

Africa acquisitions – Good value creation opportunity

Retail ▶ Company Update ▶ November 13, 2024

TARGET PRICE (Rs): 750

VBL has approved SPA to acquire 100% stake in SBCT/SBCG, which own manufacturing/distribution rights for NARTD beverages in Tanzania and Ghana. The acquisitions will help VBL make progress in East and West Africa, after gaining rights for most of southern Africa. The Tanzanian acquisition comes at an attractive trailing multiple of 1.2x (EV/sales), given dominant share (RMS) of PepsiCo (56%) and attractive growth profile (15% CAGR in FY21-23). The Ghana market is also large, but per-cap CSD consumption is likely lower (at 3ltr vs 6-7ltr for Tanzania and India). Neither Pepsi nor Coca-Cola command leadership share in Ghana currently. Tanzania has low currency volatility, while Ghana has relatively higher currency volatility. All in all, VBL has acquired 6 facilities in Africa with total capacity of ~100mn cases (~75% utilization). With historical precedents of margin improvement and scale leverage in Africa, the acquisitions should be earnings accretive and increase VBL's revenue scale by 9-10%, in our view. We retain BUY and TP of Rs750 (60x Sep-26E EPS).

Varun Beverages: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Revenue	131,731	160,426	199,346	251,004	297,778
EBITDA	27,881	36,095	46,361	58,903	70,213
Adj. PAT	14,975	20,559	25,115	33,814	43,404
Adj. EPS (Rs)	4.6	6.3	7.7	10.4	13.4
EBITDA margin (%)	21.2	22.5	23.3	23.5	23.6
EBITDA growth (%)	68.5	29.5	28.4	27.1	19.2
Adj. EPS growth (%)	115.8	37.3	22.2	34.6	28.4
RoE (%)	32.6	34.2	31.2	31.8	30.9
RoIC (%)	20.9	23.2	23.1	25.8	29.3
P/E (x)	126.7	92.3	75.6	56.1	43.7
EV/EBITDA (x)	69.4	54.0	42.3	32.9	27.2
P/B (x)	37.2	27.4	20.7	15.7	11.9
FCFF yield (%)	0.1	(0.4)	(0.1)	1.6	1.7

Source: Company, Emkay Research

Africa – A large and long-term growth opportunity: VBL posted ~23% revenue CAGR in CY14-24E, led by revenue CAGR of 22% in India and 28% in international geographies. The robust global growth was driven by strong ramp-up in Africa operations and sustained growth in Nepal. In our view, Africa is a large soft-drinks market (Emkay est: USD20-25bn industry size) and its attractive macro growth + demographics offer a low-teen revenue CAGR opportunity over the medium-to-long term. PepsiCo's low penetration in Africa and sizable mix of regional brands offer it a long-term growth opportunity in the continent. Moreover, VBL's proven execution capability in Zimbabwe/Nepal and PepsiCo's focus on growing franchise-owned bottling operations should help VBL make a foray into more markets in Africa – its procuring distribution rights in the DRC, South Africa, Tanzania, and Ghana stand testament. In our view, PepsiCo's bottlers cater to 40-45% of the African market (value terms) via its presence in 15 countries, while TCCC addresses the entire African population of over 1.25bn (more than 50 countries). Besides TCCC, which has a healthy share in most African markets, competition is regional and is likely to be beaten by improving the affordability, affinity, and availability of PepsiCo's products, in our view.

PepsiCo's wider product portfolio offers a key advantage: Energy drinks have strong demand, and Africa has a higher share of the category (14-15% vs below 10% in India). PepsiCo has built a robust energy-drinks portfolio via the acquisition of Rockstar, its partnership with Starbucks/Bang in USA, and through organic investments in Mountain Dew/Sting. We reckon that a broad-based energy-drinks portfolio across price points should help PepsiCo gain traction in this category in Africa.

