

Varun Beverages

BSE SENSEX 57,147 S&P CNX 16,984



Bloomberg	VBL IN
Equity Shares (m)	650
M.Cap.(INRb)/(USD\$b)	678.7 / 8.2
52-Week Range (INR)	1195 / 539
1, 6, 12 Rel. Per (%)	1/67/77
12M Avg Val (INR M)	935

Financials & Valuations (INR b)

Y/E Mar	2022E	2023E	2024E
Sales	127.2	142.4	158.1
EBITDA	26.4	29.9	33.2
PAT	13.7	16.7	19.5
EBITDA (%)	20.8	21.0	21.0
EPS (INR)	21.1	25.7	30.1
EPS Gr. (%)	97.6	22.0	16.9
BV/Sh. (INR)	81.4	104.7	131.3

Ratios

Net D/E	0.6	0.3	-0.0
RoE (%)	29.3	27.7	25.5
RoCE (%)	19.8	21.4	23.2
Payout (%)	11.8	9.7	11.6

Valuations

P/E (x)	50.2	41.2	35.2
EV/EBITDA (x)	27.2	23.7	20.8
Div Yield (%)	0.2	0.2	0.3
FCF Yield (%)	0.6	2.1	3.0

Shareholding pattern (%)

As on	Jun-22	Mar-22	Jun-21
Promoter	63.9	64.9	65.8
DII	5.3	7.2	5.8
FII	23.9	21.0	20.7
Others	6.9	6.9	7.6

Note: FII includes depository receipts

CMP: INR1045 TP: INR1,230 (+18%) Buy

Sting – Energizing the growth path

VBL's newly launched segments – energy drink, dairy beverages and juices are registering strong growth v/s existing product segments. The company has entered into the energy drink segment in CY17 with the launch of Sting in India, thereby competing with global players. The contribution from this segment to overall VBL's portfolio has been moving up since the launch.

- The Indian energy and sports drinks market is expected to witness ~13.3% CAGR during CY22-CY27.
- The energy drink 'Sting' has been performing very well for VBL with 2.9x YoY volume growth and contributing ~7.2% of its total domestic sales volumes in 1HCY22.
- Coca-Cola's 'Charged' is the major competitor of 'Sting' with both companies targeting the lower end of the price range in the domestic energy drink market.

Robust growth aided by wide distribution and attractive prices

- VBL's latest entry into the energy drink segment through 'Sting' has garnered good response from the consumers leading to robust growth. The product has witnessed exponential volume growth of ~5.4x YoY to 23m cases in CY21 and surged further by 2.9x YoY to 30m cases in 1HCY22. It accounted for 7.2%/11% of total domestic sales volumes /revenue of VBL in the 1HCY22, respectively.
- According to our calculation, the revenue of Sting in CY21 was estimated at ~INR5.6b; it further crossed ~INR7.2b in just the first half of CY22 (refer to Exhibit 3). As per Tofler, one of the VBL's competitors in the premium segment, which have more than a decade of presence in the Indian market have been able to generate a domestic revenue of ~INR5b in CY21.
- The high growth of Sting was further supported by increasing distribution outlets of VBL that stood at more than 3m outlets, including the 0.4m exclusive outlets for Sting. Management aims to expand VBL's distribution network by at least ~8-10% p.a. going forward.
- VBL is already selling Sting in the overseas markets and has recently launched the product in Nepal.

