

# Varun Beverages

**BSE SENSEX** 65,344  
**S&P CNX** 19,356

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## Stock Info

Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USDb)	1054.7 / 12.8
52-Week Range (INR)	874 / 409
1, 6, 12 Rel. Per (%)	-2/18/72
12M Avg Val (INR M)	2337
Free float (%)	36.1

## Financials Snapshot (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	158.7	184.0	210.1
EBITDA	35.2	40.8	47.1
Adj. PAT	20.0	24.6	29.9
EBITDA Margin (%)	22.2	22.2	22.4
Cons. Adj. EPS (INR)	15.4	18.9	23.0
EPS Gr. (%)	33.7	22.9	21.3
BV/Sh. (INR)	52.9	69.9	90.9

## Ratios

Net D:E	0.4	0.2	-0.1
RoE (%)	33.4	30.8	28.6
RoCE (%)	23.8	25.6	26.3
Payout (%)	11.4	10.6	8.7

## Valuations

P/E (x)	52.7	42.9	35.4
EV/EBITDA (x)	30.8	26.3	22.3
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	1.1	1.6	2.4

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	63.9	63.9	64.9
DII	3.7	3.4	7.2
FII	26.0	26.5	21.0
Others	6.4	6.2	6.9

FII Includes depository receipts

**CMP: INR812**
**TP: INR940 (+16%)**
**Buy**

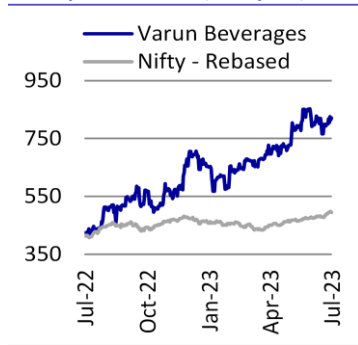
## Growth trajectory on track

Varun Beverages (VBL), being one of the prominent players in the carbonated soft drink (CSD) segment, is targeting adjacent categories to maintain its robust growth trajectory.

- As per IMARC report, Indian flavored milk market is set to register a CAGR of ~25% to INR158.6b by CY28. VBL, after receiving positive feedback for products in this category, is increasing its capacity in the segment. It aims to triple its capacity in CY23, and follow it with a national rollout of its products in CY24.
- VBL has already established its presence in the juice-based beverage market through its brand 'Tropicana'. Recognizing the potential in the sports drink segment (expect to register 14% CAGR up to CY28), the company has also entered this market with its product 'Gatorade'.
- To expand its international presence, VBL has recently incorporated a wholly owned subsidiary in South Africa (CSD market size is USD3.8b in CY21 and expects ~2.9% CAGR over CY21-26).
- The volume growth is expected to be muted on a YoY basis for 2QCY23, due to unseasonal rainfall. However, the increasing share of energy drinks, juices, and value-added dairy products is expected to drive the overall revenue.

## The growth story beyond Carbonated Soft Drinks

- VBL's management has recently highlighted its focus on new performers such as value-added dairy, sports drinks, and juices segments to sustain its existing growth momentum.
- These segments are largely untapped for 'masses' and have the potential to be the company's growth drivers in the longer run.
- The flavored milk market in India is expected to register a CAGR of 25% over CY23-CY28 to reach INR158.6b by CY28 from INR41.6b in CY22. (As per IMARC group report).
- Dairy-based beverages are considered as a healthy alternative to the carbonated beverages. The segment is witnessing a strong surge in demand, driven by health-conscious consumers preferring dairy-based products over the carbonated ones.
- VBL's launches in the value-added dairy segment (under brand 'Cream Bell') have also been well-received by consumers. Accordingly, the company is expecting to triple its capacity in the segment in CY23 and plans a national rollout of its value-added dairy-based beverages by CY24.
- The company is setting up two plants in Maharashtra and UP for value-added dairy-based beverages and Tropicana and a third plant will be coming up in Orissa in the coming years.
- Further, the value-added dairy-based beverages segment generates higher returns as most of the SKUs are single-serve products, yielding higher margins than multi-serve products (larger bottles).
- VBL has achieved higher realizations in the dairy segment compared to carbonated soft drink (CSD) segment. This can be attributed to relatively higher cost structure involved in the dairy business. However, the segment enjoys a favorable tax structure of 12% GST as against 40% on the CSD segment.

**Stock performance (one-year)**

- Furthermore, VBL has entered the sport drinks market in India (Indian sports and energy drinks market is expected to witness a 14% CAGR till CY28 to USD5.8b) through its product 'Gatrode'. It has already established itself in the fruit-based juice segment (Indian packaged fruit juices market is valued at ~INR12b and is expected to register a CAGR of 20%) under the brand 'Tropicana'.
- Additionally, VBL does not expect the growth momentum of its energy drink 'Sting' to diminish, as the company plans to expand its presence by reaching more outlets in the future.