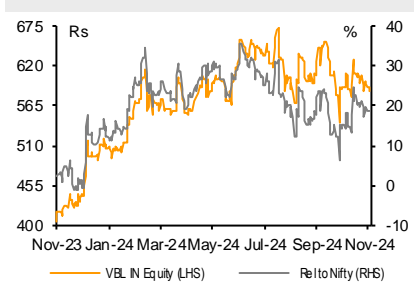
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	28.4
CMP (12-Nov-24) (Rs)	584.3

Stock Data	Ticker
52-week High (Rs)	683
52-week Low (Rs)	399
Shares outstanding (mn)	3,248.7
Market-cap (Rs bn)	1,898
Market-cap (USD mn)	22,493
Net-debt, CY24E (Rs mn)	61,173
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	3,751.7
ADTV-3M (USD mn)	44.5
Free float (%)	36.0
Nifty-50	23,883
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	62.7
FPIs/MFs (%)	24.2/5.0

Price Performance

(%)	1M	3M	12M
Absolute	(1.4)	(0.8)	44.3
Rel. to Nifty	3.1	1.1	18.0

1-Year share price trend (Rs)



Devanshu Bansal

devanshu.bansal@emkayglobal.com
+91 22 6612 1385

Vishal Panjwani

vishal.panjwani@emkayglobal.com
+91 22 6624 2431

Story in Charts

Exhibit 1: Key demographic metrics for Tanzania/Ghana

Industry size	Tanzania	Ghana
NARTD Value (USD mn)	786	1,002
Per-Cap Consumption (CSD, ltr)	6	3
Urbanization	35%	57%
Currency Stability	Yes	No
Political Risk	Open Anocracy	Democracy
Industry Growth CAGR	6.5%	5.5%
Company CAGR (FY21-23)	15.9%	-2.3%

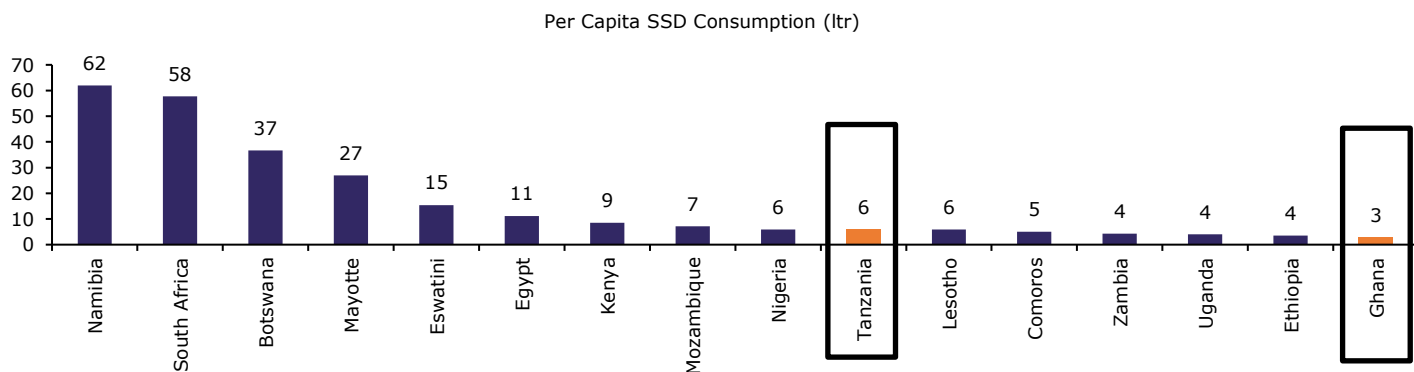
Source: CCBA Capital Markets Day presentation, Company, Emkay Research

Exhibit 2: VBL has been able to acquire new bottling units at reasonable valuations; Tanzania is growing at ~16%, with current utilization at ~75%

Geography	Enterprise Value (Rs mn)	Sales (Rs mn)	EV/sales (x)
Tanzania + Ghana	19,328	15,373	1.3
South Africa (Bevco)	13,200	15,900	0.8
India (South and West)	20,270	22,275	0.9
Organic Investments	91,650	126,328	0.7
Varun Beverages	1,897,743	199,346	9.5

