Varun Beverage Limited (VBL)

Initiating Coverage

Rating: BUY (Target Price: ₹ 625)

Initiating Coverage

18th March, 2025

Asit C. Mehta
INVESTMENT INTERMEDIATES LTD.
A Pantomath Group Company

VARUN BEVERAGES (VBL:IN)

Eyes on territory expansion

BUY | Target: Rs 625

We initiate coverage on Varun Beverages Ltd. with a "BUY" rating. We like the company for its demonstrated execution capabilities in India, further headroom for distribution expansion in India, continued territorial expansion in Africa, international margin improvement and strengthening ties with PepsiCo.

Industry tailwinds and VBL's expanding reach to aid growth in India

VBL already contributes 90% of PepsiCo's beverage volume in India, as it holds the franchise rights for almost all sub-territories in the country. Further growth is expected due to the rising per capita consumption for the soft drink industry along with expanding capacities and deepening distribution reach by VBL. From the current 4 mn retail touchpoint presence, VBL is growing its reach by 10-12% each year, as it has a huge headroom to cover considering 12 mn FMCG retail outlets. To service this demand, it has expanded its capacities by 45% between CY22 and CY24, and by a further 25% in CY25.

Expanding footprint in Africa

In recent years, VBL has expanded its footprint in the African continent. While it has held the franchise rights for PepsiCo Beverages in Morocco, Zimbabwe and Zambia for a long time, it has added several others through a combination of franchise/distribution rights. These include countries of Democratic Republic of Congo (DRC), South Africa, Lesotho, Eswatini, Namibia, Botswana, Madagascar, Mozambique, Tanzania and Ghana. The management hopes to continue to gain more territories in Africa. With some of these markets being untapped by PepiCo, VBL has strong headroom to grow.

Margin expansion in international business

Margins in South African business are lower at low-to-mid teens vs consolidated margins of 23.5%, due to high share of own brands, high proportion of sales through modern trade, less absorption of fixed costs due to new capex and absence of backward integration till now. VBL has started focusing on its go-to-market strategy to improve share of distribution through general trade, which will lead to margin improvement. Backward integration about 1 year down the line will further aid margins.

Expansion of product profile

VBL is making meaningful inroads in PepsiCo's snack business in the African region. PepsiCo generally does not give the rights to its snacks business to external parties. The fact that VBL has received these rights in 3 African countries, points to the strong relationship between the two entities. The 3 territories where VBL has received franchise rights for some snack brands are Morocco, Zimbabwe and Zambia, the snacks' market size is ~USD 800 mn. More territories in Africa may be in the pipeline.

Valuation and Outlook –

VBL is currently trading at 52.0x/42.3x CY25/26E EPS. We factor in a Revenue/ EBITDA/ PAT CAGR of 19.8/20.2/25.0%, respectively owing to healthy growth in India, strong uptick in international revenue, margin stability, and lower depreciation and finance costs as % of sales. We think the company has a long runway for growth ahead, seeing as it has a steady focus on increasing its presence in the African region, after it executed the same in India over the last decade. **We value the shares of VBL at 52x its CY26E EPS of Rs 12, arriving at a price target of Rs 625. With an upside potential of 23.2%, we assign a "BUY" rating on the shares of Varun Beverages Ltd.**

YE March, Rs mn	CY22	CY23	CY24	CY25E	CY26E
Revenue	1,31,731	1,60,426	2,00,077	2,43,489	2,87,314
Growth (%)	49.3	21.8	24.7	21.7	18.0
EBITDA	27,881	36,095	47,111	57,025	68,016
EBITDA (%)	21.2	22.5	23.5	23.4	23.7
Adj. PAT	14,974	20,559	25,946	32,976	40,570
Adj. EPS (Rs)	4.6	6.3	7.7	9.8	12.0
Adj. EPS Growth (%)	115.8	37.3	21.2	27.1	23.0
ROE (%)	29.3	29.6	15.6	17.1	18.0
ROCE (%)	28.4	26.5	20.2	21.5	23.2
P/E (x)	110.0	80.1	66.1	52.0	42.3

Source: Company, ACMIIL Research
Note: EPS adjusted for all stock splits

Key Data

Bloomberg code:	VBL:IN
Target price (₹)	625
CMP (₹)	508
Upside/ (Downside) (%)	23.2
Rating:	BUY
Shares outstanding (mn):	3,382
Mcap (Rs bn) :	1,717
52-week H/L (Rs):	681/420

Price Performance (%)

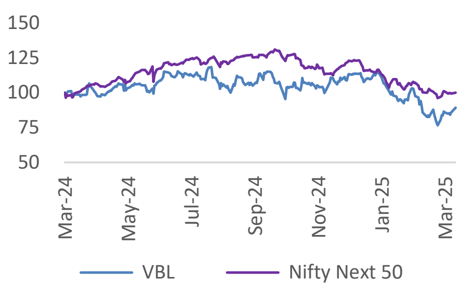
1 month	7.0
3 months	(21.6)
12 months	(11.6)

Shareholding Pattern (%)

	Jun'24	Sep'24	Dec'24
Promoter	62.7	62.6	60.2
FIIs	25.3	24.2	25.3
DIIs	4.5	5.0	7.0
Public/other	7.5	8.2	7.5
Pledge	0.02	0.02	0.02

Source: BSE

Performance vs. Nifty Next 50



Source: NSE

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Varun Beverages (VBL:IN)

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Company Overview

VBL is one of PepsiCo's largest franchisees globally, with operations spanning across South Asia and Africa.

- Varun Beverages (VBL:IN) has been associated with PepsiCo since the early 1990s. Over the years, the company has gained the license to manufacture and distribute PepsiCo's beverages across a wider number of territories and sub-territories. It is one of PepsiCo's largest franchisees globally, with operations spanning across South Asia and Africa.
- VBL is involved in the production, bottling, and distribution of PepsiCo's range of carbonated soft drinks (CSD), non-carbonated beverages (NCB) like fruit juices, and bottled water. Its portfolio includes brands like Pepsi, Mountain Dew, 7UP, Mirinda, Slice, Tropicana, Nimbooz, Sting, Gatorade, Aquafina, among others.
- In India, it operates in 26 states and 6 union territories, contributing to over 90% of PepsiCo's volumes in the country. It has a distribution reach of 4 mn outlets, which is expanding by ~10-12% each year. The company serves both the retail and HoReCa (Hotels, Restaurants, and Catering) sectors.
- Outside of India, VBL has manufacturing and distribution operations in Sri Lanka, Nepal, Zimbabwe, Zambia, Morocco, DRC, South Africa, Eswatini, Lesotho and distribution rights in Namibia, Botswana, Mozambique and Madagascar. International revenue contributed 28% to the consolidated revenue in CY24, boosted from 21.3% in CY23 due to addition of new territories during the year through the acquisition of BevCo. VBL is in the process of adding two new territories- Tanzania and Ghana in CY25E.
- In addition to beverages, the company is now expanding its operations by gaining licenses to manufacture and distribute some of PepsiCo's snack brands in a few territories in Africa.
- The addition of new territories and products over the years is testament to the strong relationship VBL shares with PepsiCo. While PepsiCo focuses on demand creation, VBL is responsible for demand fulfillment through its execution capabilities in production, go-to-market, distribution, visi-cooler penetration and improving market share position.

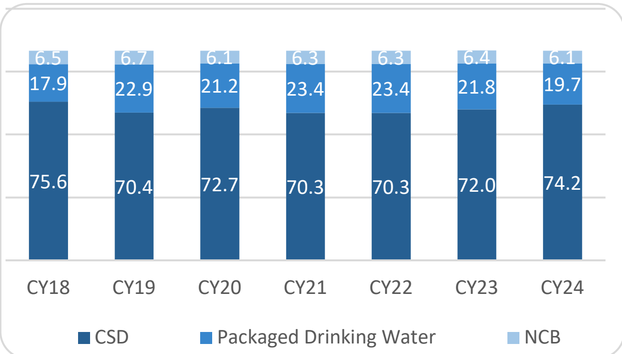
Product Portfolio

The company's product portfolio includes beverages under both, PepsiCo-licensed brands and its own brands in a few territories.

Varun Beverages offers a diverse range of products across multiple beverage categories, catering to varying consumer preferences. The company's product portfolio includes beverages under both, PepsiCo-licensed brands and its own brands in a few territories. The products it sells are categorized under 3 main segments:

1. Carbonated soft drinks (CSD)
2. Packaged Drinking Water
3. Non carbonated beverages (NCB)

Exhibit 1: Share of categories has largely remained range-bound



Source: Company, ACMIIL Research

1. Carbonated Soft Drinks (CSDs)

This segment continues to dominate Varun Beverages' overall sales volume, with a consistent volume share of 70%+. Recent growth in Non-Carbonated Beverages (NCBs) has not diminished the importance of CSDs, which remain a core business segment.

PepsiCo brands in the CSD segment are:

- Carbonated Soft Drinks including flagship brands like Pepsi, Pepsi Zero Sugar, Mountain Dew, Mirinda, 7UP and 7UP zero and 7UP Nimbooz Masala Soda.
- Club Sodas including Evervess and Dukes
- Energy Drinks including Sting and Rockstar (Rockstar present only in South Africa).

Varun Beverages (VBL:IN)

The CSD segment continues to dominate Varun Beverages' overall sales volume, with a consistent volume share of 70%+.

Exhibit 2: PepsiCo's CSD brands sold by VBL

Note: Not all products and product variants/flavours are sold and manufactured in all territories.

Source: Company, ACMIIL Research

2. Packaged Drinking water

Varun Beverages franchises PepsiCo's packaged drinking water brands Aquafina and Aquavess. The packaged drinking water segment has consistently contributed a significant portion of total sales volume for VBL, with CY24 contribution at 19.7%. The demand for packaged water has been on the rise due to warm temperatures, increasing urbanization, and the low quality of tap water.

Exhibit 3: PepsiCo's packaged water brands sold by VBL

Note: Not all products and product variants/flavours are sold and manufactured in all territories.

Source: Company, ACMIIL Research

The 2nd largest volume segment is packaged drinking water, with a volume share of 19.7% in CY24. NCB has the smallest contribution of 6.1% of volumes in CY24.

3. Non-Carbonated Drinks (NCD)

Varun Beverages offers a range of Non-Carbonated Beverages (NCB), including fruit juices and sports drinks. Key Products in the NCB Segment:

- Slice
- Tropicana, Tropicana Frutz and Tropicana Juices (100% and Delight)
- Nimbooz
- Gatorade (Sports Drink)
- Lipton Ice tea

Exhibit 4: PepsiCo's NCB brands sold by VBL

Note: Not all products and product variants/flavours are sold and manufactured in all territories.

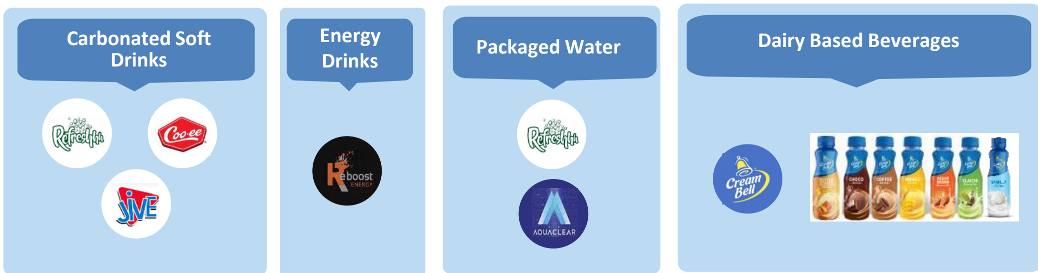
Source: Company, ACMIIL Research

Own/ other branded products

While majority sales are by selling PepsiCo products, VBL has also acquired some own brands through acquisitions/ agreements with other brands.

