

# Varun Beverages

BSE SENSEX  
61,046

S&P CNX  
18,165

CMP: INR1,217

TP: INR1,550 (+27%)

Buy



Bloomberg	VBL IN
Equity Shares (m)	650
M.Cap.(INRb)/(USD\$b)	790.4 / 9.7
52-Week Range (INR)	1432 / 557
1, 6, 12 Rel. Per (%)	-12/30/97
12M Avg Val (INR M)	1682

## Financials & Valuations (INR b)

Y/E Mar	2022E	2023E	2024E
Sales	131.6	151.4	176.2
EBITDA	27.8	32.5	38.8
PAT	14.8	18.6	23.8
EBITDA (%)	21.1	21.5	22.0
EPS (INR)	22.7	28.6	36.6
EPS Gr. (%)	112.9	25.8	28.0
BV/Sh. (INR)	83.1	109.2	142.3

## Ratios

Net D/E	0.5	0.2	-0.0
RoE (%)	31.2	29.8	29.1
RoCE (%)	20.8	23.2	26.9
Payout (%)	11.0	8.7	9.6

## Valuations

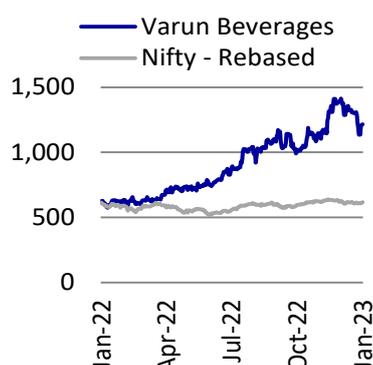
P/E (x)	53.5	42.5	33.2
EV/EBITDA (x)	29.6	24.8	20.3
Div Yield (%)	0.2	0.2	0.3
FCF Yield (%)	0.6	2.1	2.8

## Shareholding pattern (%)

As on	Dec-22	Sep-22	Dec-21
Promoter	63.9	63.9	64.9
DII	3.4	4.5	7.1
FII	26.5	25.0	21.2
Others	6.2	6.6	6.8

Note: FII includes depository receipts

## Stock performance (one-year)



## Reaping benefits of increasing semi-urban and rural presence

Increasing access to electricity in rural households (up by 13% over CY15-20) and an improving duration of power supply, coupled with rising penetration of refrigerators in semi-urban and rural areas, should further boost growth for VBL (~60% of revenue contribution from semi-urban/rural areas).

- Electricity access for rural households in India grew from 83% in CY15 to 96% in CY20. The improved duration of power supply, along with better rural connectivity and higher disposable income, should lead to a higher penetration of refrigerated products.
- Refrigerator penetration is still lower in rural areas (~17%) vs urban areas (~79%). Further, the penetration is much lower (single digits) among the bottom half of the wealth pyramid. Strong demand from first-time fridge buyers in semi-urban and rural areas is likely to improve penetration.
- VBL has aligned itself with changes in semi-urban and rural dynamics over the years with capacity and channel expansions. As a result, it has witnessed robust demand growth from under-penetrated states such as Madhya Pradesh (MP), Bihar, Jharkhand, Chhattisgarh and Odisha.

## VBL to benefit from improving rural household electricity supply

- The rural electrification drive (launched in CY15) has rapidly improved electricity access to rural households (~96% in CY20 vs. 83% in CY15) (Refer Exhibit 4) and increased the duration of power supply (~20 hours) in rural areas, leading to increased penetration of refrigerated products (such as beverages, ice creams, dairy products, etc.) in such regions.
- Average electricity supply hours increased from ~12.5 hours in CY15 to ~18.5 hours in CY20 across Bihar, Jharkhand, MP, Odisha, UP and West Bengal (Refer Exhibit 5), with Bihar seeing the strongest growth (from 9 hours to ~18 hours over the same period) (Source: Ceew.in).
- Further, demand in the rural market is supported by 1) higher disposable income (led by multiple income sources), 2) lower dependency on agriculture income (lowering risk propensity), 3) better road connectivity to rural market with improved logistics, 4) more skilled jobs, and 5) rising domestic tourism.
- Thus, VBL is also witnessing strong growth in underpenetrated territories such as MP, Odisha, Bihar, Jharkhand and Chhattisgarh and expects huge opportunities from these areas going ahead.
- To cater to increasing demand, VBL has set up a plant in Bihar, which is expected to ramp up in three to four years; however, the newly commissioned plant ran out of capacity in the first year due to strong demand. Thus, VBL is expanding the capacity of its Bihar plant to fulfill the rising demand.
- Further, VBL is also setting up new greenfield facilities in MP, Rajasthan and Jammu. It expects to expand its current capacity by ~20% in CY23.