Targeting masses to gain volumes amid a highly attractive segment

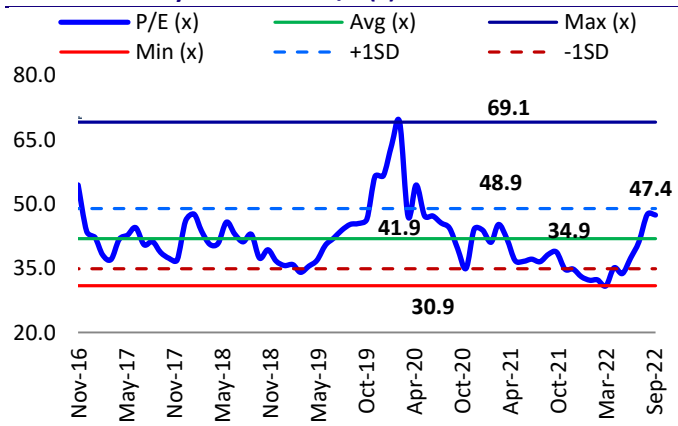
- The energy drink segment is doing extremely well globally and the same is expected to be replicated in India. The contribution from the energy drink market has reached ~12-15% of the total mix for various countries, whereas it is still very low in India.
- According to 'Maximize Market Research', the global energy drink market was valued at USD65.3b in CY21 and it is likely to reach USD114.1b by CY29, registering a 7.2% CAGR.
- However, the Indian sports and energy drinks market is expected to grow at a much faster pace. The industry size touched USD2.4b in CY21 and it is anticipated to reach USD5.0b by CY27, recording a 13.3% CAGR (according to a report from imarcgroup).

- Various domestic and international players are competing in the Indian energy drink market with Red Bulls, Monster, Sting, Charged, Rio, Ocean, Budweiser Beats and Hell being some of the widely available brands here.
- The Red Bull and Monster are some of the higher-end products with price range of INR100+. In contrast, Hell, Ocean, Budweiser Beats and Rio are selling within the price segment of INR50-90 (refer to Exhibit 4).
- VBL’s Sting is operating in the lowest price brand with a price point of INR20 and hence it is targeted for the mass market. Coca-Cola’s newly launched energy drink ‘Charged’ is the only widely available brand competing in the same price/quantity segment (all the prices mentioned are for 250ml product size, except Monster, which has a quantity of 350ml).

Valuation and view

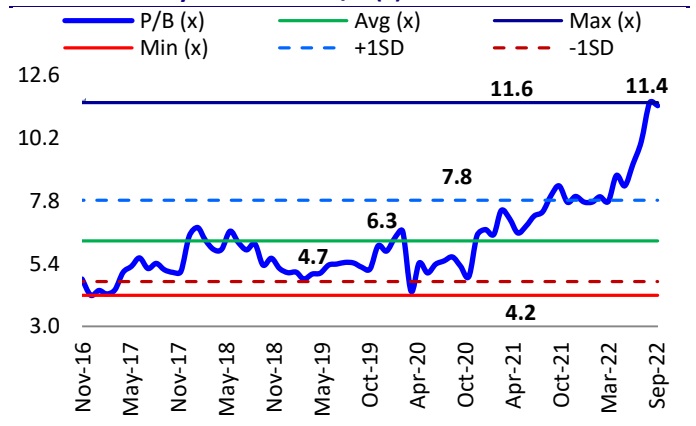
- With the entry into the expanding energy drinks market in India, VBL –through Sting – has positioned itself at a favorable price point thus attracting masses. We believe this segment would aid the company in driving up sales and margins going forward.
- Further, the company is raising the capacities of Carbonated Soft Drinks (CSD)/Juice-based Drinks (JBD) PET by 30%, which is likely to be operational before the next summer. VBL is forecasted to incur ~INR12b capex for this expansion.
- We expect VBL to maintain its earnings momentum going forward, energized by: a) increased penetration in the newly acquired territories of South and West India, b) higher acceptance of newly launched products, and c) growing refrigeration in rural and semi-rural areas.
- We expect a revenue/EBITDA/PAT CAGR of 21%/26%/41% over CY21-24, respectively. We value the stock at 41x CY24E EPS to arrive at our TP of INR1,230. **We maintain our BUY rating on the stock.**

Exhibit 1: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



Source: Company, MOFSL

Exhibit 3: Calculation of VBL's revenue from 'Sting'