- During its acquisition of The Beverage Company (Proprietary) Ltd., South Africa (BevCo), Varun beverages has acquired several own brands of Carbonated Soft Drinks (CSDs) in South Africa, including Refreshhh, Reboost, Coo-ee, and Jive, alongside the Refreshhh brand of Non-Carbonated Beverages (NCBs) in South Africa.
- Furthermore, the company is involved in the manufacturing, distribution, and sale of Aquaclear Packaged Water in both Zambia and Zimbabwe.
- VBL also has a license from Devyani Food Industries Ltd. to manufacture, sell and distribute value-added dairy beverages under the brand Cream Bell in India.

Exhibit 5: Own/ other branded products sold by VBL



Note: Not all products and product variants/flavours are sold and manufactured in all territories.

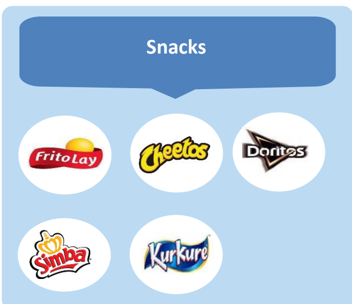
Source: Company, ACMIIL Research

Snacks business

In recent years, VBL has started acquiring rights to manufacture/ distribute some of PepsiCo's snack portfolio in select territories.

- In recent years, VBL has started acquiring rights to manufacture/ distribute some of PepsiCo's snack portfolio in select territories. This is an endeavor to expand VBL's portfolio of products, thus targeting overall business expansion.
- VBL's engagement with PepsiCo's snacks business started with a non-exclusive contract manufacturing agreement with PepsiCo India to co-manufacture Kurkure Puffcorn in India, effective from October 25, 2022, for a period of five years.
- While the snacks arrangement in India is limited, VBL has started making inroads in the snacks segment in Africa in recent years.
- In CY22, VBL entered into an agreement to distribute and sell Lays, Doritos and Cheetos for PepsiCo in the territory of Morocco. This was followed with an exclusive snacks appointment agreement in CY24, to even manufacture and package Cheetos in Morocco, starting May 2025.
- VBL also entered into an exclusive snacks franchising appointment to manufacture, package, and sell PepsiCo's brand "Simba Munchiez" in Zimbabwe and Zambia. Distribution of Simba Munchiez in these territories started in February 2025, while manufacturing is set to commence by October 2025 in Zimbabwe and by April 2026 in Zambia.

Exhibit 6: PepsiCo snack brands manufactured/ distributed by VBL



Note: Not all products and product variants/flavours are sold and manufactured in all territories.

Source: Company, ACMIIL Research

Partnership with PepsiCo

Varun Beverages purchases beverage concentrates from PepsiCo entities and further manufactures, sells, and distributes the final PepsiCo branded beverages in India and Africa.

- PepsiCo and VBL have a symbiotic relationship of over 33+ years, which is reflected in the large number of franchisee territories and sub-territories granted to VBL.
- PepsiCo is responsible for creation of trademarks, perfecting formulations and providing concentrates, investing in R&D for product and packaging, and brand development through above the line marketing initiatives.
- VBL's role in the partnership is to handle the manufacturing, sales and distribution capabilities and below the line marketing initiatives to generate market share gains. The company has focused on building its execution capabilities by creating a production and logistics infrastructure to ensure demand fulfillment of PepsiCo's products. VBL has successfully backward integrated its manufacturing process, leading to process efficiency and superior margin profile.
- Varun Beverages purchases beverage concentrates from PepsiCo entities, and further manufactures, sells, and distributes the final PepsiCo branded beverages in India and Africa. PepsiCo charges VBL a royalty only for certain products, which are Dukes, Aquafina, Aquavess and Evervess soda. There is no royalty payment for the other products and VBL only pays for the concentrates for beverages/ seasonings for snacks.
- VBL has played an increasingly pivotal role in the success of PepsiCo's beverage products in the country, now accounting for more than 90% of PepsiCo's sales volumes in India.
- The relationship has expanded beyond the Indian market into several international regions, with VBL securing franchise rights for PepsiCo products across India's 26 states and 6 Union Territories, as well as Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, South Africa, Lesotho, Eswatini, and the DRC.
- Additionally, VBL has been granted distribution rights in other regions like Namibia, Botswana, Mozambique, and Madagascar, showcasing the geographic breadth and significance of this partnership. This statistic underscores the importance of the partnership and the scale of VBL's operations.
- The expansion into the snack business further strengthened VBL's role within PepsiCo's ecosystem. Globally, PepsiCo has not given out rights to its snacks business to any other partner. The exclusive rights to manufacture and distribute PepsiCo snack brands, such as Lay's, Cheetos and Doritos in Morocco, Zambia, and Zimbabwe, have added a new dimension to VBL's portfolio, leveraging the synergies between its existing beverage infrastructure and the growing demand for snacks.

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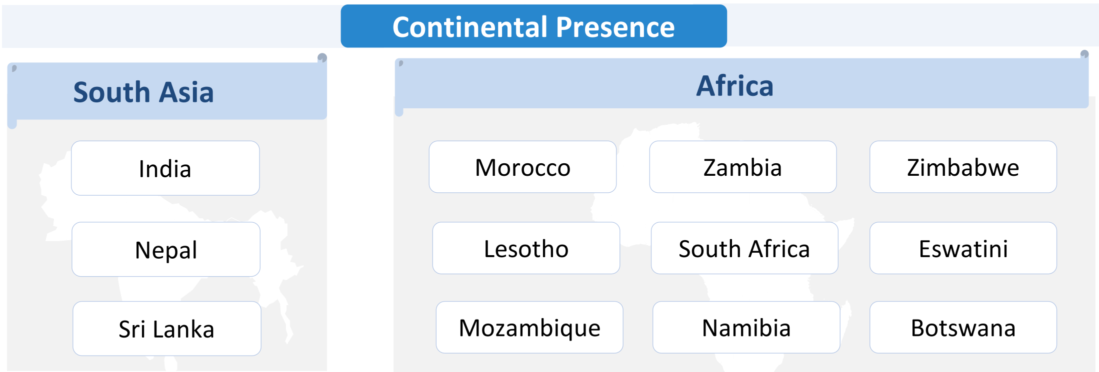
Geographical presence

Till CY23, India contributed close to 80.0% of VBL's volumes. This share has come down to 73% in CY24, owing to acquisition of BevCo adding to international volumes during the year.

Varun Beverages has been on a journey to broaden its geographical presence, with India being its core market. As VBL has gained license from PepsiCo for most of the sub-territories in India over the years, it has now started to acquire more territories in Africa, in order to keep expanding its presence. Till CY23, India contributed close to 80.0% of VBL's volumes. This share has come down to 73% in CY24, owing to acquisition of BevCo adding to international volumes during the year.

Exhibit 7: VBL has presence in 12 countries across 2 continents

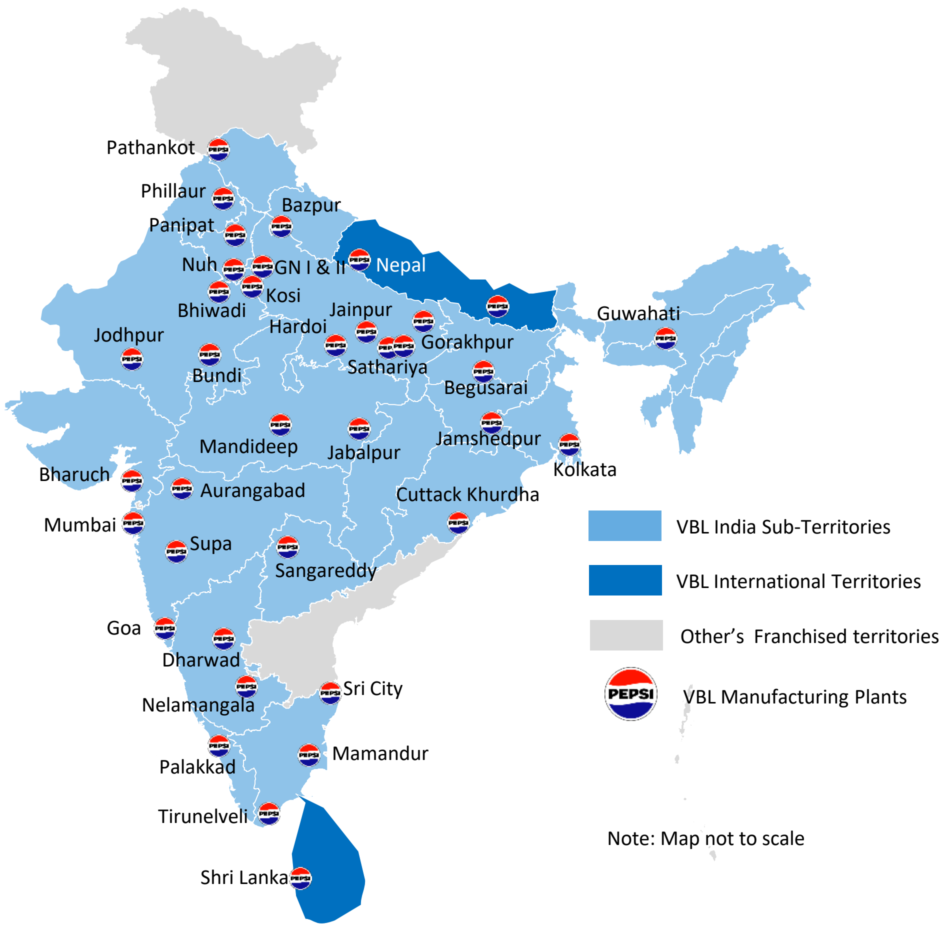


Source: Company, ACMIIL Research

- Varun Beverages holds franchises for a wide range of PepsiCo products across 26 states and 6 union territories in India. To effectively cater to the demand across this wide territory, the company operates 36 beverage production facilities in India and 12 more in its international licensed territories.
- India remains VBL's largest market, contributing 72% of its net revenues in CY24.
- It accounts for over 90% of PepsiCo's beverage sales volume in India.

India remains VBL's largest market, contributing approximately 72% of its net revenues in Fiscal 2024. It accounts for over 90% of PepsiCo's beverage sales volume in India.

