

Varun Beverages (VARBEV)

CMP: ₹ 733

Target: ₹ 867 (18%)

Target Period: 12 months

BUY

June 7, 2022

Turns ex-bonus...

About the stock Varun Beverages is one of the largest franchisees of PepsiCo in the world. The company produces & distributes carbonated drinks, juices & packaged drinking water in six countries including India. Some of the PepsiCo brands produced by VBL includes Pepsi, Diet Pepsi, Seven-Up, Mirinda, Mountain Dew, Nimbooz, String, Slice, Tropicana, Aquafina among others.

- The company has operations in India (except Andhra Pradesh, J&K and Ladakh), Sri-Lanka, Nepal, Morocco, Zambia & Zimbabwe

Turns ex-bonus on June 6, 2022

- The company made an announcement of bonus share on April 28, 2022. The ratio was one bonus share for every two equity shares, 1:2. The record date for the same is June 7, 2022 while the ex-date for the same was June 6, 2022 (yesterday). Consequently, Varun Beverages' share price has been adjusted to ₹ 733 /share. Accordingly, our target price stands revised to ₹ 867/share. We maintain our **BUY** rating on the stock

Key triggers for future price performance:

- With normalisation of mobility, strong summer season after acquisition of south & west territories is likely to drive robust volume growth
- The company has launched several new brands in the last two years i.e. String, 'Mountain Dew ICE', milk based beverages. New products are contributing ~10% to volumes and are likely to aid revenues, going forward
- Given the capex requirement equal to depreciation, VBL would be able to completely de-leverage its balance sheet in the next three to four years with strong free cash flow. The reduction in interest cost is expected to boost profitability



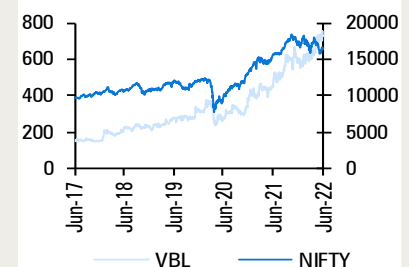
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	47,611.9
Total Debt (CY21)	3,341.9
Cash & Investments (CY21)	336.0
EV	50,617.8
52 week H/L (₹)	778 / 473
Equity capital	288.7
Face value	10.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	65.8	64.9	64.9	64.9
IIL	20.7	21.7	21.2	21.0
DII	5.8	6.8	7.1	7.2
Others	7.7	6.6	6.8	6.9

Price Chart



Recent event & key risks

- VBL commissioned beverage plant in Bihar & new backward integrated unit in J&K in Q1CY22
- Key Risk:** (i) Any disruption due to Covid-19 waves, (ii) Incessant increase in RM cost like PET & sugar may impact gross margins adversely

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Key Financial Summary

	CY19	CY20	CY21	5 Year CAGR (CY16 - CY21)	CY22E	CY23E	CAGR (CY21-23E)
Net Sales	7129.6	6450.1	8823.2	18.0	10911.7	12172.5	17.5%
EBITDA	1447.7	1201.9	1654.6	15.8	2217.7	2481.9	22.5%
EBITDA Margin %	20.3	18.6	18.8		20.3	20.4	
Net Profit	472.2	362.1	746.1	73.1	1120.8	1312.6	32.6%
Diluted EPS (₹)	7.27	5.57	11.49	34.2	17.26	20.21	32.6%
P/E	100.8	131.5	63.8		42.5	36.3	
RoNW %	14.2	10.3	18.3		22.8	23.0	
RoCE (%)	15.5	10.9	17.1		25.6	29.7	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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