Particulars	CY21	1HCY22
Sting's Share in domestic volume mix (%)	5.0	7.2
VBL domestic sale volume (mn cases)	454	410
Sting's sale volume (mn cases) (a x b)	23	30
VBL realization per bottle (assumed)	10.2	10.2
Sting's revenue (INRm) (c x d x 24)	5,557	7,226
VBL's domestic revenue (INRm)	65,957	65,502
Sting's Share in domestic revenue mix (%) (e/f)	8.4	11.0

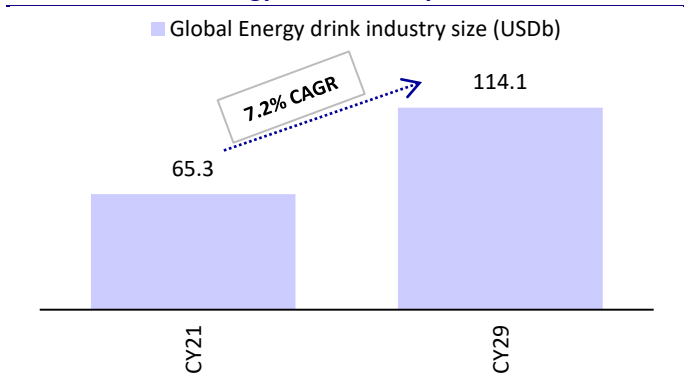
Source: MOFSL

Exhibit 4: Major players in Indian energy drink market

Company	Red Bull GmbH	Monster Beverage Corp	PepsiCo	Coca-Cola	Rio Innobev	Ocean Drinks Private Limited	Hell Energy Magyarország Kft	Ceylon Beverage International Pvt. Ltd	AB Inbev
Product	Red Bull	Monster	Sting	Charged	Rio Boom	O'cean	Hell	Tzinga	Budweiser Beats
MRP (INR)	125	110	20	20	55	75	55	50	90
Size (ml)	250	350	250	250	250	250	250	250	250

