

Q3CY24

Varun Beverages Ltd.



Varun Beverages Ltd.

Strong volume growth and improving margins underpin the overall performance

CMP* INR 595	Target INR 738	Potential Upside 24%	Market Cap (INR Mn) 1,928,577	Recommendation BUY	Sector FMCG
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Result highlights

- VBL showcased a healthy performance in Q3CY24 results, which outperformed our estimates across the board.
- Consolidated revenue stood at INR 48,047 Mn, grew by 24.1% YoY, outperformed our estimate by 3.6%. The revenue growth was driven by expanded distribution network, increased product penetration and favorable demand trends in key markets.
- EBITDA reached to INR 11,511 Mn, grew by 30.5% YoY, bet our estimate. The growth was led by better operating performance. The corresponding EBITDA margin improved by 117 bps YoY to 24.0%.
- PAT stood at INR 6,196 Mn, reporting a growth of 23.7% YoY, which surpassed our estimate. Mainly due to better operating performance and lower than expected tax expenses.
- We maintain our CY26E Adj. EPS, mainly due to strong revenue growth, geographic expansion, and cost efficiencies. **We re-iterate our BUY rating, valuing the company with a maintained PE multiple of 57x on a CY26E EPS of INR 12.9. Consequently, we arrive at a target price of INR 738, indicating an upside of 24% from the CMP.**

MARKET DATA

Shares O/S (Mn)	3,249
Mkt Cap (INR Mn)	1,928,577
52 Wk H/L (INR)	681/ 331
Volume Avg (3m K)	4,252
Face Value (INR)	2
Bloomberg Code	VBL IN

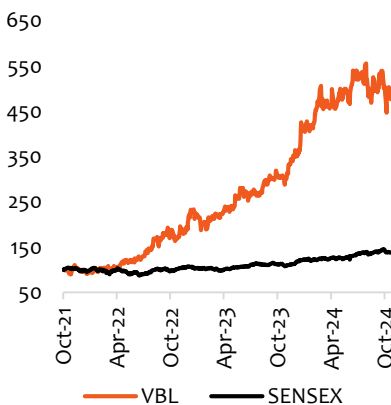
KEY FINANCIALS

Particulars (INR Mn)	CY22	CY23	CY24E	CY25E	CY26E
Net sales (net of excise)	131,731	160,426	196,663	242,413	286,748
EBITDA	27,881	36,095	46,678	57,163	68,302
PAT	14,974	20,559	26,555	33,850	41,846
Adj PAT	14,974	20,559	26,555	33,850	41,846
EPS (INR)*	4.6	6.3	8.2	10.4	12.9
Adj. EPS (INR)	4.6	6.3	8.2	10.4	12.9
EBITDA Margin (%)	21.2%	22.5%	23.7%	23.6%	23.8%
Adj. NPM (%)	11.4%	12.8%	13.5%	14.0%	14.6%

Source: Company, KRChoksey Research

* Adjusted for splits and bonus

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,221
NIFTY	24,472

Strong volume growth drives revenue growth

- In Q3CY24, consolidated revenue (Incl. BevCo) stood at INR 48,047 Mn which grew by 24.1% YoY, driven by domestic volume growth of 5.7% YoY, and 7.9% YoY growth in International segment.
- The net realization was grown by 2.0% YoY at INR 180/case, including ~34 Mn cases from BevCo and DRC during the current quarter. The company is planning to double its capacities for DRC in CY25E (~70 Mn cases).
- Heavy rains during the quarter affected several regions in India, resulting in mid-single-digit volume growth.
- Segmentation-wise, Carbonated Soft Drinks (CSD) (75.0% of total volume), Juices (4.0% of total volume), and Water (21.0% of total volume) demonstrated growth of 25.8%/6.6%/12.0% YoY, respectively.

Strong margin growth driven by operational efficiency

- Gross margins increased by 22 bps YoY to 55.5%, driven by lower PET (polyethylene terephthalate) prices and greater emphasis on low sugar/no sugar products.
- EBITDA margin increased by 117 bps YoY to 24.0%, led by operational efficiencies.
- PAT stood at INR 6,196 Mn, which grew by 23.7% YoY, driven by higher sales growth and improvement in margins, but partly offset by a 50.2% YoY rise in depreciation due to the acquisition of BevCO and new production facilities in India and DRC, as well as an 89.7% YoY increase in finance costs primarily related to the acquisition and rising borrowing costs.

SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	62.7	62.7	62.9
FIIIs	24.2	25.3	25.8
DIIIs	5.0	4.6	4.2
Others	8.2	7.4	7.1
Total	100	100	100

*Based on the previous closing

*Note: All the market data is as of previous closing.

