

23 October 2024

India | Equity Research | Q3CY24 results review

Varun Beverages

Consumer Staples & Discretionary

Strong growth prospects at international business; rich valuations cap upside

Takeaways: (1) Varun (VBL) has aggressively ramped up production (operating at maximum utilisation) at its recently-commissioned DRC facility, due to strong demand. It plans to scale up production capacity at DRC in a phased manner (2x by Aug'25). (2) Unfavourable weather hurt domestic volumes (+5.7% YoY). (3) VBL is streamlining operations in its Africa business – better operational efficiency potential. BevCo is registering better volumes amid a seasonally weak period; upcoming peak season may register higher volume growth. (4) VBL sees potential to register sales of INR 8–8.5bn from the three plants proposed for its snack business. (5) Proposed fund raise could be utilised for: (i) debt reduction, (ii) expansion into newer territories, and (iii) inorganic acquisitions. We remain positive on VBL's strong business outlook, but its current valuations seem stretched.

Maintain HOLD with a DCF-based unchanged TP of INR 606 (adjusted for the 2:5 stock split; implied P/E of 62/49x CY25/26E).

Q3CY24 result review

VBL reported revenue/EBITDA/PAT growth of 24.1%/30.5%/24% YoY. Gross/EBITDA margins expanded 22bps/117bps YoY led by operational efficiencies. Net realisation per case grew 2.2% YoY. While higher depreciation (+50.2% YoY) and finance cost (+89.7% YoY) weighed on profitability, higher other income partly offset the impact with 31% YoY growth.

Segment-wise performance

Volume growth stood at 21.9% including BevCo volumes; segment-wise volume growth rates were – carbonated soft drinks at 25.8%, juices at 2.7% and water at 12% YoY. Unfavourable weather conditions weighed on India volumes (+5.7% YoY). International volumes (organic) grew 7.9% YoY. In Q3CY24, CSD/juices/packaged drinking water contributed 75%/4%/21% of total volumes.

Capacity expansion may continue at DRC

Strong demand has compelled VBL to operate its newly-commissioned greenfield capacity at Democratic Republic of Congo (DRC) at maximum utilisation levels. Resultantly, VBL embarked on capacity expansion in DRC and intends to double its capacity in a phased manner by Jul-Aug'25. The company aims to commission part-capacity in Jan-Feb'25; the rest in the latter half of CY25.

Financial Summary

Y/E December (INR mn)	CY23A	CY24E	CY25E	CY26E
Net Revenue	1,60,426	1,97,830	2,39,262	2,89,535
EBITDA	36,096	45,547	55,049	66,395
EBITDA Margin (%)	22.5	23.0	23.0	22.9
Net Profit	20,593	25,236	31,599	40,038
EPS (INR)	6.3	7.8	9.7	12.3
EPS % Chg YoY	32.5	22.5	25.2	26.7
P/E (x)	93.8	76.5	61.1	48.2
EV/EBITDA (x)	54.8	43.2	35.5	29.2
RoCE (%)	20.5	21.3	24.0	26.6
RoE (%)	33.5	31.8	32.0	32.2

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Market Data

Market Cap (INR)	1,932bn
Market Cap (USD)	22,973mn
Bloomberg Code	VBL IN
Reuters Code	VARB BO
52-week Range (INR)	683 /331
Free Float (%)	37.0
ADTV-3M (mn) (USD)	48.4

Price Performance (%)	3m	6m	12m
Absolute	(4.9)	3.9	60.5
Relative to Sensex	(4.5)	(5.0)	37.8

ESG Score	2023	2024	Change
ESG score	63.2	64.5	1.3
Environment	43.8	51.5	7.7
Social	63.9	61.6	(2.3)
Governance	74.8	77.1	2.3

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

31-07-2024: [Q2CY24 results review](#)

14-05-2024: [Q1CY24 results review](#)

Improved efficiencies and business tailwinds may drive growth in South Africa business

VBL is focusing on streamlining its business operations in South Africa. The company believes it may result in higher operational efficiency. These efforts are intended to improve the cost structure of South Africa business. Early benefits are visible as VBL registered 20% YoY growth in Sep'24. With a 28–29mn case run-rate per quarter in the off-season period for BevCo, we believe, VBL can report relatively higher volumes in the upcoming peak season.

