

Varun Beverages

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,477 TP: INR1,720 (+16%) Buy

Cost optimization and better realization drive earnings

Earnings above our estimates

- Varun Beverages (VBL) reported a revenue growth of 11% YoY in 1QCY24, led by volume growth (up 7% YoY) and high realization (up 4% YoY to INR180/case).
- EBITDA margins expanded 240bp YoY, led by improved gross margins (up 390bp YoY). This improvement can be attributed to decreased PET prices, the company's concentrated efforts to minimize sugar content, and the adoption of lighter packaging materials.
- We largely maintain our CY24/CY25/CY26 earnings. **We reiterate our BUY rating on the stock with a TP of INR1,720.**

International business drives volume growth

- VBL's revenue grew 11% YoY to INR43.2b (est. INR42.3b) on account of healthy volume growth (+7% YoY to 240m cases) and high realization (up 4% YoY to INR180/case). Volume growth was driven by international markets (up 22% YoY), while domestic volumes grew 4% YoY on account of delayed seasonality cycle.
- EBITDA margins expanded 240bp YoY to 22.9% (est. 20.9%) on the back of improved gross margins (up 390bp YoY). This improvement can be attributed to decreased PET prices, the company's concentrated efforts to minimize sugar content, and the adoption of lighter packaging materials. EBITDA stood at INR9.9b, up 24% YoY (est. INR8.85b).
- Adj. PAT grew 25% YoY to INR5.4b (est. INR4.8b), driven by higher sales growth and improvement in margins.
- Subsidiary (consolidated minus standalone) Revenue/EBITDA/PAT grew 30%/33%/21% YoY to INR8.7b/INR1.7b/INR680m in 1QCY24.
- CSD/Juices/water volumes grew 6%/13%/10% YoY to 169m/18m/53m unit cases in 1QCY24.

Highlights from the management commentary

- **Outlook:** VBL expects strong sales growth in 2QCY24, led by heat waves, elections, and lower base in the corresponding quarter last year. The company witnessed almost ~100% utilizations of the plant in April'24.
- **Capex:** VBL has planned a capex of ~INR36b, out of which ~INR24b/INR9.5-10b has already been incurred in CY23/1QCY24. It plans to incur the pending capex (~INR2b) in the coming quarters. VBL has commissioned three Greenfield facilities in CY24 YTD.
- **Debt:** The company targets to keep debt-to-equity ratio in the range of 0.6 to 0.7x. It expects to return to these levels in the next couple of quarters. Debt levels by the end of CY24 will be similar to that as of at the end of CY23.

Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USDb)	1919.6 / 23
52-Week Range (INR)	1562 / 754
1, 6, 12 Rel. Per (%)	8/33/69
12M Avg Val (INR M)	2421

Financials & Valuations (INR b)

Y/E Dec	2024E	2025E	2026E
Sales	206.3	246.3	286.6
EBITDA	47.4	55.4	65.8
Adj. PAT	27.4	34.5	43.7
EBITDA (%)	23.0	22.5	23.0
EPS (INR)	21.1	26.5	33.6
EPS Gr. (%)	33.4	25.7	26.7
BV/Sh. (INR)	72.0	96.0	126.7

Ratios

Net D/E	0.5	0.2	-0.1
RoE (%)	33.7	31.6	30.2
RoCE (%)	23.0	24.8	28.3
Payout (%)	11.8	9.4	8.9

Valuations

P/E (x)	70.0	55.7	44.0
EV/EBITDA (x)	41.6	35.1	28.9
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.2	1.7	2.2

Shareholding pattern (%)

	Mar-24	Dec-23	Mar-23
Promoter	62.9	63.1	63.9
DII	4.2	3.6	3.7
FII	25.8	26.6	26.0
Others	7.2	6.8	6.4