Sumant Kumar - Research Analyst (Sumant.Kumar@MotilalOswal.com)

Research Analyst: Meet Jain (meet.jain@motilalosal.com) / Omkar Shintre (omkar.shintre@motilalosal.com)

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

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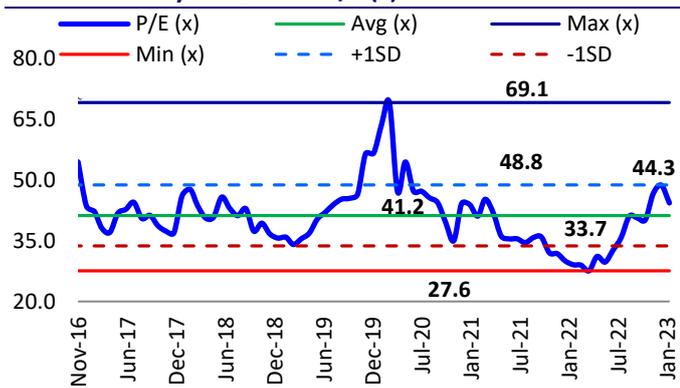
**Secular growth story of refrigerated products: Refrigerator penetration rising in rural/semi-urban markets**

- Refrigerator penetration in rural India is low at ~17% compared to ~79% in urban areas. (Source: Crisil Research). Few states such as Bihar and Jharkhand have lower penetration at ~10%/14% (Source: Aditya Vision Annual report). However, over the last few years, household penetration in India grew from 27% in FY16 to ~40% in FY21.
- This enabled VBL to further improve the penetration of its products, with the number of distributors/visi-coolers increasing from 1,186/458,000 in CY16 to 2,000/840,000 in CY21 (registering 11%/13% CAGR).
- Going ahead, the Indian refrigerator market is expected to see a CAGR of ~12-14% over FY21-26, led by rising household income, improving standard of living, easy financing and increased government spends in rural India. Accordingly, the penetration is expected to improve to ~46% by FY26. (Source: Crisil Research).
- The penetration in the bottom half of the wealth pyramid is expected to improve, as currently they have the lowest share in fridge penetration of around single digits v/s over 90% penetration in the top 20% of the wealth pyramid (Refer Exhibit 8). Hence, strong demand from first-time fridge buyers in semi-urban and rural areas is likely to improve penetration.
- Increasing refrigerator penetration, along with an improving duration of power supply in semi-urban and rural areas, will help VBL further accelerate its growth plans (~60% of revenues come from semi-urban and rural areas), thereby increasing in-house consumption of its refrigerated products.

**Valuation and view**

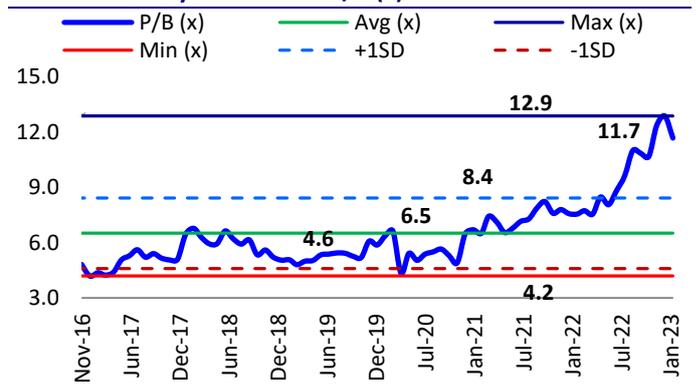
- The increasing penetration of refrigerators in semi-urban and rural areas bodes well for VBL’s products, as the customer base is expanding at a rapid pace in these regions.
- Further, to capture the growing market, VBL is raising its capacities by 20%, which are likely to be operational before the next summer (except for the dairy beverage facility that will be operational by Jul’23). The capex for the capacity expansion is likely to be ~INR12b.
- The stock price has corrected ~15% from its recent peak of INR1,432 and is currently trading at ~42x/33x CY23E/CY24E P/E which provides reasonable valuation comfort with strong revenue/EBITDA/PAT CAGR expectation of 16%/18%/27% over CY22E-24E, respectively.
- We value the stock at 42x CY24E EPS to arrive at our TP of INR1,550. **Maintain BUY.**

