

14 May 2024

India | Equity Research | Q1CY24 results review

## Varun Beverages

Consumer Staples &amp; Discretionary

### Capacity addition and expansion of international business to drive growth; Stretched valuations

Highlights: (1) Continued buoyant margin performance led by lower input prices, higher realisation and benefits of strategic cost-saving initiatives undertaken, (2) international business strengthened further, following the acquisition of BevCo (South Africa and surrounding region) and agreement signed for manufacturing of snacks from May'25 in Morocco market, (3) moderate volume growth (+4.4% YoY) in domestic business despite delayed Holi, and (4) timely commissioning of three greenfield production facilities ahead of favourable (summer) season. The company is prudently expanding its domestic as well as international businesses which may maintain high growth rates. Backward integration, capacity expansion and operating leverage provide margin tailwinds. We remain positive on Varun's strong business outlook but current valuations seem stretched. We maintain **HOLD** rating on the stock with a revised DCF-based TP of INR 1,420 (earlier: INR 1,335).

### Q1CY24 result

Varun reported revenue, EBITDA and PAT growth of 10.9%, 23.9% and 24.9%, respectively, YoY. Gross and EBITDA margins expanded 385bps and 240bps YoY led by correction in input prices (lower PET prices) and higher realisation. Net realisation per case grew 3.5% YoY.

### Segment-wise performance

Volume growth stood at 7.1% and segment-wise volume growth rates were: Carbonated soft drinks at 5.6%, juices at 12.5% and water at 10.4% YoY. In Q1CY24, CSD, juices and packaged drinking water contributed 71%, 7% and 22%, respectively.

### Buoyant margin performance continues

Varun reported gross and EBITDA margin expansion of 385bps/240bps YoY, respectively, in Q1CY24. EBITDA margin expansion was led by (1) improved gross margin and (2) higher realisation. With higher benefits likely from cost saving-initiatives undertaken, backward integration and operating leverage, we reckon EBITDA margin to remain above the guided band of 21-22%.

### Expect strong growth in Q2CY24

Varun may report strong revenue growth in Q2CY24 as indicated by (1) a favourable base, (2) likely strong summer season led demand, and (3) optimum utilisation of manufacturing plants. The company has commenced three new plants at Supa, Gorakhpur and Khorda. It will also help to drive growth in rest of CY24.

### Financial Summary

Y/E December (INR mn)	CY22A	CY23A	CY24E	CY25E
Net Revenue	1,31,731	1,60,426	1,97,830	2,39,262
EBITDA	27,881	36,096	44,954	54,332
EBITDA Margin (%)	21.2	22.5	22.7	22.7
Net Profit	15,538	20,583	24,223	30,663
EPS (INR)	12.0	15.8	18.6	23.6
EPS % Chg YoY	123.9	32.5	17.7	26.6
P/E (x)	123.5	93.2	79.2	62.6
EV/EBITDA (x)	69.9	54.4	43.4	35.6
RoCE (%)	20.6	20.5	20.3	22.3
RoE (%)	33.0	33.5	29.8	29.1

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### Market Data

Market Cap (INR)	1,920bn
Market Cap (USD)	22,987mn
Bloomberg Code	VBL IN
Reuters Code	VARB BO
52-week Range (INR)	1,562 /754
Free Float (%)	37.0
ADTV-3M (mn) (USD)	35.9

Price Performance (%)	3m	6m	12m
Absolute	5.9	46.4	89.9
Relative to Sensex	4.2	34.4	72.6

Earnings Revisions (%)	CY24E	CY25E
Revenue	2.5	4.4
EBITDA	7.4	11.2
EPS	10.3	13.7

### Previous Reports

06-02-2024: [Q4CY23 results review](#)

07-11-2023: [Q3CY23 results review](#)

### International business expansion continues

While rapid capacity expansion continues in domestic business, the company is also strategically expanding its presence in international business. It is expanding its footprint in African continent via capacity expansion, acquisitions and licensing rights from PepsiCo.