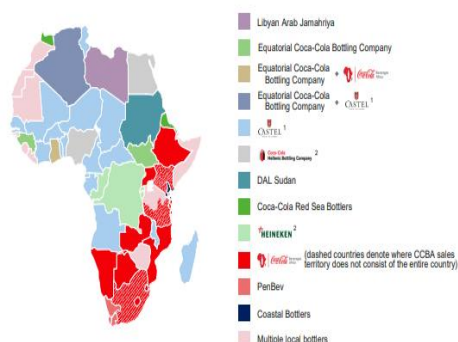
Source: Company, Emkay Research; Note: *Equity value is Rs13/1.3bn for Tanzania/Ghana; Organic EV/sales is calculated by dividing standalone gross-block with sales

Exhibit 3: Per-capita SSD consumption in Tanzania at 6ltr is similar to that in India, while being lower in Ghana at 3ltr



Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 4: Coca Cola caters to ~100% of the African market, through a number of bottling partners

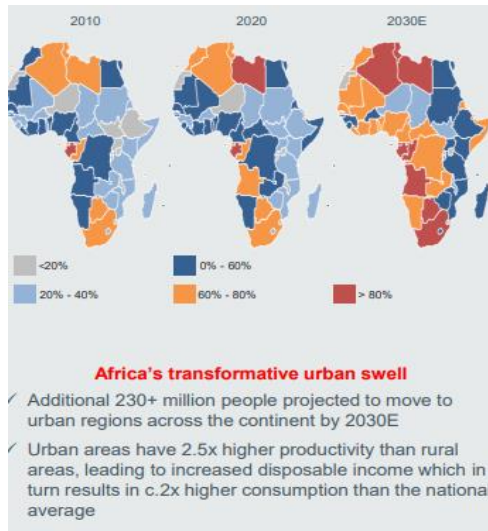


Source: CCBA Capital Markets Day presentation, Emkay Research

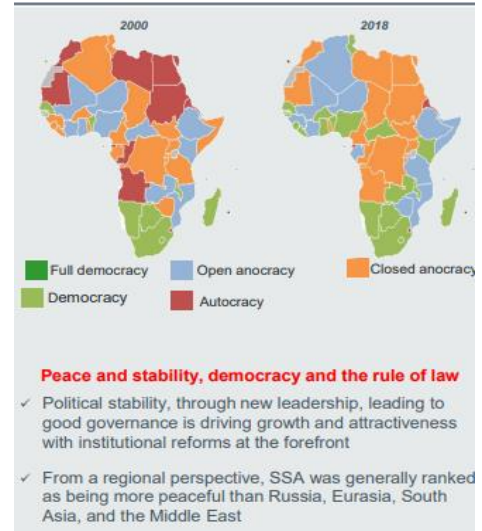
Exhibit 5: Comparatively, PepsiCo caters to 40-45% of the Africa market, via presence in 13 markets (vs >50 overall countries)



Source: Company, Emkay Research

Exhibit 6: Ghana has more urbanization vs. Tanzania

Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 7: Tanzania is an open anocracy while Ghana is a democracy

Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 8: TZS (Tanzania) is relatively stable vs the INR, and has remained in the 25-35 range historically

Source: Company, Emkay Research

Exhibit 9: GHS (Ghana) currency has been relatively more volatile vs the INR

Source: Company, Emkay Research

Varun Beverages: Consolidated Financials and Valuations

Profit and Loss					
Y/E December (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Revenue	131,731	160,426	199,346	251,004	297,778
Revenue growth (%)	49.3	21.8	24.3	25.9	18.6
EBITDA	27,881	36,095	46,361	58,903	70,213
EBITDA growth (%)	68.5	29.5	28.4	27.1	19.2
Depreciation & Amortization	6,172	6,809	9,415	10,953	11,789
EBIT	21,710	29,286	36,946	47,950	58,424
EBIT growth (%)	93.3	34.9	26.2	29.8	21.8
Other operating income	0	0	0	0	0
Other income	388	794	916	600	660
Financial expense	1,861	2,681	4,511	3,776	1,716
PBT	20,237	27,398	33,351	44,774	57,368
Extraordinary items	0	0	0	0	0
Taxes	4,735	6,375	7,838	10,522	13,482
Minority interest	(527)	(464)	(399)	(439)	(483)
Income from JV/Associates	0	0	0	0	0
Reported PAT	14,975	20,559	25,115	33,814	43,404
PAT growth (%)	115.8	37.3	22.2	34.6	28.4
Adjusted PAT	14,975	20,559	25,115	33,814	43,404
Diluted EPS (Rs)	4.6	6.3	7.7	10.4	13.4
Diluted EPS growth (%)	115.8	37.3	22.2	34.6	28.4
DPS (Rs)	0.5	0.7	0.9	1.2	1.6
Dividend payout (%)	10.8	11.1	12.0	12.0	12.0
EBITDA margin (%)	21.2	22.5	23.3	23.5	23.6
EBIT margin (%)	16.5	18.3	18.5	19.1	19.6
Effective tax rate (%)	23.4	23.3	23.5	23.5	23.5
NOPLAT (pre-IndAS)	16,630	22,471	28,264	36,682	44,694
Shares outstanding (mn)	3,247.8	3,248.0	3,247.8	3,247.8	3,247.8