21.4%

Revenue CAGR between FY23
and FY26E

26.7%

Adj. PAT CAGR between FY23
and FY26E

Varun Beverages Ltd.

Conference Call Highlights

- **DRC Operations:** The company successfully commissioned its greenfield facility in DRC, achieving 100.0% utilization within a short period. Encouraged by the demand, VBL plans further capacity expansions, with a second facility expected to commence operations in early 2025E.
- **New Facilities in India:** Expansion in India is progressing well, with new facilities set to be commissioned before the key season next year. The expansion will more than double current capacity, with some expansion happening in early 2025E (January-February) and the rest by July-August.
- **BevCo Acquisition:** Integration of BevCo has contributed significantly to growth in South Africa and is driving new expansion opportunities.
- **International Expansion:** Significant growth observed in Africa, particularly in South Africa and the newly commissioned DRC plant. The current DRC capacity is 35 Mn cases. The company expected to double its DRC capacities by 2025E. Peak seasonality is anticipated from October to March, with a 60.0%-40.0% split.
- **Efficiency Gains:** Continuous focus on cost management, with improved operational efficiencies leading to margin enhancements. Varun Beverages is set to commission its first plant dedicated to r-PET production by Q2CY25E of next year. This facility will enable the company to meet the government's mandatory r-PET requirements, ensuring sufficient in-house production of recycled PET, further enhancing sustainability and operational efficiency.
- **New Product Launches:** In collaboration with Pepsi, the company is set to launch "Nimbu Masala Soda" and is exploring a potential "Jeera" product, with both expected to launch early next year ahead of the peak season.
- **India Growth Potential:** Despite weather-related challenges, the Indian market offers immense growth opportunities, with a focus on expanding the reach to new outlets and enhancing product penetration. Varun Beverages' strategy to counter Campa Cola's entry into the market focuses on expanding distribution by adding 300,000 to 400,000 outlets annually. With a vast, untapped market of 12.0 Mn outlets, VBL currently reaches only 4.0 Mn.
- **Capex:** The company has planned a CapEx of INR 24,000 Mn for the next year, primarily allocated to facilities in Kangra (Himachal Pradesh), Pradesh, Buxar (Bihar), and Meghalaya.
- **Debt Reduction:** The company plans to use a portion of its QIP proceeds to reduce its debt, which was around INR 60,000 Mn as of September 2024, including CWIP.

Important points:

- The company generated 15.0% of its revenue from Sting Energy drinks for the 9MCY24.
- Approximately 49.0% of consolidated sales volumes for the first nine months of CY2024 came from low sugar or no sugar products.
- Africa is positioned to drive further growth as the company capitalizes on emerging demand trends and enhances its operational capabilities.
- The company has three new snack plants set to launch next year in Zimbabwe, Zambia, and Morocco, with plans to explore more opportunities in other African regions.

Important Development:

- The company's Board of Directors has approved a plan to raise up to INR 75,000 Mn through a Qualified Institutional Placement (QIP), pending shareholder approval. The capital will support growth plans, including expansion into new territories, strategic acquisitions, and strengthening the balance sheet.
- The company has commenced production of carbonated soft drinks and packaged drinking water at its facility in Kinshasa, Democratic Republic of Congo. The plant is equipped with two PET lines (swing) for CSD and water, each boasting an installed capacity of 550 bottles per minute (BPM).
- On September 12, 2024 (the "Record Date"), the company sub-divided its existing equity shares from one share with a face value of INR 5.0 into multiple shares with a face value of INR 2.0 each, fully paid-up.

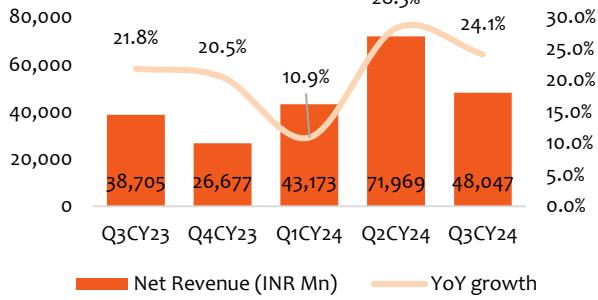
Valuation and view

Varun Beverages delivered strong result in Q3CY24, driven by international expansion, BevCo integration, and operational efficiencies. Despite weather challenges in India, the company maintained steady growth and improved margins. With ongoing expansion in Africa, new facilities in India, and product innovations like the upcoming Jeera-based beverage, VBL is well-positioned for continued growth. The company's focus on debt reduction, cost management, and sustainability further supports its long-term outlook.

