

Varun Beverages

BSE SENSEX 71,437 S&P CNX 21,453

CMP: INR1,172 TP: INR1,285 (+10%) Buy



Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USD\$b)	1522.2 / 18.3
52-Week Range (INR)	1178 / 550
1, 6, 12 Rel. Per (%)	4/32/49
12M Avg Val (INR M)	2029
Free float (%)	36.9

Financials Snapshot (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	159.7	185.1	212.3
Adj EBITDA	35.8	41.5	48.0
Adj. PAT	20.4	24.7	30.2
EBITDA Margin (%)	22.4	22.4	22.6
Cons. Adj. EPS (INR)	15.7	19.0	23.2
EPS Gr. (%)	36.4	21.0	22.2
BV/Sh. (INR)	53.2	70.3	91.5

Ratios

Net D:E	0.5	0.3	-0.0
RoE (%)	34.0	30.8	28.7
RoCE (%)	23.5	24.0	25.7
Payout (%)	11.1	10.5	8.6

Valuations

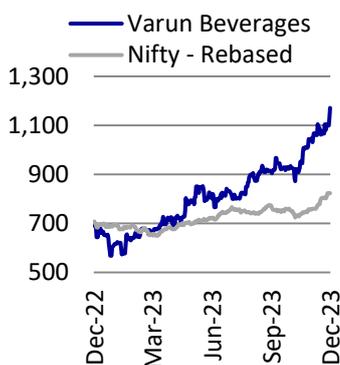
P/E (x)	74.6	61.6	50.4
P/BV (x)	43.5	37.3	31.8
EV/EBITDA(x)	0.1	0.2	0.2
Div. Yield (%)	0.3	1.0	1.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	63.1	63.6	63.9
DII	3.4	3.2	4.5
FII	27.6	26.7	25.0
Others	6.0	6.5	6.6

FII Includes depository receipts

Stock performance (one-year)



Expanding global presence with acquisition in South Africa

Varun Beverage Ltd. (VBL) has acquired 100% equity stake in a South African beverage company, 'The Beverage Company (Proprietary) Ltd.' (BevCo), for a cash consideration of ~INR13.2b. Key highlights are as follows:

- BevCo revenue for FY23 stood at ~INR16b with estimated EBITDA of INR1.9b (which accounts for ~10%/5% of the incremental revenue/EBITDA).
- The acquisition is priced at an attractive valuation of EV/sales of ~0.8x/0.7x on FY23/FY24E and EV/EBITDA of 6x on FY24E (as per the acquisition guidelines of VBL).
- BevCo clocked sales volume of ~117m unit cases in FY23, with ~85% of sales coming from the company's own brands (including ~15% from energy drink) and the rest from PepsiCo products.

Acquisition of BevCo marks major advancement in African market

- VBL has expanded its presence in the African market through the acquisition of 100% equity stake in BevCo and its wholly owned subsidiary, Little Green Beverages Proprietary Ltd., for a cash consideration of ~INR13.2b (~ZAR3b). The acquisition is expected to complete by Jul'24.
- BevCo is engaged in the business of manufacturing and distribution of non-alcoholic beverages in South Africa (which includes products licensed from PepsiCo and well as own branded products).
- BevCo revenue stood at ~INR15.9b in FY23, up 13.5% YoY (~12.5% CAGR over FY21-23). Accordingly, the deal is valued at ~0.8x/0.7x of FY23/FY24E sales of BevCo, while VBL is trading at ~9.8 times of its CY23E sales.
- As per the acquisition guidelines of VBL, the acquisition of any territory/sub-territory shall be at an EV of under 6x EBITDA vs. EV/EBITDA of ~43.5x for VBL.
- Accordingly, at an EV of ~INR13.2b, BevCo is estimated to generate minimum EBITDA of ~INR2.2b in FY24 (~5% of VBL CY24 EBITDA). Assuming the historical revenue growth rate (~13%) to continue, BevCo is estimated to clock revenue of ~INR18b in FY24 (~10% of VBL CY24 Revenues), which translates to EBITDA margins of ~12%. (Refer exhibit 3)

BevCo – a key player in African market with diversified portfolio

- BevCo has an agreement with PepsiCo to bottle and distribute its products in Southern Africa. It is a sole licensed bottler in South Africa, Swaziland and Lesotho, while it has distribution rights in Botswana and Namibia.
- Apart from PepsiCo franchisee brands, BevCo manufacture and sells products under its own brands such as Refreshhh (high caffeine content drinks), Reboost (energy drinks), Coo-ee (carbonated drinks with unique flavors such as Mango and Cranberry) and JiVE (Lemonade and Soda).
- The company clocked sales volume of ~117m cases in FY23 (PepsiCo products contributed to ~17.4m cases (~15 % of total volumes), energy drinks contributed to ~17.1m cases (~15%), while the rest ~82.5m cases (~70%) of sales volume came from other owned brands.