**Exploring newer geographies to expand International business**

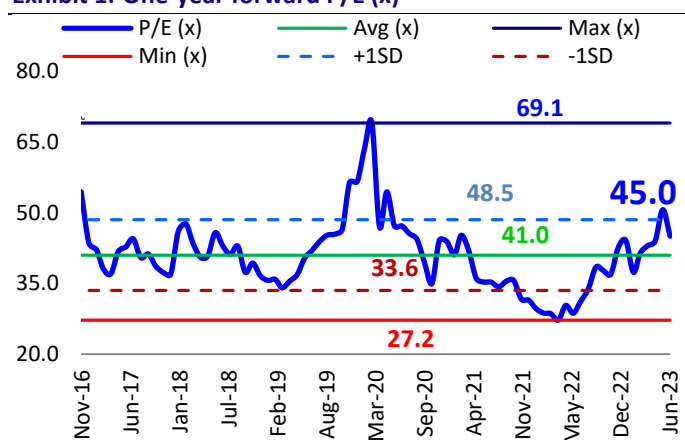
- VBL has recently incorporated a wholly owned subsidiary 'Varun Beverages South Africa (PTY) LTD' in Johannesburg, South Africa, with the aim to explore the business of manufacturing and distribution of beverages in the region.
- The soft drink market in South Africa is dominated by Coca-Cola beverages, while the fruit-based juices market is dominated by players such as Pioneer Foods (acquired by PepsiCo in Mar'20 for USD1.7b), RFG, and Clover.
- The South African carbonated soft drinks market stood at USD3.8b in CY21, with a market consumption of ~4.5b litres. The market is estimated to reach ~USD4.4b by CY26, registering a CAGR of ~2.9% over the period. (As per the 'Marketline' Report on 'Research and Markets')
- Currently, 'The Beverage Company (BevCo)' is PepsiCo's exclusive CSD manufacturer and distributor in South Africa. However, PepsiCo holds a relatively small market share in the region.
- On the other hand, VBL has rapidly scaled its international businesses (to sales volume of ~149m cases in CY22 with a CAGR of ~23% over CY18-22) and has also won the 'PepsiCo's International Bottler of the Year' award for CY22.
- Based on the recent announcement of incorporation of Varun Beverages South Africa (PTY) LTD, we believe VBL might acquire bottling operations or franchisee rights in the region, driving the mid- to long-term growth for the company.

**Unseasonal rainfall can lead to muted volumes**

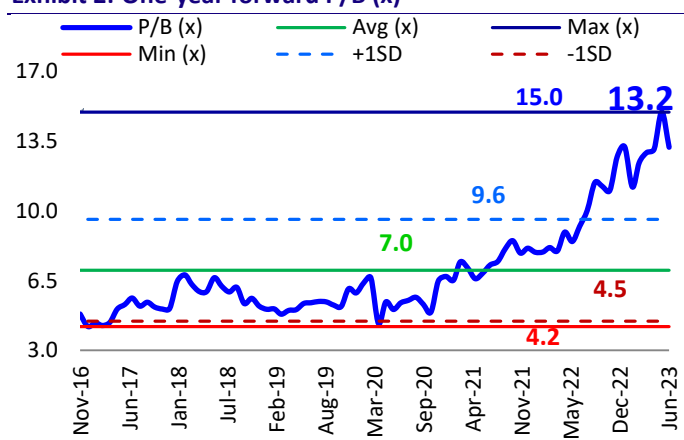
- India witnessed unseasonal rainfall in the northern and central part of the country during the pre-monsoon season (Mar to May) in CY23. On a pan India basis, the country witnessed ~12% higher than average rainfall.
- However, the intensity was much higher in states such as Gujarat/Madhya Pradesh/Rajasthan/Haryana/Punjab/UP, which witnessed 9.3x/4.4x/3.1x/2.4x/2.3x/2.2x of the average normal rainfall. (Refer exhibit 10)
- Further, the average mean temperature in the month of Apr/May'23 were 28.1°C/29.5°C, in line with the long-term average of ~28°C/29.7°C, but lower as compared to last year's temperature of ~29.4°C/30°C.
- Accordingly, the unseasonal rainfall coupled with lower temperature as compared to last year can lead to muted volumes growth in 2QCY23.
- However, realizations are expected to increase, on the back of growing mix of energy drinks, fruit-based juices, and value-added dairy products, coupled with a higher share of smaller bottles (which have better realizations compared to larger bottles)

**Valuation and view**

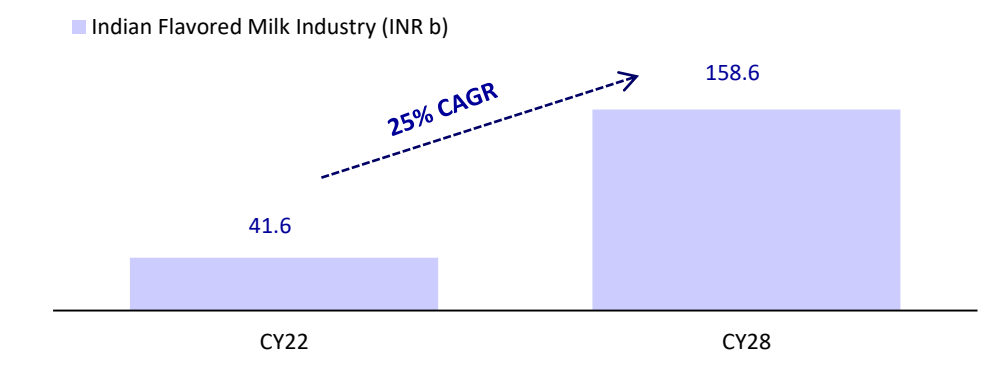
- VBL's focus on adjacent categories such as dairy-based beverages, Sports drink, energy drink and juices will sustain the strong growth momentum.
- We expect VBL to maintain its earnings momentum, underpinned by: 1) higher demand for its products, on the back of a prolonged summer season, soaring temperatures and heat waves, 2) higher acceptance of newly launched products, including the dairy-based beverages, 3) increased penetration in newly acquired territories of South and West India, and 4) growing refrigeration in rural and semi-rural areas.
- We expect a revenue/EBITDA/PAT CAGR of 17%/19%/26% over CY22-25. We value the stock at 45x Jun'25E EPS to arrive at a TP of INR940. We reiterate 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: Indian Flavored Milk Industry to witness a CAGR of 25% over CY22-28**

