

BUY **Varun Beverages****Investing to garner tailwinds; Peer Outperformer****Retail** ▶ Result Update ▶ **November 6, 2023****TARGET PRICE (Rs): 1,150**

VBL's Q3CY23 EBITDA was 3-4% above estimates, led by 8% better EBITDA in India and 14% lower Intl. EBITDA due to FX fluctuation. Revenue growth was robust at 22%, led by broad-based volume growth of 16% and realization gain of 5%. India has seen a strong recovery post a weak summer (unseasonal rains). Gross margin was better with improved mix, RM moderation and curtailed discounts. The beverage category is outperforming other FMCG categories on under-penetration and improved road/electricity infra. VBL has identified these tailwinds and has invested ~Rs30bn for capacity expansion (+45% vs. CY22). Further, VBL is benefiting from new products at affordable price-points (Energy/Sports/Dairy), which should together drive EBITDA/EPS CAGR of 25-30% over CY22-25E. We markup TP by 14%, led by 7% rise each in the EPS and multiple. The multiple increase is on reducing seasonality and outperformance vs. FMCG peers; retain BUY with Rs1,150 TP (45x CY25E EPS).

Varun Beverages: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,61,262	1,96,772	2,35,701
EBITDA	16,546	27,881	36,035	44,842	54,257
Adj. PAT	6,941	14,975	20,497	25,978	33,508
Adj. EPS (Rs)	5.3	11.5	15.8	20.0	25.8
EBITDA margin (%)	18.8	21.2	22.3	22.8	23.0
EBITDA growth (%)	37.7	68.5	29.2	24.4	21.0
Adj. EPS growth (%)	115.3	115.8	36.9	26.7	29.0
RoE (%)	18.3	32.6	34.3	32.6	31.9
RoIC (%)	11.7	20.9	22.9	25.3	29.4
P/E (x)	177.0	82.0	59.9	47.3	36.7
EV/EBITDA (x)	76.2	45.4	35.2	27.9	22.7
P/B (x)	30.1	24.1	17.9	13.5	10.3
FCFF yield (%)	0.3	0.1	0.3	1.9	2.2

Source: Company, Emkay Research

Robust trends continue with 22%/32% revenue/PAT growth for VBL

VBL posted revenue growth of 22% in Q3, led by 16%/5% growth in volume/realization. Among geographies, India grew 16%, while the intl. business saw higher growth at 45%. Encouragingly, India volume rebounded in Q3 vs. 1% in Q2, which was impacted by unseasonal rains; Intl. volume was up 16%. Realization was flat for India due to price corrections/weaker mix (less juice), but offset by the lower discounts. Intl. realization improved 25% on higher GTM and better mix. Among categories, carbonates led with 20% volume growth, while juice/water grew a slower 0%/9%. EBITDA margin improved by 80bps to ~23%, largely led by 160bps gain in gross margin (GM). GM gains was driven by controlled discounts and softening of PET chips' prices. Among geographies, India EBITDA margin (standalone) improved by 480bps, while subsidiary margin (consolidated) dipped by 1,010bps. VBL has capitalized Rs20bn capex in 9MCY23, with Rs11.5bn into greenfield capacities (Rajasthan/MP/Congo) and the balance in brownfield capacity expansions. Of the Rs20bn capex, cash outflow is Rs8bn, as Rs12bn was CWIP increase in CY22. Further, Rs16bn cash has been used in CY23 as CWIP, for plants to be commissioned ahead of the CY24 season which should expand VBL's capacity by 45%.

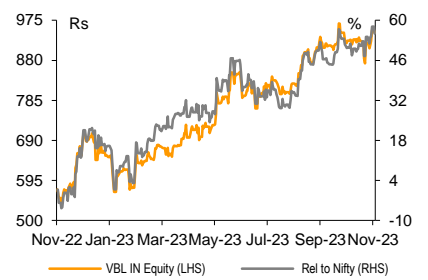
Earnings-call KTAs: 1) All plants are expected to commission by Q1, to garner benefit of the next season. 2) With the new facility, VBL will address 50-60% of the Congo market (100mn population vs 60/70mn in Zimbabwe). 3) The new subsidiary in Mozambique will utilize surplus capacity in Zambia/Zimbabwe and expand distribution in bordering areas. Its plan of re-entering the market is backed by the significant gain in consumption appetite, no additional taxes and ease of doing business. 4) Intl. margins were impacted by currency devaluation in Zambia. 5) VBL is witnessing faster growth (double-digit) compared with FMCG peers, led by rural penetration, aggressive GTM strategy, sharp price-points and massive headroom to reach 12.5mn retail outlets (vs. ~3.5mn outlets currently). 6) High double-digit growth witnessed in new categories such as *Sting* (Blue), *Nimbooz* (+100%), *Gatorade* (+70%) and other non-sugar beverages. It also plans to launch a new energy drink in CY24, as the category is seeing healthy demand trends. 7) Seasonality has significantly reduced, with the Jun Qtr contributing ~50% PAT vs. 90-100% earlier. 8) Campa (Reliance) is a formidable competitor, but investments should drive strong expansion for the category and benefit all players.