- BevCo operates through five manufacturing facilities (two in Johannesburg and one each in Durban, East London and Cape Town), which consist of 15 manufacturing lines (13 for PET and 2 for CANs). Apart from this, the company has 1 BIB (Bag in Box) Line and 1 Pouch line. It has peak monthly capacity of ~22m cases.

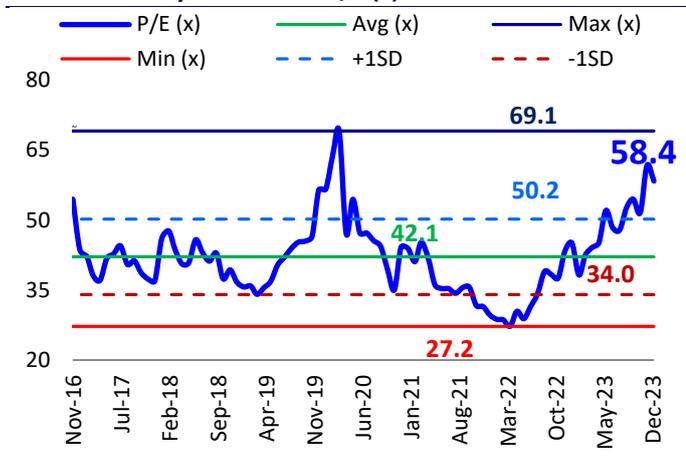
Healthy traction within South African market to aid growth

- South Africa is the largest soft drink market in Africa, with industry volume of ~1,186m cases in CY22.
- The market is expected to reach ~1,537m cases by CY27, registering a ~5.3% CAGR over CY22-27E.
- Growth in the market will be driven by favorable demographics, as ~65% of the 60m population is between the age group of ~15-64 years.
- Further, high urbanization (~60-80%) and rising affluence of South African households will support the healthy growth in the market.
- Currently, the South African beverage industry is dominated by Coco-Cola with a market share of ~50%, while PepsiCo has an insignificant low single-digit market share.

Valuation and view

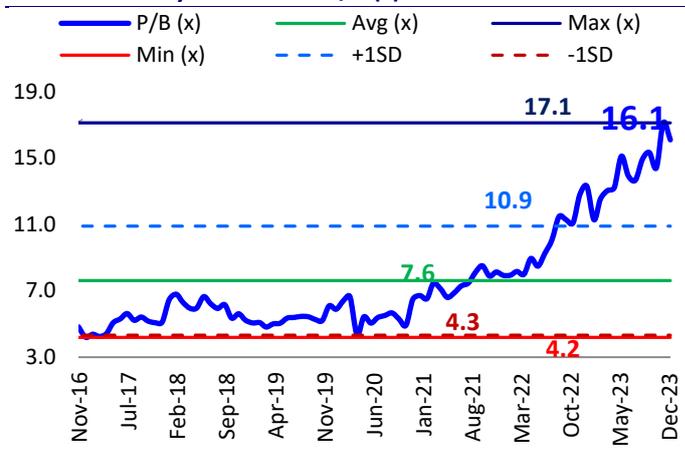
- The acquisition of BevCo is EPS-accretive for the company and represents an attractive valuation (~6x EV/EBITDA of FY24E as per acquisition guidelines of VBL vs. EV/EBITDA of ~43.5x for VBL; ~0.7x/0.8x of sales of FY23/FY24E vs. ~9.8x sales for VBL). Further, this acquisition will improve the company’s presence in the African sub-continent.
- We did not factor in the numbers of BevCo in the financials of VBL and the same will be done after getting further details and clarification from VBL.
- For VBL, we expect a CAGR of 17%/20%/26% in revenue/EBITDA/PAT over CY22-25. We value the stock at 55x CY25E EPS to arrive at a TP of INR1,285. 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: Incremental PAT working