Fund raising to fuel incremental growth and aid in de-leveraging

VBL intends to utilise the proceeds from announced QIP (subject to shareholder approval) towards: (1) inorganic acquisitions complementary to existing business; (2) debt reduction; and (3) expansion of business operations in newer territories.

Valuation

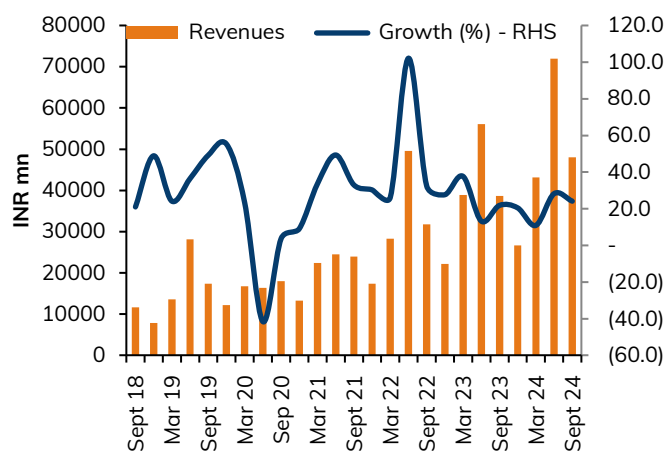
We model VBL to report revenue and PAT CAGRs of 21.8% and 24.8%, respectively, over CY23–26E. While we remain positive on the company's strong growth prospects, we believe its current valuation is stretched. We maintain **HOLD** with a DCF-based unchanged TP of INR 606 (adjusted for the 2:5 stock split) at an implied P/E of 62x/49x CY25/CY26E.

Exhibit 1: Q3CY24 consolidated result review

Y/e Dec (INR mn)	Q3CY24	Q3CY23	YoY % chg.	Q2CY24	QoQ % chg.	9MCY24	9MCY23	YoY % chg.
Revenue	48,047	38,705	24.1	71,969	(33.2)	1,63,189	1,33,749	22.0
Expenditure								
Raw materials	21,364	17,297	23.5	32,606	(34.5)	72,845	62,480	16.6
% of revenue	44.5	44.7		45.3		44.6	46.7	
Employee cost	5,130	3,716	38.1	4,993	2.8	14,060	10,753	30.8
% of revenue	10.7	9.6		6.9		8.6	8.0	
Other expenditure	10,041	8,871	13.2	14,458	(30.5)	34,972	28,604	22.3
% of revenue	20.9	22.9		20.1		21.4	21.4	
Total expenditure	36,536	29,884	22.3	52,056	(29.8)	1,21,878	1,01,837	19.7
EBITDA	11,511	8,821	30.5	19,912	(42.2)	41,311	31,912	29.5
EBITDA margin	24.0	22.8		27.7		25.3	23.9	
Other income	243	185	31.0	440	(44.9)	766	702	9.1
PBDIT	11,754	9,006	30.5	20,352	(42.2)	42,077	32,614	29.0
Depreciation	2,566	1,708	50.2	2,425	5.8	6,866	5,149	33.3
PBIT	9,188	7,298	25.9	17,928	(48.8)	35,211	27,465	28.2
Interest	1,185	625	89.7	1,292	(8.2)	3,414	1,944	75.6
Income from Associates	(1)	(4)	-	(5)	-	(8)	(7)	-
PBT	8,001	6,669	20.0	16,631	(51.9)	31,790	25,514	24.6
Prov. for tax	1,713	1,529	12.1	4,012	(57.3)	7,403	5,933	24.8
% of PBT	21.4	22.9		24.1		23.3	23.3	
PAT	6,288	5,141	22.3	12,618	(50.2)	24,386	19,581	24.5
Minority interest	73	126	(42.6)	88	(17.7)	272	336	(19.2)
Adjusted PAT	6,216	5,014	24.0	12,530	(50.4)	24,115	19,244	25.3
Extra ordinary items	(197)	(96)	-	(198)	-	(194)	136	-
Reported PAT	6,019	4,918	22.4	12,332	(51.2)	23,921	19,381	23.4

