

Varun Beverages

Refer to important disclosures at the end of this report

Potential long-term Africa opportunity drives valuation upgrade; maintain BUY

CMP	Target Price
Rs 1,013 as of (October 22, 2022)	Rs 1,220 (▲) 12 months
Rating	Upside
BUY (■)	20.4 %

VBL posted ~19% revenue CAGR in CY12-21, led by revenue CAGR of 18% in India and 23% in international geographies. The robust global growth was driven by strong ramp-up in three-country Africa operations and a sustained growth in Nepal. In our view, Africa is a large soft-drinks market (Emkay Est: >USD25bn industry size as of CY19) and its attractive macro growth + demographics offer a low-teen revenue CAGR opportunity over the medium-to-long term. We estimate that PepsiCo currently addresses 40-45% of the Africa market (value terms) via presence in 13 countries vs. ~100% for The Coca-Cola Company (TCCC) via presence in >50 countries. Hence, potential distribution expansion by PepsiCo should help it to grow faster than the industry. Moreover, VBL's proven execution capability in Zimbabwe/Nepal (~50% of market share now vs. marginal share at the time of acquisition of distribution rights) and PepsiCo's focus on growing franchise-owned bottling operations should help VBL to foray into more markets in Africa; its procuring distribution rights in the Democratic Republic of Congo (DRC) recently is a testament to this. Factoring-in conservatively the potential Africa opportunity, we increase our CY25-35E growth by 300bps to 18%, effecting a higher multiple, at 40x Sep-24 EPS (vs. 34x earlier). RoIC for international geographies has also improved, to ~20% in CY21, led by margin gains and better sweating of assets. We maintain BUY with revised TP of Rs1,220 (vs. Rs1,060 earlier).

- **Africa – A large & long-term growth opportunity:** PepsiCo's low penetration in Africa, distribution expansion with acquisition of Pioneer Foods in CY20, and sizable mix of regional players offer it a long-term growth opportunity in the continent. We estimate PepsiCo's bottlers cater to 40-45% of the Africa market (value terms) via presence in 13 countries, while TCCC addresses the entire Africa population of >1.25bn (>50 countries). Besides TCCC (with healthy share in most Africa markets), competition is regional and can likely be beaten by improving affordability, affinity & availability of PepsiCo products.
- **We increase medium-term growth est. by 300bps, led by large Africa potential:** We see potential of USD25bn incremental retail sales for PepsiCo in Africa by CY35E, provided it expands its presence further. With strong execution in Zimbabwe/Morocco (31%/21% rev. CAGR in CY18-21), we expect VBL to capture 30% of this opportunity. This incremental opportunity, along with ~15% CAGR in existing geographies, should help VBL to deliver ~26% CAGR in Africa, over the next decade. Led by the long-term Africa opportunity, we raise our CY25-35 growth expectations by 300bps to 18%.
- **PepsiCo's wider product portfolio a key advantage:** CCBA, a Coca-Cola bottler, handles 40% of TCCC's volumes in Africa. Energy Drinks contribute a healthy value share of ~14% in CCBA markets (vs. <5% in India), which suggests a strong demand for the category in Africa. PepsiCo has built a robust energy-drinks portfolio via the acquisition of Rockstar, its partnership with Starbucks/Bang in USA, and through organic investments in Mountain Dew/Sting. We reckon that a broad-based energy-drinks portfolio across price-points should help PepsiCo gain traction in this category in Africa.

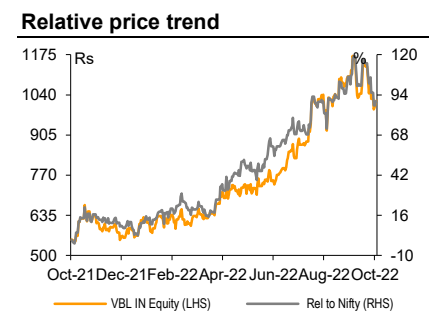
Change in Estimates	
EPS Chg CY22E/CY23E (%)	0/0
Target Price change (%)	15.1
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus		
EPS Estimates		
	CY22E	CY23E
Emkay	20.0	26.2
Consensus	21.5	25.8
Mean Consensus TP (12M)	Rs 1,083	