Particulars	Existing Business		Acquired Business		Consolidated Business	
	CY23	CY24	FY23*	FY24	CY23	CY24
Revenue	160	185	16	18	176	203
Incremental Revenue (%)					10.0	9.7
YoY Growth (%)	21.2	21.2	13.4	13.0		15.7
EBITDA	35.8	41.5	1.9	2.2	37.7	43.7
Incremental EBITDA (%)					5.4	5.3
EBITDA margin	22.4	22.4	12.2	12.2	21.5	21.5
Depreciation	6.9	8.0	0.7	0.7	7.6	8.7
Interest	2.5	2.3	-	-	2.5	2.3
Other Income	0.8	1.1	-	-	0.8	1.1
PBT	27.1	32.3	1.3	1.5	28.4	33.8
Tax	6.3	7.1	0.3	0.4	6.6	7.5
Tax rate (%)	23.2	22.0	27.0	27.0	23.3	22.2
Minority interest	0.4	0.5	-	-	0.4	0.5
Profit after tax	20.4	24.7	0.9	1.1	21.4	25.8
Incremental PAT (%)					4.6	4.6
EPS	15.7	19.0	0.7	0.9	16.4	19.9

*FY23 for BevCo is Jul'22 to Jun'23

Note for acquired business: Historical revenue growth is assumed to be continued (~13%) for FY24

Depreciation is assumed to be 5% of Purchase consideration

Tax rate is considered as 27% (standard corporate tax rate in South Africa); Source: Company, MOFSL

Exhibit 4: Consolidated Business mix

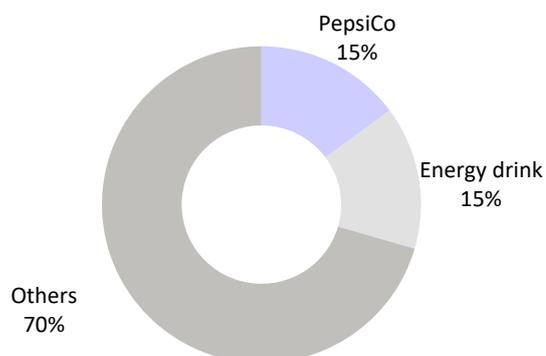
Particulars	VBL (existing business) CY23	BevCo (Acquired business) FY23	Consolidated business	Acquired business as a % of consolidated business
Sales Value (in INR b)	160	16	176	9%
Sales Volume (in m cases)	906	117	1,023	11%
International volumes (in m cases)	177	117	294	40%
EBITDA (in INR b)	35.8	1.9	38	5%

Source: Company, MOFSL

Exhibit 5: Change in mix of International business

	Pre-acquisition	Post-acquisition
International sales value (as a % of total sales)	25.2%	32.0%
International sales volume (as a % of total volume)	19.6%	28.7%

Source: Company, MOFSL

Exhibit 6: Sales volume breakup of BevCo for FY23

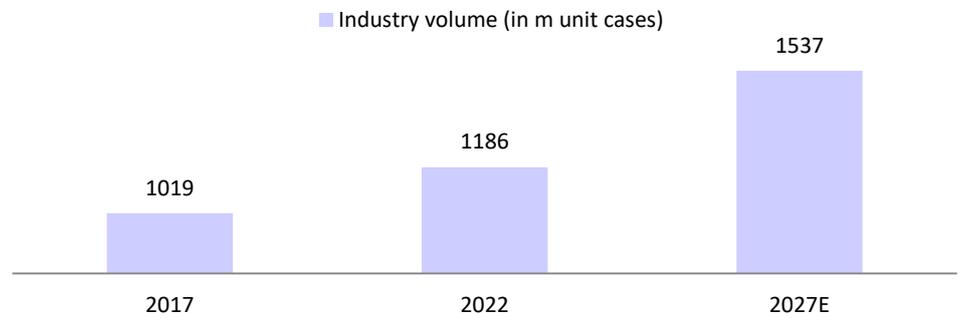
Source: Company, MOFSL

Exhibit 7: Brands of BevCo (owned + licensed from PepsiCo)