Target Price – 12M	Dec-24
Change in TP (%)	13.9
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.6
CMP (06-Nov-23) (Rs)	945.7

Stock Data	Ticker
52-week High (Rs)	979
52-week Low (Rs)	538
Shares outstanding (mn)	1,299.2
Market-cap (Rs bn)	1,229
Market-cap (USD mn)	14,764
Net-debt, CY23E (Rs mn)	40,168
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,893.4
ADTV-3M (USD mn)	22.8
Free float (%)	36.0
Nifty-50	19,412
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	63.1
FPIs/MFs (%)	27.6/3.4

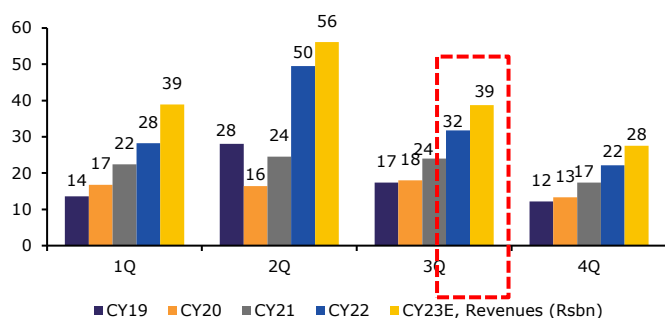
Price Performance

(%)	1M	3M	12M
Absolute	2.0	14.6	66.1
Rel. to Nifty	3.3	15.2	55.0

1-Year share price trend (Rs)**Devanshu Bansal**
devanshu.bansal@emkayglobal.com
+91 22 6612 1385
Vishal Panjwani
vishal.panjawani@emkayglobal.com
+91 22 6624 2431

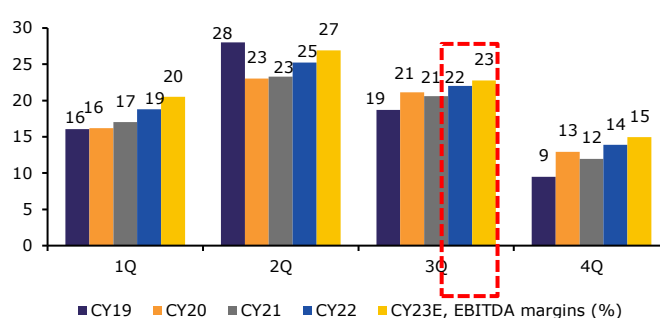
Story in Charts

Exhibit 1: Revenue grew 22%, led by 45% growth in Intl business and 16% revenue growth in India business



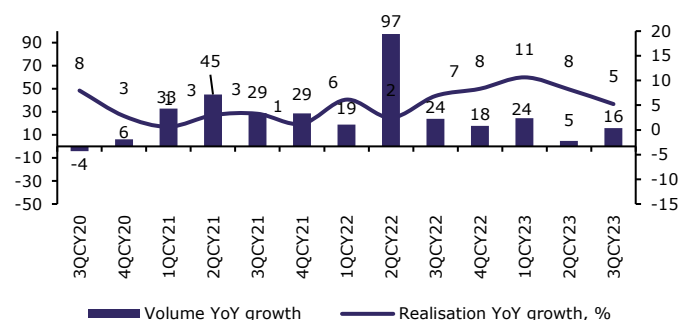
Source: Company, Emkay Research

Exhibit 2: EBITDA margin up 80bps, led by 160bps gross-margin gain on softened PET chips and controlled discounts