The company is likely to solidify its international business further via newer developments of (1) acquisition of BevCo in South Africa, Lesotho, Eswatini and distribution rights in Namibia, Botswana, Mozambique and Madagascar and (2) signing an agreement to manufacture Cheetos and Doritos in Morocco market.

### Strong capacity addition in domestic business ahead of summer season

Varun has timely commissioned three manufacturing plants (likely to have added ~45% production capacity to its total capacity) ahead of summer season. While the company's existing manufacturing plants are operating at optimum capacity utilisation levels, we believe, new capacity addition is likely to assist in catering incremental demand in summer season.

### Valuations

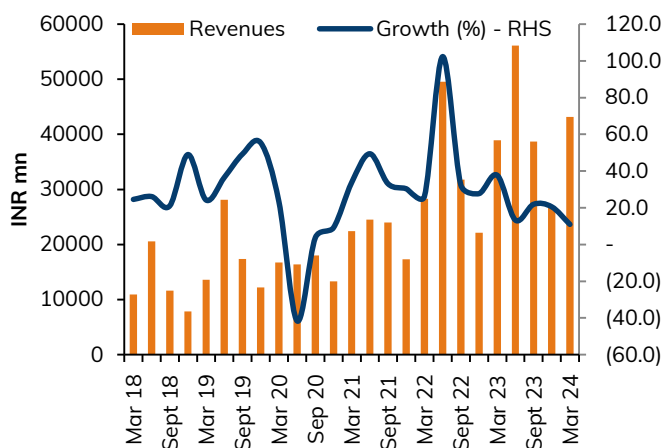
We model Varun to report revenue and PAT CAGRs of 22.1% and 22.1%, respectively, over CY23-25E. While we remain positive on its strong growth prospects, we believe current valuations are stretched and maintain **HOLD** rating on the stock with a revised DCF-based TP of INR 1,420 (earlier: INR 1,335) at implied P/E of 60x CY25E.

### Exhibit 1: Q1CY24 result review

Y/e December (INR mn)	Q1CY24	Q1CY23	YoY gr.	Q4CY23	QoQ gr.
<b>Revenue</b>	<b>43,173</b>	<b>38,930</b>	<b>10.9</b>	<b>26,677</b>	<b>61.8</b>
<b>Expenditure</b>					
Raw materials	18,875	18,517	1.9	11,569	63.2
% of revenue	43.7	47.6		43.4	
Employee cost	3,937	3,391	16.1	3,713	6.0
% of revenue	9.1	8.7		13.9	
Other expenditure	10,473	9,041	15.8	7,212	45.2
% of revenue	24.3	23.2		27.0	
Total expenditure	33,286	30,949	7.5	22,494	48.0
<b>EBITDA</b>	<b>9,888</b>	<b>7,980</b>	<b>23.9</b>	<b>4,183</b>	<b>136.4</b>
EBITDA margin	22.9	20.5		15.7	
Other income	84	101	(17.6)	91	(8.4)
<b>PBDIT</b>	<b>9,971</b>	<b>8,082</b>	<b>23.4</b>	<b>4,274</b>	<b>133.3</b>
Depreciation	1,875	1,722	8.9	1,660	13.0
<b>PBIT</b>	<b>8,096</b>	<b>6,360</b>	<b>27.3</b>	<b>2,614</b>	<b>209.7</b>
Interest	937	626	49.7	737	27.2
Income from Associates	(2)	(0)	496.3	2	(177.4)
<b>PBT</b>	<b>7,158</b>	<b>5,734</b>	<b>24.8</b>	<b>1,880</b>	<b>280.8</b>
Prov for tax	1,678	1,348	24.5	442	279.4
% of PBT	23.4	23.5		23.5	
<b>PAT before MI</b>	<b>5,480</b>	<b>4,386</b>	<b>24.9</b>	<b>1,438</b>	<b>281.2</b>
Minority interest	111	88	26.2	99	11.7
<b>Adjusted PAT</b>	<b>5,369</b>	<b>4,298</b>	<b>24.9</b>	<b>1,338</b>	<b>301.2</b>
Extra ordinary items	201	183	9.7	(216)	(193.0)
<b>Reported PAT</b>	<b>5,570</b>	<b>4,481</b>	<b>24.3</b>	<b>1,122</b>	<b>396.3</b>