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



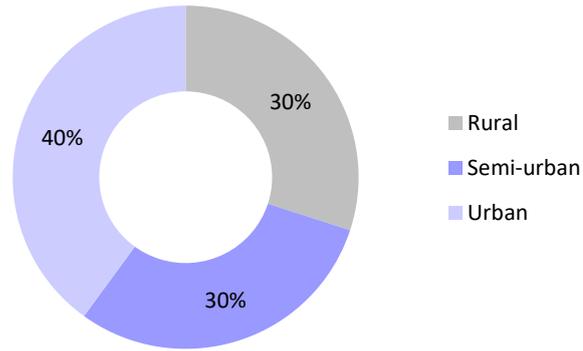
Source: Company, MOFSL

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



Source: Company, MOFSL

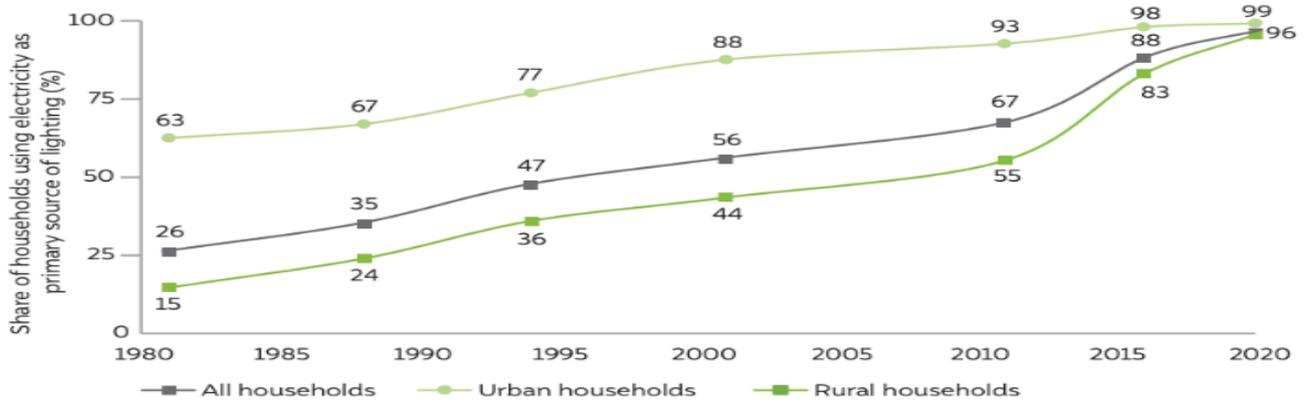
**Exhibit 3: Revenue contribution mix for VBL's India operations**



Source: Ceew.in, MOFSL

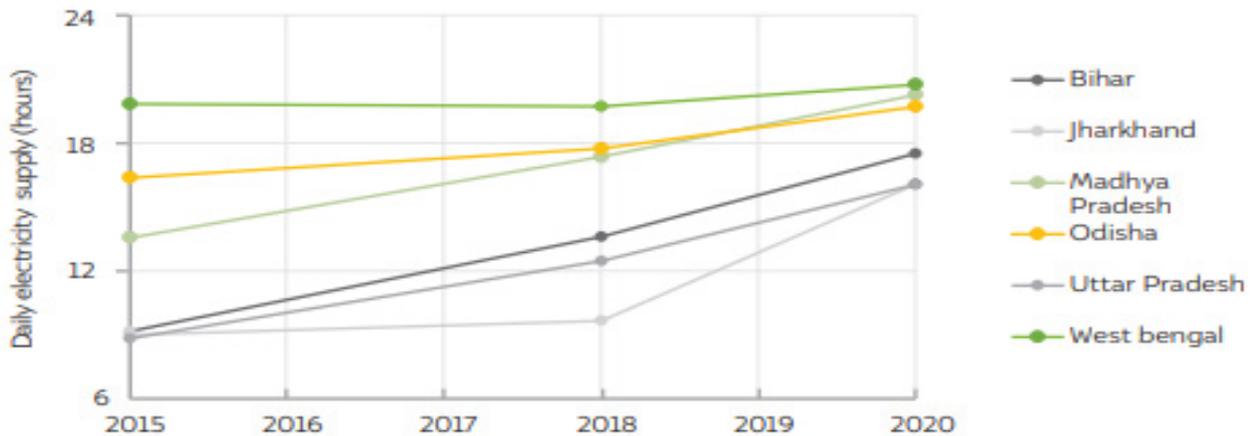
**Exhibit 4: India's household electricity access trend**