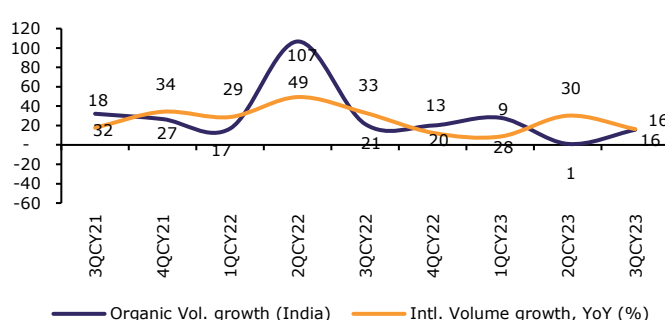
Source: Company, Emkay Research

Exhibit 3: The 22% growth in consol. revenue was led by 5%/16% realization/volume growth in Q3



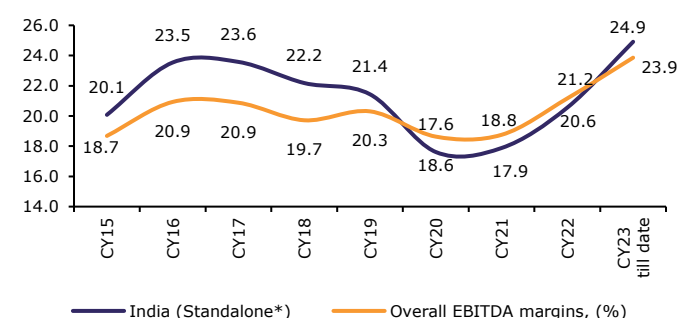
Source: Company, Emkay Research

Exhibit 4: Demand rebound sequentially, after Q2 faced unseasonal rains, India/Intl. volume grew 16%



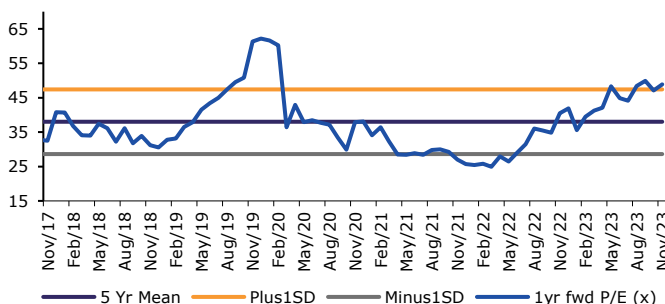
Source: Company, Emkay Research

Exhibit 5: Consol. margin improved by 270bps in 9MCY23TD, led by 440bps improvement in India operations



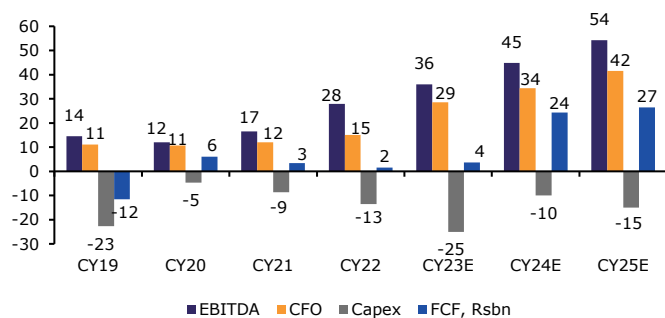
Source: Company, Emkay Research

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



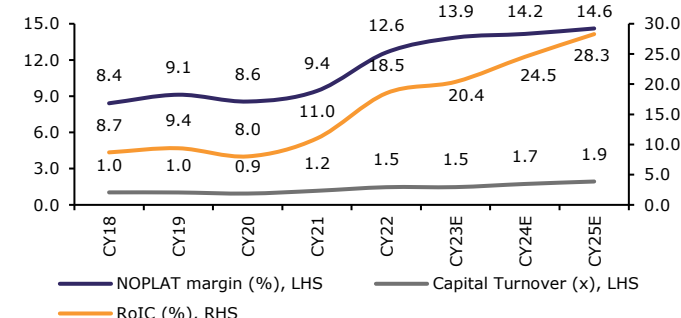
Source: Company, Emkay Research

Exhibit 7: FCF should continue to improve despite strong expansion plans



Source: Company, Emkay Research

Exhibit 8: Asset turnover improvement should lead to sustained improvement in RoIC