Source: Company, IMARC, MOFSL

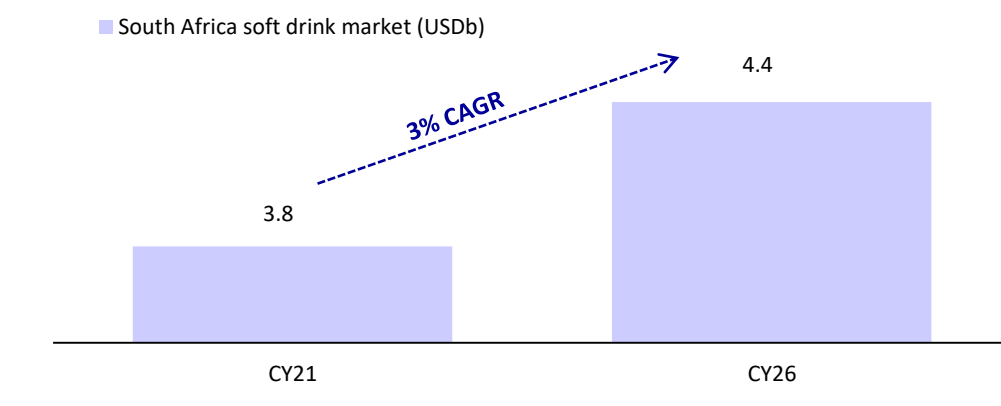
**Exhibit 4: Popular dairy-based beverages in India**

Company	Varun Beverage	Gujarat Cooperative Milk Marketing Federation Ltd	Mother Dairy Fruit and Vegetable Pvt Ltd	Hershey India Private Limited	Govind Milk & Milk Products Pvt. Ltd
	Cream Bell	Amul	Mother Dairy	Hershey	Govind Funz
Brands					
Price (INR)	30	30	30	40	30
Size (ml)	200	180	180	180	200
Price per 100 ml	15	17	17	22	15