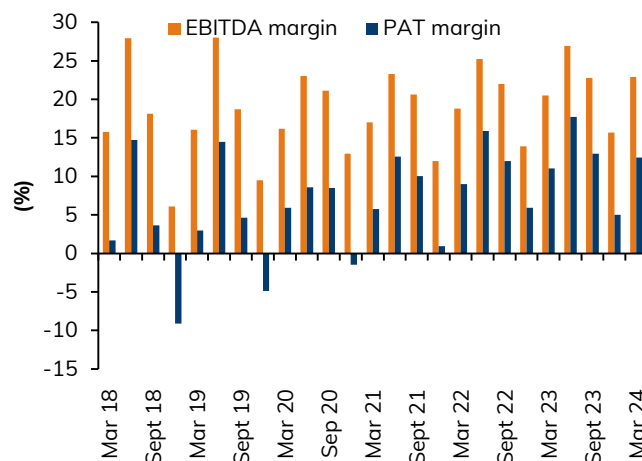
Source: Company data, I-Sec research

### Exhibit 2: Revenue and revenue growth rates



Source: Company data, I-Sec research

### Exhibit 3: EBITDA and PAT margins



Source: Company data, I-Sec research

**Exhibit 4: Volume details**

	Mar 22	June 22	Sept 22	Dec 22	Mar 23	Jun 23	Sept 23	Dec 23	Mar 24
<b>Sales volume (Mn cases)</b>									
CSD	126	218	133	85	160	232	159	106	169
Juice	13	26	11	7	16	23	11	8	18
Water	41	55	46	40	48	59	50	42	53
<b>Total</b>	<b>180</b>	<b>299</b>	<b>190</b>	<b>132</b>	<b>224</b>	<b>314</b>	<b>220</b>	<b>156</b>	<b>240</b>
<b>As % of Total</b>									
CSD	70.0%	72.9%	70.0%	64.4%	71.4%	73.9%	72.3%	67.9%	70.4%
Juice	7.2%	8.7%	5.8%	5.3%	7.1%	7.3%	5.0%	5.1%	7.5%
Water	22.8%	18.4%	24.2%	30.3%	21.4%	18.8%	22.7%	26.9%	22.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Growth (%)</b>									
CSD	18.9%	84.7%	23.1%	25.0%	27.0%	6.4%	19.5%	24.7%	5.6%
Juice	18.2%	136.4%	37.5%	16.7%	23.1%	-11.5%	0.0%	14.3%	12.5%
Water	20.6%	139.1%	24.3%	5.3%	17.1%	7.3%	8.7%	5.0%	10.4%
<b>Total</b>	<b>19.2%</b>	<b>96.7%</b>	<b>24.2%</b>	<b>17.9%</b>	<b>24.4%</b>	<b>5.0%</b>	<b>15.8%</b>	<b>18.2%</b>	<b>7.1%</b>
Realization per case (INR)	157	166	167	168	174	179	176	171	180
EBITDA per case (INR)	29	42	37	23	36	48	40	27	41
Realization growth (%)	5.8%	2.8%	6.7%	8.3%	10.6%	7.8%	5.2%	1.9%	3.5%
EBITDA per case growth (%)	16.7%	11.4%	13.8%	25.7%	20.8%	15.1%	9.0%	15.1%	15.6%

