

BUY Varun Beverages**High capex exudes growth confidence; maintain BUY**Others ▶ Result Update ▶ **August 3, 2023****TARGET PRICE (Rs): 970**

VBL's Q2 EBITDA grew 3-4% ahead of estimates, led by better International performance. On expected lines, India performance was impacted by unseasonal rains (North). VBL has commissioned 3 greenfield plants and additional lines in 6 existing plants in the last 6 months; also, 3 plants are under CWIP, which should commence during CY24. VBL has indicated a combined capex of Rs28bn for these facilities which, in our view, should help to expand VBL's production capacity by ~40% (at 2x asset turns). Additional capex should also remove supply-constraints in new growth drivers (Dairy, Juices, Gatorade) and offers potential for 20-25% revenue/EBITDA CAGR over CY22-25E. We remain optimistic on demand, given under-penetration in core categories, strong acceptability for energy drink *Sting* and entry into new categories. TP increases by 5%, led by 2% estimate increase and 3M rollover. We maintain BUY. Better realization in new categories remains a potential upside.

Varun Beverages: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,63,883	1,95,610	2,30,195
EBITDA	16,546	27,881	37,079	44,580	52,989
Adj. PAT	6,941	14,975	20,809	25,734	32,363
Adj. EPS (Rs)	5.3	11.5	16.0	19.8	24.9
EBITDA margin (%)	18.8	21.2	22.6	22.8	23.0
EBITDA growth (%)	37.7	68.5	33.0	20.2	18.9
Adj. EPS growth (%)	115.3	115.8	39.0	23.7	25.8
RoE (%)	18.3	32.6	34.7	32.2	31.0
RoIC (%)	11.7	20.9	24.1	25.7	28.6
P/E (x)	154.0	71.4	51.4	41.5	33.0
EV/EBITDA (x)	66.5	39.7	29.8	24.5	20.2
P/B (x)	26.2	20.9	15.5	11.8	9.0
FCFF yield (%)	0.3	0.1	0.8	1.8	2.4

Source: Company, Emkay Research

Unseasonal rains impact India performance; International better than expected

VBL logged revenue growth of 13% in Q2, led by 5%/8% volume/realization growth. Among geographies, India grew 7%, while the intl. business saw a healthy 59% growth. India saw a low 1% volume growth due to unseasonal rainfall in Q2, while Intl. volumes saw a healthy growth of 10%. Realization gains of 8% were led by continued mix improvement of smaller SKUs. Among categories, carbonates/water saw 5-9% volume growth, while juice volumes declined by 15% due to the Pathankot plant disruption on account of untimely rains. EBITDA margin improved by 170bps to ~27%, largely led by the 200bps gain in gross margin (GM). GM improvement was driven by better mix and softening of PET chips prices. Among geographies, India business EBITDA margin (standalone) improved by 270bps, while subsidiary margin (consolidated-standalone) dipped by 350bps. VBL has indicated cash capex of Rs19-20bn in CY23 (~Rs18bn incurred during H1), primarily for setting up of 3 new facilities, 6 brownfield expansions and 3 new plants under CWIP.

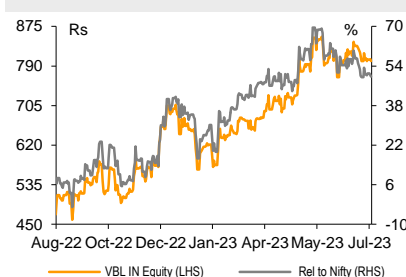
Earnings-call KTAs: 1) VBL plans to establish 3 new production facilities — in UP, Maharashtra and Odisha, to resolve capacity constraint in the Dairy & Juice categories (only 1 Juice/Dairy plant now in the North); Company expects one of these to be fully functional before CY23-end. 2) Net Debt reduced to Rs32bn (vs Rs34bn at CY22-end), VBL expects debt to peak at Rs36-37bn in CY23, and flatten by CY23-end (vs. CY22-end). 3) In addition to the Re1/share dividend announcement in Apr-23, VBL's board has announced interim dividend of Rs1.25/sh, resulting in cash outflow of Rs1.6bn. 4) VBL indicated Energy drinks, Juices (Nimbooz/ Tropicana), Dairy products and Gatorade to be key growth drivers; it also pointed to sugar-free drinks doing extremely well. 6) VBL indicated that realization is higher by 15-20% in Dairy products, and that such products' shelf life is also longer than that of soft drinks (6M). 7) Regarding Intl business, Morocco and Zimbabwe grew faster, leading to 59% growth in Intl. business. 8) VBL introduced 100% recycled plastic bottles for Pepsi Black and expects to make at least 25% of total products from recycled PET in the long term. 9) WC days increased to 21 (vs 17 in Q2CY22), led by increase in both, RM/FG inventory, largely due to unseasonal rainfall.