Exhibit 8: VBL covers almost the entire Indian sub-continent, thus contributing to 90% of PepsiCo's volumes in the country



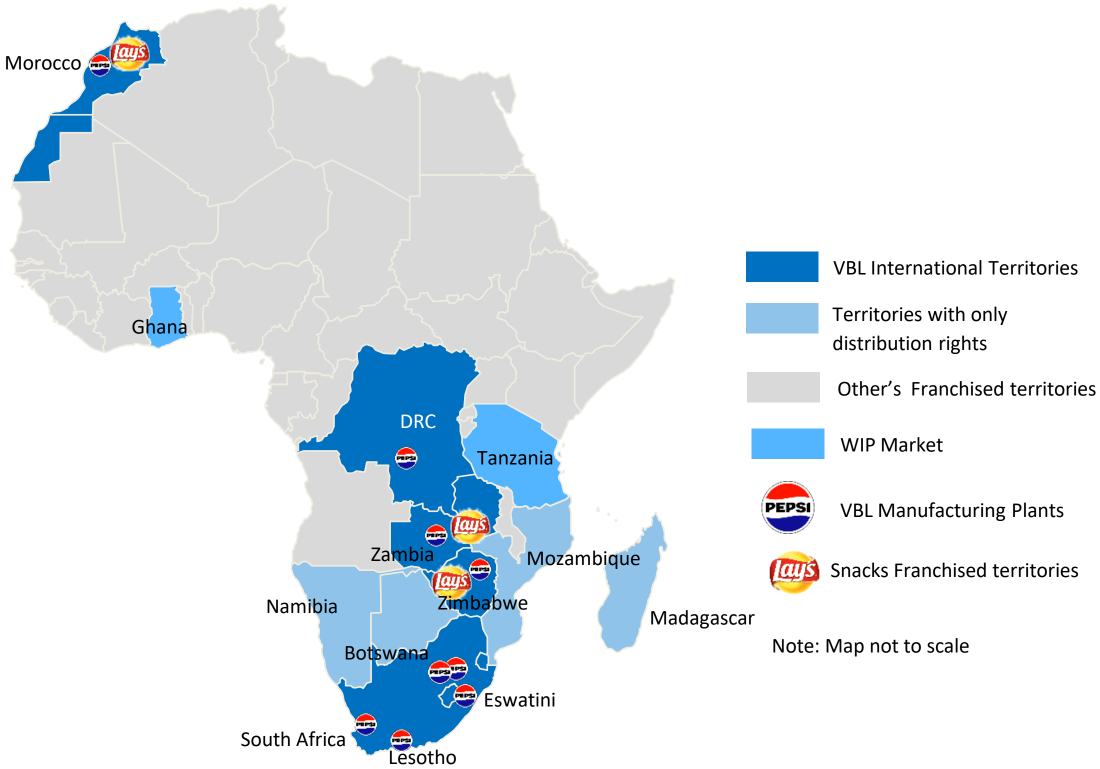
Source: Company, ACMIIL Research

Varun Beverages (VBL:IN)

- The company also holds franchise rights for PepsiCo products in Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, South Africa, Lesotho, Eswatini, and the Democratic Republic of Congo (DRC), and distribution rights in Namibia, Botswana, Mozambique, and Madagascar.
- Recently in CY24, VBL has secured rights to manufacture and distribute a few snack brands in Morocco, Zambia and Zimbabwe. These three countries combined have a large snacks market of USD 800 mn.

VBL holds franchise rights for 9 countries and distribution rights for 4 countries outside of India.

Exhibit 9: Expanding presence in Africa, in both beverages and snacks segments



Source: Company, ACMIIL Research

Timeline of territory expansion for VBL

1991 – 2010

- **1991-** Received licensing agreement from PepsiCo through a group Company for trademark and bottling
- **1996-** Commenced operations in Jaipur

2010s – 2020s

- **2012-** Consolidated the sub-territories of Goa, three districts of Maharashtra, and North-East India after the merger of a group company
- **2012**- Three companies having the territories of Nepal, Sri Lanka, and Morocco became subsidiaries
- **2013** - Acquired the Delhi sub-territory (remaining parts)
- **2015**- Acquired sub-territories (Parts of Uttar Pradesh and Haryana, along with Uttarakhand, Himachal Pradesh, Punjab, and the Union Territory of Chandigarh)
- **2017**- Acquired sub-territories across the States of Madhya Pradesh (certain parts) and Odisha
- **2018**- Acquired sub-territories in the State of Jharkhand, Chhattisgarh and Bihar.
- **2018-** Granted sales and distribution rights of Tropicana and Gatorade.
- **2018-** Set up a Greenfield production facility in Nepal and Zimbabwe
- **2019**- Acquired sub-territories in the parts of Maharashtra (14 districts), parts of Karnataka (13 districts) and parts of Madhya Pradesh (3 districts).
- **2019**- Acquired sub territories across seven States (Gujarat, parts of Maharashtra, parts of Karnataka, Kerala, Tamil Nadu, Telangana and parts of Andhra Pradesh and five union territories of Daman & Diu, Dadra and Nagar Haveli, Puducherry (except Yanam), Andaman & Nicobar Islands and Lakshadweep)

2010-2020 represented a period of expansion in India, while 2020 onwards, VBL has been focusing on expansion in Africa.

2020 onward

- **2022**- Commenced commercial production of Kurkure Puffcorn at the manufacturing plant in Kosi, Uttar Pradesh for PepsiCo
- **2022-** Entered into an agreement to distribute and sell Lays, Doritos and Cheetos for PepsiCo in the territory of Morocco
- **2023**- Incorporated new subsidiary - VBL Mozambique, SA, South Africa, to carry on the business of distribution
- **2024-** Acquired BevCo along with its wholly-owned subsidiaries
- **2024-** Secured exclusive snacks franchising rights for PepsiCo's brands in Morocco, Zimbabwe, and Zambia
- **2024-** Entered into binding agreements to acquire 100% stake in Tanzania and Ghana, further enhancing its African market presence

Source: Company, ACMIIL Research

Manufacturing footprint and backward integration

The company strategically locates its manufacturing plants to minimize transportation costs and respond quickly to regional demand.

- Varun Beverages Limited (VBL) operates 36 production facilities in India and 12 internationally, with 17 of them being backward integrated. The company also has a fleet of over 2,840 owned delivery vehicles and partners with 2,275 primary distributors across India for extensive market reach.
- The company strategically locates its manufacturing plants to minimize transportation costs and respond quickly to regional demand.
- To address seasonal fluctuations, VBL adjusts its production capacity, ensuring optimal efficiency during peak months when beverage sales are highest.
- VBL has made significant capital investments to expand production capacity, acquire new territories, and modernize existing facilities, ensuring long-term growth and operational flexibility. The company also focuses on optimizing capital utilization, with strategic investments in chilling equipment for retailers and other distribution points.
- VBL has also invested significantly in backward integration, establishing facilities that manufacture key components such as preforms, crowns, plastic closures, corrugated packaging, plastic crates and shrink-wrap films, helping to ensure supply chain stability and cost control.
- They continue to innovate by introducing lighter plastic bottles and smaller caps, which not only reduce material costs but also support sustainability efforts.

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Benefits of Backward Integration

- Cost Control and Efficiency: By manufacturing essential components in-house, VBL reduces its dependency on external suppliers, allowing it to control procurement costs better. This move helps minimize risks associated with price volatility of raw materials, especially for packaging and bottles. Internal production of these components also results in better cost management, leading to improved margins.
- Enhanced Quality Control and Production Flexibility: In-house production of critical materials enables VBL to enforce stricter quality control, reducing the risk of issues from third-party suppliers and ensuring consistent product quality. Backward integration also offers greater production flexibility, allowing the company to adjust schedules and respond to market demand without relying on external suppliers.
- Improved Margins: Backward integration allows VBL to capture value at multiple points in the supply chain. Producing its raw materials reduces dependency on third-party suppliers and allows the company to bypass some of the margins that would otherwise go to external vendors. This directly contributes to improved overall profit margins.

Distribution

The company operates one of the largest beverage distribution networks in India. As the exclusive bottler for carbonated soft drinks (CSDs), non-carbonated beverages (NCBs), and packaged water under the PepsiCo brand in multiple geographies, its distribution model is a critical competitive advantage.

VBL follows a direct distribution model, ensuring high market penetration and efficient last-mile delivery.

The company follows a direct distribution model, ensuring high market penetration and efficient last-mile delivery. The supply chain consists of:

1. Bottling Plants: VBL owns and operates multiple bottling plants strategically located across India to minimize transportation costs and optimize serviceability.
2. Primary Distribution (Depots & Warehouses): Bulk production from plants is sent to regional warehouses and depots, ensuring efficient stock availability for local distributors.
3. Last-Mile Delivery (Retail Distribution): Direct store deliveries are made to kirana stores, supermarkets, quick-service restaurants (QSRs), hotels, cinemas and modern trade outlets, ensuring ready-to-drink availability at the point of sale.
4. Visi-coolers: A key aspect of beverage distribution is the availability of chilled beverages which are ready-to-consume at the point of sale. This is achieved through visi-coolers. Unlike dry-stock FMCG players (Britannia, HUL, Nestlé), VBL has a visi cooler network that significantly alters its logistics, retail penetration strategy, and capital requirements. VBL invests in visi-coolers at retail outlets, ensuring that its PepsiCo portfolio is prominently displayed and served chilled. By providing free-visi coolers to retailers, it also strengthens control over cold shelf space, ensuring high brand recall, and preventing competitors (e.g., Coca-Cola, Red Bull) from occupying the same cold space. It may lead to increased upfront costs but enhances revenue and profitability in the longer term, especially from the impulse-driven beverage sales.

Exhibit 10: Differentiation in beverage vs other FMCG supply chain

Factor	Varun Beverages (Cold Chain)	Britannia / HUL (Dry FMCG)
Retail Storage	Limited (visi cooler space)	Large shelf storage
Delivery Frequency	High (small, frequent deliveries)	Low (bulk replenishments)
Stocking Requirement	Strict (must be refrigerated)	Flexible (ambient storage)
Retailer Dependence	High (coolers provided by VBL)	Low (no special infrastructure)

Source: Company, ACMIIL Research

While visi-cooler investments increase capex, they offer long-term growth potential by driving higher sell-through rates, premium product placement, and retailer loyalty, all while supporting impulse-driven sales.

Since visi-coolers have limited storage capacity, VBL operates on a high-frequency replenishment model:

This model ensures that PepsiCo beverages are always available chilled, which is critical for impulse purchases, particularly in peak summer months.

Beverage consumption is highly seasonal, with peak demand occurring in summer months. VBL's visi cooler-led model helps it:

- Scale up deliveries during peak seasons without worrying about store-level refrigeration constraints.
- Maintain consistent stock turnover, ensuring fresher inventory at the retail level.

Additionally, digital monitoring and data-driven supply chain optimization allow predictive stocking at high-demand locations, ensuring that availability aligns with temperature-driven spikes in demand.

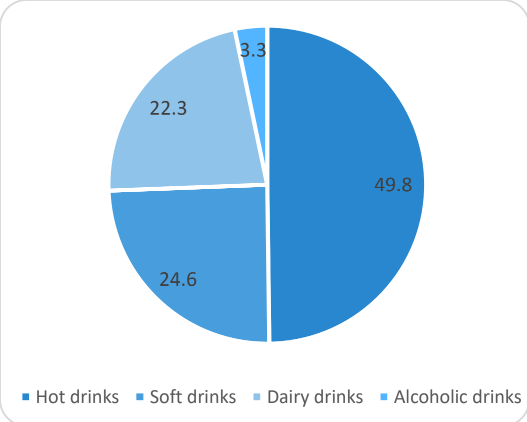
Therefore, while visi-cooler investments increase capex, they offer long-term growth potential by driving higher sell-through rates, premium product placement, and retailer loyalty, all while supporting impulse-driven sales. This positions VBL as a dominant force in the Indian soft drink market, with strong pricing power and operational scalability.

Industry overview

The pie chart (left) illustrates India's beverage market share while the column chart (right) shows per capita consumption of broad categories of beverages in India, highlighting the dominance of different drink categories.

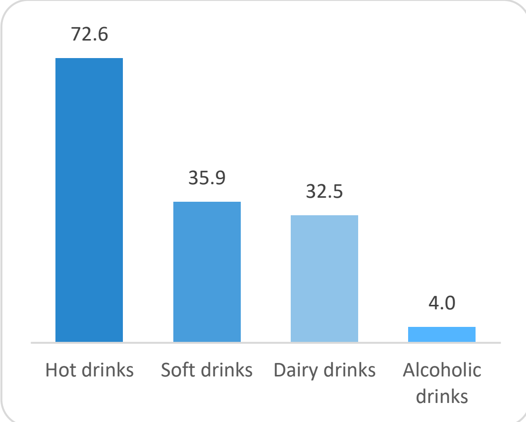
Soft drinks, comprising of packaged water, carbonated drinks, fruit juices, and energy drinks constitute almost 1/4th of beverage volumes in India.

