

# Varun Beverages Limited



## Varun Beverages Ltd.

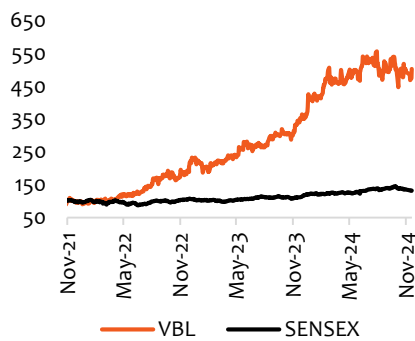
### VBL expands footprint with acquisition of PepsiCo bottlers in Tanzania and Ghana

CMP INR 630*	Target INR 770	Potential Upside 22.2%	Market Cap (INR Mn) 2,033,702	Recommendation BUY	Sector FMCG
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#### MARKET DATA

Shares outs (Mn)	3,249
Mkt Cap (INR Mn)	2,033,702
52 Wk H/L (INR)	681/407
Volume Avg (3m K)	5,087
Face Value (INR)	2.0
Bloomberg Code	VBL IN

#### SHARE PRICE PERFORMANCE



#### MARKET INFO

SENSEX	77,578
NIFTY	23,519

#### SHAREHOLDING PATTERN (%)

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

- Varun Beverages Limited (VBL), one of PepsiCo's largest franchisees, has announced the acquisition of full ownership in two African beverage companies: SBC Tanzania and SBC Beverages Ghana. VBL has acquired 100% control of SBC Tanzania for INR 13,040 Mn and SBC Ghana for INR 1,270 Mn. These strategic acquisitions align with VBL's objective to expand its operational footprint in Africa, a region identified as key for future growth.
- SBC Tanzania:** Operating five manufacturing facilities, SBC Tanzania generated a revenue of INR 15,050 Mn in FY24. The acquisition will significantly strengthen VBL's market position in East Africa, particularly enhancing its manufacturing and distribution capabilities for PepsiCo products and other beverages.
- SBC Ghana:** With a single manufacturing facility and a revenue of INR 320 Mn in FY24, SBC Ghana's acquisition provides VBL with an entry point into the West African market, further solidifying its Pan-African strategy.
- In addition to these acquisitions, VBL has also announced plans to acquire the remaining 39.93% stake in its subsidiary, Lunarmech Technologies, for INR 2,000 Mn. This acquisition will bring Lunarmech under VBL's full ownership. Lunarmech, which specializes in manufacturing plastic caps for PET bottles, generated a revenue of INR 1,830 Mn in FY24 from its facilities in Jaipur and Jammu. The full acquisition is expected to optimize VBL's in-house supply chain for packaging materials, further enhancing operational efficiency.
- While the recent acquisitions may temporarily impact EBITDA margins due to integration costs, VBL has a proven track record of margin improvement post-acquisitions, such as with BevCo. We expect VBL to drive profitability through backward integration, enhancing cost efficiencies and supporting long-term margin expansion. Despite short-term pressure, VBL's operational expertise should enable sustained growth and margin improvement.
- We have incorporated the acquisition of SBC Tanzania and SBC Ghana into our projections for CY25E and CY26E. We expects Revenue, EBITDA, and PAT to grow at CAGRs of 23.5%/25.1%/28.5% respectively, over CY23-CY26E. Following these acquisitions, we have raised our CY26E EPS estimate by ~4.0% to INR 13.4 (from INR 12.9) and maintain our PE multiple of 57x. We expect these strategic expansions will contribute ~5.0% incremental growth to EBITDA and 4.0% incremental growth to EPS in CY26E. As a result, we have upgraded our target price to INR 770 (previously INR 738) and maintain our "BUY" rating on Varun Beverages Ltd.**

#### KEY FINANCIALS

Particulars (INR Mn)	CY22	CY23	CY24E	CY25E	CY26E
Net sales (net of excise)	131,731	160,426	196,663	257,786	302,121
EBITDA	27,881	36,095	46,678	61,296	70,740
PAT	14,974	20,559	26,555	36,998	43,645
Adj PAT	14,974	20,559	26,555	36,998	43,645
EPS (INR)*	4.6	6.3	8.2	11.4	13.4
Adj. EPS (INR)	4.6	6.3	8.2	11.4	13.4
EBITDA Margin (%)	21.2%	22.5%	23.7%	23.8%	23.4%
Adj. NPM (%)	11.4%	12.8%	13.5%	14.4%	14.4%

Source: Company, DevenChoksey Research

\*Based on the previous closing

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

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## Varun Beverages Ltd.

### Market Share Overview:

- **Tanzania:** PepsiCo holds a 56.0% volume market share in Tanzania's carbonated soft drink (CSD) market, with a relative market share of 56.0% compared to Coca-Cola's 44.0% in the first half of CY24. The overall CSD market in Tanzania, which includes local brands, is ~ 220 Mn cases, with PepsiCo's share in the overall market standing at around 34.0%.
- **Ghana:** PepsiCo's market share in Ghana is more modest at 13.0%, with Coca-Cola commanding a dominant 87.0% share of the market in the same period. The CSD market size in Ghana, including local brands, is estimated to be between 15 and 20 Mn cases, giving PepsiCo a share of roughly 10.0-12.0% of the total market.