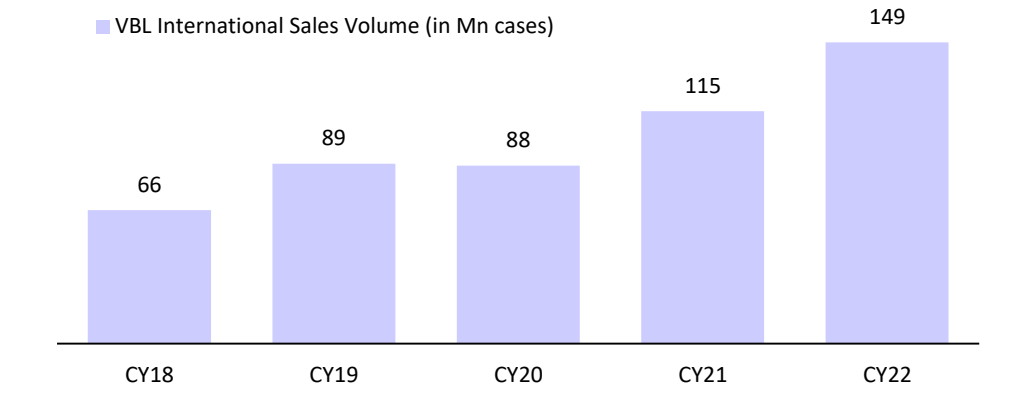
Source: Company, MOFSL

**Exhibit 5: Gatorade: sports drink**

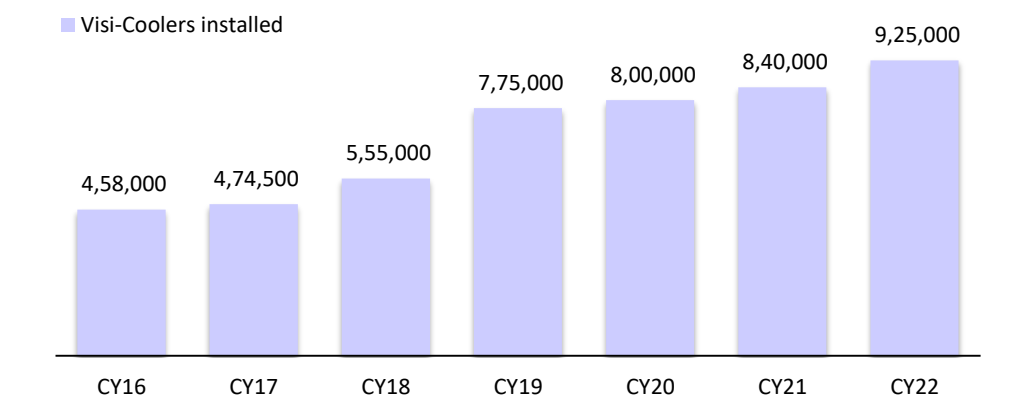
Source: Company, MOFSL

**Exhibit 6: South African soft drink market to witness a CAGR of ~3% over CY21-26**

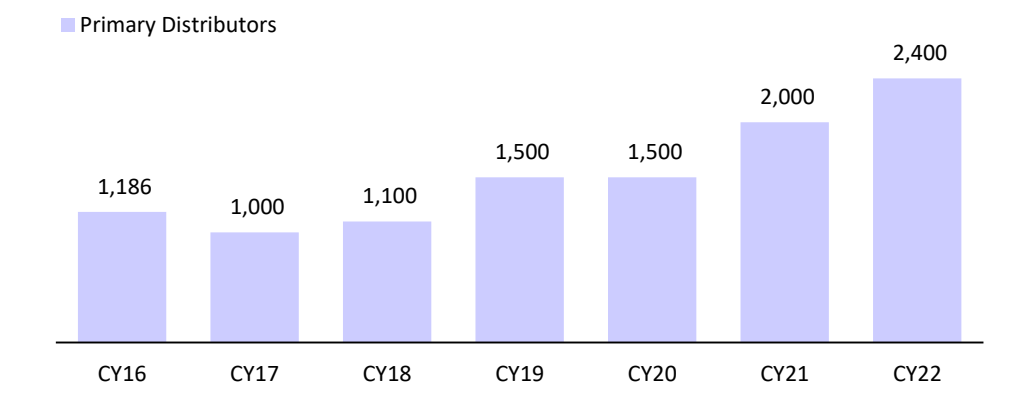
Source: Company, Marketline, MOFSL

**Exhibit 7: VBL International sales volume trend**

Source: Company, MOFSL