Exhibit 11: Soft drinks constitute almost 1/4th of overall beverage volumes (CY23)



Source: Company, ACMIIL Research

Exhibit 12: Per capita beverage consumption in litres (CY23)



Source: Company, ACMIIL Research

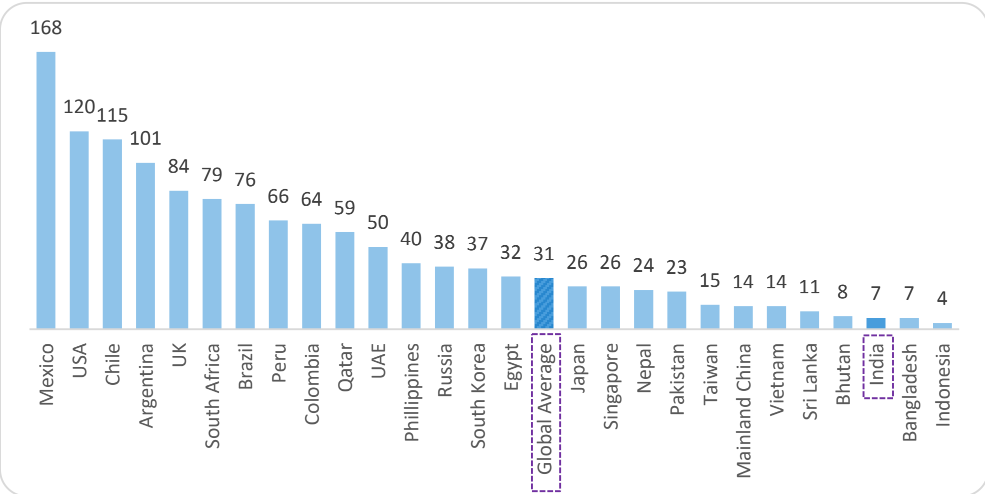
1. Hot Drinks (49.8%): The largest segment, primarily driven by high tea consumption, which is deeply embedded in Indian culture. Coffee also contributes to this category but to a lesser extent. This category has a per capita consumption of about 73 liters annually.
2. Soft Drinks (24.6%): This category includes packaged water, carbonated drinks, fruit juices, and energy drinks. Packaged water is a major driver of this segment, particularly in hot and humid regions. Approximately 36 liters of these are consumed per capita annually.
3. Dairy Drinks (22.3%): Includes white milk and dairy-based beverages such as buttermilk and flavored milk, which are widely consumed across urban and rural areas. This category has a per capita consumption of about 32.5 liters per annum.
4. Alcoholic Drinks (3.3%): The smallest category, mainly comprising whiskey, beer, and other spirits. While the segment is growing, it remains relatively small compared to non-alcoholic beverages and about 4 liters are consumed per capita on an annual basis.

India's per capita CSD consumption is much lower at 7 litres than global average of 31 litres.

- India's low per capita CSD consumption

Given its low per capita consumption in comparison to worldwide standards, India promises an enormous potential in the carbonated soft drink (CSD) market. According to recent research, India consumes roughly 7 liters of CSD annually per individual, which is much less than that of advanced economies like the US (~120 liters) or even other emerging markets like Brazil (~76 liters). This glaring disparity draws attention to the Indian market's unrealized potential. Rising disposable incomes, changing lifestyles, urbanization and younger population to bey key drivers of CSD consumption growth in India.

Exhibit 13: India under-indexed on per capita CSD consumption (in litres)



Source: Company, ACMIIL Research

Varun Beverages (VBL:IN)

Industry overview

- Soft drinks market in India

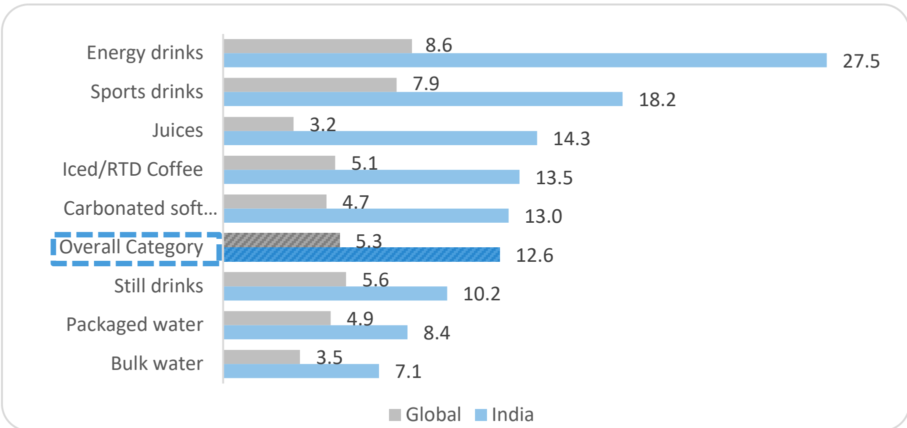
The soft drink market growth in India (+12.6%) is expected to surpass that of the global market growth (+5.3%) over CY24-28E. Within that, the market for energy drinks, sports drink, juices and CSD is expected to grow faster than the overall category in India.

From CY18 to CY24E, the soft drink industry in India had volume and value CAGR of 10.5% and 19.0%, respectively. It peaked during the 2020-2023 period with volume and value growth CAGR at 21.2% and 34.8% each, impacted by the low base during the Covid-19 disruption in CY20.

Throughout the forecast period (CY24E to CY29E), value growth is projected to continue to surpass volume growth due to rising prices. Volume and value CAGR for the segment are predicted to be 9.9% and 13.4%, respectively, during the CY24–CY29E period, led by expanding distribution and cold-chain infrastructure, changing consumer preferences, rising temperatures throughout India, evolving product mix with higher share of health-focused offerings and growing quick- and ecommerce.

The soft drink market growth in India (+12.6%) is expected to surpass that of the global market growth (+5.3%) over CY24-28E. Within that, the market for energy drinks, sports drink, juices and CSD is expected to grow faster than the overall category in India.

Exhibit 14: India vs global industry growth forecast, CY24E-28E CAGR (%)



Source: Company, ACMIIL Research

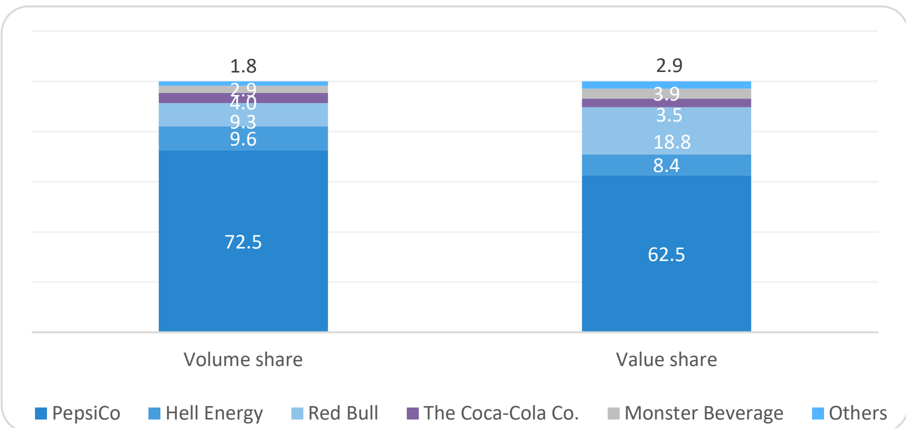
- Category-wise growth drivers

The energy drinks category is expected to witness the fastest growth, primarily driven by increasing demand from the younger demographic. PepsiCo led the market with a 72.5% volume share, supported by the strong uptick seen for Sting brand.

1. Energy drinks:

The energy drinks category is expected to witness the fastest growth, primarily driven by increasing demand from the younger demographic. PepsiCo led the market with a 72.5% volume share, supported by its strong distribution network for the Sting brand. The company also recorded the highest annual volume growth, surging by 71%. Additionally, the rising popularity of energy drinks as mixers for alcoholic beverages further fueled the category's expansion. Over the long term, low-calorie innovations and distinctive flavors are expected to sustain the growth momentum of the segment.

Exhibit 15: Category leading company share (volume and value in %) in 2023.



Source: Company, ACMIIL Research

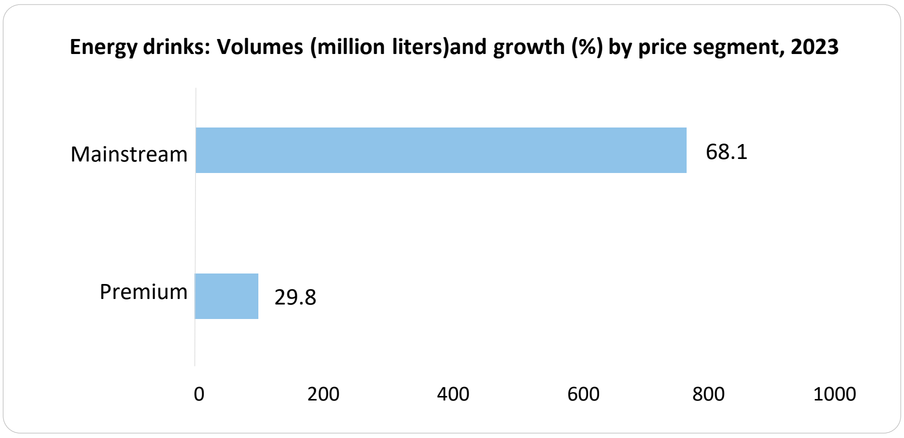
Industry overview

In CY23, the size of mainstream energy drinks by volume was almost 7-8x larger than the premium segment. Mainstream energy drinks are growing faster than premium ones owing to

Mainstream energy drinks are growing faster than premium ones owing to the affordability, wider distribution, visibility and youth appeal of products like PepsiCo's Sting.

- Affordability: Mass-market brands like PepsiCo's Sting are significantly cheaper than premium brands like Red Bull making them accessible to price-sensitive consumers.
- Wider Distribution: Sting and Coca-Cola's Charged leverage FMCG-style distribution, reaching tier 2, tier 3 cities, and rural areas, unlike premium brands, which rely on modern urban retail.
- Impulse-Driven Sales: Positioned near soft drinks in visi-coolers, mainstream energy drinks benefit from on-the-go consumption and spontaneous purchases.
- Marketing & Youth Appeal: Aggressive marketing, youth-focused branding, and celebrity endorsements make mass-market options more aspirational and widely adopted.

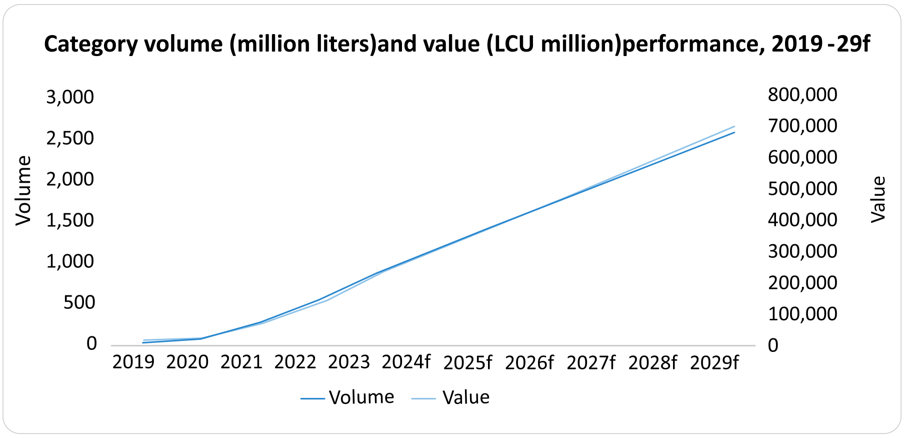
Exhibit 16: Mainstream energy drinks are growing faster than premium offerings.



Source: Company

Exhibit 17: Energy drinks category expected to continue its strong growth trajectory with volumes growing to almost 2.5x over CY24-29E

Energy drinks category expected to continue its strong growth trajectory with volumes growing to almost 2.5x over CY24-29E.