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q3CY23)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	38,705	37,226	37,396	4%	4%	Better Intl. realization led to better revenue
EBITDA	8,821	8,548	8,443	3%	4%	EBITDA margin was largely in-line
EBITDA Margin	22.8%	23.0%	22.6%	-17 bps	21 bps	
PAT	5,011	4,473	4,682	12%	7%	Lower interest expense and higher EBITDA led to a PAT beat

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	YoY %	QoQ %	CY23 YTD	CY22 YTD	YoY %
Sales	31,766	22,142	38,930	56,114	38,705	21.8	-31.0	95,044	77,823	22.1
Cost of Revenue	14,713	9,678	18,517	26,666	17,297	17.6	-35.1	45,183	38,220	18.2
as % of sales	46.3	43.7	47.6	47.5	44.7			47.5	49.1	
Employee Cost	3,112	3,199	3,391	3,646	3,716	19.4	1.9	7,037	5,855	20.2
as % of sales	9.8	14.4	8.7	6.5	9.6			7.4	7.5	
Other Expenses	6,951	6,190	9,041	10,692	8,871	27.6	-17.0	19,733	15,932	23.9
as % of sales	21.9	28.0	23.2	19.1	22.9			20.8	20.5	
Total Expenditure	24,776	19,067	30,949	41,004	29,884	20.6	-27.1	71,953	60,007	19.9
EBITDA	6,990	3,075	7,980	15,110	8,821	26.2	-41.6	23,091	17,816	29.6
Depreciation	1,531	1,797	1,722	1,719	1,708	11.5	-0.7	3,441	2,844	21.0
EBIT	5,458	1,278	6,258	13,391	7,113	30.3	-46.9	19,649	14,972	31.2
Other Income	106	92	101	416	185	74.3	-55.5	517	190	172.5
Interest cost	453	475	626	694	625	38.0	-9.9	1,319	934	41.3
PBT	5,112	896	5,734	13,113	6,673	30.5	-49.1	18,847	14,229	32.5
Tax	1,157	81	1,348	3,057	1,529	32.1	-50.0	4,405	3,497	25.9
PAT before Minority	3,955	815	4,386	10,057	5,145	30.1	-48.8	14,443	10,731	34.6
Minority Interest	-144	-68	-95	-119	-134	-7.2	13.2	-213	-315	-32.2
Exceptional Items	0	0	0	0	0			0	0	
Reported PAT	3,810	748	4,291	9,938	5,011	31.5	-49.6	14,229	10,416	36.6
Reported EPS (Rs)	5.9	1.2	6.6	15.3	7.7	31.5	-49.6	22	16	36.6

(%)	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	YoY bps	QoQ bps	CY23 YTD	CY22 YTD	YoY%
EBITDA margin	22.0	13.9	20.5	26.9	22.8	80.0	-410.0	24.3	22.9	133.8
EBIT margin	17.2	5.8	16.1	23.9	18.4	120.0	-550.0	20.7	19.2	141.2
EBT margin	16.1	4.0	14.7	23.4	17.2	110.0	-610.0	19.8	18.3	146.7
PAT margin	12.4	3.7	11.3	17.9	13.3	80.0	-460.0	15.2	13.8	156.3
Effective Tax rate	22.6	9.0	23.5	23.3	22.9	30.0	-40.0	23.4	24.6	79.9

Source: Company, Emkay Research

Exhibit 11: Changes in estimates

(Rs mn)	CY23E			CY24E			CY25E		
	Old	New	% change	Old	New	% change	Old	New	Change (%)
Revenue	1,58,542	1,61,262	1.7	1,89,392	1,96,772	3.9	2,23,387	2,35,701	5.5
EBITDA	35,569	36,035	1.3	43,130	44,842	4.0	51,334	54,257	5.7
EBITDA margin (%)	22.4	22.3	-10 bps	22.8	22.8	0 bps	23.0	23.0	0 bps
Net profit	19,746	20,497	3.8	24,769	25,978	4.9	31,258	33,508	7.2
EPS (Rs)	15.2	15.8	3.8	19.1	20.0	4.9	24.1	25.8	7.2

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	CY17	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
CSD* (mn cases)	220	257	347	309	400	563	681	807	942
JNSD** (mn cases)	14	22	33	26	36	58	51	70	88
Water (mn cases)	44	61	111	90	132	181	185	206	226
Total Volume (mn cases)	278	340	491	425	568	802	918	1,083	1,257
Revenue/Case (Rs)	143	150	145	152	155	164	176	182	188
EBITDA/Case (Rs)	30	30	29	28	29	35	39	41	43

