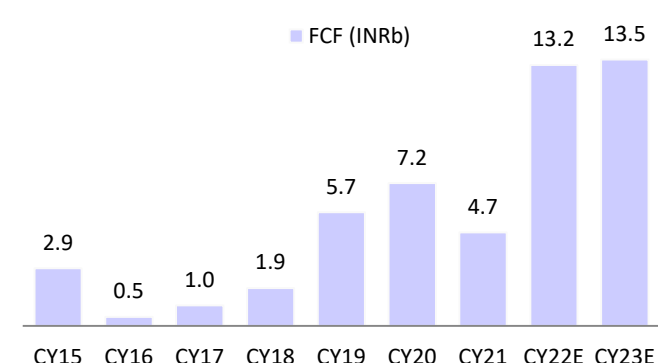
Source: Company, MOFSL

Exhibit 11: Expect 35% PAT CAGR over CY21-23E



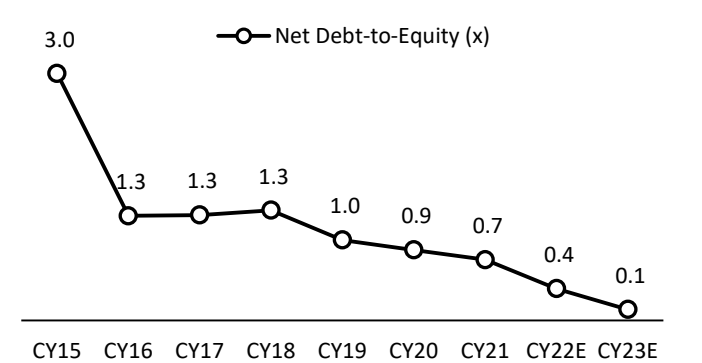
Source: Company, MOFSL

Exhibit 12: Strong free cash flow generation...



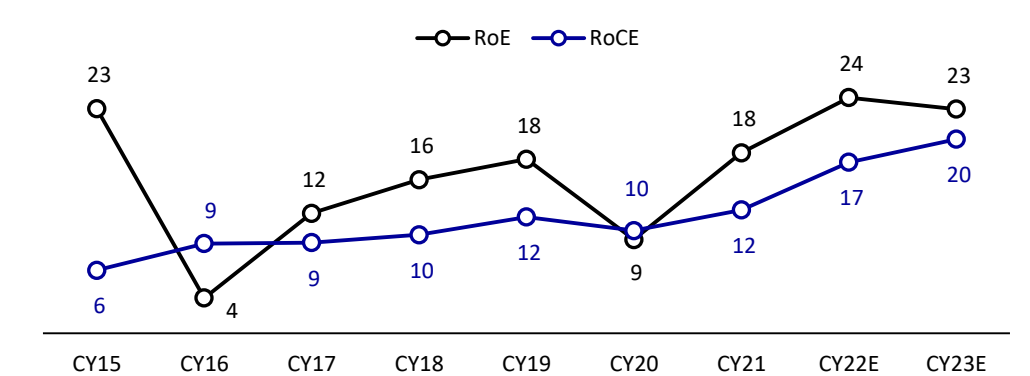
Source: Company, MOFSL

Exhibit 13: ...to reduce debt burden



Source: Company, MOFSL

Exhibit 14: Sharp improvement in return ratios (%)



Source: Company, MOFSL

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	1,05,879	1,16,467
Change (%)	35.7	13.8	3.7	27.5	39.7	-9.5	36.8	20.0	10.0
RM Cost	17,165	17,379	18,101	22,441	32,194	27,639	40,347	48,175	52,992
Employees Cost	3,238	4,210	4,628	5,830	8,108	8,897	10,077	11,117	12,113
Other Expenses	7,168	9,063	8,947	12,716	16,517	15,946	21,262	25,093	27,719
Total Expenditure	27,571	30,652	31,676	40,987	56,819	52,483	71,686	84,385	92,824
As a percentage of Sales	81.2	79.4	79.1	80.3	79.7	81.4	81.2	79.7	79.7
EBITDA	6,371	7,960	8,359	10,066	14,477	12,019	16,546	21,493	23,643
Margin (%)	18.8	20.6	20.9	19.7	20.3	18.6	18.8	20.3	20.3
Depreciation	3,174	3,222	3,466	3,851	4,886	5,287	5,313	5,713	6,066
EBIT	3,197	4,738	4,893	6,215	9,590	6,732	11,234	15,780	17,577
Int. and Finance Charges	1,688	4,325	2,122	2,126	3,096	2,811	1,847	1,535	940
Other Income	143	357	125	218	425	370	679	847	932
PBT bef. EO Exp.	1,652	770	2,896	4,308	6,919	4,290	10,066	15,092	17,568
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	15,092	17,568
Total Tax	789	313	769	1,339	2,241	52	2,606	3,622	4,216
Tax Rate (%)	47.7	40.7	26.6	31.1	32.4	1.4	25.9	24.0	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	10,872	12,694
Adjusted PAT	1,130	424	2,102	2,928	4,690	3,251	6,941	10,872	12,694
Change (%)	-520.2	-62.5	395.9	39.3	60.1	-30.7	113.5	56.6	16.8
Margin (%)	3.3	1.1	5.2	5.7	6.6	5.0	7.9	10.3	10.9