**Exhibit 8: Trend of visi-coolers installed by VBL**

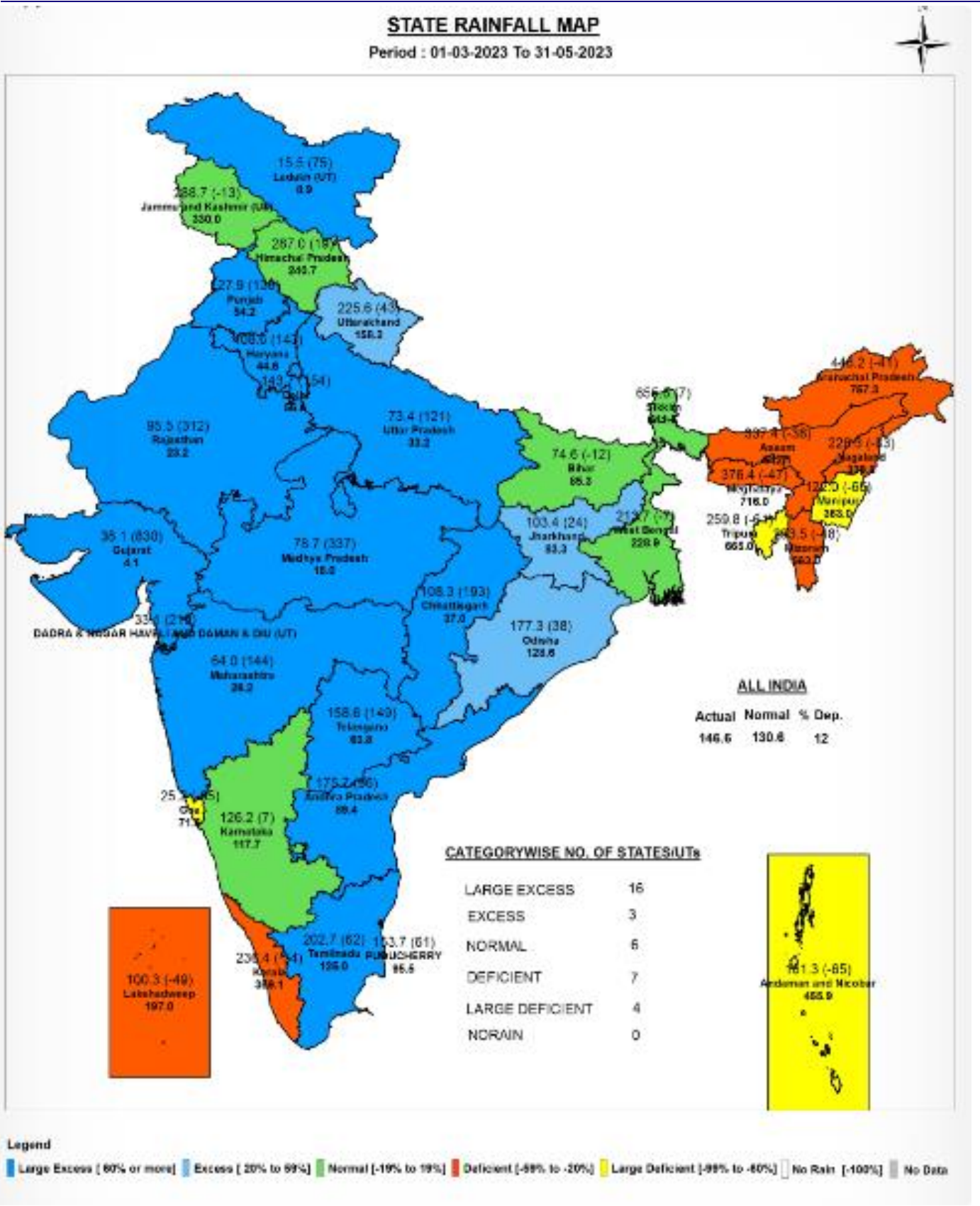
Source: Company, MOFSL

**Exhibit 9: VBL's increasing distribution network**

Source: Company, MOFSL

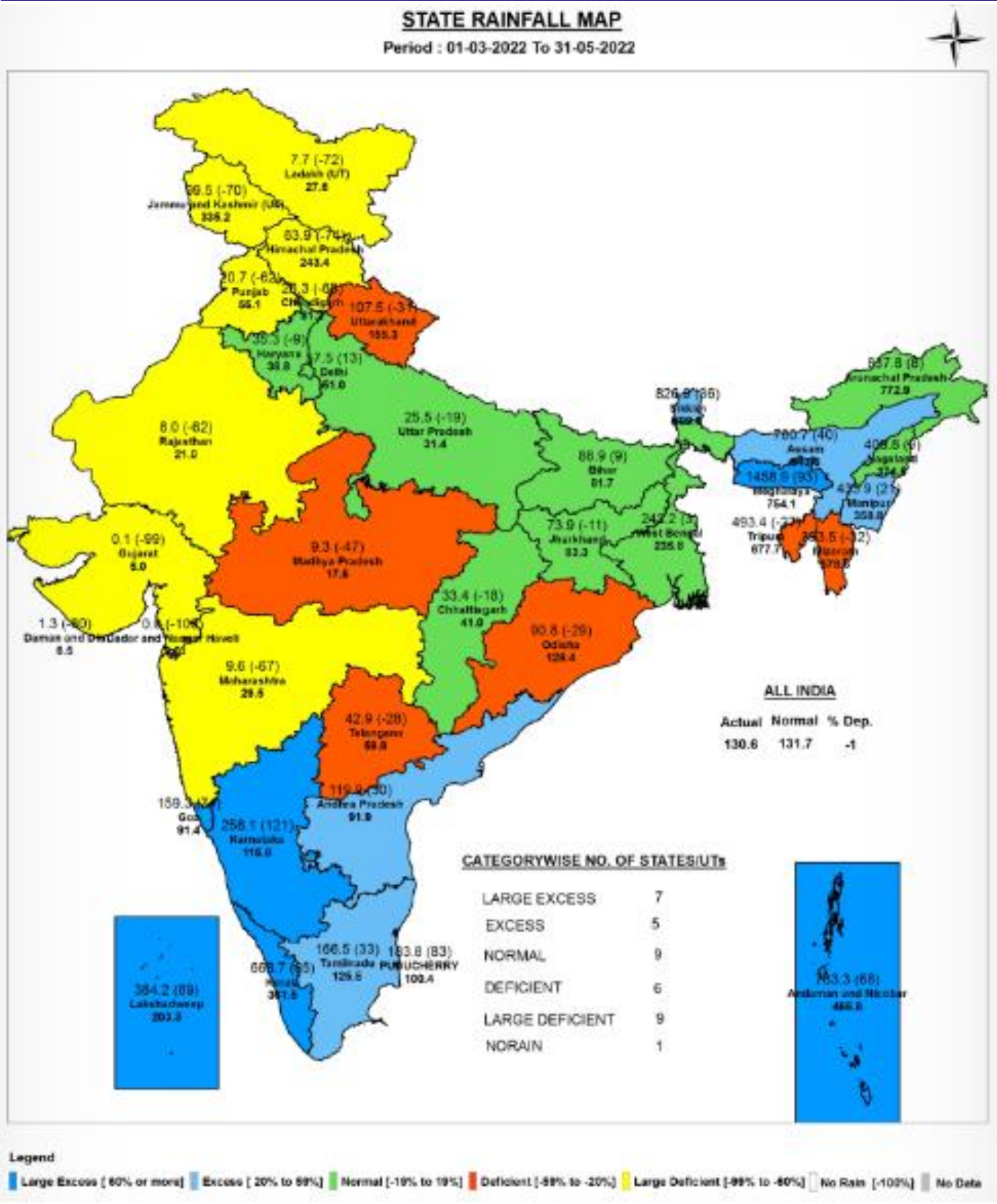


Exhibit 10: India’s state-wise rainfall map (Pre-monsoon CY23)



Source: Company, MOFSL

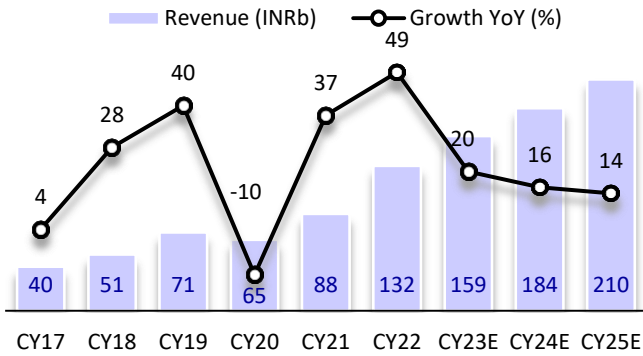
Exhibit 11: India’s state-wise rainfall map (Pre-monsoon CY22)