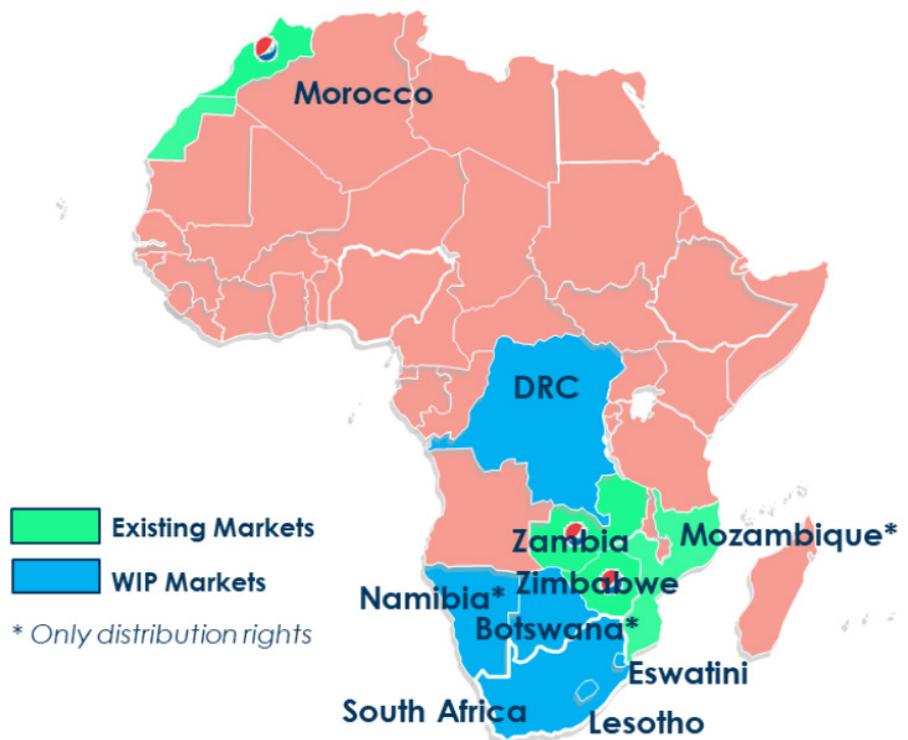
Source: Company, MOFSL

Exhibit 8: South African soft drinks market trend



Source: Company, MOFSL

Exhibit 9: VBL's manufacturing footprint in South Africa



Source: Company, MOFSL

Story in Chart

Exhibit 10: Revenue trend

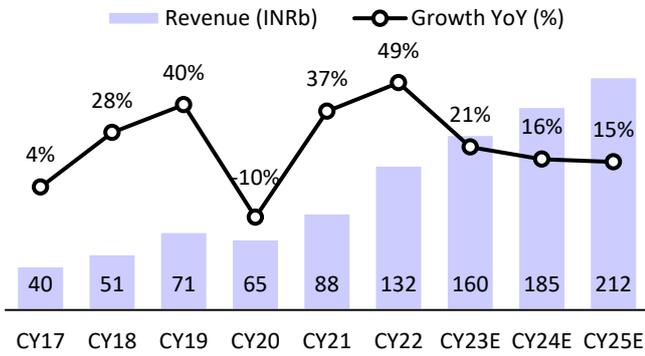


Exhibit 11: EBITDA trend

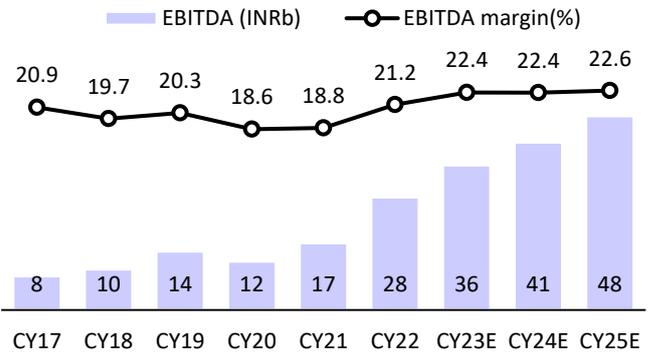


Exhibit 12: Adj. PAT trend