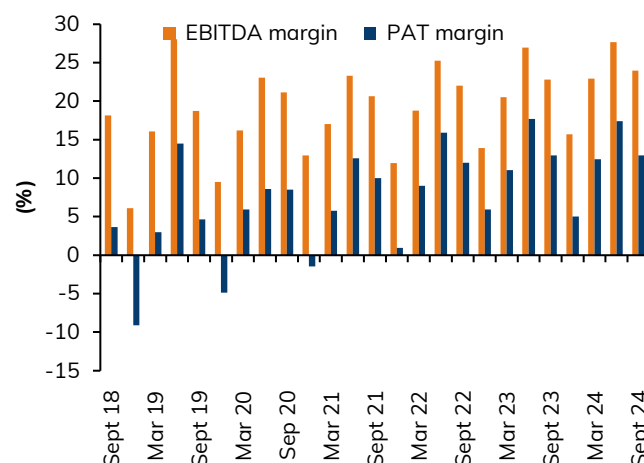
Source: Company data, I-Sec research

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

	Sep'22	Dec'22	Mar'23	Jun'23	Sep'23	Dec'23	Mar'24	Jun'24	Sep'24
Sales volume (mn cases)									
CSD	133	85	160	232	159	106	169	306	200
Juice	11	7	16	23	11	8	18	32	11
Water	46	40	48	59	50	42	53	63	56
Total	190	132	224	314	220	156	240	401	267
As % of Total									
CSD	70.0%	64.4%	71.4%	73.9%	72.3%	67.9%	70.4%	76.3%	74.8%
Juice	5.8%	5.3%	7.1%	7.3%	5.0%	5.1%	7.5%	8.0%	4.2%
Water	24.2%	30.3%	21.4%	18.8%	22.7%	26.9%	22.1%	15.7%	21.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth (%)									
CSD	23.1%	25.0%	27.0%	6.4%	19.5%	24.7%	5.6%	31.9%	25.8%
Juice	37.5%	16.7%	23.1%	-11.5%	0.0%	14.3%	12.5%	39.1%	2.7%
Water	24.3%	5.3%	17.1%	7.3%	8.7%	5.0%	10.4%	6.8%	12.0%
Total	24.2%	17.9%	24.4%	5.0%	15.8%	18.2%	7.1%	27.7%	21.5%
Realisation per case (INR)									
Realisation per case (INR)	167	168	174	179	176	171	180	179	180
EBITDA per case (INR)	37	23	36	48	40	27	41	50	43
Realization growth (%)									
Realization growth (%)	6.7%	8.3%	10.6%	7.8%	5.2%	1.9%	3.5%	0.4%	2.2%
EBITDA per case growth (%)	13.8%	25.7%	20.8%	15.1%	9.0%	15.1%	15.6%	3.2%	7.4%

Source: Company data, I-Sec research

Q3CY24 result and conference call highlights

- VBL intends to raise INR 75bn via issuance of equity share subject to board approval. VBL may utilise the proceeds towards: (1) inorganic acquisitions; (2) debt reduction; and (3) entering into newer territories. VBL is also aiming to expand its snack business in the Africa market.
- The company believes the snack business has huge growth headroom. Three snack plants may generate sales of INR 8–8.5bn, following the capacity ramp-up.
- VBL aims to expand its beverages capacities in the domestic market (work is on track) ahead of the upcoming peak season.
- VBL has ramped up production at its DRC facility. The company is operating the facility at maximum capacity to cater to the strong demand. Additionally, it has planned phased capacity expansion in DRC. A part of the capacity expansion may complete by Jan/Feb'25; the remaining may be commissioned by Jul/Aug'25. Following the complete expansion, VBL's capacity may double to ~70mn cases.
- South Africa business is reporting moderate volume growth amid a seasonally weak period and streamlining activities conducted by the company. VBL is taking initiatives to improve operational efficiency at its South Africa business. It expects volume run-rate to improve in upcoming peak season.
- Margin expansion was led by the operational efficiencies.
- While competition is rising in the beverages industry, VBL indicated ample scope for business growth for all the players led by expansion of market size.
- International business for VBL is functioning well. Zambia and Sri Lanka business are reporting good growth. Additionally, DRC market is witnessing strong demand, which may turn beneficial for the company.
- VBL aims to add 300,000–400,000 outlets per annum. The company is focusing on territories like Gujarat (for distribution expansion), as it has low market penetration in the state.