Stock Details	
Bloomberg Code	VBL IN
Face Value (Rs)	10
Shares outstanding (mn)	650
52 Week H/L	1,195 / 539
M Cap (Rs bn/USD bn)	658 / 7.96
Daily Avg Volume (nos.)	17,50,493
Daily Avg Turnover (USD mn)	21.7

Shareholding Pattern Sep-22	
Promoters	63.9%
FIIIs	25.0%
DIIIs	4.5%
Public and Others	6.6%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(10)	16	44	83
Rel. to Nifty	(9)	10	42	89



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Financial Snapshot (Consolidated)

(Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Net Sales	64,501	88,232	1,25,326	1,44,125	1,65,923
EBITDA	12,019	16,546	25,738	31,263	36,567
EBITDA Margin (%)	18.6	18.8	20.5	21.7	22.0
APAT	3,223	6,941	12,997	17,044	21,050
EPS (Rs)	5.0	10.7	20.0	26.2	32.4
EPS (% chg)	(33.7)	115.3	87.3	31.1	23.5
ROE (%)	9.4	18.3	28.1	28.9	28.0
P/E (x)	204.2	94.8	50.6	38.6	31.3
EV/EBITDA (x)	57.4	41.7	26.6	21.5	18.0
P/BV (x)	18.7	16.1	12.7	9.9	7.8

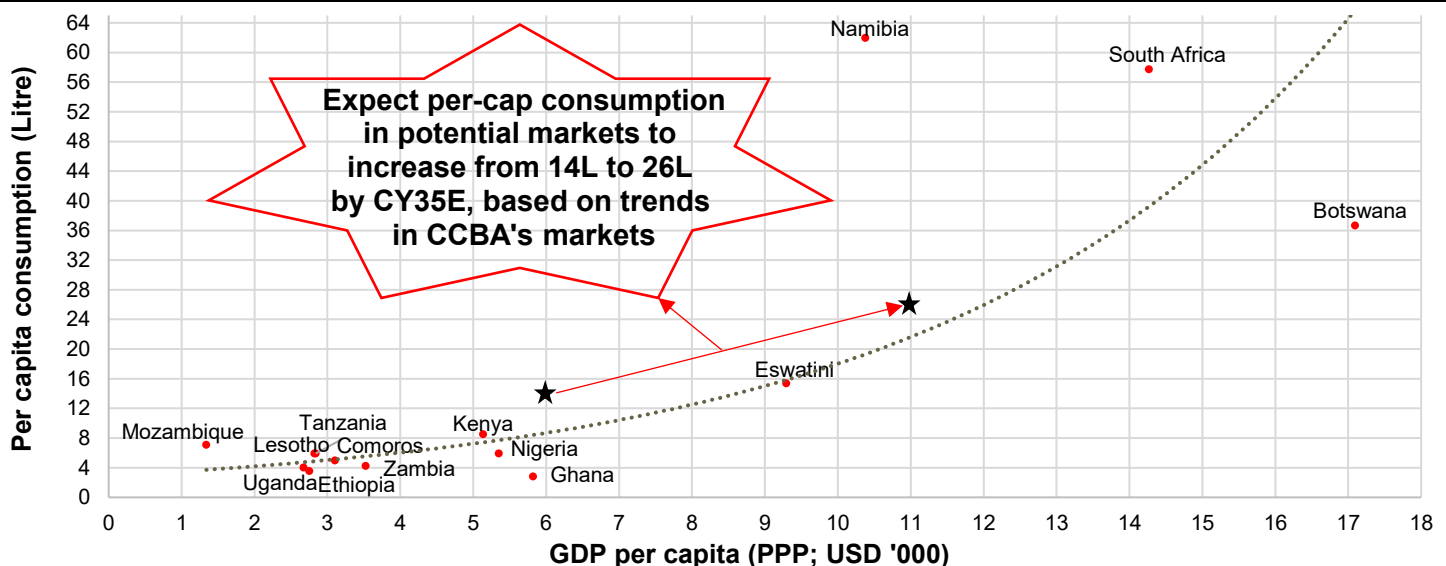
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Exhibit 1: VBL's Africa growth build-up: Potential long-term Africa opportunity leads to ~300bps increase in medium-term growth outlook