Note: FII includes depository receipts

Valuation and view

- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in India and Africa, 2) higher acceptance of newly launched products, 3) continued expansion in capacity and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.
- We expect a CAGR of 21%/22%/29% in revenue/EBITDA/PAT over CY23-26.
- We largely maintain our CY24/CY25/CY26 earnings. **We value the stock at 57x Jun'26E EPS to arrive at a TP of INR1,720. We reiterate our BUY rating on the stock.**

Consolidated - Quarterly Earning Model**(INRm)**

Y/E December	CY23				CY24				CY23	CY24E	CY24E	Var. %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1Q	
Gross Sales	38,930	56,114	38,705	26,677	43,173	73,885	50,040	38,374	1,60,425	2,05,472	42,280	2
YoY Change (%)	37.7	13.3	21.8	20.5	10.9	31.7	29.3	43.8	21.8	28.1	90.9	
Total Expenditure	30,949	41,004	29,884	22,494	33,286	54,252	38,948	32,733	1,24,331	1,59,218	33,433	
EBITDA	7,980	15,110	8,821	4,183	9,888	19,633	11,092	5,640	36,095	46,253	8,847	12
Margins (%)	20.5	26.9	22.8	15.7	22.9	26.6	22.2	14.7	22.5	22.5	20.9	
Depreciation	1,722	1,719	1,708	1,660	1,875	2,250	2,300	2,328	6,809	8,753	1,880	
Interest	626	694	625	737	937	830	850	855	2,681	3,472	800	
Other Income	101	416	185	91	84	470	350	287	794	1,191	120	
PBT before EO expense	5,734	13,113	6,673	1,878	7,159	17,023	8,292	2,744	27,398	35,219	6,287	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	5,734	13,113	6,673	1,878	7,159	17,023	8,292	2,744	27,398	35,219	6,287	
Tax	1,348	3,057	1,529	442	1,678	3,745	1,824	604	6,375	7,851	1,383	
Rate (%)	23.5	23.3	22.9	23.5	23.4	22.0	22.0	22.0	23.3	22.3	22	
Minority Interest & Profit/Loss of Asso. Cos.	95	118	130	118	107	134	129	134	461	503	109	
Reported PAT	4,291	9,938	5,015	1,318	5,374	13,145	6,339	2,007	20,561	26,865	4,794	
Adj PAT	4,291	9,938	5,015	1,318	5,374	13,145	6,339	2,007	20,561	26,865	4,794	12
YoY Change (%)	68.8	26.2	31.6	76.3	25.2	32.3	26.4	52.3	37.3	30.7	541.3	
Margins (%)	11.0	17.7	13.0	4.9	12.4	17.8	12.7	5.2	12.8	13.1	11.3	

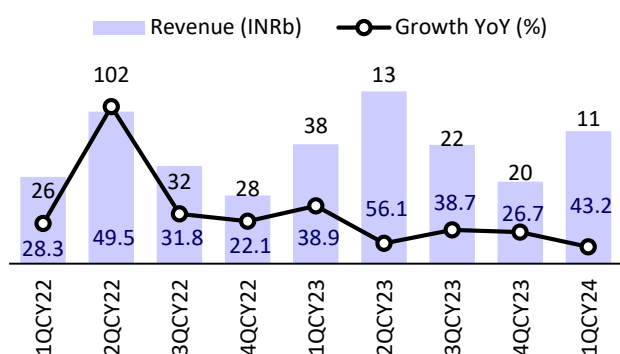
Exhibit 1: Key performance indicators

Y/E December	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23	3QCY23	4QCY23	1QCY24
Segment Volume Gr.										
CSD	24	18	85	23	25	27	6	19	25	6
NCB	50	18	139	38	17	23	-13	0	14	13
Water	36	21	140	25	5	17	7	8	5	10
Cost Break-up										
RM Cost (% of sales)	45	48	49	46	44	48	48	45	43	44
Employee Cost (% of sales)	15	10	6	10	14	9	6	10	14	9
Other Cost (% of sales)	28	23	19	22	28	23	19	23	27	24
Gross Margins (%)	55	52	51	54	56	52	52	55	57	56
EBITDA Margins (%)	12	19	25	22	14	20	27	23	16	23
EBIT Margins (%)	5	14	22	17	6	16	24	18	9	19