**India's progress on household electricity access (1980-2020)**



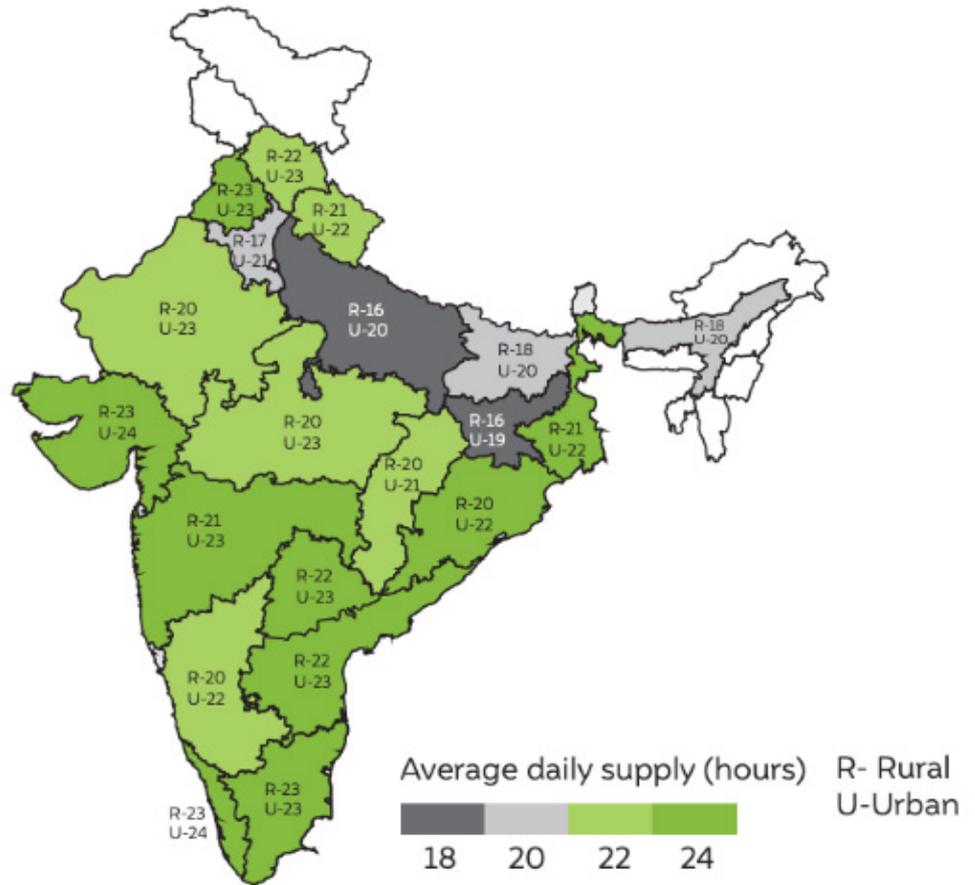
Source: Ceew.in, MOFSL

**Exhibit 5: Electricity supply improving in states with lower accessibility**



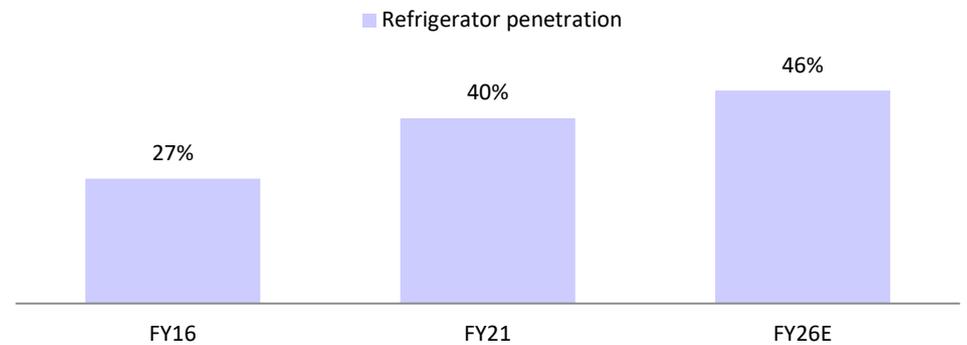
Source: Ceew.in, MOFSL

**Exhibit 6: Average daily electricity supply (in hours)**



Source: Ceew.in, MOFSL

**Exhibit 7: Increasing penetration of refrigerators in India**



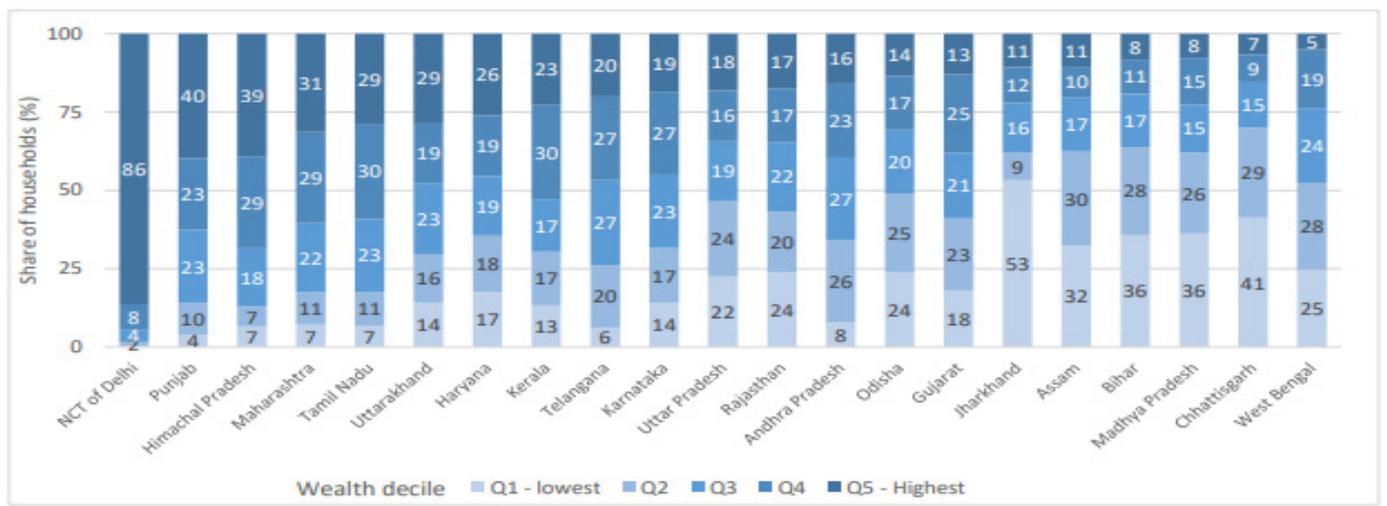
Source: EMIL DHRP, MOFSL

Exhibit 8: Asset ownership across wealth deciles (%)