PepsiCo/VBL potential for 22 uncovered African markets	CY19	CY35E	CY19-35E CAGR (%)	Emkay Expectations
Population in potential African markets (mn)	539	777	2.3	IMF expects 2.6% population CAGR till CY27
GDP per capita (PPP- USD '000)	6	11	4.0	Aggregate GDP of potential markets divided by total population
Per-Capita consumption (L)- Carbonates	14	26	4.0	Expect per-cap consumption in potential markets to revert to the line of best fit, based on consumption trends in CCBA markets
Total Consumption in potential markets (bn-L)	8	21	6.4	
Retail Realization per Litre- (Carbonates; USD)	0.9	1.7	4.0	In-line with realization growth expectations in CCBA markets
[A] Premiumization CAGR, %				1.0 Premium portfolio/smaller packs should drive premiumization
[B] Annual Price Hikes, %				3.0 We expect 3% price hikes, led by inflation
Carbonate consumption in potential markets (USD bn)	7	34	10.7	
Carbonates (as % of Total market)	52%	45%		CY19 mix is based on trends in CCBA markets; Faster growth in non-carbonates should lead to decrease in carbonate mix
Total beverage sales in potential markets (USD bn)	13	76	11.7	
PepsiCo's Market Share in potential markets, %	-	33%		We expect 33% market share for PepsiCo in potential markets by CY35E vs. no presence currently
PepsiCo's retail sales in potential markets (USD bn)	-	25		
VBL's potential retail sales in potential markets, %	-	30%		We expect VBL to gain 30% of the incremental PepsiCo opportunity by CY35E, with the remaining divided between other bottlers in Africa
VBL's retail sales in potential markets (USD bn)	-	7.5		
Retail sales to net-revenue translation factor (x)	0.60	0.60		
Incremental Rev. from potential markets (VBL; USD bn)	-	4.49		
Revenue from existing markets (VBL; USD bn)	0.15	1.36	15.0	
Total Africa Revenue for VBL (USD bn)	0.15	5.85	26.0	
INR Annual Depreciation vs. USD (%)			0.0	Not factoring-in any benefit of INR depreciation as of now
VBL Africa revenue (Rs bn)	10.9	438	26.0	We expect VBL to deliver 26% CAGR in Africa, led by 15% CAGR in existing markets and the rest through entry into new markets
VBL India Revenue - Existing Estimates (Rs bn)	56	525	15.0	Existing estimates for India
VBL (SL + Nepal) Revenue - Existing Estimates (Rs bn)	4	40	15.0	Existing estimates for SL+ Nepal
VBL Africa - Existing Estimates (Rs bn)	11	102	15.0	Existing estimates for Africa
Delta from VBL incremental Africa opportunity (Rs bn)	-	336		
Total VBL revenue (Consolidated, Rs bn)	71	1,004	18.0	Improved outlook for Africa leads to a 300bps increase in our medium-term growth expectations for VBL

Source: IMF, CCBA Capital Markets Day PPT, Emkay Research

Exhibit 2: We expect per-capita carbonate consumption in potential markets to increase, from 14L in CY19 to 26L in CY35E, based on current trends in CCBA regions; CCBA handles ~40% of TCCC volumes in Africa