### Financial Performance of SBC Tanzania (SBCT) and SBC Ghana (SBCG):

#### SBC Tanzania (SBCT):

- **Revenue & Volume:** SBCT reported sales of INR 15.05 Bn in FY24, driven by a volume of 74 Mn cases. With an existing production capacity of ~100 Mn cases, the company is operating below capacity, suggesting room for growth.
- **EBITDA Margin:** SBCT posted an EBITDA margin of ~16.0%, reflecting a solid profitability profile in a competitive market.
- SBCT manufactures and markets a range of PepsiCo franchised beverages, including iconic brands such as Pepsi, Pepsi Max, 7UP, 7UP FREE, Mirinda, Mountain Dew, and Evervess. In addition to these PepsiCo products, SBCT also produces and sells energy drinks under its own brand, Supa Komando.

#### SBC Ghana (SBCG):

- **Revenue & Volume:** SBCG generated a topline of INR 320 Mn in FY24, with a volume of 2.25 Mn 8 oz cases. The company has an estimated production capacity of 16-20 Mn cases, indicating substantial room for increasing its volume and revenue.
- SBC Beverages Ghana Limited (SBCG) produces and markets a range of PepsiCo-franchised beverages, including Pepsi, Pepsi Max, 7UP, 7UP FREE, Mirinda, Mountain Dew, and Evervess. Additionally, SBCG manufactures and sells its own energy drink brand, Cheetah. The company operates a single manufacturing facility in Accra, Ghana, equipped with two RGB manufacturing lines.

### Market Share, Margin Improvement, and Snacks Opportunity

- SBCT, operating in Tanzania, is a well-established business with PepsiCo holding a dominant market share. As a result, the potential for significant market share gain appears limited. However, there remains room for EBITDA margin improvement, particularly through backward integration, which could enhance cost efficiencies and profitability. Additionally, SBCT has the option to explore the snacks category in the future, similar to successful expansions in Zimbabwe, Morocco, and Zambia, unlocking new growth avenues.
- In contrast, SBCG in Ghana, though a smaller market, offers clear opportunities for market share gain, given PepsiCo's current low share in the region. Furthermore, SBCG could tap into the snacks segment, leveraging this optionality for further growth and diversification. This presents significant upside potential for SBCG as it expands its footprint in the Ghanaian market.

### VBL's acquisition cost for both Tanzania and Ghana

SBC Tanzania (SBCT)		
Transaction details	USD Mn	Rs Mn
Equity Value	154.5	13,040
Enterprise Value	207.0	17,500
SBCT's sales in FY2024		15,053
SBCT's EBITDA in FY2024		2,408
Implied EV/sales (X)		1.2
Implied EV/EBITDA (X)		7.3

Source: Company, DevenChoksey Research

SBC Ghana (SBCG)		
Transaction details	USD Mn	Rs Mn
Equity Value	15.1	1,271
Enterprise Value	22.0	1,857
SBCG's Sales in FY2024		320
SBCG's EBITDA in FY2024		NA
Implied EV/sales (X)		5.8
Implied EV/EBITDA (X)		NA

## Varun Beverages Ltd.

### Key details pertaining to the acquisitions

SBC Tanzania (SBCT)	
Tanzania market size (mn cases; including local brands)	220
<b>PepsiCo's share in overall market (%)</b>	<b>34%</b>
<b>PepsiCo's relative market share (%)</b>	<b>56% (PepsiCo): 44% (Coca Cola)</b>
SBC Tanzania's volume in FY2024 (Mn cases)	74
SBC Tanzania's existing capacity (Mn cases)	100
Capacity utilization (%)	74%
SBC Tanzania's revenues in FY2024 (INR Bn)	15.1
SBC Tanzania's EBITDA margin in FY2024 (%)	16.0
SBC Tanzania's EBITDA in FY2024 (INR Bn)	2.4

Source: Company, DevenChoksey Research

SBC Ghana (SBCG)	
Ghana market size (mn cases; including local brands)	15.2
<b>PepsiCo's share in overall market (%)</b>	<b>10%-12%</b>
<b>PepsiCo's relative market share (%)</b>	<b>13% (PepsiCo): 87% (Coca Cola)</b>
SBC Ghana's volume in FY2024 (Mn cases)	2.3
SBC Ghana's existing capacity (Mn cases)	16-20
Capacity utilization (%)	11%-14%
SBC Ghana's revenues in FY2024 (INR Bn)	0.3
SBC Ghana's EBITDA margin in FY2024 (%)	NA
SBC Tanzania's EBITDA in FY2024 (Rs Bn)	NA