Source: Company, MOFSL

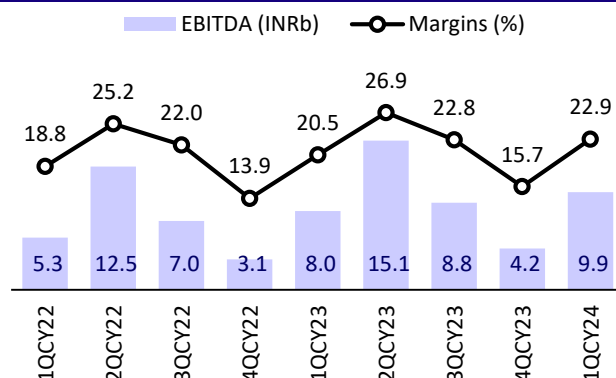
Key exhibits

Exhibit 2: Trend in consolidated revenue



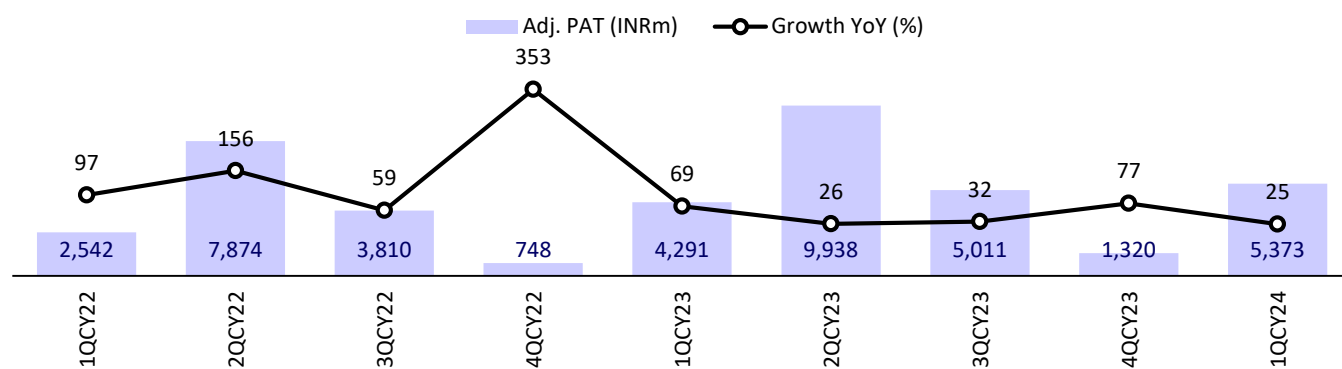
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA



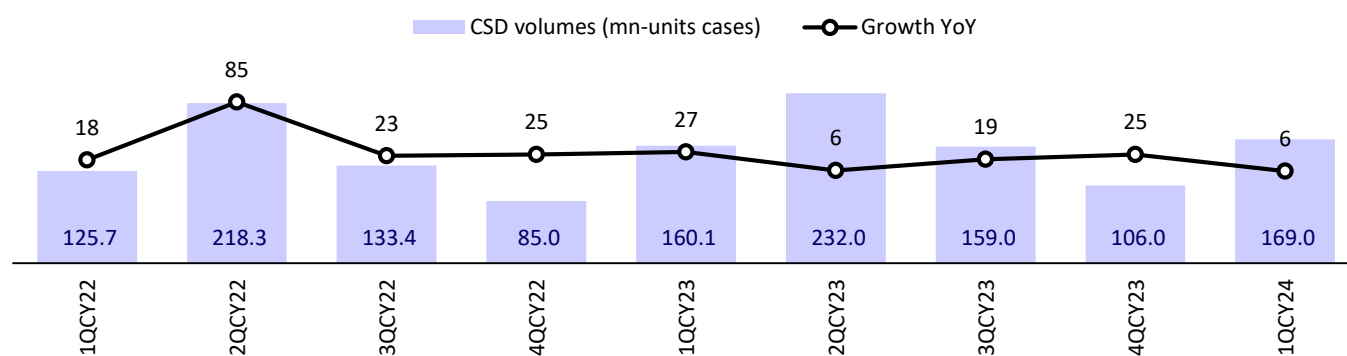
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT

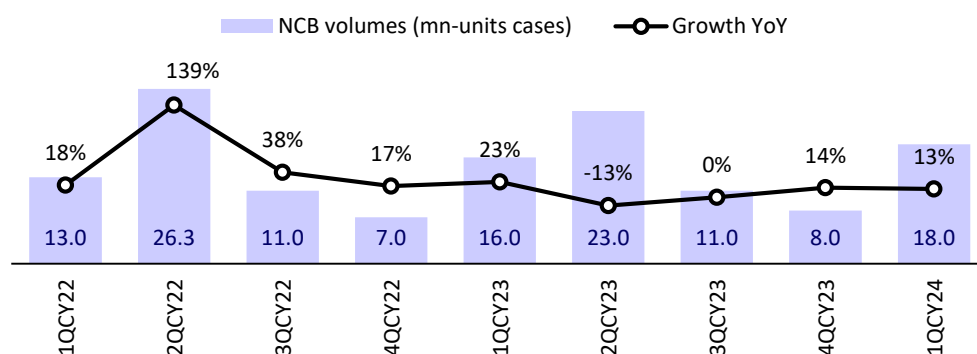


Source: Company, MOFSL

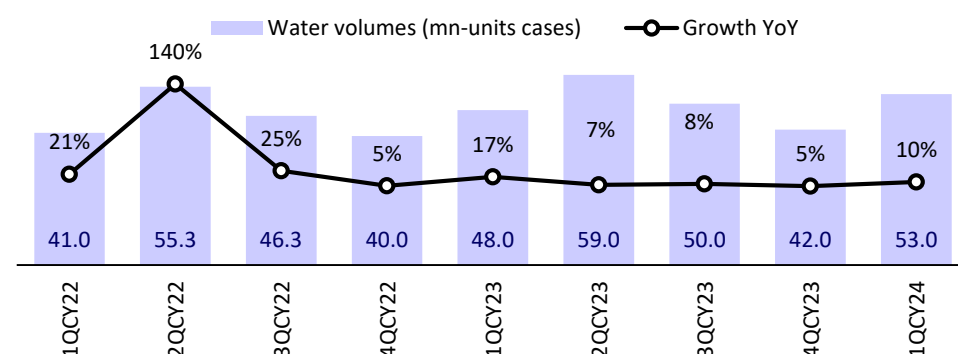
Exhibit 5: CSD sales volumes trend



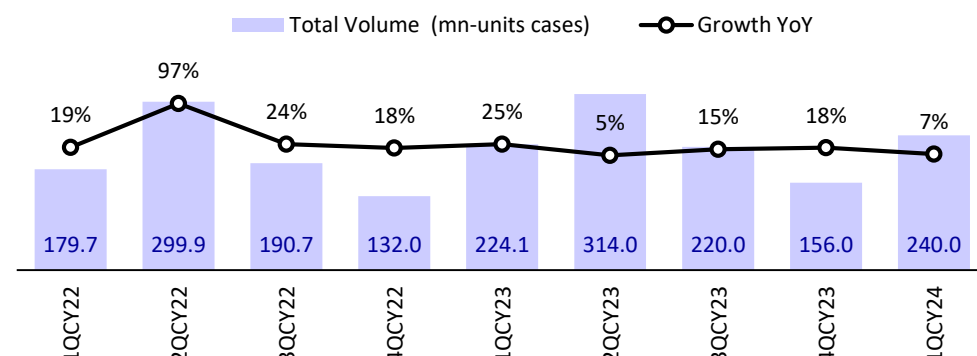
Source: Company, MOFSL

Exhibit 6: NCB sales volume trend

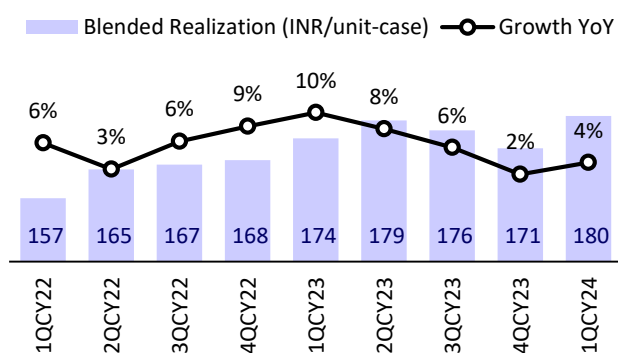
Source: Company, MOFSL

Exhibit 7: Water sales volumes trend

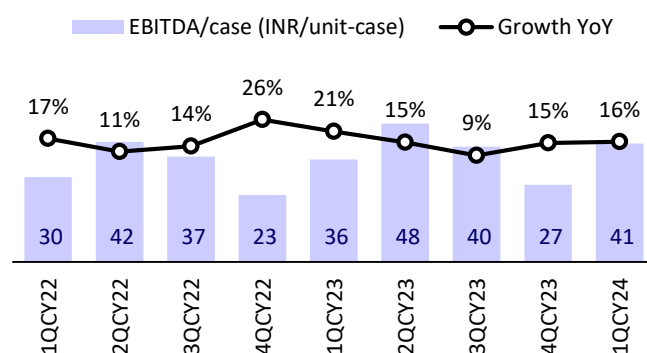
Source: Company, MOFSL

Exhibit 8: Strong Total Volume growth trend

Source: Company, MOFSL

Exhibit 9: Trend in blended realization

Source: Company, MOFSL

Exhibit 10: Trend in EBITDA/case

Source: Company, MOFSL



Highlights from the management interaction

Operating Performance

- The company witnessed improved operational performance in spite of the delayed seasonality cycle due to delay in Holi.
- Improved product mix in India and high volume in international geographies (up 21% YoY) led to higher sales during the quarter.
- VBL has commenced three Greenfield facilities in India during Jan-Apr'24. The greenfield plant in DRC is expected to start by next quarter.
- The company has completed the strategic acquisition of BevCo in 1QCY23.
- Varun Beverages Morocco SA, a wholly-owned subsidiary, has entered into an exclusive agreement to manufacture and package Cheetos in Morocco by May 2025. This strategic move complements VBL's existing snack portfolio.

Margins

- Gross margins improved 390 bp YoY, primarily due to reduced PET prices, alongside the company's initiatives aimed at reducing sugar content and implementing lighter packaging materials.
- Around 46% of VBL's consolidated sales volumes come from low sugar/no sugar products.
- Despite an increase in fixed costs associated with the acquisition of new territories and the commissioning of new Greenfield plants for the season, EBITDA margins saw growth.

Capex

- The company has planned a capex of ~INR36b, out of which, ~INR24b has already been incurred in CY23. Further, it has already incurred ~INR9.5-10b of capex in 1QCY24 with some minor capex pending (~INR2b).
- In CY24 YTD, VBL has commissioned three Greenfield facilities: (1) Supa, Maharashtra on Jan 25, 2024 with a total capex outlay of ~ INR10b, (2) Gorakhpur, Uttar Pradesh on Apr 13, 2024 with a total capex outlay of ~ INR11b, (3) Khordha, Odisha on Apr 30, 2024 with a total capex outlay of ~ INR7b.