Source: Company, MOFSL

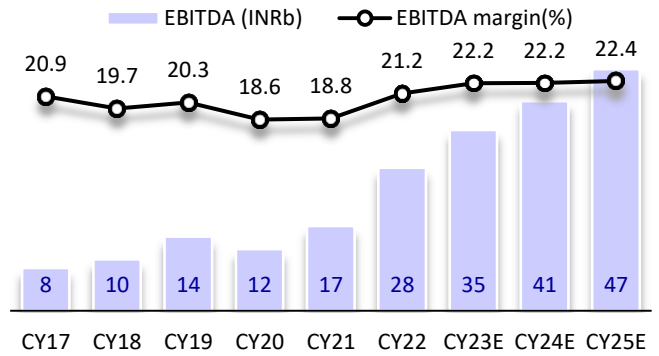
## Story in Chart

**Exhibit 12: Strong revenue trajectory...**



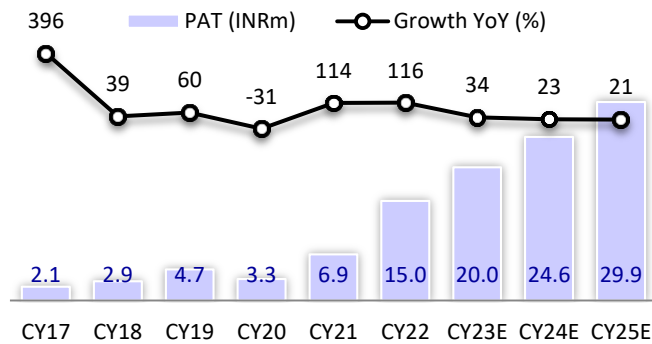
Source: Company, MOFSL

**Exhibit 13: ...with margin expansion...**



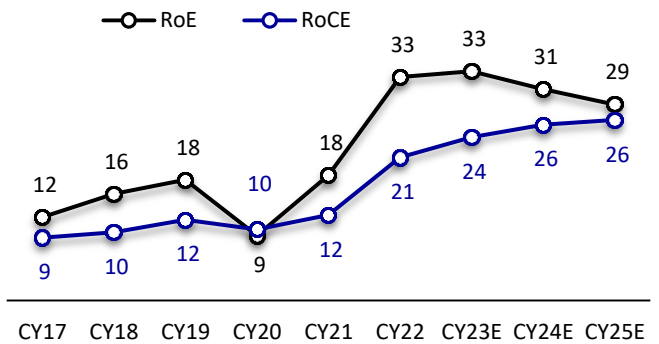
Source: Company, MOFSL

**Exhibit 14: Robust earnings trajectory**



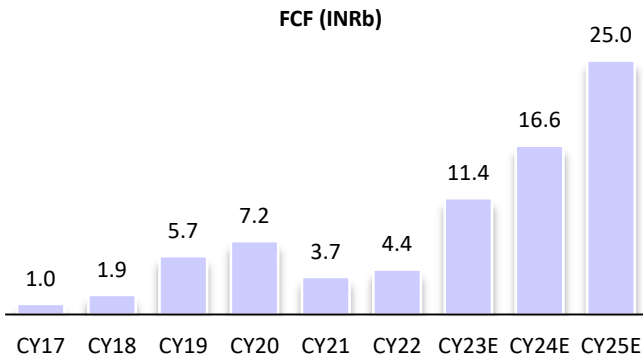
Source: Company, MOFSL

**Exhibit 15: Healthy return ratios...**



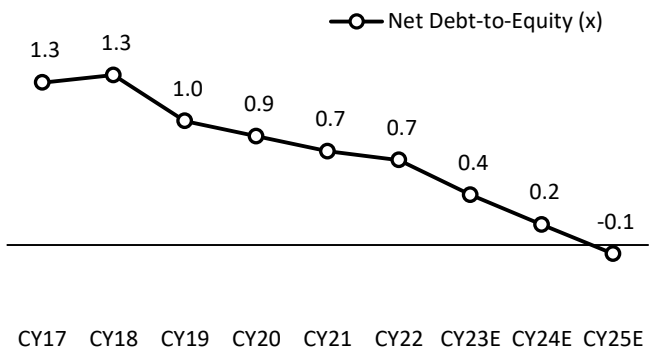
Source: Company, MOFSL

**Exhibit 16: ...aiding in generating robust cash flows...**



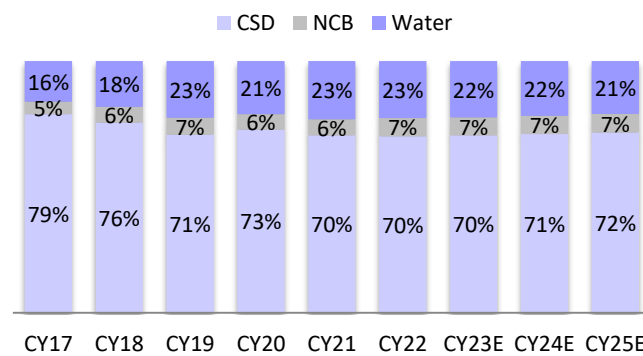
Source: Company, MOFSL

**Exhibit 17: ...and achieving net debt free by CY25**



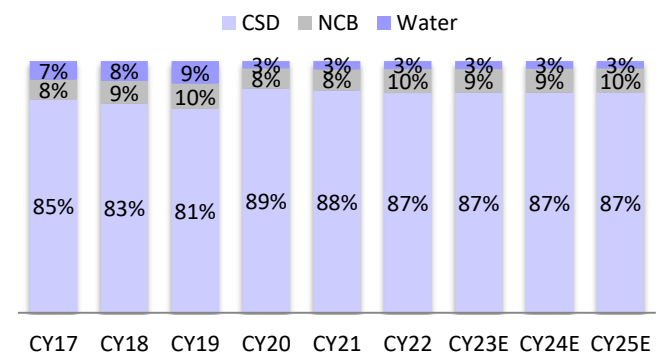
Source: Company, MOFSL

**Exhibit 18: Volume mix trend**



Source: Company, MOFSL

**Exhibit 19: Revenue mix trend**



Source: Company, MOFSL



## Financials and valuations

### Consolidated - Income Statement

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
<b>Total Income from Operations</b>	<b>51,053</b>	<b>71,296</b>	<b>64,501</b>	<b>88,232</b>	<b>1,31,731</b>	<b>1,58,732</b>	<b>1,83,993</b>	<b>2,10,087</b>
Change (%)	27.5	39.7	-9.5	36.8	49.3	20.5	15.9	14.2
RM Cost	22,441	32,194	27,639	40,347	62,612	73,383	86,293	98,531
Employees Cost	5,830	8,108	8,897	10,077	12,166	13,841	15,455	17,227
Other Expenses	12,716	16,517	15,946	21,262	29,072	36,292	41,398	47,269
<b>Total Expenditure</b>	<b>40,987</b>	<b>56,819</b>	<b>52,483</b>	<b>71,686</b>	<b>1,03,850</b>	<b>1,23,516</b>	<b>1,43,147</b>	<b>1,63,027</b>
% of Sales	80.3	79.7	81.4	81.2	78.8	77.8	77.8	77.6
<b>EBITDA</b>	<b>10,066</b>	<b>14,477</b>	<b>12,019</b>	<b>16,546</b>	<b>27,881</b>	<b>35,216</b>	<b>40,847</b>	<b>47,059</b>
Margin (%)	19.7	20.3	18.6	18.8	21.2	22.2	22.2	22.4
Depreciation	3,851	4,886	5,287	5,313	6,172	7,087	7,735	8,345
<b>EBIT</b>	<b>6,215</b>	<b>9,590</b>	<b>6,732</b>	<b>11,234</b>	<b>21,709</b>	<b>28,129</b>	<b>33,111</b>	<b>38,714</b>
Int. and Finance Charges	2,126	3,096	2,811	1,847	1,861	2,146	1,492	907
Other Income	218	425	370	679	388	450	644	1,261
<b>PBT bef. EO Exp.</b>	<b>4,308</b>	<b>6,919</b>	<b>4,290</b>	<b>10,066</b>	<b>20,236</b>	<b>26,434</b>	<b>32,264</b>	<b>39,068</b>
EO Items	0	0	-665	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>4,308</b>	<b>6,919</b>	<b>3,625</b>	<b>10,066</b>	<b>20,236</b>	<b>26,434</b>	<b>32,264</b>	<b>39,068</b>
Total Tax	1,339	2,241	52	2,606	4,735	5,902	7,098	8,595
Tax Rate (%)	31.1	32.4	1.4	25.9	23.4	22.3	22.0	22.0
Share of profit from associates	30	44	0	0	0	0	0	0
Minority Interest	70	32	283	520	527	507	557	613