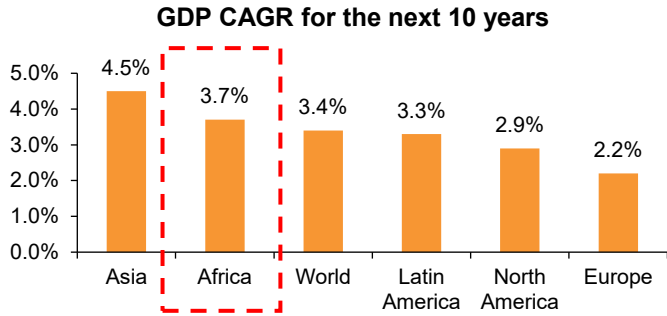


Source: IMF, CCBA Capital Markets Day PPT, Emkay Research

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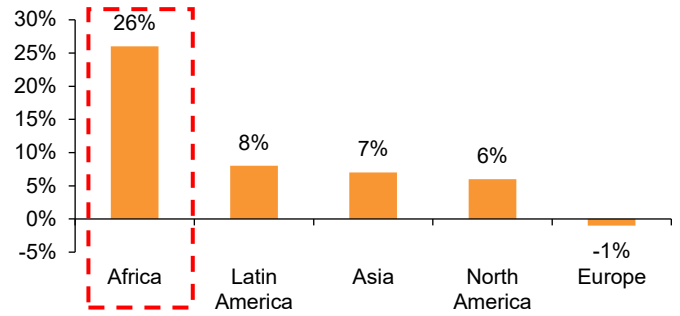
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Exhibit 3: Africa GDP is expected to grow faster than the global average over the next 10 years, suggesting attractive macros



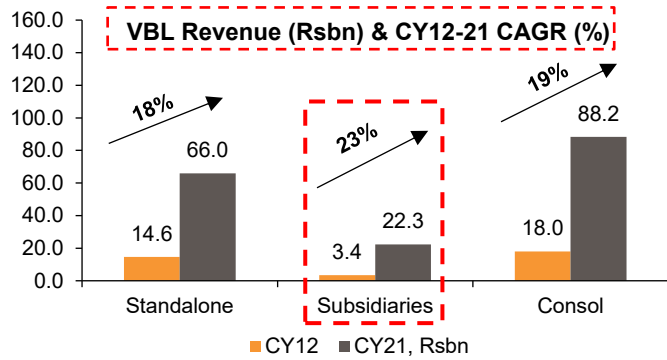
Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 4: Population growth in Africa is forecast to be 3x faster than the next fastest-growing region, over the coming 10 years



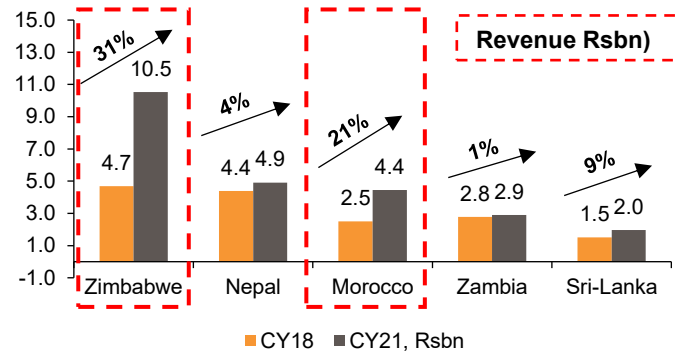
Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 5: Intl. geographies for VBL have grown faster, at 23% CAGR over CY18-21 vs. 19% CAGR for the overall company



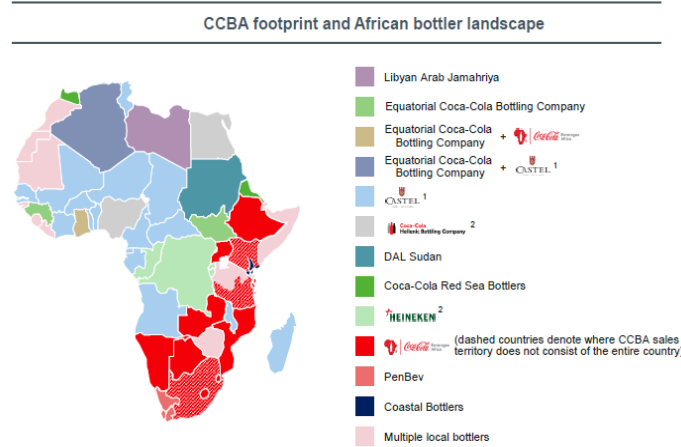
Source: Company, Emkay Research

Exhibit 6: VBL has tasted success in Zimbabwe/Morocco, which should help it win rights for more markets in the Africa region



Source: Company, Emkay Research

Exhibit 7: Coca Cola caters to ~100% of the African market, through a number of bottling partners