Target Price – 12M	Jun-24
Change in TP (%)	4.9
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	17.9
CMP (03-Aug-23) (Rs)	822.6

Stock Data	Ticker
52-week High (Rs)	874
52-week Low (Rs)	452
Shares outstanding (mn)	1,299.1
Market-cap (Rs bn)	1,069
Market-cap (USD mn)	12,917
Net-debt, CY23E (Rs mn)	35,035
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	2,066.8
ADTV-3M (USD mn)	25.0
Free float (%)	36.0
Nifty-50	19,382
INR/USD	82.7
Shareholding, Jun-23	
Promoters (%)	63.6
FPIs/MFs (%)	26.7/3.2

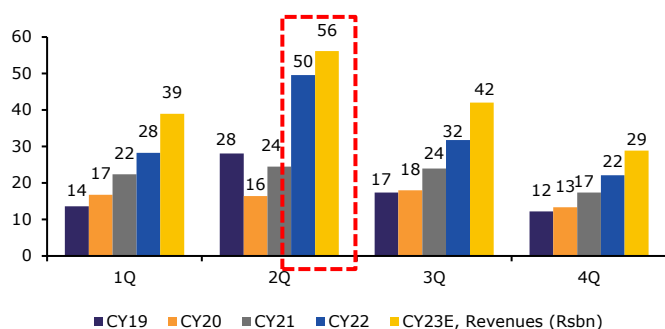
Price Performance

(%)	1M	3M	12M
Absolute	0.5	15.0	74.5
Rel. to Nifty	0.2	7.4	56.6

1-Year share price trend (Rs)**Devanshu Bansal**devanshu.bansal@emkayglobal.com
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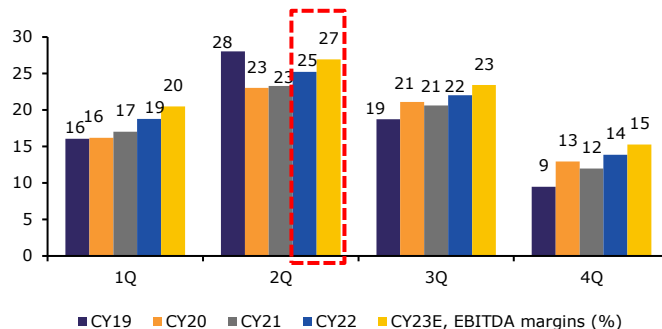
Story in Charts

Exhibit 1: Revenues grew 13%, largely led by improvement in realizations



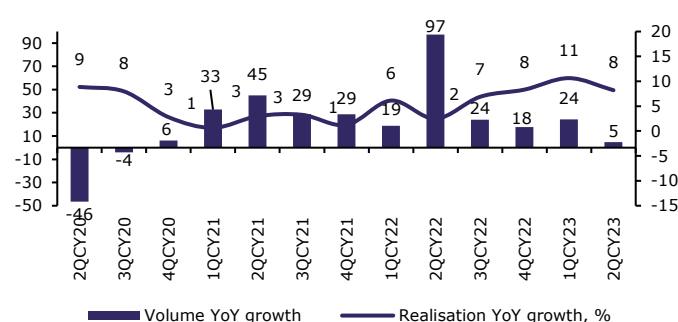
Source: Company, Emkay Research

Exhibit 2: EBITDA margins improved by 170bps, mainly led by the 200bps rise in gross margin due to softening of PET chips prices



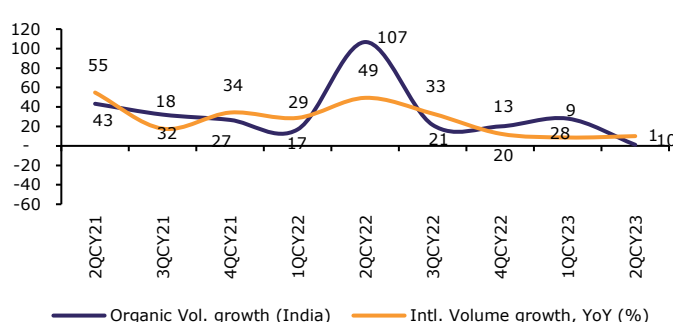
Source: Company, Emkay Research

Exhibit 3: The 13% growth in consol. revenues was led by 8%/5% realization/volume growth in Q2