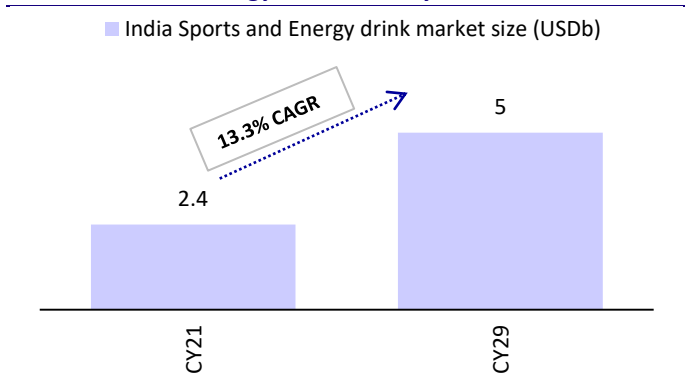
Source: MOFSL

Exhibit 5: Global energy drink Industry



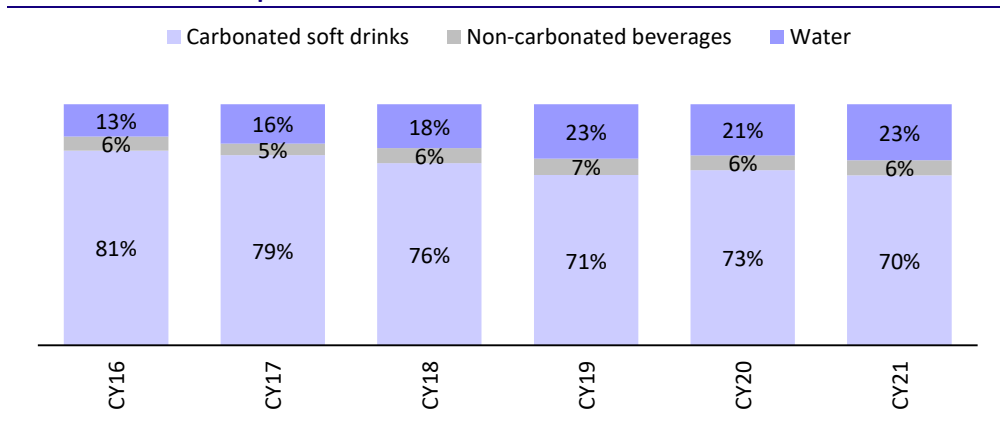
Source: Company, MOFSL

Exhibit 6: Indian energy drink Industry



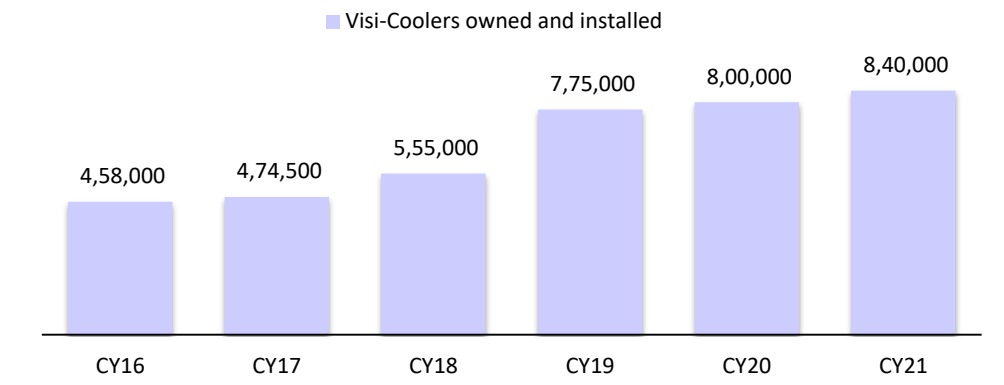
Source: Company, MOFSL

Exhibit 7: Volume composition of VBL



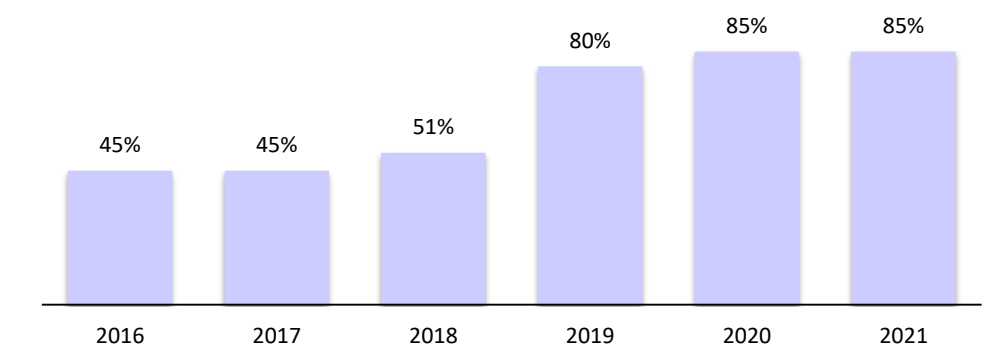
Source: Company, MOFSL

Exhibit 8: Consistent increase in visi-coolers to drive retail demand



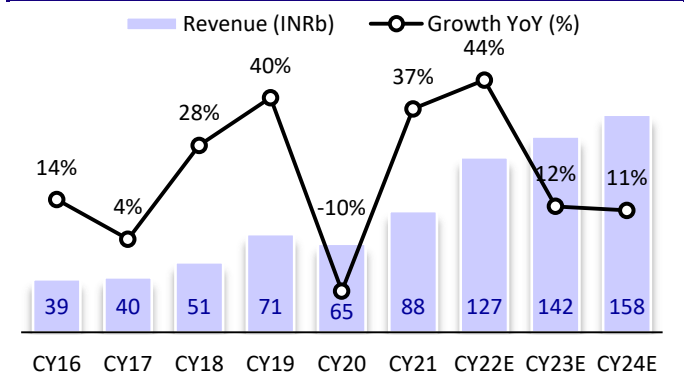
Source: Company, MOFSL

Exhibit 9: Rise in market share (handling PepsiCo’s domestic business) over the years, %