Source: Company data, I-Sec research

## Q1CY24 result and conference call highlights

- Consolidated sales volume grew 7.1% YoY to 240.2mn in Q1CY24.
- Domestic and international businesses registered volume growth of 4.4% and 21.9% YoY.
- Domestic business reported moderate growth despite delay in Holi festival and early occurrence of Ramadan festival.
- Net realisation/case grew 3.5% YoY to INR 179.7 led by better product mix in domestic business and increased contribution of international business (it operates at higher realisation/case).
- Gross margin improved largely on lower input prices (reduced PET prices) and focus on lower sugar usage in product. Also, use of light-weight packaging helped in registering gross margin expansion.
- EBITDA margin expansion was led by improved gross margin and better realisation. Despite increase in fixed costs on account of commissioning of new greenfield plant, EBITDA margin expanded in Q4FY24.
- The company has 46% sales volume with low/no sugar products. The contribution from low/no sugar product is relatively higher in Africa and Morocco markets.
- The company has commenced three new greenfield facilities located in Supa (Maharashtra), Gorakhpur (Uttar Pradesh) and Khordha (Odisha). The capital investment in these plants stood at INR 10bn, INR 11bn and INR 7bn, respectively. Additionally, these are highly backward-integrated plants.
- Capitalisation of assets and addition of new capacities have led to higher depreciation.
- Finance cost expanded due to higher debt required for acquisition and capex. Also, higher borrowing cost partly led to increased finance cost. The borrowing cost increased to 8% from 7.7% in Q1CY23.
- Volume growth and margin expansion led to higher profitability.
- The company's manufacturing plants are currently operating at optimum capacity utilisation.
- The company is likely to manufacture Cheetos in Morocco via its subsidiary under a snack appointment agreement. The production is set to commence from May'25.

## Valuation

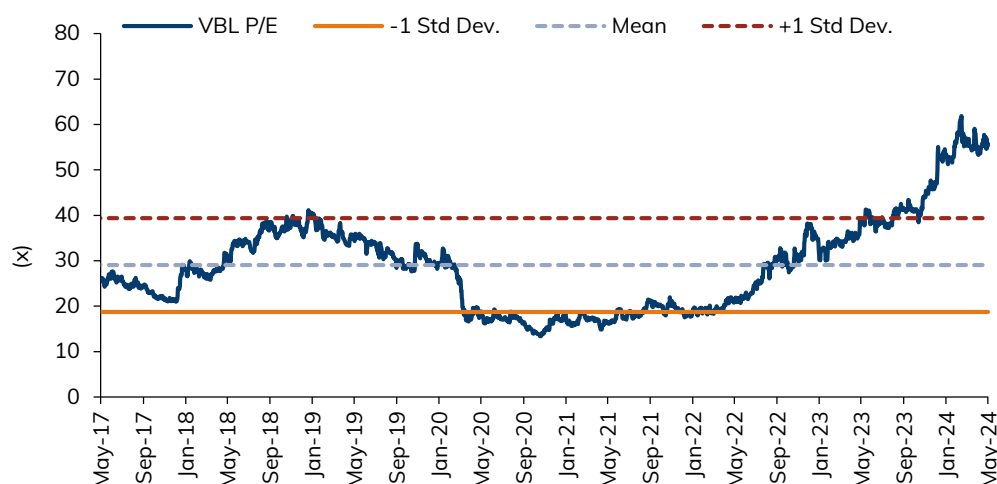
We value Varun Beverages as per DCF methodology, which indicates a value of INR 1,420 per share. The implied P/E multiple at our target price works out to 60x of CY25E EPS. Maintain **HOLD**.

### Exhibit 5: DCF valuation

Particulars	Amt (INR)
Cost of equity (%)	10.9%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	5,65,698
Discounted terminal value (INR mn)	12,79,367
Total equity value (INR mn)	18,45,065
<b>Value per share (INR)</b>	<b>1,420</b>

Source: Company data, I-Sec research

### Exhibit 6: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

## Key risks

**Steep rise in competitive pressures and input prices:** Steep rise in competitive pressures, and any material increase in production capacities by peers in a short timeframe could hurt Varun's earnings.