Source: Company

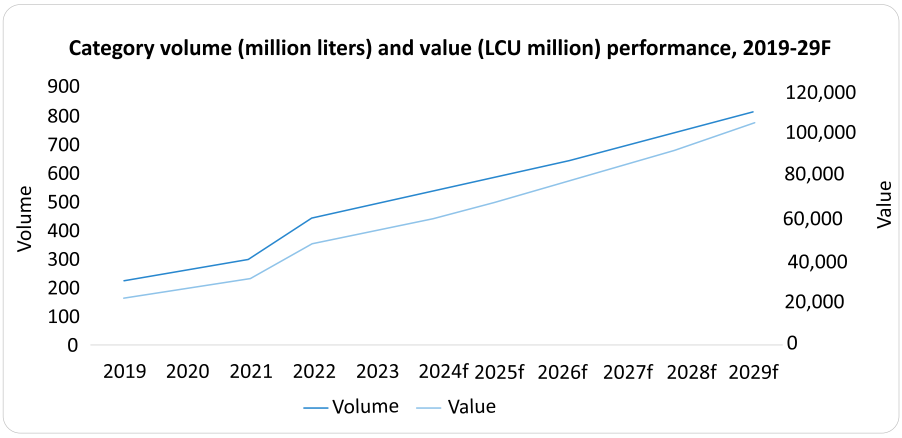
2. Sports drinks

Due to rising consumer interest in fitness, health, and hydration requirements, the sports drink category had a 10.3% increase in volume and a 12.8% rise in value in CY23. Demand was substantially boosted by the growing popularity of professional sports, gyms, and marathons as well as by an increase in corporate sponsorships and promotions at athletic events. Additionally, the use of electrolyte-based hydration drinks grew as a result of heatwaves and warmer summer temperatures. It is anticipated that the category would continue to increase as customers become more health conscious. Athlete endorsements, aggressive marketing campaigns, and more retail availability via modern commerce will all hasten uptake and establish sports drinks as a crucial market in India's evolving beverage sector.

Industry overview

Exhibit 18: Sports drinks category growth will be supported by increasing focus on healthy lifestyles and marketing activities around sports events.

Sports drinks category growth will be supported by increasing focus on healthy lifestyles and marketing activities around sports events.



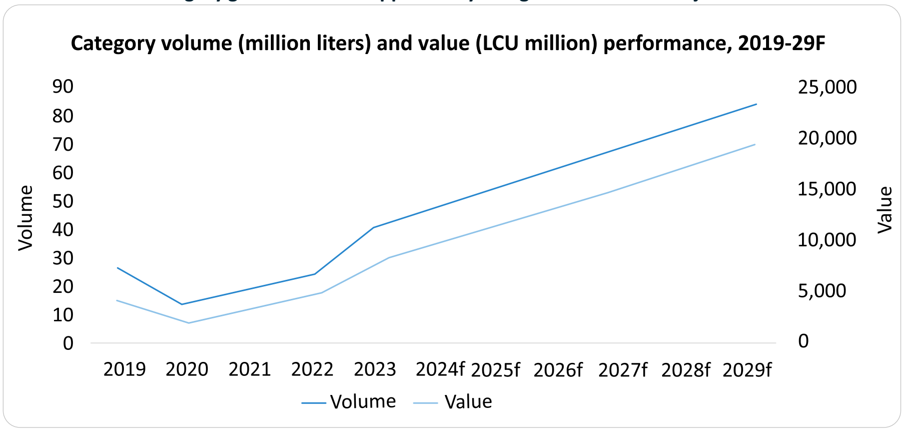
Source: Company

3. Juices/Nectars

Juices refer to pure 100% fruit juice or vegetable juice with no added ingredients while, nectars can contain added sugar or honey, etc. In 2023, the juice segment, where PepsiCo leads the market, recorded the highest growth in the soft drinks sector, with volume increasing by 70.8% and value by 69.7%, driven by the health and wellness trend and rising out-of-home consumption. Consumers are increasingly shifting toward natural, preservative-free options, making 100% juice products a key growth driver for the category in the long term. Additionally, innovations in eco-friendly packaging and sustainable sourcing will play a crucial role in shaping future demand, as brands focus on reducing plastic waste and enhancing recyclability to meet evolving consumer expectations. With modern retail and quick-commerce expansion improving accessibility, the juice market is set for sustained growth in India's evolving beverage landscape.

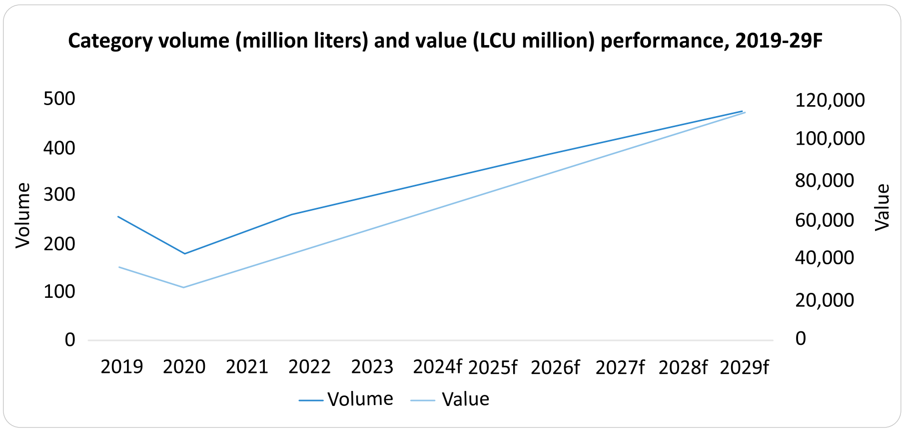
Exhibit 19: Juice category growth will be supported by rising demand for 100% juice

Juices/ nectar category growth will be driven by demand for 100% juice and natural/ low-sugar formulations.



Source: Company

Exhibit 20: Growth in nectars will be driven by launch of new products with natural and low-sugar formulations



Source: Company

Industry overview

4. Carbonates

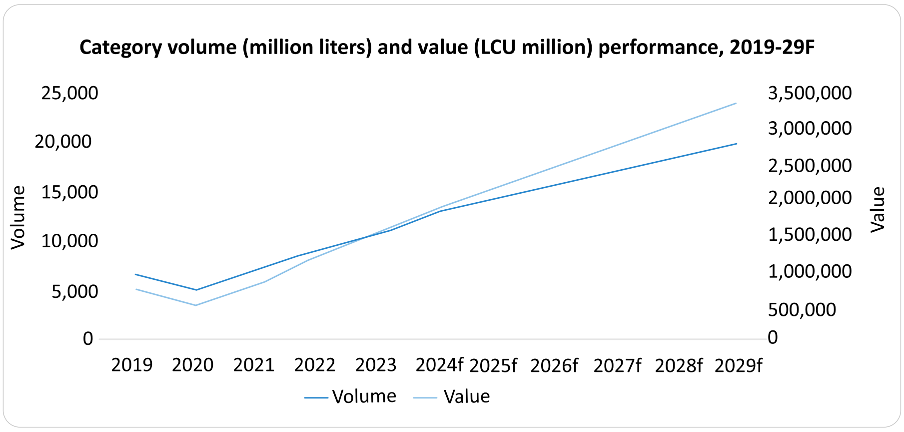
Carbonates segment growth will be increasingly driven by the no calorie/ low or no sugar brands.

With a volume share of 20.9% in CY23, carbonates are ranked as the third-largest category in the soft drinks sector. Volumes in the category increased by 15.1%, while its value increased by 23.8% in CY23. Increased on-the-go consumption and tourism, particularly during the scorching summertime, helped its performance. The need for carbonates was also increased by a rise in big public gatherings.

CY23 volumes were led by the Cola flavor with a share of 36.2%. This was followed by lemon-line and orange.

The demand for low-calorie and sugar-free varieties increased by 18.3% due to growing health consciousness. Regular-calorie carbonates showed a 15% decrease in growth. However, because Indians tended to make more conventional choices, low-calorie ones remained a niche market. Volumes in the category were greatly expanded by robust distribution networks and increased uptake by rural consumers. PepsiCo was the second-largest company in the category. Its Pepsi Black brand recorded one of the strongest growth rates at 64.8%, thanks to rising demand for zero-sugar carbonates.

Exhibit 21: Carbonates growth to be supported by strong uptick in low-calorie/ no sugar segments



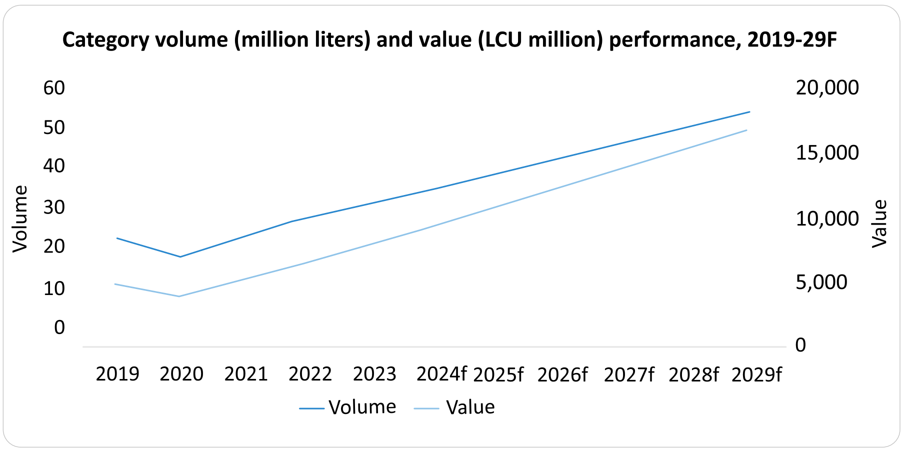
Source: Company

5. ICED/ RTD Tea drinks

The iced/ready-to-drink (RTD) tea segment is expected to see strong growth, driven by warmer temperatures, expanding flavor options, premiumisation and the rapid growth of QSR outlets.

In CY23, the iced/ready-to-drink (RTD) tea segment experienced strong growth, with volume increasing by 11.8% and value rising by 17.7%, driven by warmer temperatures, expanding flavor options, and the rapid growth of QSR outlets. Lemon remained the dominant flavor, accounting for 83.6% of total volume, while fruit-based variants saw the fastest growth, with a 20.9% increase in volume. The rising health-consciousness among consumers is prompting brands to introduce low-sugar and functional variants infused with antioxidants and herbal ingredients, further expanding the category's appeal. With India's consistently high temperatures and increasing out-of-home consumption, demand for iced tea and RTD beverages is expected to remain strong, particularly through modern trade, quick commerce, and café chains. Additionally, premiumization trends are leading to the emergence of organic and cold-brew iced teas, catering to urban consumers seeking healthier refreshment options.

Exhibit 22: Carbonates growth to be supported by strong uptick in low-calorie/ no sugar segments



Source: Company

Varun Beverages (VBL:IN)

Industry overview

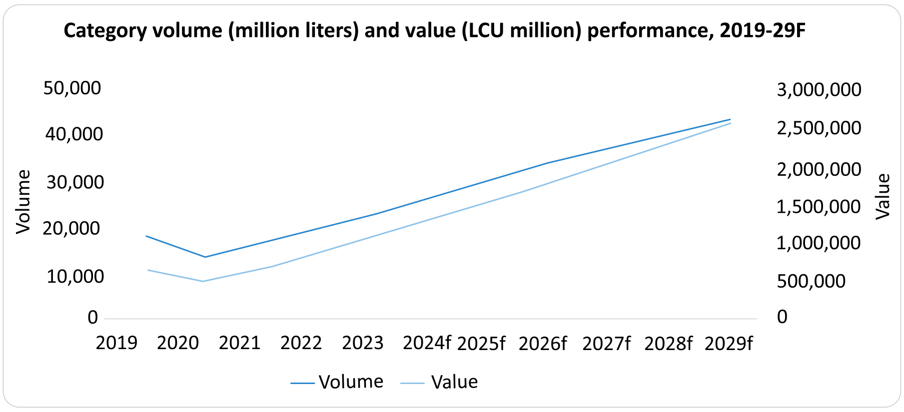
6. Packaged Water

Packaged water remained the largest segment in India's soft drinks market, with growth driven by rising temperatures, rapid urbanization, and concerns over tap water quality.