Outlook

- The company expects strong sales growth in 2QCY24 led by heat waves, elections, and lower base in the corresponding quarter last year
- The company witnessed almost ~100% utilizations of plant in April'24
- It maintains its long-term guidance given in the past

Gatorade and Dairy products

- PepsiCo's focus on Gatorade is reflected in changes made within price and packaging. PepsiCo is working on 'zero calorie Gatorade', which can be a promising product
- The company sells all its value-added dairy products (even considering the newly commissioned facility).

Others

- Finance cost increased ~50% YoY, primarily due to increased debt for acquisition and capex as well as increased cost of borrowing. The cost of debt has increased from 7.7% to 8%.
- The company expects RoCE in food business to be as good as the beverages business or slightly better than that.
- The South Africa market is very large market (around a billion case market). PepsiCo's share in the market is very low.
- Around 90% of products in South Africa are from low sugar/no sugar category.
- VBL has witnessed ~9-22% weight reduction in pre-forms over CY10-23, with 750ml bottle witnessing the highest decline of ~22%.
- The company targets to keep its debt-to-equity ratio in the range of 0.6 to 0.7x. The company expects to return to these levels in a couple of quarters.
- Debt levels are not expected to change substantially by the end of CY24 as compared to end of CY23.
- The company experienced delays in commissioning some plants due to issues related to the Red sea. Nonetheless, these plants were commissioned before the peak season.

Valuation and view

- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in India and Africa, 2) higher acceptance of newly launched products, 3) continued expansion in capacity and distribution reach, 4) growing refrigeration in rural and semi-rural areas, and 5) a scale-up in international operations.
- We expect a CAGR of 21%/22%/29% in revenue/EBITDA/PAT over CY23-26.
- We largely maintain our CY24/CY25/CY26 earnings. **We value the stock at 57x Jun'26E EPS to arrive at a TP of INR1,720. We reiterate our BUY rating on the stock.**

Exhibit 11: Revision in our estimates

Earnings change (INRm)	Old			New			Change (%)		
	CY24E	CY25E	CY26E	CY24E	CY25E	CY26E	CY24E	CY25E	CY26E
Revenue	2,04,578	2,44,245	2,84,207	2,06,316	2,46,274	2,86,561	1	1	1
EBITDA	45,212	54,959	65,294	47,355	55,416	65,835	5	1	1
Adj. PAT	26,285	34,114	43,236	27,432	34,481	43,672	4	1	1

Financials and valuations

Consolidated - Income Statement

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Total Income from Operations	71,296	64,501	88,232	1,31,731	1,60,426	2,06,316	2,46,274	2,86,561
Change (%)	39.7	-9.5	36.8	49.3	21.8	28.6	19.4	16.4
RM Cost	32,194	27,639	40,347	62,612	74,049	94,024	1,13,779	1,31,818
Employees Cost	8,108	8,897	10,077	12,166	14,466	18,200	21,672	24,931
Other Expenses	16,517	15,946	21,262	29,072	35,816	46,737	55,408	63,978
Total Expenditure	56,819	52,483	71,686	1,03,850	1,24,331	1,58,961	1,90,858	2,20,726
% of Sales	79.7	81.4	81.2	78.8	77.5	77.0	77.5	77.0
EBITDA	14,477	12,019	16,546	27,881	36,095	47,355	55,416	65,835
Margin (%)	20.3	18.6	18.8	21.2	22.5	23.0	22.5	23.0
Depreciation	4,886	5,287	5,313	6,172	6,809	8,758	9,824	10,374
EBIT	9,590	6,732	11,234	21,709	29,286	38,597	45,591	55,460
Int. and Finance Charges	3,096	2,811	1,847	1,861	2,681	3,837	2,397	837
Other Income	425	370	679	388	794	1,191	1,724	2,149
PBT bef. EO Exp.	6,919	4,290	10,066	20,236	27,398	35,950	44,919	56,773
EO Items	0	-665	0	0	0	0	0	0
PBT after EO Exp.	6,919	3,625	10,066	20,236	27,398	35,950	44,919	56,773
Total Tax	2,241	52	2,606	4,735	6,375	8,012	9,882	12,490
Tax Rate (%)	32.4	1.4	25.9	23.4	23.3	22.3	22.0	22.0
Share of profit from associates	44	0	0	0	-5	-2	0	0
Minority Interest	32	283	520	527	459	505	555	611
Reported PAT	4,690	3,290	6,941	14,974	20,559	27,432	34,481	43,672
Adjusted PAT	4,690	3,251	6,941	14,974	20,559	27,432	34,481	43,672
Change (%)	60.1	-30.7	113.5	115.8	37.3	33.4	25.7	26.7
Margin (%)	6.6	5.0	7.9	11.4	12.8	13.3	14.0	15.2