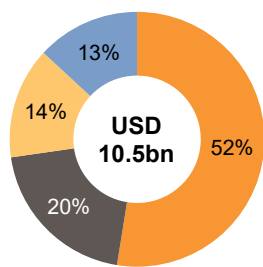
Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 8: Comparatively, PepsiCo caters to 40-45% of the Africa market, via presence in 13 African markets (vs. >50 overall countries)



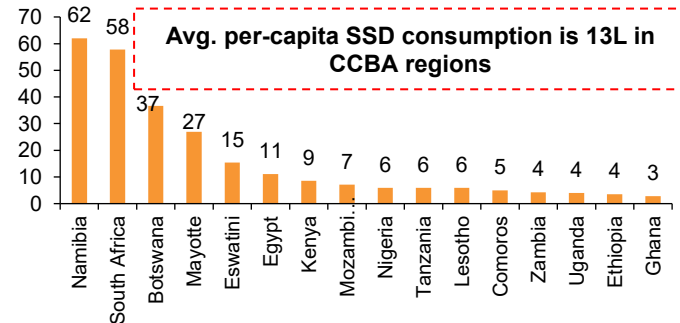
Source: PepsiCo SSA website, Emkay Research

Exhibit 9: Energy Drinks have a significant value share at ~14% in CCBA regions; CCBA handles ~40% of TCCC volumes in Africa



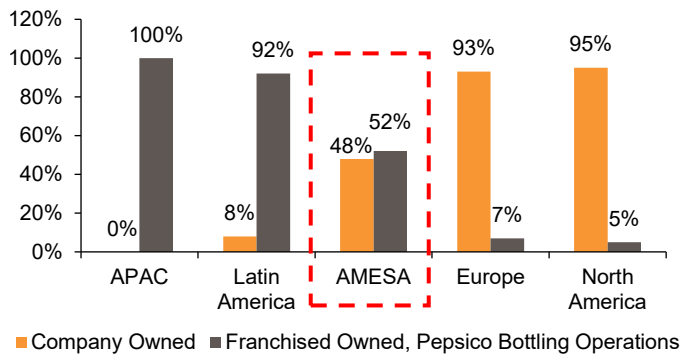
Source: CCBA Capital Markets Day presentation, Emkay, *SSD is sparkling soft drinks

Exhibit 10: Per-capita Carbonate consumption across CCBA markets; CCBA controls ~40% of TCCC volumes in Africa



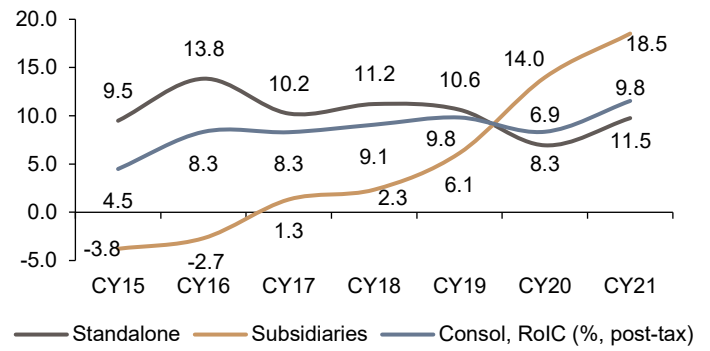
Source: CCBA Capital Markets Day presentation, Emkay, *SSD is sparkling soft drinks

Exhibit 11: PepsiCo is focusing on operations through an asset-light franchise model (except USA, UK, Russia), which should help VBL gain entry into more markets



Source: PepsiCo (US) investor presentation, Emkay Research

Exhibit 12: VBL's international RoIC has significantly improved; India RoIC should see strong pick-up in CY22E, post the pandemic-led challenges in CY20/CY21



Source: Emkay Research; *PI note subsidiary calculation is based on subtracting standalone financials from Consolidated financials