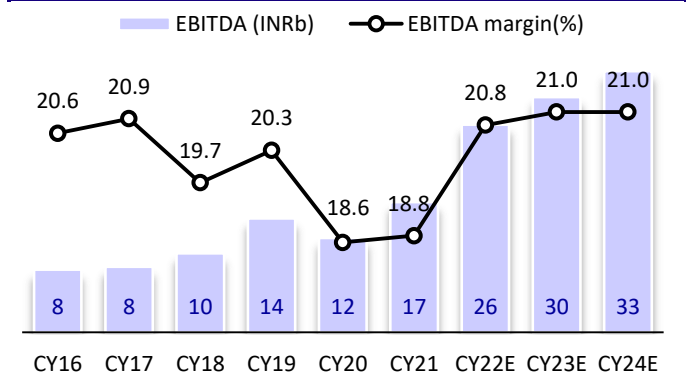
Source: Company, MOFSL

Exhibit 10: Expect 21% revenue CAGR over CY21-24



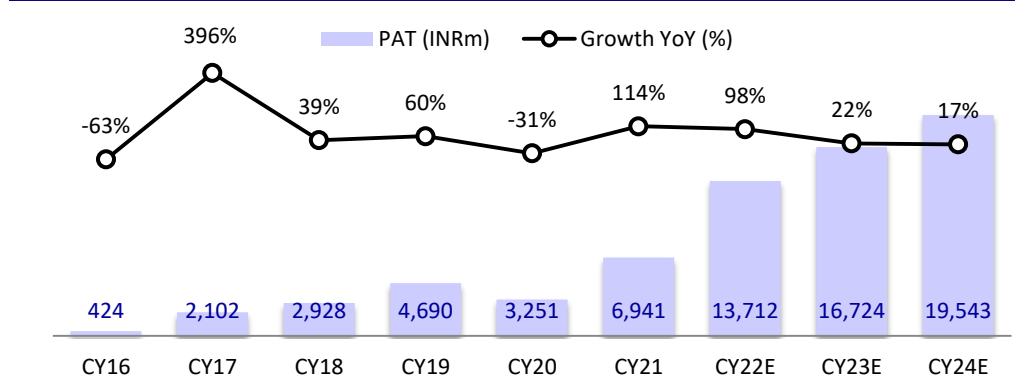
Source: Company, MOFSL

Exhibit 11: Expect 26% EBITDA CAGR over CY21-24



Source: Company, MOFSL

Exhibit 12: Expect 41% PAT CAGR over CY21-24



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR M)
Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Total Income from Operations	40,035	51,053	71,296	64,501	88,232	1,27,166	1,42,426	1,58,093
Change (%)	3.7	27.5	39.7	-9.5	36.8	44.1	12.0	11.0
RM Cost	18,101	22,441	32,194	27,639	40,347	62,398	64,804	71,932
Employees Cost	4,628	5,830	8,108	8,897	10,077	11,852	14,243	16,125
Other Expenses	8,947	12,716	16,517	15,946	21,262	26,512	33,470	36,836
Total Expenditure	31,676	40,987	56,819	52,483	71,686	1,00,762	1,12,517	1,24,894
% of Sales	79.1	80.3	79.7	81.4	81.2	79.2	79.0	79.0
EBITDA	8,359	10,066	14,477	12,019	16,546	26,404	29,910	33,200
Margin (%)	20.9	19.7	20.3	18.6	18.8	20.8	21.0	21.0
Depreciation	3,466	3,851	4,886	5,287	5,313	5,924	6,201	6,665
EBIT	4,893	6,215	9,590	6,732	11,234	20,481	23,708	26,534
Int. and Finance Charges	2,122	2,126	3,096	2,811	1,847	1,884	1,798	937
Other Income	125	218	425	370	679	568	1,139	1,265
PBT bef. EO Exp.	2,896	4,308	6,919	4,290	10,066	19,165	23,049	26,862
EO Items	0	0	0	-665	0	0	0	0
PBT after EO Exp.	2,896	4,308	6,919	3,625	10,066	19,165	23,049	26,862
Total Tax	769	1,339	2,241	52	2,606	4,732	5,532	6,447
Tax Rate (%)	26.6	31.1	32.4	1.4	25.9	24.7	24.0	24.0
Share of profit from associates	14	30	44	0	0	0	0	0
Minority Interest	39	70	32	283	520	721	793	872
Reported PAT	2,102	2,928	4,690	3,290	6,941	13,712	16,724	19,543
Adjusted PAT	2,102	2,928	4,690	3,251	6,941	13,712	16,724	19,543
Change (%)	395.9	39.3	60.1	-30.7	113.5	97.6	22.0	16.9
Margin (%)	5.2	5.7	6.6	5.0	7.9	10.8	11.7	12.4