Valuation

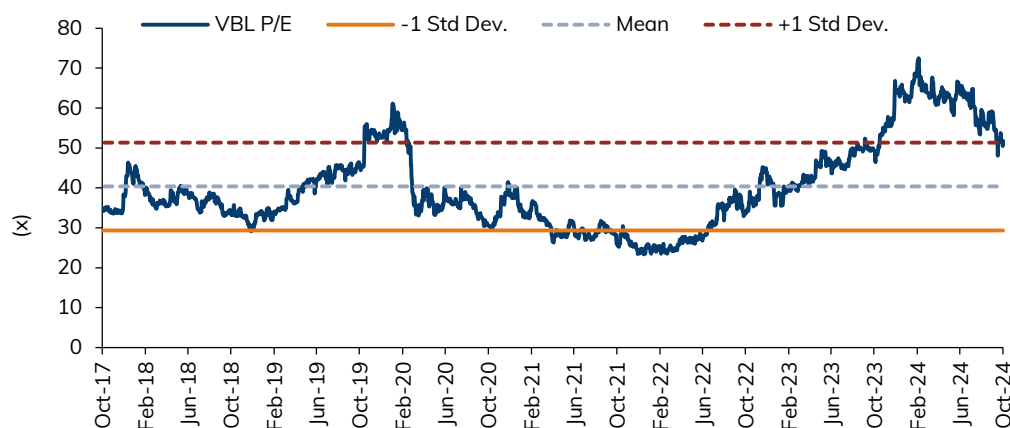
We value VBL as per the DCF methodology, which indicates a value of INR 606 per share (adjusted for the 2:5 stock split). The implied P/E multiple at our target price works out to 62x/49x of CY25/CY26E EPS. Maintain **HOLD**.

Exhibit 5: DCF valuation

Particulars	
Cost of equity (%)	11.1%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	7,15,084
Discounted terminal value (INR mn)	12,53,426
Total equity value (INR mn)	19,68,510
Value per share (INR)	606

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 VBL's earnings.

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

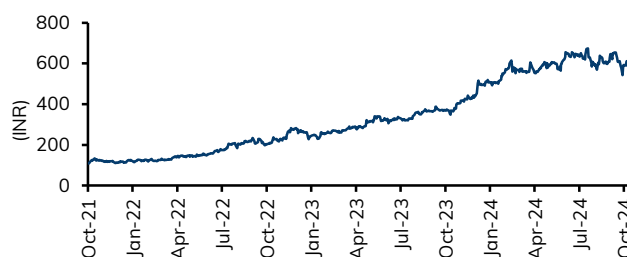
Faster-than-expected recovery in urban and rural economies: Faster-than-expected economic recovery in rural as well as urban economies is an upside risk to our estimates.

Exhibit 7: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	62.9	62.7	62.7
Institutional investors	29.9	29.6	29.1
MFs and other	2.3	2.4	2.6
Fls/ Banks	0.0	0.0	0.4
Insurance Cos.	1.5	1.6	1.6
FIs	26.1	25.6	24.5
Others	7.2	7.7	8.2

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)

	CY23A	CY24E	CY25E	CY26E
Net Sales	1,60,426	1,97,830	2,39,262	2,89,535
Operating Expenses	1,24,330	1,52,283	1,84,212	2,23,140
EBITDA	36,096	45,547	55,049	66,395
EBITDA Margin (%)	22.5	23.0	23.0	22.9
Depreciation & Amortization	6,809	8,554	10,196	11,291
EBIT	29,286	36,993	44,854	55,104
Interest expenditure	2,681	4,089	3,289	2,489
Other Non-operating Income	794	756	580	781
Recurring PBT	27,399	33,660	42,144	53,396
Profit / (Loss) from Associates	5	-	-	-
Less: Taxes	6,375	8,415	10,536	13,349
PAT	21,024	25,245	31,608	40,047
Less: Minority Interest	435	9	9	9
Extraordinaries (Net)	(80)	-	-	-
Net Income (Reported)	20,513	25,236	31,599	40,038
Net Income (Adjusted)	20,593	25,236	31,599	40,038

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending December)