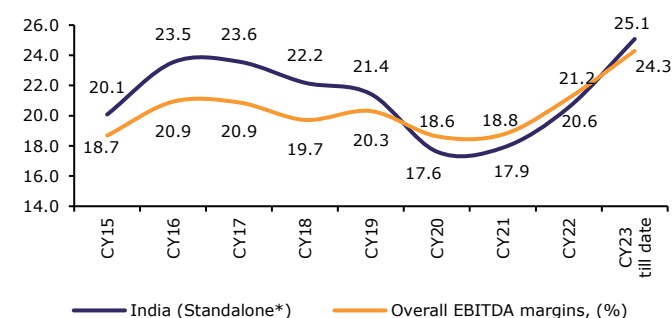
Source: Company, Emkay Research

Exhibit 4: Due to unseasonal rainfall, India saw low volume growth of 1%. while International volume grew 10%



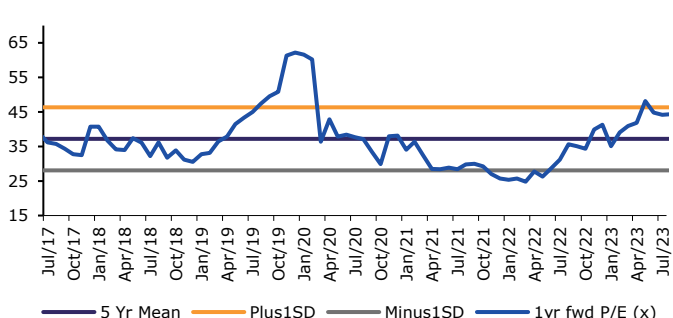
Source: Company, Emkay Research

Exhibit 5: Consolidated margin improved by 170bps, led by the 270bps improvement in India operations



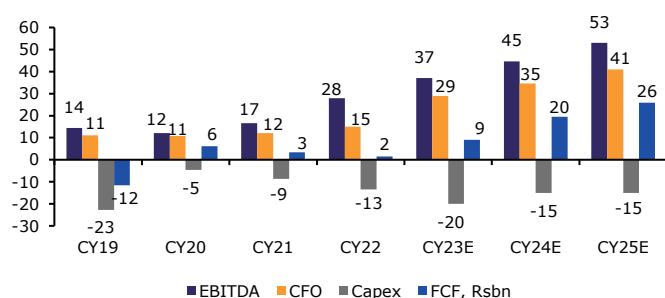
Source: Company, Emkay Research

Exhibit 6: VBL's 1-year forward P/E



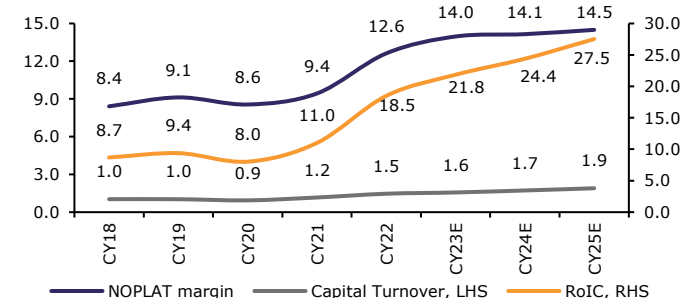
Source: Company, Emkay Research

Exhibit 7: FCF should continue improving, despite the strong expansion plans



Source: Company, Emkay Research

Exhibit 8: Asset turnover improvement should lead to continued improvement in RoIC (%)



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q2CY23)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	56,114	54,803	53,747	2%	4%	Better Intl performance led to the revenue beat
EBITDA	15,110	14,463	14,728	4%	3%	EBITDA Margins were largely in-line
EBITDA Margin	26.9%	26.4%	27.4%	54 bps	-47 bps	
PAT	9,938	9,065	7,567	10%	31%	Higher other income and lower depreciation led to the PAT beat