**Delays in launch/failure of new products:** Any delay in launch of new products and/or failure of new products may impact Varun's financials. If the company's geographical expansion plans fail or get delayed, earnings growth may be impacted.

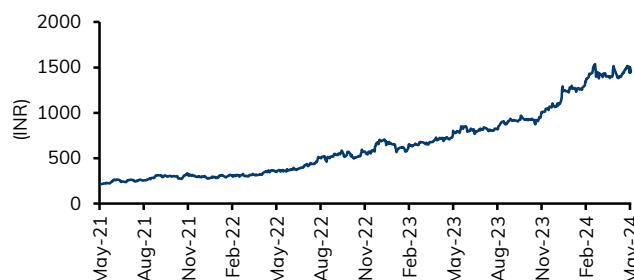
**Faster-than-expected recovery in urban and rural economies:** Faster than expected economic recovery in rural as well as urban economies is an upside risk to our estimates.

### Exhibit 7: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	63.1	63.1	62.9
Institutional investors	30.9	30.2	29.9
MFs and other	2.2	2.3	2.3
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.9	1.0	1.5
FIIIs	27.8	26.9	26.1
Others	6.0	6.7	7.2

Source: Bloomberg, I-Sec research

### Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 9: Profit & Loss

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
Net Sales	1,31,731	1,60,426	1,97,830	2,39,262
<b>Operating Expenses</b>	<b>1,03,850</b>	<b>1,24,330</b>	<b>1,52,877</b>	<b>1,84,930</b>
EBITDA	27,881	36,096	44,954	54,332
<b>EBITDA Margin (%)</b>	<b>21.2</b>	<b>22.5</b>	<b>22.7</b>	<b>22.7</b>
Depreciation & Amortization	6,172	6,809	8,839	10,536
EBIT	21,709	29,286	36,115	43,796
Interest expenditure	1,861	2,681	4,345	3,495
Other Non-operating Income	388	794	756	870
Recurring PBT	20,237	27,399	32,526	41,171
<b>Profit / (Loss) from Associates</b>	<b>0</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Less: Taxes</b>	<b>4,735</b>	<b>6,375</b>	<b>8,294</b>	<b>10,499</b>
PAT	15,501	21,024	24,232	30,672
Less: Minority Interest	(37)	435	9	9
Extraordinaries (Net)	(3,718)	(80)	-	-
Net Income (Reported)	11,820	20,503	24,223	30,663
<b>Net Income (Adjusted)</b>	<b>15,538</b>	<b>20,583</b>	<b>24,223</b>	<b>30,663</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
Total Current Assets	34,040	42,356	49,900	64,795
of which cash & cash eqv.	2,853	4,599	6,228	14,351
Total Current Liabilities & Provisions	20,010	21,478	26,707	32,300
<b>Net Current Assets</b>	<b>14,031</b>	<b>20,879</b>	<b>23,193</b>	<b>32,495</b>
Investments	6,754	6,202	6,202	6,202
Net Fixed Assets	69,080	83,849	1,11,732	1,19,197
ROU Assets	-	-	-	-
Capital Work-in-Progress	6,066	19,222	-	-
Total Intangible Assets	242	242	242	242
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>96,173</b>	<b>1,30,394</b>	<b>1,41,369</b>	<b>1,58,135</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>40,649</b>	<b>56,118</b>	<b>46,118</b>	<b>36,118</b>
<b>Deferred Tax Liability</b>	<b>3,368</b>	<b>3,430</b>	<b>3,430</b>	<b>3,430</b>
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	6,496	6,496	6,496	6,496
Reserves & Surplus	44,528	62,869	83,844	1,10,610
<b>Total Net Worth</b>	<b>51,024</b>	<b>69,365</b>	<b>90,340</b>	<b>1,17,106</b>
Minority Interest	1,131	1,482	1,482	1,482
<b>Total Liabilities</b>	<b>96,173</b>	<b>1,30,394</b>	<b>1,41,369</b>	<b>1,58,135</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending December)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	56,114	38,705	26,677	43,173
% growth (YOY)	13.3	21.8	20.5	10.9
EBITDA	15,110	8,821	4,183	9,888
Margin %	26.9	22.8	15.7	22.9
Other Income	416	185	91	84
Extraordinaries	49	(96)	(216)	201
Adjusted Net Profit	9,981	4,981	1,338	5,369