We revise our CY24E Adj. EPS estimate upward by 1.2%, driven primarily by stronger-than-expected quarterly performance and a robust revenue trajectory. This growth is supported by geographical expansion and enhanced cost-efficiency across the value chain. We maintain our CY25E/CY26E Adj. EPS estimates mainly due to the positive outlook. We expect Revenue/EBITDA/Adj. PAT to grow by 21.4%/ 23.7%/ 26.7% CAGR over CY23-26E. Varun Beverages' share price is currently trading at 72.7x/57.1x/46.2x on its CY24E/CY25E/CY26E EPS, respectively. We maintain our P/E multiple of 57.0x on CY26E EPS of INR 12.9 and we arrive at a target price of INR 738 per share, representing a 24% upside from the CMP.

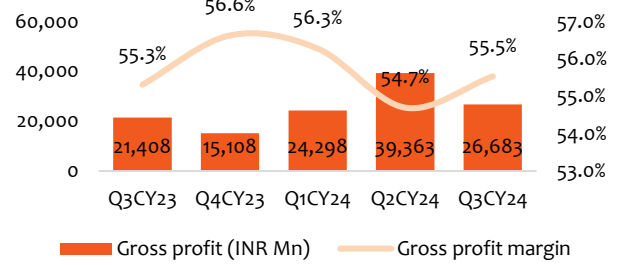
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YoY revenue rises due to volume growth



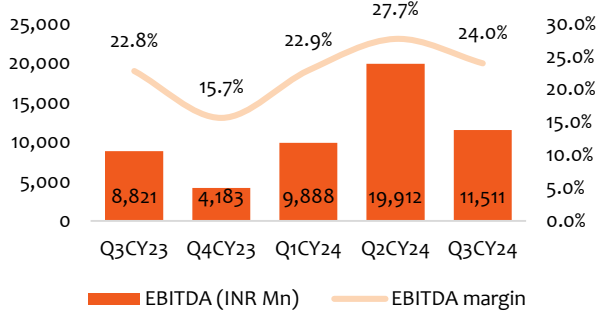
Source: Company, KRChoksey Research

Gross margins improved supported by lower PET prices (YoY)



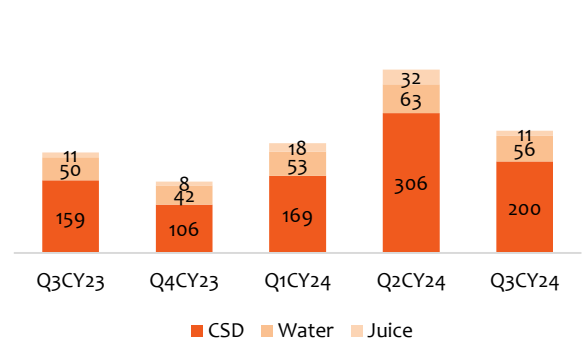
Source: Company, KRChoksey Research

EBITDA margins seen uptick led by better operating efficiencies



Source: Company, KRChoksey Research

Strong CSD volume growth YoY



Source: Company, KRChoksey Research

KEY FINANCIALS

Particulars (INR Mn)	Q3CY24	Q2CY24	Q3CY23	QoQ	YoY
Gross revenue	49,321	73,337	39,378	(32.7%)	25.3%
Excise duty	1,274	1,368	672	(6.9%)	89.4%
Revenue from Operations (net of excise duty)	48,047	71,969	38,705	(33.2%)	24.1%
Total Expenditure	36,536	52,056	29,884	(29.8%)	22.3%
Cost of Raw Materials	17,850	28,723	16,347	(37.9%)	9.2%
Purchase of Stock	1,463	1,600	1,098	(8.6%)	33.2%
Changes in Inventories	2,051	2,282	(148)	(10.2%)	NA
Employee Cost	5,130	4,993	3,716	2.8%	38.1%
Other expenses	10,041	14,458	8,871	(30.5%)	13.2%
EBITDA	11,511	19,912	8,821	(42.2%)	30.5%
EBITDA Margin (%)	24.0%	27.7%	22.8%	(371 bps)	117bps
Depreciation	2,566	2,425	1,708	5.8%	50.2%
EBIT	8,945	17,487	7,113	(48.8%)	25.8%
Interest Expense	1,185	1,292	625	(8.2%)	89.7%
Other Income	243	440	185	(44.9%)	31.0%
PBT	8,002	16,636	6,673	(51.9%)	19.9%
Exceptional Items	0	0	0	NA	NA
Tax	1,713	4,012	1,529	(57.3%)	12.1%
Share in P&L / MI	(93)	(98)	(134)	(4.7%)	(30.6%)
PAT	6,196	12,526	5,011	(50.5%)	23.7%
PAT Margin	12.9%	17.4%	12.9%	(451 bps)	(5bps)
Diluted EPS (INR)	1.91	3.85	1.54	(50.5%)	23.8%