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	YoY (%)	QoQ (%)	CY23 YTD	CY22 YTD	YoY (%)
Sales	49,548	31,766	22,142	38,930	56,114	13.3	44.1	95,044	77,823	22.1
Cost of Revenue	24,518	14,713	9,678	18,517	26,666	8.8	44.0	45,183	38,220	18.2
as % of sales	49.5	46.3	43.7	47.6	47.5			47.5	49.1	
Employee Cost	3,104	3,112	3,199	3,391	3,646	17.4	7.5	7,037	5,855	20.2
as % of sales	6.3	9.8	14.4	8.7	6.5			7.4	7.5	
Other Expenses	9,419	6,951	6,190	9,041	10,692	13.5	18.3	19,733	15,932	23.9
as % of sales	19.0	21.9	28.0	23.2	19.1			20.8	20.5	
Total Expenditure	37,042	24,776	19,067	30,949	41,004	10.7	32.5	71,953	60,007	19.9
EBITDA	12,506	6,990	3,075	7,980	15,110	20.8	89.3	23,091	17,816	29.6
Depreciation	1,531	1,531	1,797	1,722	1,719	12.3	-0.2	3,441	2,844	21.0
EBIT	10,975	5,458	1,278	6,258	13,391	22.0	114.0	19,649	14,972	31.2
Other Income	105	106	92	101	416	297.1	310.4	517	190	172.5
Interest cost	464	453	475	626	694	49.5	10.9	1,319	934	41.3
PBT	10,616	5,112	896	5,734	13,113	23.5	128.7	18,847	14,229	32.5
Tax	2,596	1,157	81	1,348	3,057	17.7	126.7	4,405	3,497	25.9
PAT before Minority	8,020	3,955	815	4,386	10,057	25.4	129.3	14,443	10,731	34.6
Minority Interest	-146	-144	-68	-95	-119	-18.7	25.1	-213	-315	-32.2
Exceptional Items	0	0	0	0	0			0	0	
Reported PAT	7,874	3,810	748	4,291	9,938	26.2	131.6	14,229	10,416	36.6
Reported EPS (Rs)	6.1	2.9	0.6	3.3	7.6	26.2	131.6	11.0	8.0	36.6
(%)	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	YoY (bps)	QoQ (bps)	CY23 YTD	CY22 YTD	YoY (bps)
EBITDAM	25.2	22.0	13.9	20.5	26.9	170	640	24.3	22.9	135
EBITM	22.2	17.2	5.8	16.1	23.9	170	780	20.7	19.2	140
EBTM	21.4	16.1	4.0	14.7	23.4	190	860	19.8	18.3	150
PATM	16.2	12.4	3.7	11.3	17.9	170	670	15.2	13.8	150
Effective Tax rate	24.5	22.6	9.0	23.5	23.3	-110	-20	23.4	24.6	80

Source: Company, Emkay Research

Exhibit 11: Changes in estimates

(Rs mn)	CY23E			CY24E			CY25E		
	Old	New	% change	Old	New	% change	Old	New	Change (%)
Revenue	1,62,935	1,63,883	0.6	1,94,439	1,95,610	0.6	2,25,280	2,30,195	2.2
EBITDA	36,463	37,079	1.7	44,242	44,580	0.8	51,729	52,989	2.4
EBITDA margin (%)	22.4	22.6	20 bps	22.8	22.8	0 bps	23.0	23.0	10 bps
Net profit	20,172	20,809	3.2	25,994	25,734	(1.0)	31,563	32,363	2.5
EPS (Rs)	15.5	16.0	3.2	20.0	19.8	(1.0)	24.3	24.9	2.5

Source: Company, Emkay Research

Exhibit 12: Key assumptions

Particulars	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
CSD* (mn cases)	220	257	347	309	400	563	672	783	901
JNSD** (mn cases)	14	22	33	26	36	58	66	80	96
Water (mn cases)	44	61	111	90	132	181	189	221	256
Total Volume (mn cases)	278	340	491	425	568	802	927	1,085	1,253
Revenue/Case (Rs)	143	150	145	152	155	164	177	180	184
EBITDA/Case (Rs)	30	30	29	28	29	35	40	41	42

Source: Company, Emkay Research; *CSD = Carbonated soft drinks, **JNSD = juices, nectars and still drinks