Source: Company, Emkay Research

Cash Flows					
Y/E Dec (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
PBT	20,237	27,398	33,351	44,774	57,368
Others (non-cash items)	6,172	6,809	9,415	10,953	11,789
Taxes paid	(4,478)	(6,314)	(7,323)	(9,930)	(12,801)
Change in NWC	(8,782)	(4,339)	(6,685)	(3,518)	(4,734)
Operating cash flow	15,010	26,235	33,269	46,054	53,338
Capital expenditure	(13,487)	(34,734)	(35,000)	(15,000)	(20,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	(13,487)	(34,945)	(35,000)	(15,000)	(20,000)
Equity raised/(repaid)	0	1	0	0	0
Debt raised/(repaid)	3,529	14,996	7,500	(24,500)	(27,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,861)	(2,681)	(4,511)	(3,776)	(1,716)
Dividend paid (incl tax)	(1,624)	(2,273)	(3,014)	(4,058)	(5,208)
Others	(2,081)	414	889	976	799
Financing cash flow	(2,037)	10,456	864	(31,357)	(33,125)
Net chg in Cash	(514)	1,746	(867)	(303)	213
OCF	15,010	26,235	33,269	46,054	53,338
Adj. OCF (w/o NWC chg.)	23,792	30,575	39,954	49,572	58,072
FCFF	1,523	(8,499)	(1,731)	31,054	33,338
FCFE	(338)	(11,180)	(6,242)	27,278	31,623
OCF/EBITDA (%)	53.8	72.7	71.8	78.2	76.0
FCFE/PAT (%)	(2.3)	(54.4)	(24.9)	80.7	72.9
FCFF/NOPLAT (%)	9.2	(37.8)	(6.1)	84.7	74.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Dec (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Share capital	6,496	6,496	6,496	6,496	6,496
Reserves & Surplus	44,528	62,869	84,970	114,726	152,921
Net worth	51,024	69,365	91,466	121,222	159,417
Minority interests	1,131	1,482	1,482	1,482	1,482
Deferred tax liability (net)	3,368	3,430	3,945	4,536	5,217
Total debt	40,649	56,118	64,905	41,821	16,102
Total liabilities & equity	96,173	130,394	161,797	169,060	182,218
Net tangible fixed assets	63,571	78,378	103,932	107,976	116,202
Net intangible assets	5,509	5,471	5,502	5,506	5,490
Net ROU assets	0	0	0	0	0
Capital WIP	6,066	19,222	19,222	19,222	19,222
Goodwill	242	242	242	242	242
Investments [JV/Associates]	0	211	211	211	211
Cash & equivalents	2,853	4,599	3,732	3,429	3,642
Current assets (ex-cash)	37,941	43,748	55,444	65,612	76,368
Current Liab. & Prov.	20,010	21,478	26,488	33,138	39,159
NWC (ex-cash)	17,932	22,271	28,956	32,474	37,208
Total assets	96,173	130,394	161,797	169,060	182,218
Net debt	37,797	51,519	61,173	38,391	12,460
Capital employed	96,173	130,394	161,797	169,060	182,218
Invested capital	87,254	106,363	138,632	146,198	159,143
BVPS (Rs)	15.7	21.4	28.2	37.3	49.1
Net Debt/Equity (x)	0.7	0.7	0.7	0.3	0.1
Net Debt/EBITDA (x)	1.4	1.4	1.3	0.7	0.2
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
RoCE (%)	25.0	26.6	25.9	29.3	33.6