<b>Reported PAT</b>	<b>2,928</b>	<b>4,690</b>	<b>3,290</b>	<b>6,941</b>	<b>14,974</b>	<b>20,025</b>	<b>24,608</b>	<b>29,860</b>
<b>Adjusted PAT</b>	<b>2,928</b>	<b>4,690</b>	<b>3,251</b>	<b>6,941</b>	<b>14,974</b>	<b>20,025</b>	<b>24,608</b>	<b>29,860</b>
Change (%)	39.3	60.1	-30.7	113.5	115.8	33.7	22.9	21.3
Margin (%)	5.7	6.6	5.0	7.9	11.4	12.6	13.4	14.2

### Consolidated - Balance Sheet

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Equity Share Capital	1,826	2,887	2,887	4,330	6,496	6,496	6,496	6,496
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	18,158	30,397	32,353	36,469	44,528	62,280	84,290	1,11,552
<b>Net Worth</b>	<b>19,985</b>	<b>33,284</b>	<b>35,240</b>	<b>40,799</b>	<b>51,024</b>	<b>68,775</b>	<b>90,785</b>	<b>1,18,047</b>
Minority Interest	78	307	648	1,168	1,131	1,638	2,195	2,808
Total Loans	27,649	34,172	32,059	33,418	36,948	29,448	16,448	11,448
Deferred Tax Liabilities	1,588	2,697	2,149	3,087	3,368	3,368	3,368	3,368
<b>Capital Employed</b>	<b>49,299</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>92,471</b>	<b>1,03,230</b>	<b>1,12,797</b>	<b>1,35,672</b>
Gross Block	61,697	87,203	90,086	94,420	1,06,807	1,21,807	1,31,807	1,41,807
Less: Accum. Deprn.	17,847	22,655	26,242	31,555	37,727	44,814	52,549	60,894
<b>Net Fixed Assets</b>	<b>43,850</b>	<b>64,548</b>	<b>63,844</b>	<b>62,865</b>	<b>69,080</b>	<b>76,993</b>	<b>79,258</b>	<b>80,913</b>
Goodwill on Consolidation	19	242	242	242	242	242	242	242
Capital WIP	3,524	638	668	4,966	6,066	9,066	14,066	14,066
<b>Total Investments</b>	<b>112</b>	<b>0</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>12,808</b>	<b>18,327</b>	<b>19,719</b>	<b>27,721</b>	<b>40,794</b>	<b>45,789</b>	<b>51,395</b>	<b>76,093</b>
Inventory	5,784	8,815	9,288	14,481	19,939	23,688	27,453	31,265
Account Receivables	1,280	1,726	2,418	2,212	2,993	3,914	4,537	5,180
Cash and Bank Balance	935	1,711	1,901	3,366	2,853	2,314	1,926	19,689
Loans and Advances	4,809	6,076	6,113	7,661	15,009	15,873	17,479	19,958
<b>Curr. Liability &amp; Prov.</b>	<b>11,015</b>	<b>13,297</b>	<b>14,378</b>	<b>17,322</b>	<b>23,711</b>	<b>28,861</b>	<b>32,165</b>	<b>35,642</b>
Account Payables	3,168	4,777	5,114	7,118	8,243	9,814	11,373	12,953
Other Current Liabilities	6,435	6,517	6,893	7,622	13,135	15,873	17,479	18,908
Provisions	1,412	2,003	2,371	2,583	2,333	3,175	3,312	3,782
<b>Net Current Assets</b>	<b>1,793</b>	<b>5,031</b>	<b>5,342</b>	<b>10,399</b>	<b>17,083</b>	<b>16,928</b>	<b>19,231</b>	<b>40,451</b>
<b>Appl. of Funds</b>	<b>49,299</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>92,471</b>	<b>1,03,230</b>	<b>1,12,797</b>	<b>1,35,672</b>