Exhibit 13: Target multiple for VBL derived from a two-stage growth model

Revenue CAGR [CY21-24E] (%)	23.4
EPS CAGR [CY21E-24E] (%)	44.8
Stage-1: CY24E-34E	
EPS in Yr-0 [CY24E] (Rs)	32
EPS in Yr-1 (Rs)	38
EPS CAGR (%)	18.0
Years of growth [n]	10.0
RoE (%)	27.0
CoE (%)	10.5
Implied DPR (%)	33
Terminal stage: >CY34E	
EPS growth (%)	6.0
RoE (%)	27.0
Implied DPR (%)	78
Fair value P/E in Mar-25E (x)	34.1
Fair value in Mar-25E (x)	1,303
Fair value in Sep-23E (x)	1,150
NPV of dividends in Sep-22E-25E (Rs/share)	12
Overall fair value in Sep-23E (Rs/share)	1,162
Sep-24E EPS (Rs)	31
Implied target P/E in Sep-23E (x)	37.6
Premium (%) [a]	5
Implied target P/E in Sep-23E (x)	40
Implied TP in Sep-23E (Rs)	1,220
CMP (Rs/share)	1,013
Upside (%)	20%

Source: Emkay Research

Note: [a] Premium reduced from 10% to 5% to account for back-ended FCF growth in Africa, led by potential investments in the region

Key Financials (Consolidated)**Income Statement**

Y/E December (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Net Sales	64,501	88,232	1,25,326	1,44,125	1,65,923
Expenditure	52,483	71,686	99,588	1,12,861	1,29,356
EBITDA	12,019	16,546	25,738	31,263	36,567
Depreciation	5,287	5,313	6,072	6,767	7,372
EBIT	6,732	11,234	19,666	24,496	29,195
Other Income	370	679	385	437	557
Interest expenses	2,811	1,847	2,010	1,522	872
PBT	4,290	10,066	18,042	23,411	28,879
Tax	784	2,606	4,420	5,619	6,931
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,223	6,941	12,997	17,044	21,050
Adjusted PAT	3,223	6,941	12,997	17,044	21,050

Balance Sheet

Y/E December (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
Equity share capital	2,887	4,330	6,495	6,495	6,495
Reserves & surplus	32,353	36,469	45,352	59,798	77,383
Net worth	35,240	40,799	51,848	66,293	83,879
Minority Interest	648	1,168	1,168	1,168	1,168
Loan Funds	34,216	35,511	31,509	21,578	12,056
Net deferred tax liability	2,259	3,111	3,423	3,765	4,141
Total Liabilities	72,363	80,590	87,948	92,804	1,01,244
Net block	64,086	63,108	70,036	73,269	75,897
Investment	0	0	0	0	0
Current Assets	19,829	27,745	37,980	42,540	51,756
Cash & bank balance	1,901	3,366	6,080	6,210	10,290
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	12,221	15,229	20,069	23,005	26,409
Net current assets	7,609	12,516	17,911	19,535	25,347
Misc. exp	0	0	0	0	0
Total Assets	72,363	80,590	87,948	92,804	1,01,244

Cash Flow

Y/E December (Rs mn)	CY20	CY21	CY22E	CY23E	CY24E
PBT (Ex-Other income) (NI+Dep)	4,357	10,066	18,042	23,411	28,879
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(394)	(3,442)	(2,682)	(1,494)	(1,732)
Operating Cashflow	10,711	12,031	19,332	24,931	28,837
Capital expenditure	(4,613)	(8,632)	(8,034)	(10,000)	(10,000)
Free Cash Flow	6,098	3,399	11,298	14,931	18,837
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(4,613)	(8,632)	(8,034)	(10,000)	(10,000)
Equity Capital Raised	(271)	221	0	0	0
Loans Taken / (Repaid)	(2,156)	1,250	(5,000)	(10,000)	(10,000)
Dividend paid (incl tax)	(722)	(1,083)	(1,949)	(2,598)	(3,464)
Other Financing Cash Flow	52	(474)	374	(680)	(421)
Financing Cashflow	(5,908)	(1,933)	(8,584)	(14,801)	(14,757)
Net chg in cash	190	1,466	2,714	130	4,080
Opening cash position	1,711	1,901	3,366	6,080	6,210
Closing cash position	1,901	3,366	6,080	6,210	10,290

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	CY20	CY21	CY22E	CY23E	CY24E
EBITDA Margin	18.6	18.8	20.5	21.7	22.0
EBIT Margin	10.4	12.7	15.7	17.0	17.6
Effective Tax Rate	18.3	25.9	24.5	24.0	24.0
Net Margin	5.4	8.5	10.9	12.3	13.2
ROCE	9.8	15.6	23.8	27.6	30.7
ROE	9.4	18.3	28.1	28.9	28.0
RoIC	7.9	11.7	19.3	22.1	25.0