Packaged water remained the largest segment in India's soft drinks market, registering 15.9% volume growth in CY23, driven by rising temperatures, rapid urbanization, and concerns over tap water quality. Increasing levels of office-based work also fueled demand for packaged water. In addition, an uptick in travel and tourism led to high on-the-go consumption. India's per capita consumption of packaged water remains at almost half the levels of regional average, indicating strong growth potential.

PepsiCo held a 4.1% volume share and a 3.4% value share in the packaged water market, with Aquafina growing at a healthy 14.1%. With consumer preferences shifting toward sustainability, brands will need to invest in eco-friendly packaging, biodegradable bottles, and water conservation initiatives to maintain long-term appeal. The expansion of quick-commerce platforms and rising penetration in tier 2 and 3 cities will further drive demand, making packaged water a key pillar of India's evolving beverage landscape.

Exhibit 23: Packaged water growth to be driven by rising temperatures, rapid urbanization, and concerns over tap water quality.

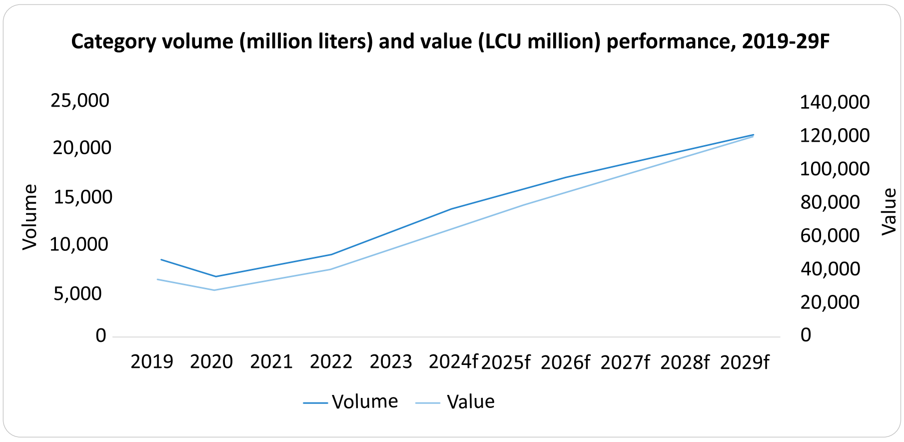


Source: Company

7. Bulk/hydro-optic disinfection water

The bulk/Home and Office Delivery (HOD) water segment recorded strong growth in 2023, with volume increasing by 26.7% and value rising by 29.4%, driven by expanding distribution networks, including deeper rural penetration. The resumption of office work and rising institutional demand further fueled category growth, while an uptick in tourist arrivals boosted on-premise consumption across hotels, restaurants, and travel hubs. The segment also appealed to budget-conscious consumers, offering a more cost-effective alternative to bottled packaged water for daily hydration needs. PepsiCo, with its Aquafina brand, maintained a presence in the category, achieving a 4.1% volume increase. Looking ahead, growth will be supported by increasing adoption in workplaces, residential societies, and commercial establishments, with companies focusing on enhancing last-mile delivery efficiency and offering sustainable packaging solutions to attract environmentally conscious consumers.

Exhibit 24: Bulk water growth supported by rising institutional demand



Source: Company

Industry overview

- Key trends in the soft drink industry

Increasing on-the-go consumption: Consumers are increasingly favoring small pack sizes that are easy to carry, given the busy routines and on-the-go lifestyles of urban Indians. The preference for small packs is most notable in the packaged water, carbonates, still drinks, and energy drinks categories.

Rising preference for functional drinks: There is a growing shift towards functional and exotic flavors, with herbal infusions, green tea, and spiced variants like jaljeera and masala soda seeing increased adoption, reflecting the rising demand for healthier and traditional Indian-inspired beverages. In energy drinks, tropical and mixed berry flavors are expanding their market share. As brands continue to innovate, sugar-free and low-calorie variants infused with botanicals and natural extracts are expected to shape future flavor trends, aligning with India's growing health and wellness movement.

Consumers valuing sustainable packaging: Consumers are increasingly conscious about the impact of their food and beverage choices on the environment. They seek environmentally friendly packaging solutions that do not lie endlessly in landfills. Companies have catered to this trend by offering drinks in recyclable plastic or 100% biodegradable packaging. This is also reflecting in regulatory changes, such as mandatory use of 30% recycled PET (r-PET) content in beverage bottles from 1st April 2025.

ACMIIL INSTITUTIONAL RESEARCH

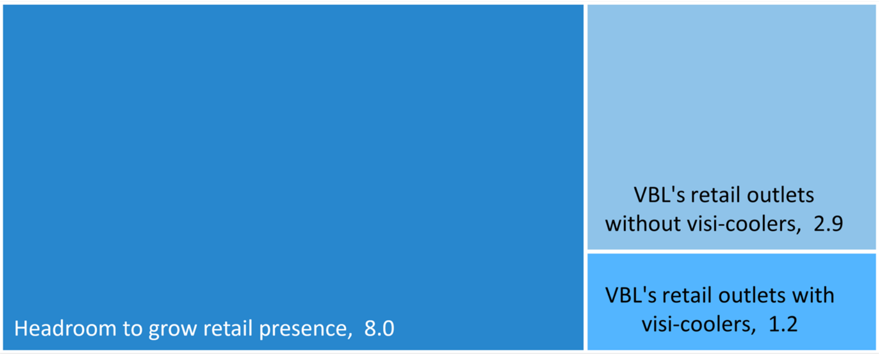
Investment rationale

VBL has a retail presence in 4 mn of the overall 12 mn FMCG retail outlets. Distribution is growing at 10-12% annually, leading to growth.

1. Capacity and distribution expansion to support growth in India

VBL's distribution in India pans 4 mn retail outlets, which gives it a wide headroom to grow further, considering a total of 12 mn retail outlets in India. The company is growing its presence by ~4,00,000-5,00,000 outlets, i.e. 10-12% each year. This expansion is coming on the back of better availability of electricity in rural India, leading to the possibility of installing visi-coolers. Visi-coolers are important as they enable on-the-go consumption of chilled beverages in smaller SKUs, which are higher margin SKUs compared to bulk/ larger bottles. It currently has an installed base of 1.15 mn visi-coolers across the country. This distribution reach is serviced through a network of 130+ depots, 2,800+ primary distributors having an infra of 10,000+ vehicles and 2,600+ owned vehicles.

Exhibit 25: VBL has a large headroom for further expanding its distribution presence within the overall FMCG distribution network



Source: Company, ACMIIL Research

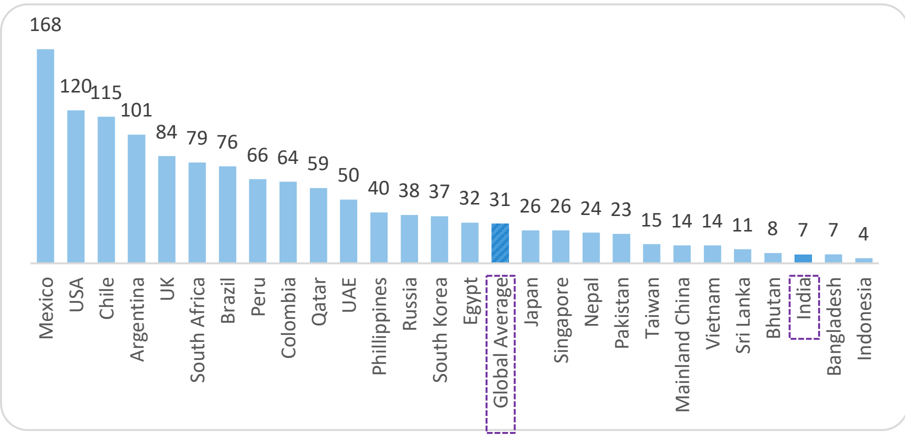
During CY22-24, VBL's capacity has inched up by 45%, with further 25% coming on stream before the CY25 season.

On the capacity front, VBL has been proactive in capacity expansion in order to fulfill demand generated through distribution expansion as well as the industry tailwinds. Due to the seasonal and capex heavy nature of beverage manufacturing, ensuring adequate capacity availability during peak seasons is crucial for the company. Failure to identify and execute proper capacity expansions in time, would come at the cost of adequate availability of products when the consumer demand is at peak, during the summer season. This may cost the company loss of revenue and market share. During CY22-24, VBL's capacity has inched up by 45%, with further 25% coming on stream before the CY25 season. Post this heavy capex, management has indicated a slowdown in capex intensity for a year, before resuming it again to service future demand growth.

2. Demand drivers for beverage growth in India

The TAM for beverages in India itself is expected to see strong double-digit growth, owing to the low category penetration compared to the global average. India consumes roughly 7 liters of CSD annually per individual, which is much less than that of advanced economies like the US (~120 liters) or even other emerging markets like Brazil (~76 liters). This disparity draws attention to the Indian market's unrealized potential. Rising disposable incomes, changing lifestyles, urbanization and younger population to bey key drivers of CSD consumption growth in India. Demand factors such as urbanisation, harsh summers, preference for functional drinks, growing per capita consumption and supply factors such as improving distribution, availability of refrigeration, etc. will enable healthy growth in the sector.

Exhibit 26: India under-indexed on per capita CSD consumption



Source: Company, ACMIIL Research

Investment rationale

3. Sustained expansion in the African continent in the last few years

In Zimbabwe, VBL gained 35% market share from nil, within 10 months of starting operations, and scaled it upwards of 70% in last 7 years.

Over the last decade, VBL has expanded its footprint in the African continent. While it has held the franchise rights for PepsiCo Beverages in Morocco, Zimbabwe and Zambia for a long time, it has added several others through a combination of franchise/ distribution rights.

- In **CY17**, VBL established a greenfield production facility in **Zimbabwe** for the sale and distribution of PepsiCo products. This was an untapped market for PepsiCo when VBL entered it. VBL commercialized operations in February 2018, and within 10 months of operations acquired a 35% market share. This share subsequently increased to above 70% in recent years.
- In **CY21**, VBL incorporated a new subsidiary in the **Democratic Republic of Congo (DRC).** VBL invested Rs 4,000 mn to set up a greenfield capacity of ~35 mn cases in a greenfield capex of Rs 4,000 mn, to target this **new market** for PepsiCo. DRC has a high population of 100 mn and a warm equatorial climate, making it an attractive market for beverages. VBL's operations in **DRC started Q3CY24**. The capacities reached full utilization within months after commissioning, leading to further investment plans by the company. VBL is targeting to double its capacity in DRC to 70 mn cases in CY25E.
- In CY22, VBL invested in brownfield expansions in Morocco and Zimbabwe, as well as in land acquisition for future expansions.
- In March 2024, VBL completed the acquisition of **BevCo**, which has franchise rights from PepsiCo Inc. in South Africa, Lesotho and Eswatini (where it is the sole licensed bottler), and distribution rights for Namibia, Botswana and Madagascar. This acquisition gives VBL **access to the largest soft drinks market in the African continent, South Africa**, which has a high per capita consumption. PepsiCo's share in this market is negligible at sub-2% levels, due to dominant presence of B-brands. With a portfolio of own+PepsiCo brands and VBL's demonstrated execution capabilities in other countries, there is a good headroom for growth over the next few years.
- In early 2024, VBL entered in an Exclusive Snacks Appointment Agreement **to manufacture and package Cheetos in Morocco** by May 2025. This is in addition to the earlier distribution rights in the market for Lay's, Cheetos and Doritos.