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending December)

	CY22A	CY23A	CY24E	CY25E
<b>Operating Cashflow</b>	<b>16,416</b>	<b>21,437</b>	<b>32,377</b>	<b>40,021</b>
Working Capital Changes	(5,852)	(6,735)	(685)	(1,179)
Capital Commitments	(18,010)	(32,640)	(17,500)	(18,000)
<b>Free Cashflow</b>	<b>(1,594)</b>	<b>(11,203)</b>	<b>14,877</b>	<b>22,021</b>
<b>Other investing cashflow</b>	<b>732</b>	<b>(478)</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(17,278)	(33,119)	(17,500)	(18,000)
Issue of Share Capital	-	44	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	3,161	14,769	(10,000)	(10,000)
Dividend paid	(1,624)	(2,273)	(3,248)	(3,897)
Others	-	-	-	-
Cash flow from Financing Activities	1,537	12,540	(13,248)	(13,897)
<b>Chg. in Cash &amp; Bank balance</b>	<b>675</b>	<b>858</b>	<b>1,629</b>	<b>8,123</b>
Closing cash & balance	1,543	2,422	6,228	14,351

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending December)

	CY22A	CY23A	CY24E	CY25E
<b>Per Share Data (INR)</b>				
Reported EPS	12.0	15.8	18.6	23.6
Adjusted EPS (Diluted)	12.0	15.8	18.6	23.6
Cash EPS	16.7	21.1	25.4	31.7
Dividend per share (DPS)	1.2	1.8	2.5	3.0
Book Value per share (BV)	39.3	53.4	69.5	90.1
Dividend Payout (%)	10.5	11.0	13.4	12.7
<b>Growth (%)</b>				
Net Sales	49.3	21.8	23.3	20.9
EBITDA	68.5	29.5	24.5	20.9
EPS (INR)	123.9	32.5	17.7	26.6
<b>Valuation Ratios (x)</b>				
P/E	123.5	93.2	79.2	62.6
P/CEPS	88.4	70.1	58.0	46.6
P/BV	37.6	27.7	21.2	16.4
EV / EBITDA	69.9	54.4	43.4	35.6
P / Sales	14.6	12.0	9.7	8.0
Dividend Yield (%)	0.1	0.1	0.2	0.2
<b>Operating Ratios</b>				
Gross Profit Margins (%)	52.5	53.8	54.1	54.1
EBITDA Margins (%)	21.2	22.5	22.7	22.7
Effective Tax Rate (%)	23.4	23.3	25.5	25.5
Net Profit Margins (%)	11.8	12.8	12.2	12.8
Net Debt / Equity (x)	0.6	0.6	0.4	0.1
Net Debt / EBITDA (x)	1.1	1.3	0.7	0.3
Fixed Asset Turnover (x)	1.3	1.4	1.4	1.4
Working Capital Days	31	37	31	28
Inventory Turnover Days	66	54	54	54
Receivables Days	10	9	8	8
Payables Days	65	52	52	52
<b>Profitability Ratios</b>				
RoCE (%)	20.6	20.5	20.3	22.3
RoE (%)	33.0	33.5	29.8	29.1
RoIC (%)	23.1	23.2	22.7	25.6

Source Company data, I-Sec research



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