Varun Beverages: Consolidated Financials and Valuations

Profit & Loss					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,63,883	1,95,610	2,30,195
Revenue growth (%)	36.8	49.3	24.4	19.4	17.7
EBITDA	16,546	27,881	37,079	44,580	52,989
EBITDA growth (%)	37.7	68.5	33.0	20.2	18.9
Depreciation & Amortization	5,313	6,172	6,964	8,164	9,094
EBIT	11,234	21,710	30,114	36,416	43,895
EBIT growth (%)	66.9	93.3	38.7	20.9	20.5
Other operating income	0	0	0	0	0
Other income	679	388	730	450	500
Financial expense	1,847	1,861	2,771	2,209	896
PBT	10,066	20,237	28,073	34,658	43,499
Extraordinary items	0	0	0	0	0
Taxes	2,606	4,735	6,738	8,318	10,440
Minority interest	(520)	(527)	(527)	(606)	(697)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,941	14,975	20,809	25,734	32,363
PAT growth (%)	115.3	115.8	39.0	23.7	25.8
Adjusted PAT	6,941	14,975	20,809	25,734	32,363
Diluted EPS (Rs)	5.3	11.5	16.0	19.8	24.9
Diluted EPS growth (%)	115.3	115.8	39.0	23.7	25.8
DPS (Rs)	0.8	1.2	2.3	3.0	3.7
Dividend payout (%)	15.6	10.8	14.0	15.0	15.0
EBITDA margin (%)	18.8	21.2	22.6	22.8	23.0
EBIT margin (%)	12.7	16.5	18.4	18.6	19.1
Effective tax rate (%)	25.9	23.4	24.0	24.0	24.0
NOPLAT (pre-IndAS)	8,326	16,630	22,887	27,677	33,361
Shares outstanding (mn)	1,299.1	1,299.1	1,299.1	1,299.1	1,299.1

Source: Company, Emkay Research

Cash flows					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
PBT	10,066	20,237	28,073	34,658	43,499
Others (non-cash items)	5,313	6,172	6,964	8,164	9,094
Taxes paid	(1,754)	(4,478)	(6,232)	(7,737)	(9,772)
Change in NWC	(3,442)	(8,782)	(2,594)	(2,759)	(2,766)
Operating cash flow	12,031	15,010	28,982	34,534	40,951
Capital expenditure	(8,632)	(13,487)	(20,000)	(15,000)	(15,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	(8,632)	(13,487)	(20,000)	(15,000)	(15,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,250	3,529	0	(15,000)	(20,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,847)	(1,861)	(2,771)	(2,209)	(896)
Dividend paid (incl tax)	(1,083)	(1,624)	(2,923)	(3,860)	(4,854)
Others	(253)	(2,081)	262	263	251
Financing cash flow	(1,933)	(2,037)	(5,432)	(20,805)	(25,500)
Net chg in Cash	1,466	(514)	3,550	(1,271)	452
OCF	12,031	15,010	28,982	34,534	40,951
Adj. OCF (w/o NWC chg.)	15,472	23,792	31,577	37,293	43,718
FCFF	3,399	1,523	8,982	19,534	25,951
FCFE	1,552	(338)	6,211	17,326	25,055
OCF/EBITDA (%)	72.7	53.8	78.2	77.5	77.3
FCFE/PAT (%)	22.4	(2.3)	29.8	67.3	77.4
FCFF/NOPLAT (%)	40.8	9.2	39.2	70.6	77.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Share capital	4,330	6,495	6,495	6,495	6,495
Reserves & Surplus	36,469	44,528	62,414	84,288	1,11,797
Net worth	40,799	51,024	68,910	90,784	1,18,292
Minority interests	1,168	1,131	1,131	1,131	1,131
Deferred tax liability (net)	3,111	3,368	3,874	4,455	5,123
Total debt	35,511	40,649	41,438	27,307	8,255
Total liabilities & equity	80,590	96,173	1,15,353	1,23,677	1,32,801
Net tangible fixed assets	57,280	63,571	76,536	83,341	89,247
Net intangible assets	5,586	5,509	5,579	5,611	5,611
Net ROU assets	0	0	0	0	0
Capital WIP	4,966	6,066	6,066	6,066	6,066
Goodwill	242	242	242	242	242
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	3,366	2,853	6,403	5,132	5,583
Current assets (ex-cash)	24,379	37,941	46,426	54,142	62,313
Current Liab. & Prov.	15,229	20,010	25,900	30,857	36,261
NWC (ex-cash)	9,150	17,932	20,526	23,285	26,051
Total assets	80,590	96,173	1,15,353	1,23,677	1,32,801
Net debt	32,145	37,797	35,035	22,176	2,672
Capital employed	80,590	96,173	1,15,353	1,23,677	1,32,801
Invested capital	72,257	87,254	1,02,884	1,12,479	1,21,151
BVPS (Rs)	31.4	39.3	53.0	69.9	91.1
Net Debt/Equity (x)	0.8	0.7	0.5	0.2	0.0
Net Debt/EBITDA (x)	1.9	1.4	0.9	0.5	0.1
Interest coverage (x)	0.2	0.1	0.1	0.1	0.0
RoCE (%)	15.6	25.0	29.2	30.8	34.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Dec	CY21	CY22	CY23E	CY24E	CY25E
P/E (x)	154.0	71.4	51.4	41.5	33.0
P/CE(x)	87.2	50.5	38.5	31.5	25.8
P/B (x)	26.2	20.9	15.5	11.8	9.0
EV/Sales (x)	12.5	8.4	6.7	5.6	4.7
EV/EBITDA (x)	66.5	39.7	29.8	24.5	20.2
EV/EBIT(x)	98.0	51.0	36.6	30.0	24.4
EV/IC (x)	15.2	12.7	10.7	9.7	8.8
FCFF yield (%)	0.3	0.1	0.8	1.8	2.4
FCFE yield (%)	0.1	0.0	0.6	1.6	2.3
Dividend yield (%)	0.1	0.2	0.3	0.4	0.5
DuPont-RoE split					
Net profit margin (%)	7.9	11.4	12.7	13.2	14.1
Total asset turnover (x)	1.2	1.5	1.5	1.6	1.8
Assets/Equity (x)	2.0	1.9	1.8	1.5	1.2
RoE (%)	18.3	32.6	34.7	32.2	31.0
DuPont-RoIC					
NOPLAT margin (%)	9.4	12.6	14.0	14.1	14.5
IC turnover (x)	1.2	1.7	1.7	1.8	2.0
RoIC (%)	11.7	20.9	24.1	25.7	28.6
Operating metrics					
Core NWC days	4.1	6.2	7.1	6.4	6.4
Total NWC days	37.9	49.7	45.7	43.4	41.3
Fixed asset turnover	1.0	1.3	1.4	1.5	1.6
Opex-to-revenue (%)	35.5	31.3	31.3	30.7	30.4