Consolidated - Balance Sheet								(INR M)
Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Equity Share Capital	1,826	1,826	2,887	2,887	4,330	6,495	6,495	6,495
Eq. Share Warrants & App. Money	0	0	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	15,866	18,158	30,397	32,353	36,469	46,392	61,492	78,762
Net Worth	17,692	19,985	33,284	35,240	40,799	52,888	67,988	85,257
Minority Interest	-14	78	307	648	1,168	1,168	1,168	1,168
Total Loans	23,560	27,649	34,172	32,059	33,418	33,418	21,918	6,918
Deferred Tax Liabilities	1,422	1,588	2,697	2,149	3,087	3,087	3,087	3,087
Capital Employed	42,659	49,299	70,459	70,096	78,473	90,561	94,161	96,431
Gross Block	56,326	61,697	87,203	90,086	94,420	1,01,920	1,11,920	1,17,920
Less: Accum. Deprn.	16,540	17,847	22,655	26,242	31,555	37,479	43,680	50,345
Net Fixed Assets	39,786	43,850	64,548	63,844	62,865	64,442	68,240	67,575
Goodwill on Consolidation	19	19	242	242	242	242	242	242
Capital WIP	1,454	3,524	638	668	4,966	7,466	5,466	3,466
Total Investments	82	112	0	0	0	0	0	0
Current Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,494	12,808	18,327	19,719	27,721	39,962	44,320	51,906
Inventory	4,389	5,784	8,815	9,288	14,481	20,152	22,503	24,979
Account Receivables	1,503	1,280	1,726	2,418	2,212	4,878	5,463	6,064
Cash and Bank Balance	945	935	1,711	1,901	3,366	3,889	3,986	7,136
Loans and Advances	4,658	4,809	6,076	6,113	7,661	11,042	12,367	13,728
Curr. Liability & Prov.	10,177	11,015	13,297	14,378	17,322	21,551	24,107	26,759
Account Payables	1,909	3,168	4,777	5,114	7,118	8,834	9,864	10,950
Other Current Liabilities	7,392	6,435	6,517	6,893	7,622	8,902	9,970	11,067
Provisions	875	1,412	2,003	2,371	2,583	3,815	4,273	4,743
Net Current Assets	1,317	1,793	5,031	5,342	10,399	18,411	20,213	25,147
Appl. of Funds	42,659	49,299	70,459	70,096	78,473	90,561	94,161	96,431