In DRC, a new market for PepsiCo, VBL saw extremely high levels of demand, leading to full capacity utilisations within few months of commercialization of its first greenfield facility.

- In July 2024, VBL entered into an Exclusive Snacks Franchising Appointment with Premier Nutrition Trading LLC, Dubai (subsidiary of PepsiCo Inc.) **to manufacture, distribute, and sell "Simba Munchiez" in the territory of Zimbabwe & Zambia**. VBL is investing Rs 600 mn in a manufacturing facility with an annual capacity of ~5,000 MT at each location of Zimbabwe and Zambia. Manufacturing facilities are expected to be operational for Zimbabwe on or before 1st Oct, 2025 and for Zambia on or before 1st Apr, 2026. Till the time capacities come on stream, VBL has already started distribution in Zimbabwe and Zambia since 1 Feb 2025.
- In early CY25, VBL has entered into share purchase agreement to **acquire PepsiCo's business in Tanzania and Ghana**, pending regulatory and other approvals. SBC Beverages Tanzania Ltd. (SBCT) is a market leader with five manufacturing facilities catering to PepsiCo brands and its own energy drink, Supa Komando. VBL will have to expand capacity and enhance its go-to-market strategy in the market. This will help VBL to address the growing consumer demand in East Africa. Acquisition of SBC Beverages Ghana Ltd. (SBCG) will solidify VBL's footprint in West Africa. The PepsiCo portfolio in Ghana is very small and it will be like a new territory for VBL. The transactions are proposed at at an Equity value of ~ USD 154.5 mn for Tanzania and ~ USD 15.1 mn for Ghana. The acquisition is expected to be completed on or before 28th February 2025 for Ghana and 31st March 2025 for Tanzania.
- The management hopes to continue to gain more territories in Africa, for both beverages and snacks segments. With some of these markets being untapped by PepiCo, VBL has strong headroom to grow.

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INVESTMENT INTERMEDIATES LTD.
A Pantomath Group Company

ACMIIL INSTITUTIONAL RESEARCH

Investment rationale

VBL acquired BevCo at a deep discount vs. VBL's EV/sales of 9.8x at the time of acquisition.

4. Strong headroom for growth due to the BevCo acquisition

The deal was at an enterprise value of ZAR 3 bn/ Rs 13.2 bn, at just 0.8x of BevCo's FY23 revenue. This was at a deep discount vs. VBL's EV/sales of 9.8x at the time of acquisition.

Favourable demographics: South Africa is a huge market, with one of the highest per capita consumption rates of about 244 servings per person. It is about a billion case market on an annual basis. 65% of its populations belongs to the 15-64 age bracket, with urbanization of 60%-80%.

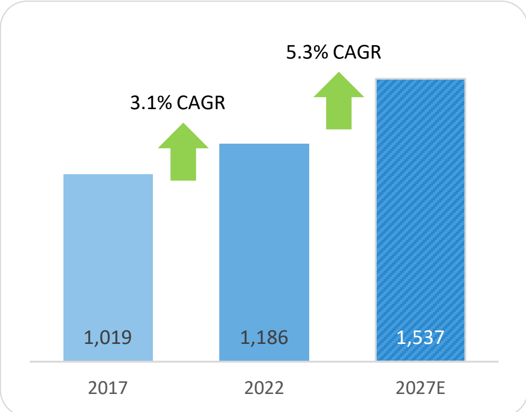
Market share headroom: In South Africa, the B-brands are more prominent, with limited share held by global brands. PepsiCo's market share is very small at 1.8%, as the overall global brand share itself is low at 2.7%. BevCo's own brands have a higher market share of ~12%, which also represents an opportunity to grow. In the past, VBL has been successful in significantly improving market shares in Zimbabwe, Zambia & Morocco. PepsiCo had no share in the past in Zimbabwe, which has seen a meteoric rise to 71% in recent times. In Zambia, VBL has a market share of ~35% and about 30% in Morocco. The company now aims to replicate this performance in South Africa.

Portfolio of owned+franchised products: Bevco is engaged in the business of manufacturing and distribution of licensed (PepsiCo Inc.)/own-branded non-alcoholic beverages in South Africa. BevCo's own brands account for ~85% of total sales volumes. These includes a popular energy drink – "Reboost" - and the other CSD brands such as "Refreshhh", "Coo-ee" and "Jive". VBL is focused on improving the volume share of PepsiCo products, which have better realisation and margins. Own brands' realisations are about 30% lower than PepsiCo brands. The share of PepsiCo in sales volumes has already increased from 15% at the time of acquisition to ~20% towards end of CY24. This improving mix will lead to improving realisations and margins going ahead.

BevCo acquisition has helped to access a larger market with different seasonality than India.

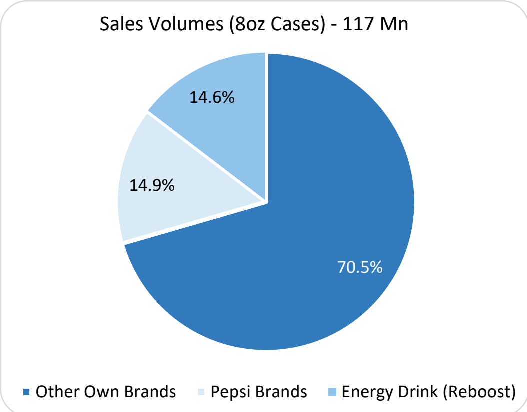
Different seasonality: The peak season in South Africa is during October to March. This period, in India is largely an off-season, with more sales happening during the summer months of April-June. This difference in peak season timings will help in reducing some of the seasonality impact on financials.

Exhibit 27: South Africa is the largest soft drink market in Africa with further volume growth expected. (Mn 8oz)



Source: Company, ACMIIL Research

Exhibit 28: BevCo's sales volumes in FY23 were dominated by own brand sales, while Pepsi brands contributed under 15%.



Source: Company, ACMIIL Research

Investment rationale

5. Margin expansion on cards in BevCo portfolio

As the margin profile is much better for PepsiCo products, a changing mix will aid margins going ahead.

Margins in South African business are lower at low to mid teens vs consol margins of 23.5%, due to high share of own brands, high proportion of sales through modern trade, less absorption of fixed costs due to new capex and absence of backward integration till now. VBL has started focusing on its go-to-market strategy to improve share of distribution through general trade, which will lead to margin improvement. Backward integration about 1 year down the line will further aid margins.

The share of PepsiCo brands in sales in South Africa is just about 20%, up from 15% initially. The growth is PepsiCo brands is higher than own brands, while both are growing in double-digits. As the margin profile is much better for PepsiCo products, a changing mix will aid margins going ahead. Management expects all these factors to lead to margins in South Africa coming closer to India margins.

6. Focus on backward integration

In India, VBL has backward integration facilities for the production of preforms, crowns, plastic closures, corrugated boxes, corrugated pads, plastic crates and shrink-wrap films. It has 3 exclusive backward integration facilities and 10 integrated plants. This has helped the company to maximize cost efficiencies, reduce cost of goods sold and freight costs, minimize operating expenses and increasing cash flows. It also gives the company greater flexibility in raw material inventory management, helping it to take advantage of lower costs.

7. Expansion of product profile

VBL is making meaningful inroads in the snacks business of PepsiCo in the African region. In Morocco, Zimbabwe and Zambia, the three countries where VBL has entered agreements for snacks business, the TAM for snacks is USD 800 mn. These three plants will start coming up towards the end of CY25E, which could lead to an incremental revenue of USD 100 mn over the next few years. More territories in Africa may be in the pipeline. The snacks business has a better capex turnover, leading to better ROCEs than the beverage business. Moreover it does not have a seasonality effect, which contributes to better returns.

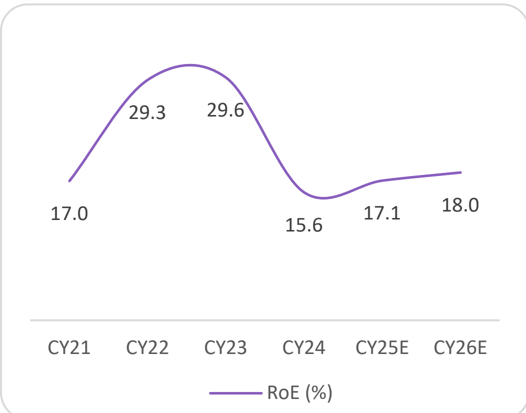
PepsiCo generally does not give the rights to its snacks business to external parties. The fact that VBL has received these rights in 3 African countries, points to the strong relationship between the two entities.

PepsiCo generally does not give the rights to its snacks business to external parties. The fact that VBL has received these rights in 3 African countries, points to the strong relationship between the two entities.

8. Return ratios dipped due to QIP and expansions, to inch up going ahead

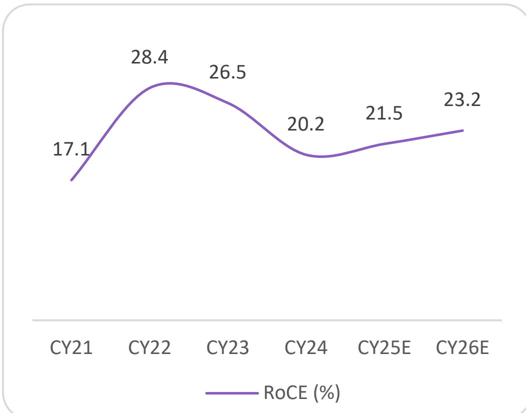
In November 2024, VBL raised Rs 75,000 mn through a Qualified Institutional Placement (QIP), by issuing 132.7 mn equity shares at an issue price of Rs 565 per share. This led to a share capital dilution of ~4.1%. With the proceeds, the company brought down its debt levels, thus strengthening the balance sheet. The funds also give the company flexibility to pursue future growth plans with expansion into new geographies, strategic acquisitions, and further investment in enhancing operational capabilities.

Exhibit 29: ROE bottomed out in CY24 due to QIP and capex, expected to inch up from here



Source: Company, ACMIIL Research

Exhibit 30: ROCE also expected to follow a similar trajectory as ROE



Source: Company, ACMIIL Research

Risk factors

- Dependence on PepsiCo: Bulk of Varun Beverages' revenue is dependent on its relationship with PepsiCo. Due to this reliance, VBL would be at risk if PepsiCo changed or ended the agreement, changed its commercial plans, or encountered difficulties in the market. Additionally, Varun Beverages may be impacted indirectly by any legal or regulatory changes that affect PepsiCo. Due to its tight ties to PepsiCo, the company is also vulnerable to dangers to its brand name, since any unfavorable press or problems with PepsiCo products could harm Varun's reputation among consumers. Additionally, Varun's capacity to adjust to shifting consumer tastes or market conditions is hampered by this dependence, which restricts its influence over price, product innovation, and marketing.
- Rising competition due to Campa Cola: Campa Cola's re-entry into the Indian market increases competition for Varun Beverages. Campa Cola's growing popularity could affect PepsiCo's market share, impacting Varun's sales. This intensifies pricing pressures and may require more aggressive marketing strategies. Varun Beverages could also face challenges in retaining customers as preferences shift. The competition poses a risk to Varun's growth and profitability.
- Impact of weather pattern disruptions: Because seasonal weather affects beverage demand, Varun Beverages may experience disruptions in its business. Cooler weather or unseasonable rain might lower sales, particularly for chilled beverages. Inventory control and sales projections may be impacted by this volatility. Distribution and supply chains may potentially be impacted by weather-related disruptions.
- The shift in customer preferences: A shift toward healthier, low-sugar, or organic drinks might reduce demand for traditional sugary beverages, forcing Varun to innovate and diversify its portfolio. Additionally, if consumers increasingly prioritize sustainability or eco-friendly packaging, Varun may need to adjust its production and packaging methods. Failure to align with these evolving preferences could lead to reduced market share and customer loyalty, affecting the company's growth and profitability.
- Impact of Competitor Actions: Varun Beverages' sales and profitability can be affected by strong competition from brands like Coca-Cola and emerging local players. Competitors may introduce innovative products, aggressive marketing campaigns, or pricing strategies that attract customers away from Varun. If competitors gain significant market share, it could limit Varun's ability to grow and may require them to increase their own investments in marketing, product development, or pricing strategies to remain competitive.
- Water scarcity issues: Given that water is an essential raw ingredient for the production of beverages, Varun Beverages is at serious risk from water scarcity challenges. Increased water scarcity or restricted access to clean water sources can affect the efficiency of the supply chain overall, interrupt production, and raise costs. Water scarcity may also result in legal limitations on water use, which would make operations much more difficult. To reduce these risks and guarantee sustainable operations, the business might have to make investments in water conservation and alternative sourcing techniques.
- Regulatory risks:

a. FSSAI: Varun Beverages is subject to regulatory risks from the FSSAI in India, which include adhering to stringent laws governing food safety, labeling, and ingredients; noncompliance with these requirements, such as inaccurate labeling or exceeding allowable additive limits, may result in penalties, product recalls, or harm to the company's reputation.