Consolidated Balance Sheet									(INR m)
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	46,041	57,220
Net Worth	6,743	16,936	17,692	19,985	33,284	35,240	40,799	50,372	61,550
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	76,045	75,724
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	37,268	43,334
Net Fixed Assets	34,956	37,155	39,786	43,850	64,548	63,844	62,865	65,318	63,252
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	28,518	30,960
Inventory	4,247	4,899	4,389	5,784	8,815	9,288	14,481	13,872	15,259
Account Receivables	979	1,313	1,503	1,280	1,726	2,418	2,212	3,481	3,829
Cash and Bank Balance	581	657	945	935	1,711	1,901	3,366	1,972	1,759
Loans and Advances	3,138	3,263	4,658	4,809	6,076	6,113	7,661	9,194	10,113
Curr. Liability and Prov.	15,367	8,134	10,177	11,015	13,297	14,378	17,322	18,833	19,530
Account Payables	1,846	2,746	1,909	3,168	4,777	5,114	7,118	7,398	7,884
Other Current Liabilities	12,707	4,627	7,392	6,435	6,517	6,893	7,622	8,470	8,735
Provisions	815	761	875	1,412	2,003	2,371	2,583	2,965	2,912
Net Current Assets	-6,422	1,999	1,317	1,793	5,031	5,342	10,399	9,685	11,429
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	76,045	75,724

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	25.1	29.3
Cash EPS	9.9	8.4	12.9	15.7	22.1	19.7	28.3	38.3	43.3
BV/Share	15.6	39.1	40.9	46.2	76.9	81.4	94.2	116.3	142.1
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	11.9	11.9
Valuation (x)									
P/E	357.0	952.2	192.0	137.8	86.0	124.1	58.1	37.1	31.8
Cash P/E	93.7	110.7	72.5	59.5	42.1	47.3	32.9	24.3	21.5
P/BV	59.8	23.8	22.8	20.2	12.1	11.5	9.9	8.0	6.6
EV/Sales	12.5	11.0	10.6	8.4	6.1	6.7	4.9	4.0	3.5
EV/EBITDA	66.5	53.4	51.0	42.7	30.1	36.1	26.3	19.7	17.5
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.4
FCF per share	6.7	1.1	2.4	4.4	13.3	16.6	10.9	30.5	31.1
Return Ratios (%)									
RoE	22.7	3.6	12.1	15.5	17.6	9.5	18.3	23.8	22.7
RoCE	6.4	9.1	9.2	10.0	11.8	10.4	12.5	17.3	19.6
RoIC	7.3	9.1	9.1	10.1	11.5	9.8	12.1	16.7	18.2
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	26	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	10.3	18.7
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	15,092	17,568
Depreciation	2,982	3,222	3,466	3,851	4,826	5,287	5,313	5,713	6,066
Interest and Finance Charges	1,424	4,166	1,972	1,986	2,948	2,441	1,168	688	8
Direct Taxes Paid	-483	-581	-571	-733	-1,201	-52	-2,606	-3,622	-4,216
(Inc.)/Dec. in WC	-419	637	-1,965	-501	-827	-1,181	-592	-681	-1,957
CF from Operations	5,411	8,214	5,798	8,911	12,665	10,120	13,349	17,191	17,469
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	17,191	17,469
(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	13,191	13,469
(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	847	932
CF from Investments	-2,951	-10,484	-7,496	-8,734	-23,192	-4,711	-10,106	-3,153	-3,068
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	-1,535	-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	-15,433	-14,614
Inc./Dec. in Cash	237	76	288	-10	776	190	1,466	-1,395	-213
Opening Balance	344	581	657	945	935	1,711	1,901	3,367	1,972
Closing Balance	581	657	945	935	1,711	1,901	3,367	1,972	1,759

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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