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

Exhibit 13: Peer Comparison

Companies	Closing price (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV / EBITDA (x)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,267	2,900	Hold	3,670	40.4	50.8	63.4	80.9	64.3	51.6	52.8	42.2	34.5
Page Industries	37,400	417	Sell	38,000	519.8	678.9	818.3	72.0	55.1	45.7	45.7	36.0	30.3
Jubilant FoodWorks	508	335	Sell	380	4.8	7.0	9.0	105.0	72.8	56.7	28.3	22.7	19.1
Devyani International	190	229	Sell	190	1.5	2.8	3.9	123.7	67.5	48.4	29.9	22.4	17.4
ABFRL	217	206	Hold	220	-5.1	-3.6	-2.2	-42.8	-59.9	-99.8	15.0	9.9	7.8
Westlife Development	830	129	Buy	1,040	6.6	10.1	15.1	126.3	82.1	54.9	31.0	24.4	19.2
Sapphire Foods	1,313	84	Buy	1,550	15.3	25.3	35.2	85.6	52.0	37.3	16.4	12.5	9.8
Varun Beverages	946	1,229	Buy	1,150	15.8	20.0	25.8	59.9	47.3	36.7	35.0	28.2	23.3
Go Fashion	1,240	67	Buy	1,440	17.2	24.5	32.5	72.1	50.7	38.1	26.3	19.7	15.2
Ethos	1,718	40	Buy	2,000	30.0	42.8	53.5	57.3	40.1	32.1	25.7	18.2	14.6
Senco Gold	724	56	Buy	800	21.6	27.6	35.0	33.5	26.2	20.7	17.2	13.7	11.1

Source: Company, Emkay Research; *Post-IndAS116 EBITDA

Varun Beverages: Consolidated Financials and Valuations

Profit & Loss					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,61,262	1,96,772	2,35,701
Revenue growth (%)	36.8	49.3	22.4	22.0	19.8
EBITDA	16,546	27,881	36,035	44,842	54,257
EBITDA growth (%)	37.7	68.5	29.2	24.4	21.0
Depreciation & Amortization	5,313	6,172	6,884	8,184	8,947
EBIT	11,234	21,710	29,152	36,658	45,310
EBIT growth (%)	66.9	93.3	34.3	25.7	23.6
Other operating income	0	0	0	0	0
Other income	679	388	802	450	500
Financial expense	1,847	1,861	2,594	2,209	896
PBT	10,066	20,237	27,360	34,899	44,914
Extraordinary items	0	0	0	0	0
Taxes	2,606	4,735	6,389	8,376	10,779
Minority interest	(520)	(527)	(474)	(545)	(627)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,941	14,975	20,497	25,978	33,508
PAT growth (%)	115.3	115.8	36.9	26.7	29.0
Adjusted PAT	6,941	14,975	20,497	25,978	33,508
Diluted EPS (Rs)	5.3	11.5	15.8	20.0	25.8
Diluted EPS growth (%)	115.3	115.8	36.9	26.7	29.0
DPS (Rs)	0.8	1.2	2.3	3.0	3.9
Dividend payout (%)	15.6	10.8	14.3	15.0	15.0
EBITDA margin (%)	18.8	21.2	22.3	22.8	23.0
EBIT margin (%)	12.7	16.5	18.1	18.6	19.2
Effective tax rate (%)	25.9	23.4	23.4	24.0	24.0
NOPLAT (pre-IndAS)	8,326	16,630	22,345	27,860	34,436
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	27,360	34,899	44,914
Others (non-cash items)	5,313	6,172	6,884	8,184	8,947
Taxes paid	(1,754)	(4,478)	(5,883)	(7,795)	(10,111)
Change in NWC	(3,442)	(8,782)	(2,335)	(3,128)	(3,143)
Operating cash flow	12,031	15,010	28,619	34,370	41,503
Capital expenditure	(8,632)	(13,487)	(25,000)	(10,000)	(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)	(25,000)	(10,000)	(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)	(2,594)	(2,209)	(896)
Dividend paid (incl tax)	(1,083)	(1,624)	(2,923)	(3,897)	(5,026)
Others	(253)	(2,081)	243	428	440
Financing cash flow	(1,933)	(2,037)	(5,274)	(20,678)	(25,483)
Net chg in Cash	1,466	(514)	(1,655)	3,692	1,021
OCF	12,031	15,010	28,619	34,370	41,503
Adj. OCF (w/o NWC chg.)	15,472	23,792	30,954	37,498	44,646
FCFF	3,399	1,523	3,619	24,370	26,503
FCFE	1,552	(338)	1,026	22,161	25,607
OCF/EBITDA (%)	72.7	53.8	79.4	76.6	76.5
FCFE/PAT (%)	22.4	(2.3)	5.0	85.3	76.4
FCFF/NOPLAT (%)	40.8	9.2	16.2	87.5	77.0