## Financials and valuations

### Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>2.3</b>	<b>3.6</b>	<b>2.5</b>	<b>5.3</b>	<b>11.5</b>	<b>15.4</b>	<b>18.9</b>	<b>23.0</b>
Cash EPS	5.2	7.4	6.6	9.4	16.3	20.9	24.9	29.4
BV/Share	15.4	25.6	27.1	31.4	39.3	52.9	69.9	90.9
DPS	0.4	0.5	0.6	0.8	1.7	1.8	2.0	2.0
Payout (%)	17.5	16.7	21.9	15.6	15.2	11.4	10.6	8.7
<b>Valuation (x)</b>								
P/E	360.7	225.2	324.9	152.2	70.5	52.7	42.9	35.4
Cash P/E	155.8	110.3	123.7	86.2	49.9	39.0	32.7	27.6
P/BV	52.8	31.7	30.0	25.9	20.7	15.4	11.6	8.9
EV/Sales	21.2	15.3	16.9	12.3	8.3	6.8	5.8	5.0
EV/EBITDA	107.6	75.2	90.4	65.7	39.1	30.8	26.3	22.3
Dividend Yield (%)	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	1.5	4.4	5.5	2.8	3.4	8.8	12.8	19.2
<b>Return Ratios (%)</b>								
RoE	15.5	17.6	9.5	18.3	32.6	33.4	30.8	28.6
RoCE	10.0	11.8	10.4	12.5	20.9	23.8	25.6	26.3
RoIC	10.1	11.5	9.8	12.1	21.6	24.9	27.4	30.4
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.8	0.8	0.7	0.9	1.2	1.3	1.4	1.5
Asset Turnover (x)	1.0	1.0	0.9	1.1	1.4	1.5	1.6	1.5
Inventory (Days)	41	45	53	60	55	54	54	54
Debtor (Days)	9	9	14	9	8	9	9	9
Creditor (Days)	23	24	29	29	23	23	23	23
<b>Leverage Ratio (x)</b>								
Current Ratio	1.2	1.4	1.4	1.6	1.7	1.6	1.6	2.1
Interest Cover Ratio	2.9	3.1	2.4	6.1	11.7	13.1	22.2	42.7
Net Debt/Equity	1.3	1.0	0.9	0.7	0.7	0.4	0.2	-0.1
	28	30	37	40	41			

### Consolidated - Cash Flow Statement

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
<b>(INR m)</b>								
OP/(Loss) before Tax	4,308	6,919	3,625	10,066	20,236	26,434	32,264	39,068
Depreciation	3,851	4,826	5,287	5,313	6,172	7,087	7,735	8,345
Interest & Finance Charges	1,986	2,948	2,441	1,168	1,473	1,695	848	-354
Direct Taxes Paid	-733	-1,201	-52	-2,606	-4,735	-5,902	-7,098	-8,595
(Inc)/Dec in WC	-501	-827	-1,181	-1,627	-5,246	-383	-2,691	-3,457
<b>CF from Operations</b>	<b>8,911</b>	<b>12,665</b>	<b>10,120</b>	<b>12,314</b>	<b>17,900</b>	<b>28,931</b>	<b>31,058</b>	<b>35,007</b>
Others	1,087	411	0	0	0	507	557	0
<b>CF from Operating incl EO</b>	<b>9,998</b>	<b>13,076</b>	<b>10,120</b>	<b>12,314</b>	<b>17,900</b>	<b>29,437</b>	<b>31,615</b>	<b>35,007</b>
(Inc)/Dec in FA	-8,088	-7,331	-2,913	-8,632	-13,487	-18,000	-15,000	-10,000
<b>Free Cash Flow</b>	<b>1,910</b>	<b>5,745</b>	<b>7,207</b>	<b>3,682</b>	<b>4,414</b>	<b>11,437</b>	<b>16,615</b>	<b>25,007</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	-647	-15,862	-1,798	-1,474	-3,559	450	644	1,261
<b>CF from Investments</b>	<b>-8,734</b>	<b>-23,192</b>	<b>-4,711</b>	<b>-10,106</b>	<b>-17,046</b>	<b>-17,550</b>	<b>-14,356</b>	<b>-8,739</b>
Issue of Shares	7	9,002	0	0	0	0	0	0
Inc/(Dec) in Debt	4,566	6,487	-2,113	1,359	3,530	-7,500	-13,000	-5,000
Interest Paid	-1,886	-3,011	-2,811	-1,847	-1,861	-2,146	-1,492	-907
Dividend Paid	-456	-690	-722	-1,083	-2,274	-2,273	-2,598	-2,598
Others	-3,505	-895	427	829	-763	-507	-557	0
<b>CF from Fin. Activity</b>	<b>-1,273</b>	<b>10,893</b>	<b>-5,219</b>	<b>-742</b>	<b>-1,368</b>	<b>-12,426</b>	<b>-17,647</b>	<b>-8,505</b>
<b>Inc/Dec of Cash</b>	<b>-10</b>	<b>776</b>	<b>190</b>	<b>1,466</b>	<b>-514</b>	<b>-538</b>	<b>-388</b>	<b>17,763</b>
Opening Balance	945	935	1,711	1,901	3,367	2,853	2,314	1,926
<b>Closing Balance</b>	<b>935</b>	<b>1,711</b>	<b>1,901</b>	<b>3,367</b>	<b>2,853</b>	<b>2,314</b>	<b>1,926</b>	<b>19,689</b>

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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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