Source: Company, KRChoksey Research

Varun Beverages Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
Revenues	131,731	160,426	196,663	242,413	286,748
COGS	62,612	74,049	88,568	110,298	129,334
Gross profit	69,120	86,377	108,096	132,115	157,414
Employee cost	12,166	14,466	18,077	20,220	24,462
Other expenses	29,072	35,816	43,341	54,732	64,650
EBITDA	27,881	36,095	46,678	57,163	68,302
EBITDA Margin	21.2%	22.5%	23.7%	23.6%	23.8%
D&A	6,172	6,809	9,204	10,537	10,537
EBIT	21,709	29,286	37,474	46,626	57,765
Interest expense	1,861	2,681	3,229	2,599	2,599
Other income	388	794	917	1,123	1,332
PBT	20,236	27,398	35,162	45,150	56,498
Tax	4,735	6,375	8,244	10,428	13,574
Minority interest	(527)	(464)	(363)	(872)	(1,079)
PAT	14,974	20,559	26,555	33,850	41,846
Adj. PAT	14,974	20,559	26,555	33,850	41,846
EPS (INR)	4.6	6.3	8.2	10.4	12.9
Adj. EPS	4.6	6.3	8.2	10.4	12.9

Exhibit 3: Cash Flow Statement

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
CFFO	17,900	23,908	31,591	37,668	46,486
CFFI	(17,046)	(32,899)	(26,200)	(4,778)	(9,106)
CFFF	(179)	9,849	(4,229)	(22,599)	(22,599)
Net Inc/Dec in cash	675	858	1,162	10,291	14,781
Opening Cash	1,508	1,543	2,422	3,584	13,876
Closing Cash	1,543	2,422	3,584	13,876	28,657

Exhibit 4: Key Ratios

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
EBITDA Margin (%)	21.2%	22.5%	23.7%	23.6%	23.8%
Tax rate (%)	23.4%	23.3%	23.4%	23.1%	24.0%
Net Profit Margin (%)	11.4%	12.8%	13.5%	14.0%	14.6%
RoE (%)	29.3%	29.6%	27.6%	25.8%	24.1%
RoCE (%)	28.4%	26.5%	27.3%	28.8%	29.6%
Adj. EPS (INR)	4.6	6.3	8.2	10.4	12.9
Adj. P/E	129.0x	93.9x	72.7x	57.1x	46.2x

Exhibit 2: Balance Sheet

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
Equity					
Equity Capital	6,496	6,496	6,496	6,496	6,496
Other Equity	45,659	64,350	91,260	125,978	168,897
Total Equity	52,155	70,847	97,756	132,474	175,393
Non-Current Liabilities					
Borrowings	17,270	31,889	31,889	21,889	11,889
Lease liabilities/ Other financial liabilities	1,654	1,979	1,979	1,979	1,979
Other Current Liabilities	5,416	5,625	5,625	5,625	5,625
Total Non-Current Liabilities	24,340	39,493	39,493	29,493	19,493
Current Liabilities					
Borrowings	19,678	20,054	19,054	9,054	(946)
Lease Liabilities	236	390	390	390	390
Trade Payables	8,243	7,582	9,069	11,294	13,244
Other current liabilities	11,531	13,505	13,505	13,505	13,505
Total Current Liabilities	39,688	41,532	42,019	34,244	26,193
Total Liabilities	64,028	81,025	81,512	63,737	45,686
Non-Current Assets					
PPE	63,571	78,378	94,175	92,637	91,206
Intangible assets (inc. Goodwill)	5,751	5,713	5,713	5,713	5,713
Other current assets	12,820	25,424	27,871	25,163	26,651
Total Non-Current Assets	82,142	109,516	127,759	123,514	123,570
Current Assets					
Inventories	19,939	21,505	25,722	32,033	37,561
Trade Receivables	2,993	3,594	4,429	5,443	6,439
Other financial assets	3,977	7,388	9,104	11,189	13,236
Cash and Bank	1,543	2,422	3,584	13,876	28,657
Other current assets	5,588	7,447	8,670	10,157	11,616
Total Current Assets	34,040	42,356	51,509	72,697	97,509
Total Assets	116,182	151,872	179,268	196,211	221,079

Source: Company, KRChoksey Research

Varun Beverages Ltd.

Varun Beverages Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
23-Oct-24	595	738	BUY
01-Aug-24	630	738	BUY
15-May-24	596	692	BUY
15-Feb-24	572	693	BUY
20-Dec-23	510	602	BUY
05-Dec-23	424	509	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66535000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com