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	62,103	84,184	1,12,666
Net worth	40,799	51,024	68,598	90,679	1,19,161
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	41,366	27,339	8,406
Total liabilities & equity	80,590	96,173	1,14,969	1,23,605	1,33,821
Net tangible fixed assets	57,280	63,571	81,603	83,379	89,424
Net intangible assets	5,586	5,509	5,593	5,632	5,641
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	1,198	4,890	5,911
Current assets (ex-cash)	24,379	37,941	45,756	54,433	63,658
Current Liab. & Prov.	15,229	20,010	25,490	31,039	37,122
NWC (ex-cash)	9,150	17,932	20,266	23,394	26,537
Total assets	80,590	96,173	1,14,969	1,23,605	1,33,821
Net debt	32,145	37,797	40,168	22,449	2,495
Capital employed	80,590	96,173	1,14,969	1,23,605	1,33,821
Invested capital	72,257	87,254	1,07,705	1,12,648	1,21,844
BVPS (Rs)	31.4	39.3	52.8	69.8	91.7
Net Debt/Equity (x)	0.8	0.7	0.6	0.2	0.0
Net Debt/EBITDA (x)	1.9	1.4	1.1	0.5	0.0
Interest coverage (x)	0.2	0.1	0.1	0.1	0.0
RoCE (%)	15.6	25.0	28.4	31.1	35.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Dec	CY21	CY22	CY23E	CY24E	CY25E
P/E (x)	177.0	82.0	59.9	47.3	36.7
P/CE(x)	100.3	58.1	44.9	36.0	28.9
P/B (x)	30.1	24.1	17.9	13.5	10.3
EV/Sales (x)	14.3	9.6	7.9	6.4	5.2
EV/EBITDA (x)	76.2	45.4	35.2	27.9	22.7
EV/EBIT(x)	112.2	58.3	43.5	34.1	27.2
EV/IC (x)	17.4	14.5	11.8	11.1	10.1
FCFF yield (%)	0.3	0.1	0.3	1.9	2.2
FCFE yield (%)	0.1	0.0	0.1	1.8	2.1
Dividend yield (%)	0.1	0.1	0.2	0.3	0.4
DuPont-RoE split					
Net profit margin (%)	7.9	11.4	12.7	13.2	14.2
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	34.3	32.6	31.9
DuPont-RoIC					
NOPLAT margin (%)	9.4	12.6	13.9	14.2	14.6
IC turnover (x)	1.2	1.7	1.7	1.8	2.0
RoIC (%)	11.7	20.9	22.9	25.3	29.4
Operating metrics					
Core NWC days	4.1	6.2	7.1	6.3	6.4
Total NWC days	37.9	49.7	45.9	43.4	41.1
Fixed asset turnover	1.0	1.3	1.4	1.5	1.6
Opex-to-revenue (%)	35.5	31.3	31.5	31.4	31.2

Source: Company, Emkay Research

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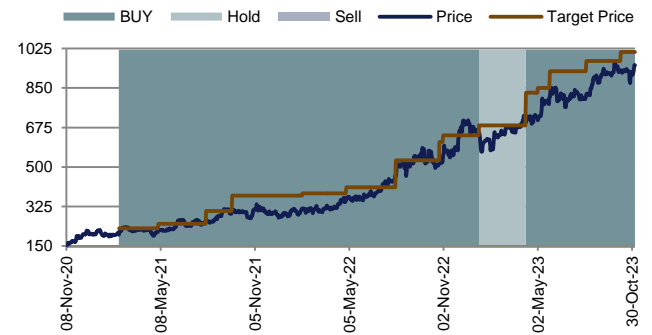
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
08-Oct-23	927	1,010	Buy	Devanshu Bansal
03-Aug-23	823	970	Buy	Devanshu Bansal
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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