Consolidated - Balance Sheet

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	2,887	2,887	4,330	6,496	6,496	6,496	6,496	6,496
Total Reserves	30,397	32,353	36,469	44,528	62,869	87,053	1,18,286	1,58,061
Net Worth	33,284	35,240	40,799	51,024	69,365	93,549	1,24,782	1,64,557
Minority Interest	307	648	1,168	1,131	1,482	1,986	2,542	3,152
Total Loans	34,172	32,059	33,418	36,948	51,944	53,944	25,944	1,944
Deferred Tax Liabilities	2,697	2,149	3,087	3,368	3,430	3,430	3,430	3,430
Capital Employed	70,459	70,096	78,473	92,471	1,26,221	1,52,910	1,56,698	1,73,083
Gross Block	87,203	90,086	94,420	1,06,807	1,28,385	1,73,625	1,83,625	1,93,625
Less: Accum. Deprn.	22,655	26,242	31,555	37,727	44,536	53,294	63,118	73,493
Net Fixed Assets	64,548	63,844	62,865	69,080	83,849	1,20,331	1,20,507	1,20,132
Goodwill on Consolidation	242	242	242	242	242	4,202	4,202	4,202
Capital WIP	638	668	4,966	6,066	19,222	8,222	8,222	7,222
Total Investments	0	0	0	0	211	211	211	211
Current Investments	0	0	0	0	211	211	211	211
Curr. Assets, Loans&Adv.	18,327	19,719	27,721	40,794	48,347	55,259	65,787	90,362
Inventory	8,815	9,288	14,481	19,939	21,505	27,495	33,012	38,179
Account Receivables	1,726	2,418	2,212	2,993	3,594	4,622	5,517	6,420
Cash and Bank Balance	1,711	1,901	3,366	2,853	4,599	3,542	5,093	19,974
Loans and Advances	6,076	6,113	7,661	15,009	18,649	19,600	22,165	25,790
Curr. Liability & Prov.	13,297	14,378	17,322	23,711	25,651	35,316	42,231	49,047
Account Payables	4,777	5,114	7,118	8,243	7,582	10,888	13,072	15,118
Other Current Liabilities	6,517	6,893	7,622	13,135	15,117	20,632	24,627	28,656
Provisions	2,003	2,371	2,583	2,333	2,952	3,796	4,531	5,273
Net Current Assets	5,031	5,342	10,399	17,083	22,696	19,943	23,556	41,315
Appl. of Funds	70,459	70,096	78,473	92,471	1,26,221	1,52,910	1,56,698	1,73,083