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Dec	CY22	CY23	CY24E	CY25E	CY26E
P/E (x)	126.7	92.3	75.6	56.1	43.7
P/CE(x)	91.3	70.6	55.9	43.1	35.0
P/B (x)	37.2	27.4	20.7	15.7	11.9
EV/Sales (x)	14.7	12.2	9.8	7.7	6.4
EV/EBITDA (x)	69.4	54.0	42.3	32.9	27.2
EV/EBIT(x)	90.7	67.7	53.9	41.1	33.3
EV/IC (x)	22.6	18.6	14.4	13.5	12.2
FCFF yield (%)	0.1	(0.4)	(0.1)	1.6	1.7
FCFE yield (%)	0.0	(0.6)	(0.3)	1.4	1.6
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
DuPont-RoE split					
Net profit margin (%)	11.4	12.8	12.6	13.5	14.6
Total asset turnover (x)	1.5	1.4	1.4	1.5	1.7
Assets/Equity (x)	1.9	1.9	1.8	1.6	1.3
RoE (%)	32.6	34.2	31.2	31.8	30.9
DuPont-RoIC					
NOPLAT margin (%)	12.6	14.0	14.2	14.6	15.0
IC turnover (x)	1.7	1.7	1.6	1.8	2.0
RoIC (%)	20.9	23.2	23.1	25.8	29.3
Operating metrics					
Core NWC days	6.2	9.3	11.7	12.2	12.0
Total NWC days	49.7	50.7	53.0	47.2	45.6
Fixed asset turnover	1.3	1.4	1.4	1.5	1.6
Opex-to-revenue (%)	31.3	31.3	32.4	31.7	31.6

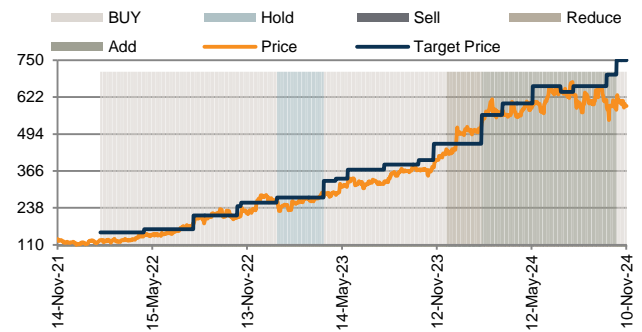
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-Oct-24	595	750	Buy	Devanshu Bansal
03-Oct-24	588	700	Add	Devanshu Bansal
31-Jul-24	631	660	Add	Devanshu Bansal
23-Jul-24	620	640	Add	Devanshu Bansal
07-Jul-24	646	640	Add	Devanshu Bansal
14-May-24	596	660	Add	Devanshu Bansal
07-Apr-24	598	600	Add	Devanshu Bansal
17-Mar-24	574	600	Add	Devanshu Bansal
06-Feb-24	539	560	Add	Devanshu Bansal
10-Jan-24	507	460	Reduce	Devanshu Bansal
20-Dec-23	501	460	Reduce	Devanshu Bansal
30-Nov-23	442	460	Reduce	Devanshu Bansal
06-Nov-23	378	460	Buy	Devanshu Bansal
08-Oct-23	371	404	Buy	Devanshu Bansal
03-Aug-23	329	388	Buy	Devanshu Bansal
10-Jul-23	325	370	Buy	Devanshu Bansal
25-May-23	324	370	Buy	Devanshu Bansal
02-May-23	283	340	Buy	Devanshu Bansal
09-Apr-23	279	332	Buy	Devanshu Bansal
06-Feb-23	244	274	Hold	Devanshu Bansal
09-Jan-23	262	274	Hold	Devanshu Bansal
01-Nov-22	221	256	Buy	Devanshu Bansal
25-Oct-22	207	244	Buy	Devanshu Bansal
02-Aug-22	183	212	Buy	Devanshu Bansal
29-Apr-22	144	164	Buy	Devanshu Bansal
08-Apr-22	128	153	Buy	Devanshu Bansal
20-Mar-22	127	153	Buy	Devanshu Bansal
04-Feb-22	127	153	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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