Per Share Data (Rs)	CY20	CY21	CY22E	CY23E	CY24E
EPS	5.0	10.7	20.0	26.2	32.4
CEPS	13.1	18.9	29.4	36.7	43.8
BVPS	54.3	62.8	79.8	102.1	129.1
DPS	1.1	1.7	3.0	4.0	5.3

Valuations (x)	CY20	CY21	CY22E	CY23E	CY24E
PER	204.2	94.8	50.6	38.6	31.3
P/CEPS	77.3	53.7	34.5	27.6	23.2
P/BV	18.7	16.1	12.7	9.9	7.8
EV / Sales	10.7	7.8	5.5	4.7	4.0
EV / EBITDA	57.4	41.7	26.6	21.5	18.0
Dividend Yield (%)	0.1	0.2	0.3	0.4	0.5

Gearing Ratio (x)	CY20	CY21	CY22E	CY23E	CY24E
Net Debt/ Equity	0.9	0.8	0.5	0.2	0.0
Net Debt/EBIDTA	2.7	1.9	1.0	0.5	0.0
Working Cap Cycle (days)	32.3	37.9	34.5	33.7	33.1

Growth (%)	CY20	CY21	CY22E	CY23E	CY24E
Revenue	(9.5)	36.8	42.0	15.0	15.1
EBITDA	(17.0)	37.7	55.5	21.5	17.0
EBIT	(29.8)	66.9	75.1	24.6	19.2
PAT	(31.3)	115.3	87.3	31.1	23.5

Quarterly (Rs mn)	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22
Revenue	24,498	23,982	17,343	28,275	49,548
EBITDA	5,708	4,947	2,076	5,310	12,506
EBITDA Margin (%)	23.3	20.6	12.0	18.8	25.2
PAT	3,082	2,401	165	2,542	7,874
EPS (Rs)	4.7	3.7	0.3	3.9	12.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	64.9	64.9	64.9	63.9	63.9
FIs	21.7	21.2	21.0	23.9	25.0
DIs	6.8	7.1	7.2	5.3	4.5
Public and Others	6.6	6.8	6.9	6.8	6.6

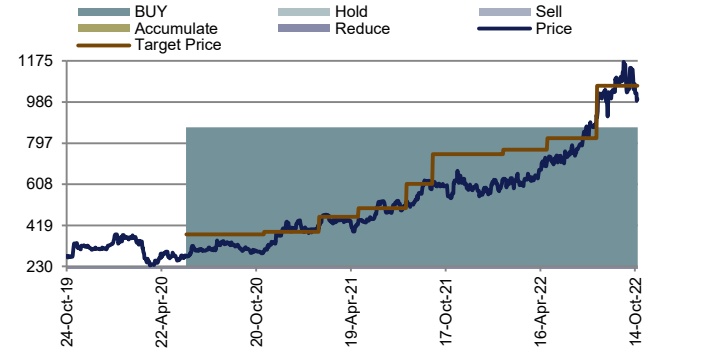
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
02-Aug-22	916	1,060	12m	Buy	Devanshu Bansal
29-Apr-22	722	820	12m	Buy	Devanshu Bansal
08-Apr-22	642	767	12m	Buy	Devanshu Bansal
20-Mar-22	633	767	12m	Buy	Devanshu Bansal
04-Feb-22	633	767	12m	Buy	Devanshu Bansal
29-Oct-21	566	747	12m	Buy	Devanshu Bansal
22-Sep-21	611	747	12m	Buy	Devanshu Bansal
03-Aug-21	526	610	12m	Buy	Devanshu Bansal
03-May-21	446	498	12m	Buy	Devanshu Bansal
17-Feb-21	420	458	12m	Buy	Devanshu Bansal
04-Nov-20	299	389	12m	Buy	Devanshu Bansal
05-Aug-20	332	378	12m	Buy	Devanshu Bansal
08-Jun-20	276	378	12m	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Oct 2022 19:07:29 (SGT)

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