Financials and valuations

Ratios

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Basic (INR)								
EPS	3.6	2.5	5.3	11.5	15.8	21.1	26.5	33.6
Cash EPS	7.4	6.6	9.4	16.3	21.1	27.9	34.1	41.6
BV/Share	25.6	27.1	31.4	39.3	53.4	72.0	96.0	126.7
DPS	0.5	0.6	0.8	1.7	2.5	2.5	2.5	3.0
Payout (%)	16.7	21.9	15.6	15.2	15.8	11.8	9.4	8.9
Valuation (x)								
P/E	409.4	590.6	276.6	128.2	93.4	70.0	55.7	44.0
Cash P/E	200.5	224.9	156.7	90.8	70.2	53.1	43.3	35.5
P/BV	57.7	54.5	47.1	37.6	27.7	20.5	15.4	11.7
EV/Sales	27.4	30.2	22.1	14.8	12.3	9.6	7.9	6.6
EV/EBITDA	134.9	162.3	117.9	70.1	54.5	41.6	35.1	28.9
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	4.4	5.5	2.8	3.4	-6.2	2.6	25.8	31.9
Return Ratios (%)								
RoE	17.6	9.5	18.3	32.6	34.2	33.7	31.6	30.2
RoCE	11.8	10.4	12.5	20.9	22.1	23.0	24.8	28.3
RoIC	11.5	9.8	12.1	21.6	24.2	24.7	25.0	30.0
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.7	0.9	1.2	1.2	1.2	1.3	1.5
Asset Turnover (x)	1.0	0.9	1.1	1.4	1.3	1.3	1.6	1.7
Inventory (Days)	45	53	60	55	49	49	49	49
Debtor (Days)	9	14	9	8	8	8	8	8
Creditor (Days)	24	29	29	23	17	19	19	19
Leverage Ratio (x)								
Current Ratio	1.4	1.4	1.6	1.7	1.9	1.6	1.6	1.8
Interest Cover Ratio	3.1	2.4	6.1	11.7	10.9	10.1	19.0	66.3
Net Debt/Equity	1.0	0.9	0.7	0.7	0.7	0.5	0.2	-0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
OP/(Loss) before Tax	6,919	3,625	10,066	20,236	27,398	35,950	44,919	56,773
Depreciation	4,826	5,287	5,313	6,172	6,809	8,758	9,824	10,374
Interest & Finance Charges	2,948	2,441	1,168	1,473	2,681	2,646	673	-1,313
Direct Taxes Paid	-1,201	-52	-2,606	-4,735	-6,679	-8,012	-9,882	-12,490
(Inc)/Dec in WC	-827	-1,181	-1,627	-5,246	-6,735	1,696	-2,061	-2,879
CF from Operations	12,665	10,120	12,314	17,900	23,474	41,039	43,472	50,466
Others	411	0	0	0	434	505	0	0
CF from Operating incl EO	13,076	10,120	12,314	17,900	23,908	41,544	43,472	50,466
(Inc)/Dec in FA	-7,331	-2,913	-8,632	-13,487	-31,939	-38,200	-10,000	-9,000
Free Cash Flow	5,745	7,207	3,682	4,414	-8,031	3,344	33,472	41,466
(Pur)/Sale of Investments	0	0	0	0	-216	0	0	0
Others	-15,862	-1,798	-1,474	-3,559	-744	1,191	1,724	2,149
CF from Investments	-23,192	-4,711	-10,106	-17,046	-32,899	-37,009	-8,276	-6,851
Issue of Shares	9,002	0	0	0	44	0	0	0
Inc/(Dec) in Debt	6,487	-2,113	1,359	3,530	15,064	2,000	-28,000	-24,000
Interest Paid	-3,011	-2,811	-1,847	-1,861	-2,694	-3,837	-2,397	-837
Dividend Paid	-690	-722	-1,083	-2,274	-2,273	-3,248	-3,248	-3,898
Others	-895	427	829	-763	596	-506	0	0
CF from Fin. Activity	10,893	-5,219	-742	-1,368	10,737	-5,591	-33,645	-28,734
Inc/Dec of Cash	776	190	1,466	-514	1,746	-1,057	1,552	14,881
Opening Balance	935	1,711	1,901	3,367	2,853	4,599	3,542	5,093
Closing Balance	1,711	1,901	3,367	2,853	4,599	3,542	5,093	19,974

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