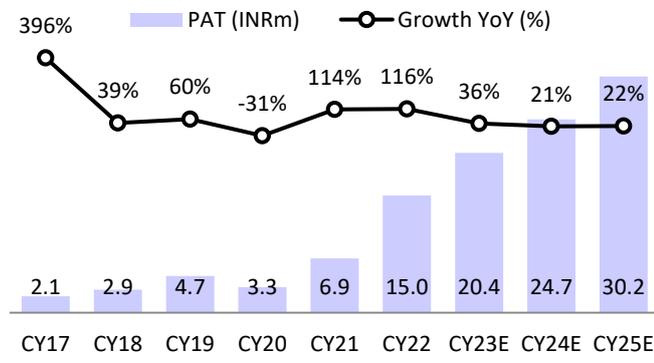


Exhibit 13: Healthy return ratios

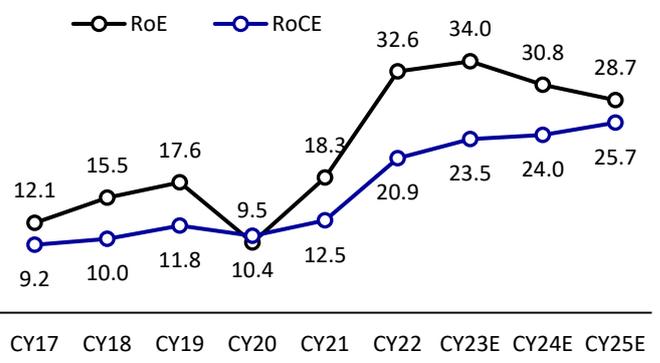


Exhibit 14: Generating robust cash flows

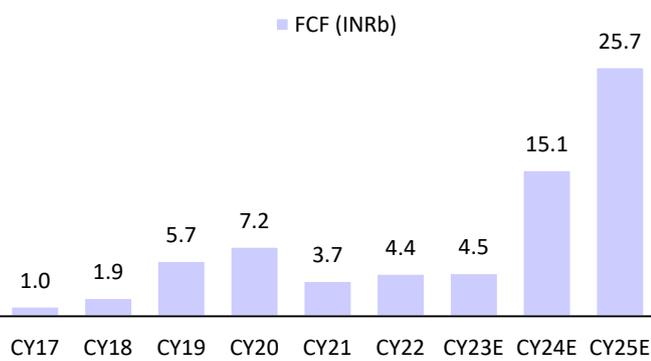


Exhibit 15: To achieve net debt free by CY25

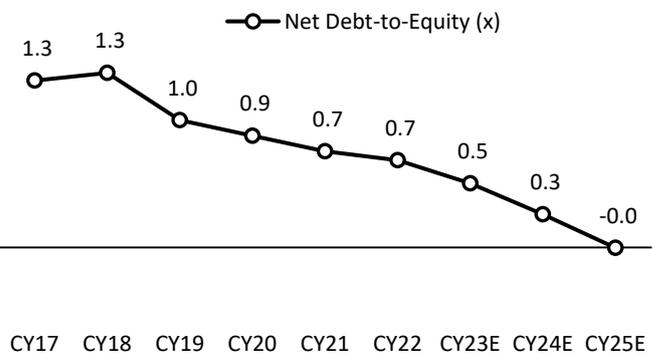


Exhibit 16: Volume mix trend

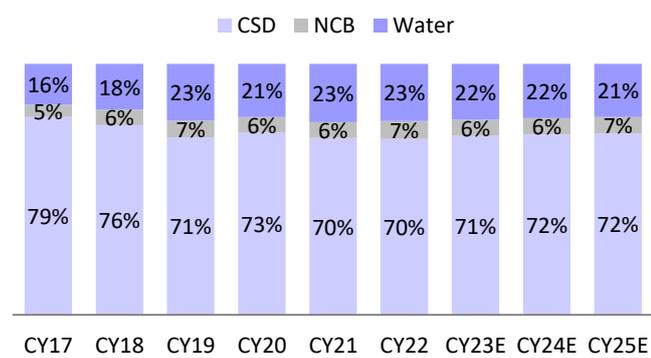
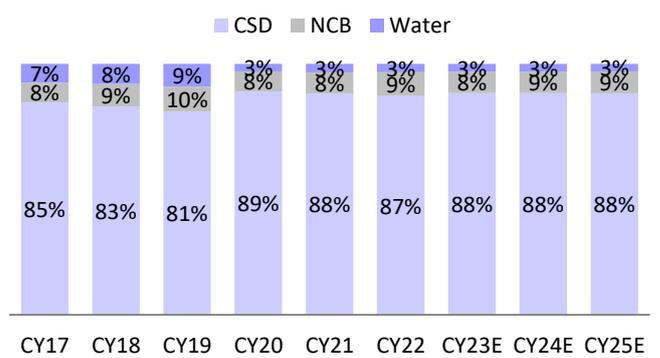