Asset/ wealth indicators	D1 Poorest 10%	D2	D3	D4	D5	D6	D7	D8	D9	D10 Richest 10%
Fan	22	87	95	98	98	99	99	99	100	100
Television	6	3	63	80	81	88	93	97	98	99
Pucca house	5	26	14	39	56	52	56	77	88	93
Two-/three-wheelers	7	25	17	39	56	61	60	79	86	88
Exclusive clean cooking	10	10	16	36	50	48	61	79	89	94
Electric iron	1	1	6	6	11	30	33	43	62	83
Fridge	-	0	2	0	8	27	59	69	91	98
Space conditioning	-	1	2	1	6	11	17	20	40	73
Water heater	-	0	2	0	5	10	14	22	39	64
Four-wheelers	-	0	1	0	2	4	5	8	11	34
Computer	-	-	0	-	1	2	3	4	5	33
Washing machine	-	-	0	-	0	1	2	6	15	68

Source: Ceew.in, MOFSL

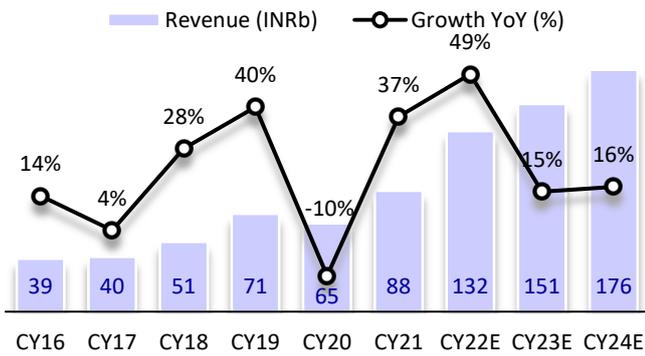
Exhibit 9: Household wealth distribution across states



Source: Ceew.in, MOFSL

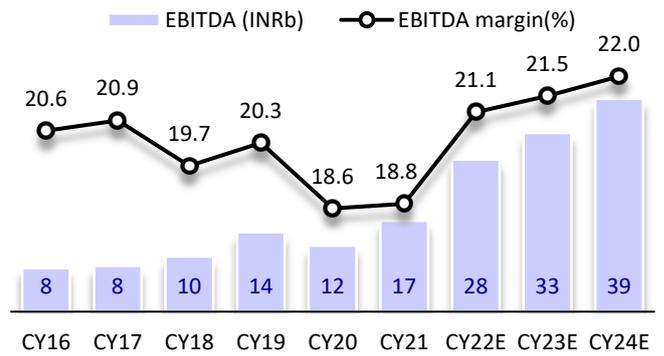
Story in Chart

Exhibit 10: Strong revenue trajectory...



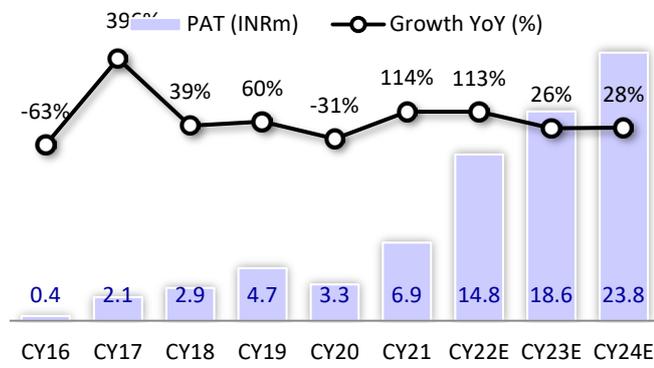
Source: Company, MOFSL

Exhibit 11: ...with margin expansion...