Source: Company, DevenChoksey Research

## Varun Beverages Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
<b>Revenues</b>	<b>131,731</b>	<b>160,426</b>	<b>196,663</b>	<b>257,786</b>	<b>302,121</b>
COGS	62,612	74,049	88,568	117,293	136,525
<b>Gross profit</b>	<b>69,120</b>	<b>86,377</b>	<b>108,096</b>	<b>140,493</b>	<b>165,595</b>
Employee cost	12,166	14,466	18,077	20,890	26,632
Other expenses	29,072	35,816	43,341	59,283	67,309
<b>EBITDA</b>	<b>27,881</b>	<b>36,095</b>	<b>46,678</b>	<b>60,319</b>	<b>71,655</b>
EBITDA Margin	21.2%	22.5%	23.7%	23.4%	23.7%
D&A	6,172	6,809	9,204	10,537	10,537
<b>EBIT</b>	<b>21,709</b>	<b>29,286</b>	<b>37,474</b>	<b>49,782</b>	<b>61,118</b>
Interest expense	1,861	2,681	3,229	2,599	2,599
Other income	388	794	917	1,192	1,401
PBT	20,236	27,398	35,162	48,376	59,920
Tax	4,735	6,375	8,244	11,177	15,114
Minority interest	(527)	(464)	(363)	(935)	(1,126)
PAT	14,974	20,559	26,555	36,264	43,681
<b>Adj. PAT</b>	<b>14,974</b>	<b>20,559</b>	<b>26,555</b>	<b>36,264</b>	<b>43,681</b>
EPS (INR)	4.6	6.3	8.2	11.2	13.4
<b>Adj. EPS</b>	<b>4.6</b>	<b>6.3</b>	<b>8.2</b>	<b>11.2</b>	<b>13.4</b>

#### Exhibit 3: Cash Flow Statement

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
CFFO	17,900	23,908	31,591	36,750	48,331
CFFI	(17,046)	(32,899)	(26,200)	(4,778)	(9,106)
CFFF	(179)	9,849	(4,229)	(22,599)	(22,599)
<b>Net Inc/Dec in cash</b>	<b>675</b>	<b>858</b>	<b>1,162</b>	<b>9,373</b>	<b>16,626</b>
Opening Cash	1,508	1,543	2,422	3,584	12,958
<b>Closing Cash</b>	<b>1,543</b>	<b>2,422</b>	<b>3,584</b>	<b>12,958</b>	<b>29,584</b>

#### Exhibit 4: Key Ratios

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
EBITDA Margin (%)	21.2%	22.5%	23.7%	23.4%	23.7%
Tax rate (%)	23.4%	23.3%	23.4%	23.1%	25.2%
Net Profit Margin (%)	11.4%	12.8%	13.5%	14.1%	14.5%
RoE (%)	29.3%	29.6%	27.6%	27.2%	24.5%
RoCE (%)	28.4%	26.5%	27.3%	30.3%	30.7%
Adj. EPS (INR)	4.6	6.3	8.2	11.2	13.4
Adj. P/E	136.7x	99.6x	77.1x	56.5x	46.9x

#### Exhibit 2: Balance Sheet

INR Mn	CY22	CY23	CY24E	CY25E	CY26E
<b>Equity</b>					
Equity Capital	6,496	6,496	6,496	6,496	6,496
Other Equity	45,659	64,350	91,260	128,454	173,255
<b>Total Equity</b>	<b>52,155</b>	<b>70,847</b>	<b>97,756</b>	<b>134,950</b>	<b>179,751</b>
<b>Non-Current Liabilities</b>					
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
<b>Total Non-Current Liabilities</b>	<b>24,340</b>	<b>39,493</b>	<b>39,493</b>	<b>29,493</b>	<b>19,493</b>
<b>Current Liabilities</b>					
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	12,011	13,980
Other current liabilities	11,531	13,505	13,505	13,505	13,505
<b>Total Current Liabilities</b>	<b>39,688</b>	<b>41,532</b>	<b>42,019</b>	<b>34,960</b>	<b>26,930</b>
<b>Total Liabilities</b>	<b>64,028</b>	<b>81,025</b>	<b>81,512</b>	<b>64,453</b>	<b>46,423</b>
<b>Non-Current Assets</b>					
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	25,680	27,167
<b>Total Non-Current Assets</b>	<b>82,142</b>	<b>109,516</b>	<b>127,759</b>	<b>124,030</b>	<b>124,086</b>
<b>Current Assets</b>					
Inventories	19,939	21,505	25,722	34,064	39,650
Trade Receivables	2,993	3,594	4,429	5,788	6,784
Other financial assets	3,977	7,388	9,104	11,900	13,947
Cash and Bank	1,543	2,422	3,584	12,958	29,584
Other current assets	5,588	7,447	8,670	10,663	12,123
<b>Total Current Assets</b>	<b>34,040</b>	<b>42,356</b>	<b>51,509</b>	<b>75,373</b>	<b>102,087</b>
<b>Total Assets</b>	<b>116,182</b>	<b>151,872</b>	<b>179,268</b>	<b>199,403</b>	<b>226,173</b>

Source: Company, DevenChoksey Research



## Varun Beverages Ltd.

Varun Beverages Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
21-Nov-24	630	770	BUY
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

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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