Exhibit 17: Revenue mix trend



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement						-			(INRm)
Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E	
Total Income from Operations	51,053	71,296	64,501	88,232	1,31,731	1,59,664	1,85,076	2,12,270	
Change (%)	27.5	39.7	-9.5	36.8	49.3	21.2	15.9	14.7	
RM Cost	22,441	32,194	27,639	40,347	62,612	73,753	86,431	99,130	
Employees Cost	5,830	8,108	8,897	10,077	12,166	14,240	15,546	17,406	
Other Expenses	12,716	16,517	15,946	21,262	29,072	35,886	41,642	47,761	
Total Expenditure	40,987	56,819	52,483	71,686	1,03,850	1,23,880	1,43,619	1,64,297	
% of Sales	80.3	79.7	81.4	81.2	78.8	77.6	77.6	77.4	
EBITDA	10,066	14,477	12,019	16,546	27,881	35,784	41,457	47,973	
Margin (%)	19.7	20.3	18.6	18.8	21.2	22.4	22.4	22.6	
Depreciation	3,851	4,886	5,287	5,313	6,172	6,944	8,010	8,938	
EBIT	6,215	9,590	6,732	11,234	21,709	28,840	33,447	39,035	
Int. and Finance Charges	2,126	3,096	2,811	1,847	1,861	2,514	2,300	1,167	
Other Income	218	425	370	679	388	809	1,110	1,486	
PBT bef. EO Exp.	4,308	6,919	4,290	10,066	20,236	27,134	32,257	39,354	
EO Items	0	0	-665	0	0	0	0	0	
PBT after EO Exp.	4,308	6,919	3,625	10,066	20,236	27,134	32,257	39,354	
Total Tax	1,339	2,241	52	2,606	4,735	6,288	7,097	8,658	
Tax Rate (%)	31.1	32.4	1.4	25.9	23.4	23.2	22.0	22.0	
Share of profit from associates	30	44	0	0	0	-7	0	0	
Minority Interest	70	32	283	520	527	419	461	507	
Prior period items	0	0	0	0	0	0	0	0	
Reported PAT	2,928	4,690	3,290	6,941	14,974	20,420	24,700	30,189	
Adjusted PAT	2,928	4,690	3,251	6,941	14,974	20,420	24,700	30,189	
Change (%)	39.3	60.1	-30.7	113.5	115.8	36.4	21.0	22.2	
Margin (%)	5.7	6.6	5.0	7.9	11.4	12.8	13.3	14.2	

Consolidated - Balance Sheet						(INRm)		
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
Total Reserves	18,158	30,397	32,353	36,469	44,528	62,675	84,777	1,12,368
Net Worth	19,985	33,284	35,240	40,799	51,024	69,171	91,272	1,18,863
Minority Interest	78	307	648	1,168	1,131	1,550	2,011	2,518
Total Loans	27,649	34,172	32,059	33,418	36,948	36,948	26,948	8,948
Deferred Tax Liabilities	1,588	2,697	2,149	3,087	3,368	3,368	3,368	3,368
Capital Employed	49,299	70,459	70,096	78,473	92,471	1,11,037	1,23,600	1,33,698
Gross Block	61,697	87,203	90,086	94,420	1,06,807	1,26,807	1,51,807	1,61,807
Less: Accum. Deprn.	17,847	22,655	26,242	31,555	37,727	44,671	52,681	61,619
Net Fixed Assets	43,850	64,548	63,844	62,865	69,080	82,136	99,125	1,00,187
Goodwill on Consolidation	19	242	242	242	242	242	242	242
Capital WIP	3,524	638	668	4,966	6,066	11,066	3,066	3,066
Total Investments	112	0	0	0	0	0	0	0
Current Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	12,808	18,327	19,719	27,721	40,794	46,595	53,490	66,180
Inventory	5,784	8,815	9,288	14,481	19,939	23,758	27,543	31,509
Account Receivables	1,280	1,726	2,418	2,212	2,993	3,937	4,564	5,234
Cash and Bank Balance	935	1,711	1,901	3,366	2,853	2,934	3,801	9,272
Loans and Advances	4,809	6,076	6,113	7,661	15,009	15,966	17,582	20,166
Curr. Liability & Prov.	11,015	13,297	14,378	17,322	23,711	29,002	32,324	35,979
Account Payables	3,168	4,777	5,114	7,118	8,243	9,842	11,411	13,054
Other Current Liabilities	6,435	6,517	6,893	7,622	13,135	15,966	17,582	19,104
Provisions	1,412	2,003	2,371	2,583	2,333	3,193	3,331	3,821
Net Current Assets	1,793	5,031	5,342	10,399	17,083	17,593	21,166	30,202
Appl. of Funds	49,299	70,459	70,096	78,473	92,471	1,11,037	1,23,600	1,33,698