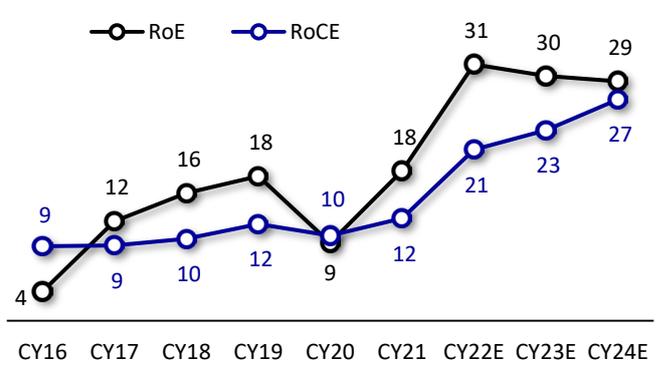
Source: Company, MOFSL

Exhibit 12: Robust earnings trajectory



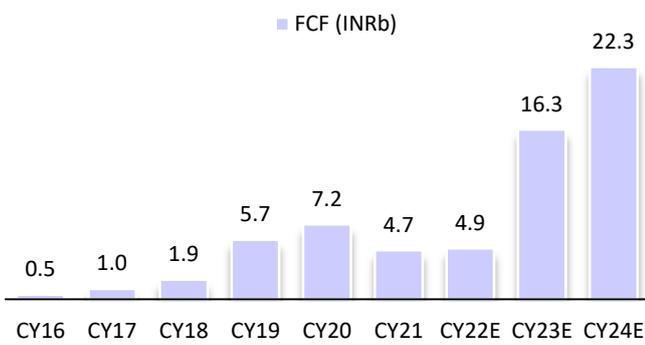
Source: Company, MOFSL

Exhibit 13: Healthy return ratios



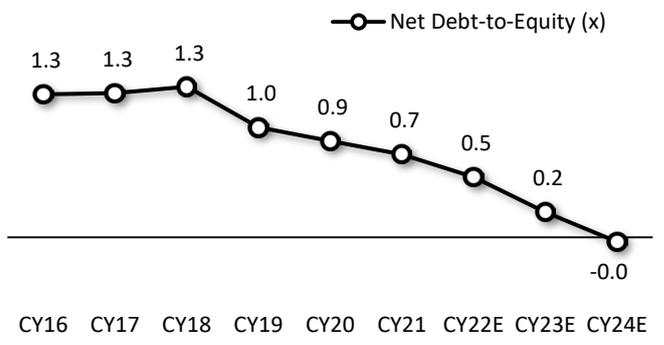
Source: Company, MOFSL

Exhibit 14: ...aiding in generating robust cashflows...