	CY23A	CY24E	CY25E	CY26E
Total Current Assets	42,356	45,756	55,400	73,647
of which cash & cash eqv.	4,599	2,083	4,956	15,061
Total Current Liabilities & Provisions	21,478	26,707	32,300	39,087
Net Current Assets	20,879	19,049	23,099	34,560
Investments	6,202	6,202	6,202	6,202
Net Fixed Assets	83,849	1,12,017	1,19,822	1,27,031
ROU Assets	-	-	-	-
Capital Work-in-Progress	19,222	-	-	-
Total Intangible Assets	242	242	242	242
Long Term Loans & Advances	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,30,394	1,37,510	1,49,365	1,68,035
Liabilities				
Borrowings	56,118	46,118	36,118	26,118
Deferred Tax Liability	3,430	3,430	3,430	3,430
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	6,496	6,496	6,496	6,496
Reserves & Surplus	62,869	79,985	1,01,840	1,30,510
Total Net Worth	69,365	86,481	1,08,336	1,37,006
Minority Interest	1,482	1,482	1,482	1,482
Total Liabilities	1,30,394	1,37,510	1,49,365	1,68,035

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending December)

	Dec-23	Mar-24	Jun-24	Sept-24
Net Sales	26,677	43,173	71,969	48,047
% growth (YOY)	20.5	10.9	28.3	24.1
EBITDA	4,183	9,888	19,912	11,511
Margin %	15.7	22.9	27.7	24.0
Other Income	91	84	440	243
Extraordinaries	(216)	201	(198)	(197)
Adjusted Net Profit	1,338	5,369	12,530	6,216

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending December)

	CY23A	CY24E	CY25E	CY26E
Operating Cashflow	21,437	33,105	40,616	49,973
Working Capital Changes	(6,735)	(685)	(1,179)	(1,355)
Capital Commitments	(32,640)	(17,500)	(18,000)	(18,500)
Free Cashflow	(11,203)	15,605	22,616	31,473
Other investing cashflow	(478)	-	-	-
Cashflow from Investing Activities	(33,119)	(17,500)	(18,000)	(18,500)
Issue of Share Capital	44	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	14,769	(10,000)	(10,000)	(10,000)
Dividend paid	(2,273)	(8,120)	(9,744)	(11,368)
Others	-	-	-	-
Cash flow from Financing Activities	12,540	(18,120)	(19,744)	(21,368)
Chg. in Cash & Bank balance	858	(2,515)	2,872	10,105
Closing cash & balance	2,422	2,083	4,956	15,061

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending December)

	CY23A	CY24E	CY25E	CY26E
Per Share Data (INR)				
Reported EPS	6.3	7.8	9.7	12.3
Adjusted EPS (Diluted)	6.3	7.8	9.7	12.3
Cash EPS	8.4	10.4	12.9	15.8
Dividend per share (DPS)	0.7	2.5	3.0	3.5
Book Value per share (BV)	21.4	26.6	33.4	42.2
Dividend Payout (%)	11.0	32.2	30.8	28.4
Growth (%)				
Net Sales	21.8	23.3	20.9	20.0
EBITDA	29.5	26.2	20.9	19.6
EPS (INR)	32.5	22.5	25.2	26.7
Valuation Ratios (x)				
P/E	93.8	76.5	61.1	48.2
P/CEPS	70.5	57.2	46.2	37.6
P/BV	27.8	22.3	17.8	14.1
EV / EBITDA	54.8	43.2	35.5	29.2
P / Sales	12.0	9.8	8.1	6.7
Dividend Yield (%)	0.1	0.4	0.5	0.6
Operating Ratios				
Gross Profit Margins (%)	53.8	54.1	54.1	54.0
EBITDA Margins (%)	22.5	23.0	23.0	22.9
Effective Tax Rate (%)	23.3	25.0	25.0	25.0
Net Profit Margins (%)	12.8	12.8	13.2	13.8
Net Debt / Equity (x)	0.6	0.4	0.2	0.0
Net Debt / EBITDA (x)	1.3	0.8	0.5	0.1
Fixed Asset Turnover (x)	1.4	1.4	1.4	1.5
Working Capital Days	37	31	28	25
Inventory Turnover Days	54	54	54	54
Receivables Days	9	8	8	8
Payables Days	52	52	52	52
Profitability Ratios				
RoCE (%)	20.5	21.3	24.0	26.6
RoE (%)	33.5	31.8	32.0	32.2
RoIC (%)	23.2	23.4	26.2	30.1

Source Company data, I-Sec research

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