Financials and valuations

Ratios

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
Basic (INR)								
EPS	2.3	3.6	2.5	5.3	11.5	15.7	19.0	23.2
Cash EPS	5.2	7.4	6.6	9.4	16.3	21.1	25.2	30.1
BV/Share	15.4	25.6	27.1	31.4	39.3	53.2	70.3	91.5
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	11.1	10.5	8.6
Valuation (x)								
P/E	519.9	324.7	468.4	219.4	101.7	74.6	61.6	50.4
Cash P/E	224.6	159.0	178.3	124.3	72.0	55.6	46.5	38.9
P/BV	76.2	45.7	43.2	37.3	29.8	22.0	16.7	12.8
EV/Sales	30.3	21.8	24.1	17.6	11.8	9.8	8.4	7.2
EV/EBITDA	153.9	107.4	129.2	93.9	55.9	43.5	37.3	31.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2
FCF per share	1.5	4.4	5.5	2.8	3.4	3.5	11.6	19.8
Return Ratios (%)								
RoE	15.5	17.6	9.5	18.3	32.6	34.0	30.8	28.7
RoCE	10.0	11.8	10.4	12.5	20.9	23.5	24.0	25.7
RoIC	10.1	11.5	9.8	12.1	21.6	24.5	24.4	25.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.8	0.7	0.9	1.2	1.3	1.2	1.3
Asset Turnover (x)	1.0	1.0	0.9	1.1	1.4	1.4	1.5	1.6
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	22
Leverage Ratio (x)								
Current Ratio	1.2	1.4	1.4	1.6	1.7	1.6	1.7	1.8
Interest Cover Ratio	2.9	3.1	2.4	6.1	11.7	11.5	14.5	33.5
Net Debt/Equity	1.3	1.0	0.9	0.7	0.7	0.5	0.3	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E December	CY18	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E
OP/(Loss) before Tax	4,308	6,919	3,625	10,066	20,236	27,134	32,257	39,354
Depreciation	3,851	4,826	5,287	5,313	6,172	6,944	8,010	8,938
Interest & Finance Charges	1,986	2,948	2,441	1,168	1,473	1,706	1,190	-319
Direct Taxes Paid	-733	-1,201	-52	-2,606	-4,735	-6,288	-7,097	-8,658
(Inc)/Dec in WC	-501	-827	-1,181	-1,627	-5,246	-429	-2,706	-3,565
CF from Operations	8,911	12,665	10,120	12,314	17,900	29,067	31,655	35,750
Others	1,087	411	0	0	0	419	461	0
CF from Operating incl EO	9,998	13,076	10,120	12,314	17,900	29,486	32,115	35,750
(Inc)/Dec in FA	-8,088	-7,331	-2,913	-8,632	-13,487	-25,000	-17,000	-10,000
Free Cash Flow	1,910	5,745	7,207	3,682	4,414	4,486	15,115	25,750
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	-647	-15,862	-1,798	-1,474	-3,559	809	1,110	1,486
CF from Investments	-8,734	-23,192	-4,711	-10,106	-17,046	-24,191	-15,890	-8,514
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	0	-10,000	-18,000
Interest Paid	-1,886	-3,011	-2,811	-1,847	-1,861	-2,514	-2,300	-1,167
Dividend Paid	-456	-690	-722	-1,083	-2,274	-2,273	-2,598	-2,598
Others	-3,505	-895	427	829	-763	-426	-461	0
CF from Fin. Activity	-1,273	10,893	-5,219	-742	-1,368	-5,214	-15,359	-21,765
Inc/Dec of Cash	-10	776	190	1,466	-514	81	867	5,471
Opening Balance	945	935	1,711	1,901	3,367	2,853	2,934	3,801
Closing Balance	935	1,711	1,901	3,367	2,853	2,934	3,801	9,272

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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