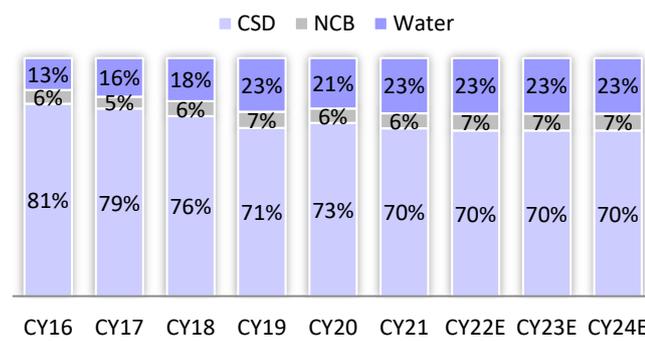
Source: Company, MOFSL

Exhibit 15: ...achieving net debt free by CY24



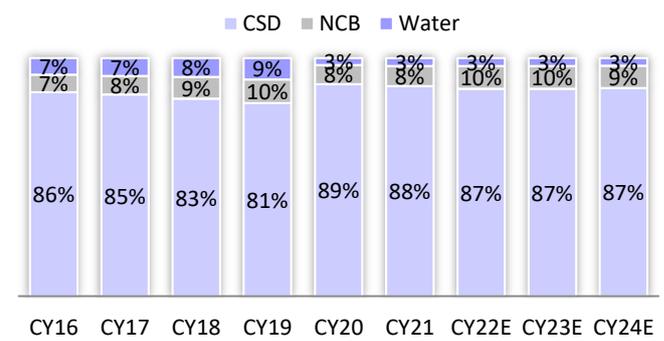
Source: Company, MOFSL

Exhibit 16: Volume Mix trend



Source: Company, MOFSL

Exhibit 17: Revenue mix trend



Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
<b>Total Income from Operations</b>	<b>40,035</b>	<b>51,053</b>	<b>71,296</b>	<b>64,501</b>	<b>88,232</b>	<b>1,31,624</b>	<b>1,51,367</b>	<b>1,76,176</b>
Change (%)	3.7	27.5	39.7	-9.5	36.8	49.2	15.0	16.4
RM Cost	18,101	22,441	32,194	27,639	40,347	63,069	70,386	81,922
Employees Cost	4,628	5,830	8,108	8,897	10,077	12,007	13,623	15,856
Other Expenses	8,947	12,716	16,517	15,946	21,262	28,788	34,814	39,640
<b>Total Expenditure</b>	<b>31,676</b>	<b>40,987</b>	<b>56,819</b>	<b>52,483</b>	<b>71,686</b>	<b>1,03,864</b>	<b>1,18,823</b>	<b>1,37,418</b>
% of Sales	79.1	80.3	79.7	81.4	81.2	78.9	78.5	78.0
<b>EBITDA</b>	<b>8,359</b>	<b>10,066</b>	<b>14,477</b>	<b>12,019</b>	<b>16,546</b>	<b>27,760</b>	<b>32,544</b>	<b>38,759</b>
Margin (%)	20.9	19.7	20.3	18.6	18.8	21.1	21.5	22.0
Depreciation	3,466	3,851	4,886	5,287	5,313	5,925	6,201	6,665
<b>EBIT</b>	<b>4,893</b>	<b>6,215</b>	<b>9,590</b>	<b>6,732</b>	<b>11,234</b>	<b>21,834</b>	<b>26,343</b>	<b>32,093</b>
Int. and Finance Charges	2,122	2,126	3,096	2,811	1,847	1,886	1,884	834
Other Income	125	218	425	370	679	346	908	1,057
<b>PBT bef. EO Exp.</b>	<b>2,896</b>	<b>4,308</b>	<b>6,919</b>	<b>4,290</b>	<b>10,066</b>	<b>20,294</b>	<b>25,367</b>	<b>32,316</b>
EO Items	0	0	0	-665	0	0	0	0
<b>PBT after EO Exp.</b>	<b>2,896</b>	<b>4,308</b>	<b>6,919</b>	<b>3,625</b>	<b>10,066</b>	<b>20,294</b>	<b>25,367</b>	<b>32,316</b>
Total Tax	769	1,339	2,241	52	2,606	4,893	6,088	7,756
Tax Rate (%)	26.6	31.1	32.4	1.4	25.9	24.1	24.0	24.0
Share of profit from associates	14	30	44	0	0	0	0	0
Minority Interest	39	70	32	283	520	628	691	760
<b>Reported PAT</b>	<b>2,102</b>	<b>2,928</b>	<b>4,690</b>	<b>3,290</b>	<b>6,941</b>	<b>14,773</b>	<b>18,588</b>	<b>23,800</b>
<b>Adjusted PAT</b>	<b>2,102</b>	<b>2,928</b>	<b>4,690</b>	<b>3,251</b>	<b>6,941</b>	<b>14,773</b>	<b>18,588</b>	<b>23,800</b>
Change (%)	395.9	39.3	60.1	-30.7	113.5	112.9	25.8	28.0
Margin (%)	5.2	5.7	6.6	5.0	7.9	11.2	12.3	13.5

### 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	47,453	64,417	85,943
<b>Net Worth</b>	<b>17,692</b>	<b>19,985</b>	<b>33,284</b>	<b>35,240</b>	<b>40,799</b>	<b>53,948</b>	<b>70,912</b>	<b>92,439</b>
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	20,418	3,418
Deferred Tax Liabilities	1,422	1,588	2,697	2,149	3,087	3,087	3,087	3,087
<b>Capital Employed</b>	<b>42,659</b>	<b>49,299</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>91,622</b>	<b>95,585</b>	<b>1,00,112</b>
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	37,480	43,681	50,347
<b>Net Fixed Assets</b>	<b>39,786</b>	<b>43,850</b>	<b>64,548</b>	<b>63,844</b>	<b>62,865</b>	<b>64,440</b>	<b>68,239</b>	<b>67,573</b>
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	5,466
<b>Total Investments</b>	<b>82</b>	<b>112</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Current Investments	0	0	0	0	0	0	0	0
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>11,494</b>	<b>12,808</b>	<b>18,327</b>	<b>19,719</b>	<b>27,721</b>	<b>41,741</b>	<b>47,192</b>	<b>56,496</b>
Inventory	4,389	5,784	8,815	9,288	14,481	20,773	23,765	27,484
Account Receivables	1,503	1,280	1,726	2,418	2,212	5,049	5,806	6,757
Cash and Bank Balance	945	935	1,711	1,901	3,366	4,491	4,478	6,957
Loans and Advances	4,658	4,809	6,076	6,113	7,661	11,429	13,144	15,298
<b>Curr. Liability &amp; Prov.</b>	<b>10,177</b>	<b>11,015</b>	<b>13,297</b>	<b>14,378</b>	<b>17,322</b>	<b>22,268</b>	<b>25,554</b>	<b>29,665</b>
Account Payables	1,909	3,168	4,777	5,114	7,118	9,106	10,417	12,048
Other Current Liabilities	7,392	6,435	6,517	6,893	7,622	9,214	10,596	12,332
Provisions	875	1,412	2,003	2,371	2,583	3,949	4,541	5,285
<b>Net Current Assets</b>	<b>1,317</b>	<b>1,793</b>	<b>5,031</b>	<b>5,342</b>	<b>10,399</b>	<b>19,473</b>	<b>21,638</b>	<b>26,831</b>
<b>Appl. of Funds</b>	<b>42,659</b>	<b>49,299</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>91,622</b>	<b>95,585</b>	<b>1,00,112</b>