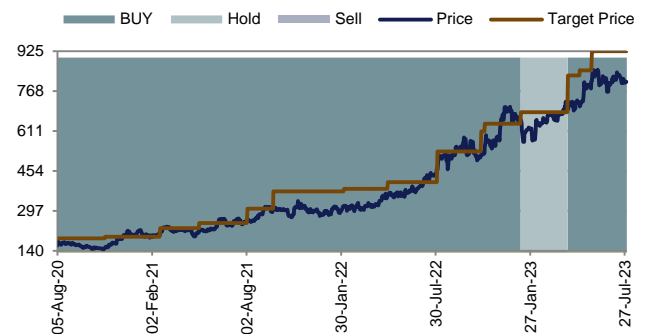
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
10-Jul-23	812	925	Buy	Devanshu Bansal
25-May-23	809	925	Buy	Devanshu Bansal
02-May-23	708	850	Buy	Devanshu Bansal
09-Apr-23	697	830	Buy	Devanshu Bansal
06-Feb-23	611	685	Hold	Devanshu Bansal
09-Jan-23	654	685	Hold	Devanshu Bansal
01-Nov-22	554	640	Buy	Devanshu Bansal
25-Oct-22	516	610	Buy	Devanshu Bansal
02-Aug-22	458	530	Buy	Devanshu Bansal
29-Apr-22	361	410	Buy	Devanshu Bansal
08-Apr-22	321	383	Buy	Devanshu Bansal
20-Mar-22	316	383	Buy	Devanshu Bansal
04-Feb-22	317	383	Buy	Devanshu Bansal
29-Oct-21	283	373	Buy	Devanshu Bansal
22-Sep-21	305	373	Buy	Devanshu Bansal
03-Aug-21	263	305	Buy	Devanshu Bansal
03-May-21	223	249	Buy	Devanshu Bansal
17-Feb-21	210	229	Buy	Devanshu Bansal
04-Nov-20	150	194	Buy	Devanshu Bansal
05-Aug-20	166	189	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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