Financials and valuations

Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
Basic (INR)								
EPS	3.2	4.5	7.2	5.0	10.7	21.1	25.7	30.1
Cash EPS	8.6	10.4	14.7	13.1	18.9	30.2	35.3	40.3
BV/Share	27.2	30.8	51.2	54.3	62.8	81.4	104.7	131.3
DPS	0.7	0.7	1.1	1.1	1.7	2.5	2.5	3.5
Payout (%)	26.1	17.5	16.7	21.9	15.6	11.8	9.7	11.6
Valuation (x)								
P/E	327.6	235.1	146.8	211.8	99.2	50.2	41.2	35.2
Cash P/E	123.7	101.6	71.9	80.6	56.2	35.1	30.0	26.3
P/BV	38.9	34.5	20.7	19.5	16.9	13.0	10.1	8.1
EV/Sales	17.8	14.0	10.1	11.2	8.2	5.7	5.0	4.4
EV/EBITDA	85.1	71.1	49.8	59.9	43.5	27.2	23.7	20.8
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3
FCF per share	1.6	2.9	8.8	11.1	7.3	6.4	22.6	32.3
Return Ratios (%)								
RoE	12.1	15.5	17.6	9.5	18.3	29.3	27.7	25.5
RoCE	9.2	10.0	11.8	10.4	12.5	19.8	21.4	23.2
RoIC	9.1	10.1	11.5	9.8	12.1	20.7	22.0	23.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.7	0.8	0.8	0.7	0.9	1.2	1.3	1.3
Asset Turnover (x)	0.9	1.0	1.0	0.9	1.1	1.4	1.5	1.6
Inventory (Days)	40	41	45	53	60	58	58	58
Debtor (Days)	14	9	9	14	9	14	14	14
Creditor (Days)	17	23	24	29	29	25	25	25
Leverage Ratio (x)								
Current Ratio	1.1	1.2	1.4	1.4	1.6	1.9	1.8	1.9
Interest Cover Ratio	2.3	2.9	3.1	2.4	6.1	10.9	13.2	28.3
Net Debt/Equity	1.3	1.3	1.0	0.9	0.7	0.6	0.3	0.0

Consolidated - Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
(INR M)								
OP/(Loss) before Tax	2,896	4,308	6,919	3,625	10,066	19,165	23,049	26,862
Depreciation	3,466	3,851	4,826	5,287	5,313	5,924	6,201	6,665
Interest & Finance Charges	1,972	1,986	2,948	2,441	1,168	1,316	659	-328
Direct Taxes Paid	-571	-733	-1,201	-52	-2,606	-4,732	-5,532	-6,447
(Inc)/Dec in WC	-1,965	-501	-827	-1,181	-592	-7,489	-1,705	-1,785
CF from Operations	5,798	8,911	12,665	10,120	13,349	14,184	22,673	24,968
Others	400	1,087	411	0	0	0	0	0
CF from Operating incl EO	6,198	9,998	13,076	10,120	13,349	14,184	22,673	24,968
(Inc)/Dec in FA	-5,165	-8,088	-7,331	-2,913	-8,632	-10,000	-8,000	-4,000
Free Cash Flow	1,033	1,910	5,745	7,207	4,717	4,184	14,673	20,968
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	-2,332	-647	-15,862	-1,798	-1,474	568	1,139	1,265
CF from Investments	-7,496	-8,734	-23,192	-4,711	-10,106	-9,432	-6,861	-2,735
Issue of Shares	3,041	7	9,002	0	0	0	0	0
Inc/(Dec) in Debt	-572	4,566	6,487	-2,113	1,359	0	-11,500	-15,000
Interest Paid	-1,557	-1,886	-3,011	-2,811	-1,847	-1,884	-1,798	-937
Dividend Paid	-456	-456	-690	-722	-1,083	-1,624	-1,624	-2,273
Others	1,130	-3,505	-895	426	-206	-721	-793	-872
CF from Fin. Activity	1,586	-1,273	10,893	-5,219	-1,777	-4,229	-15,715	-19,083
Inc/Dec of Cash	288	-10	776	190	1,466	523	97	3,150
Opening Balance	657	945	935	1,711	1,901	3,367	3,889	3,986
Closing Balance	945	935	1,711	1,901	3,367	3,889	3,986	7,136

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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