## Financials and valuations

### Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>3.2</b>	<b>4.5</b>	<b>7.2</b>	<b>5.0</b>	<b>10.7</b>	<b>22.7</b>	<b>28.6</b>	<b>36.6</b>
Cash EPS	8.6	10.4	14.7	13.1	18.9	31.9	38.2	46.9
BV/Share	27.2	30.8	51.2	54.3	62.8	83.1	109.2	142.3
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	11.0	8.7	9.6
<b>Valuation (x)</b>								
P/E	376.2	269.9	168.6	243.2	113.9	53.5	42.5	33.2
Cash P/E	142.0	116.6	82.6	92.6	64.5	38.2	31.9	25.9
P/BV	44.7	39.6	23.8	22.4	19.4	14.7	11.1	8.6
EV/Sales	20.3	16.0	11.5	12.7	9.3	6.2	5.3	4.5
EV/EBITDA	97.3	81.2	56.9	68.3	49.7	29.6	24.8	20.3
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
FCF per share	1.6	2.9	8.8	11.1	7.3	7.6	25.1	34.3
<b>Return Ratios (%)</b>								
RoE	12.1	15.5	17.6	9.5	18.3	31.2	29.8	29.1
RoCE	9.2	10.0	11.8	10.4	12.5	20.8	23.2	26.9
RoIC	9.1	10.1	11.5	9.8	12.1	22.1	24.2	28.1
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.7	0.8	0.8	0.7	0.9	1.3	1.4	1.5
Asset Turnover (x)	0.9	1.0	1.0	0.9	1.1	1.4	1.6	1.8
Inventory (Days)	40	41	45	53	60	58	57	57
Debtor (Days)	14	9	9	14	9	14	14	14
Creditor (Days)	17	23	24	29	29	25	25	25
<b>Leverage Ratio (x)</b>								
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	11.6	14.0	38.5
Net Debt/Equity	1.3	1.3	1.0	0.9	0.7	0.5	0.2	0.0

### Consolidated - Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	CY24E
<b>(INR m)</b>								
<b>OP/(Loss) before Tax</b>	<b>2,896</b>	<b>4,308</b>	<b>6,919</b>	<b>3,625</b>	<b>10,066</b>	<b>20,294</b>	<b>25,367</b>	<b>32,316</b>
Depreciation	3,466	3,851	4,826	5,287	5,313	5,925	6,201	6,665
Interest & Finance Charges	1,972	1,986	2,948	2,441	1,168	1,540	976	-223
Direct Taxes Paid	-571	-733	-1,201	-52	-2,606	-4,893	-6,088	-7,756
(Inc)/Dec in WC	-1,965	-501	-827	-1,181	-592	-7,950	-2,178	-2,714
<b>CF from Operations</b>	<b>5,798</b>	<b>8,911</b>	<b>12,665</b>	<b>10,120</b>	<b>13,349</b>	<b>14,917</b>	<b>24,278</b>	<b>28,289</b>
Others	400	1,087	411	0	0	0	0	0
<b>CF from Operating incl EO</b>	<b>6,198</b>	<b>9,998</b>	<b>13,076</b>	<b>10,120</b>	<b>13,349</b>	<b>14,917</b>	<b>24,278</b>	<b>28,289</b>
(Inc)/Dec in FA	-5,165	-8,088	-7,331	-2,913	-8,632	-10,000	-8,000	-6,000
<b>Free Cash Flow</b>	<b>1,033</b>	<b>1,910</b>	<b>5,745</b>	<b>7,207</b>	<b>4,717</b>	<b>4,917</b>	<b>16,278</b>	<b>22,289</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	-2,332	-647	-15,862	-1,798	-1,474	346	908	1,057
<b>CF from Investments</b>	<b>-7,496</b>	<b>-8,734</b>	<b>-23,192</b>	<b>-4,711</b>	<b>-10,106</b>	<b>-9,654</b>	<b>-7,092</b>	<b>-4,943</b>
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	-13,000	-17,000
Interest Paid	-1,557	-1,886	-3,011	-2,811	-1,847	-1,886	-1,884	-834
Dividend Paid	-456	-456	-690	-722	-1,083	-1,624	-1,624	-2,273
Others	1,130	-3,505	-895	426	-206	-628	-691	-760
<b>CF from Fin. Activity</b>	<b>1,586</b>	<b>-1,273</b>	<b>10,893</b>	<b>-5,219</b>	<b>-1,777</b>	<b>-4,139</b>	<b>-17,199</b>	<b>-20,868</b>
<b>Inc/Dec of Cash</b>	<b>288</b>	<b>-10</b>	<b>776</b>	<b>190</b>	<b>1,466</b>	<b>1,124</b>	<b>-13</b>	<b>2,479</b>
Opening Balance	657	945	935	1,711	1,901	3,367	4,491	4,478
<b>Closing Balance</b>	<b>945</b>	<b>935</b>	<b>1,711</b>	<b>1,901</b>	<b>3,367</b>	<b>4,491</b>	<b>4,478</b>	<b>6,957</b>

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

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