b. Packaging regulations: Varun Beverages is subject to laws governing plastic waste management in India, such as the 2021 ban on single-use plastics and the Extended Producer Responsibility (EPR) requirements, which require that plastic packaging be recycled. Failure to comply with these laws may result in fines or the need to convert to more expensive, environmentally friendly packaging options.

c. Sugar Reduction measures: Varun Beverages is subject to regulatory risks from health regulations and sugar reduction measures, such as mandatory sugar reduction targets and sugar taxes. This was observed in one of VBL's international territories, Zimbabwe, where a sugar tax on beverages was imposed from February 2024. Compliance may necessitate reformulating products with low-calorie sweeteners, which could raise costs or alter consumer preferences.

Q4CY24 performance highlights

Y/E March (Rs mn)	Q4CY24	Q4CY23	YoY (%)	Q3CY24	QoQ(%)	CY24	CY23	YoY (%)
Net Revenue from operations	**36,888**	**26,677**	**38.3**	**48,047**	**(23.2)**	**2,00,077**	**1,60,426**	**24.7**
Expenses:								
Total Raw Material Cost	16,202	11,569	40.0	21,364	(24.2)	89,047	74,049	20.3
Employee Cost	4,790	3,713	29.0	5,130	(6.6)	18,850	14,466	30.3
Other Expenses	10,096	7,212	40.0	10,041	0.5	45,068	35,816	25.8
Total Operating Cost	**31,088**	**22,494**	**38.2**	**36,536**	**(14.9)**	**1,52,966**	**1,24,331**	**23.0**
EBITDA	**5,800**	**4,183**	**38.7**	**11,511**	**(49.6)**	**47,111**	**36,095**	**30.5**
EBITDA (%)	15.7	15.7	4bps	24.0	-824bps	23.5	22.5	105bps
Depreciation	2,608	1,660	57.1	2,566	1.6	9,474	6,809	39.1
EBIT	**3,192**	**2,523**	**26.5**	**8,945**	**(64.3)**	**37,637**	**29,286**	**28.5**
Other income	446	91	389.7	243	84.1	1,213	794	52.8
Interest expense	1,090	737	48.0	1,185	(8.0)	4,504	2,681	68.0
PBT	**2,548**	**1,878**	**35.7**	**8,002**	**(68.2)**	**34,346**	**27,398**	**25.4**
Tax	585	442	32.3	1,713	(65.9)	7,988	6,375	25.3
Effective Tax Rate (%)	23.0	23.5	-59bps	21.4	155bps	23.3	23.3	-1bps
Share of Associates	(7)	2	(429.8)	(1)	(622.1)	(15)	(5)	208.6
Minority interest	105	118	(11.0)	92	(14.0)	397	459	(13.6)
RPAT	**1,851**	**1,320**	**40.3**	**6,196**	**(70.1)**	**25,946**	**20,559**	**26.2**
APAT	**1,851**	**1,320**	**40.3**	**6,196**	**(70.1)**	**25,946**	**20,559**	**26.2**
APAT (%)	5.0	4.9	7bps	12.9	-788bps	13.0	12.8	15bps
REPS	0.55	0.41	34.8	1.91	(71.3)	7.67	6.33	21.2
Adj. EPS (diluted) (Rs)	0.55	0.41	34.8	1.91	(71.3)	7.67	6.33	21.2

Source: Company, ACMIIL Research

Q4CY24 concall highlights

- Domestic Growth prospects: The Company expects double-digit growth going ahead, supported by strong market presence, distribution and capacity expansions. Despite mid-single-digit growth in H2CY24 due to weather factors, it remains optimistic about maintaining positive performance.
- Urban Slowdown in the Soft Drink Market: The Company has not observed a slowdown in the urban soft drinks market, as it continues to expand distribution. With presence in only 4 mn of the 12 mn FMCG outlets in India, it is actively expanding its reach, targeting an annual increase of 10-12% in outlets. This positions the company for continued double-digit growth in the foreseeable future.
- Market Share and Competition: Despite increasing competition, Varun Beverages remains confident in its growth, as there is a large, untapped market with room for all players.
- Competition from Campa: Varun Beverages is not directly competing with lower-priced B-brands, which account for around 20% of the market. The company does not feel the need to introduce lower-priced products.
- Low-Sugar and No-Sugar Products: The portfolio's proportion of low-sugar and no-sugar products has risen to approximately 53%, with offerings including Pepsi Black, Sting, 7Up, and Mirinda. The company plans to expand this further, transitioning more products across its portfolio to mid-calorie and no-sugar alternatives to align with evolving consumer preferences.
- New Product Launches: Sting Gold and Other Flavours- Varun Beverages is set to launch a new energy drink flavour, Sting Gold, which is expected to be available in the market soon. Additionally, the company is developing other products, with plans to have them ready before the upcoming season.
- Strategy for Ghana and Tanzania: In Tanzania, Varun Beverages will enhance its go-to-market strategy and expand its capacity to strengthen Pepsi's market leadership. In Ghana, where PepsiCo's portfolio is small, the focus will be on rebuilding the market. Despite lower growth potential than South Africa, double-digit growth is still expected in both markets.

- South Africa Distribution Strategy
  - a. **Shift to General Trade:** Varun Beverages is transitioning its focus from modern trade to general trade in South Africa. Modern trade (40-45% of the market) results in lower margins due to pressure from large retailers. General trade, which constitutes 60-65% of the market, offers better margins and reduces dependence on a few customers.
  - b. **Backward Integration and Margin Improvement:** VBL has not initiated backward integration in Africa yet, but will do so about a year down the line. The focus on general trade and backward integration is anticipated to lead to significant margin improvements over time. Current margins in South Africa are lower than in India, but these are expected to improve with these changes.
  - c. **Growth Ambitions:** Varun Beverages targets double-digit growth in South Africa over the next few years. There is an ambition to achieve growth rates higher than 30% in the next three years, similar to the performance seen in other African markets like Zimbabwe and Zambia.

- Food Plant Expansion: Varun Beverages is expanding its food business with new plants set to begin operations by mid-2025. In Morocco, the food division is expected to generate USD 25-30 mn in revenue in CY25, with a new plant launching in June. Zimbabwe and Zambia will begin receiving food imports from South Africa in February 2025, with local plants operational by Q3 of the same year.

Trailing quarterly performance

Y/E March (Rs mn)	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	Q3CY24	Q4CY24
Net Sales	**22,142**	**38,930**	**56,114**	**38,705**	**26,677**	**43,173**	**71,969**	**48,047**	**36,888**
Raw Material Cost	9,678	18,517	26,666	17,297	11,569	18,875	32,606	21,364	16,202
Employee Cost	3,199	3,391	3,646	3,716	3,713	3,937	4,993	5,130	4,790
Other Expenses	6,190	9,041	10,692	8,871	7,212	10,473	14,458	10,041	10,096
Total Expenses	**19,067**	**30,949**	**41,004**	**29,884**	**22,494**	**33,286**	**52,056**	**36,536**	**31,088**
EBITDA	**3,075**	**7,980**	**15,110**	**8,821**	**4,183**	**9,888**	**19,912**	**11,511**	**5,800**
EBITDA (%)	13.9	20.5	26.9	22.8	15.7	22.9	27.7	24.0	15.7
Depreciation	1,797	1,722	1,719	1,708	1,660	1,875	2,425	2,566	2,608
EBIT	**1,278**	**6,258**	**13,391**	**7,113**	**2,523**	**8,012**	**17,487**	**8,945**	**3,192**
EBIT (%)	5.8	16.1	23.9	18.4	9.5	18.6	24.3	18.6	8.7
Finance Cost	475	626	694	625	737	937	1,292	1,185	1,090
Other Income	92	101	416	185	91	84	440	243	446
PBT before Exceptional Items	**896**	**5,734**	**13,113**	**6,673**	**1,878**	**7,159**	**16,636**	**8,002**	**2,548**
PBT	**896**	**5,734**	**13,113**	**6,673**	**1,878**	**7,159**	**16,636**	**8,002**	**2,548**
Tax	81	1,348	3,057	1,529	442	1,678	4,012	1,713	585
Tax Rate (%)	9.0	23.5	23.3	22.9	23.5	23.4	24.1	21.4	23.0
Share of associates	(0)	(0)	(2)	(4)	2	(2)	(5)	(1)	(7)
Minority interest	68	95	116	130	118	107	92	92	105
Rep. PAT	**748**	**4,291**	**9,938**	**5,011**	**1,320**	**5,373**	**12,526**	**6,196**	**1,851**
PAT (%)	3.4	11.0	17.7	12.9	4.9	12.4	17.4	12.9	5.0
Reported EPS (Rs)	**0.6**	**3.3**	**7.7**	**3.9**	**0.4**	**1.7**	**3.9**	**1.9**	**0.6**
Adj. PAT	**748**	**4,291**	**9,938**	**5,011**	**1,320**	**5,373**	**12,526**	**6,196**	**1,851**
Adj. PAT (%)	3.4	11.0	17.7	12.9	4.9	12.4	17.4	12.9	5.0
Adj. EPS (Rs)	**0.2**	**1.3**	**3.1**	**1.5**	**0.4**	**1.7**	**3.9**	**1.9**	**0.5**
No. of Shares (Mn)	3,248	3,248	3,248	3,248	3,248	3,249	3,249	3,249	3,382

Source: Company, ACMIIL Research

YoY Growth (%)	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	Q3CY24	Q4CY24
Revenue	27.7	37.7	13.3	21.8	20.5	10.9	28.3	24.1	38.3
EBITDA	48.1	50.3	20.8	26.2	36.0	23.9	31.8	30.5	38.7
Adj. PAT	353.3	68.8	26.2	31.5	76.5	25.2	26.0	23.7	40.3
Adj. EPS	353.3	68.8	26.2	31.5	76.5	25.2	26.0	23.6	34.8

Source: Company, ACMIIL Research

QoQ Growth(%)	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	Q3CY24	Q4CY24
Revenue	(30.3)	75.8	44.1	(31.0)	(31.1)	61.8	66.7	(33.2)	(23.2)
EBITDA	(56.0)	159.5	89.3	(41.6)	(52.6)	136.4	101.4	(42.2)	(49.6)
Adj. PAT	(80.4)	474.0	131.6	(49.6)	(73.7)	307.1	133.1	(50.5)	(70.1)
Adj. EPS	(80.4)	474.0	131.6	(49.6)	(73.7)	307.1	133.1	(50.5)	(71.3)

Source: Company, ACMIIL Research

Corporate Governance

Promoters' Shareholding: The promoter and promoter group hold 60.20% stake in Varun Beverages as of 31st Dec 2024 out of which 16.70% is held by Ravi Kant Jaipuria, followed by Varun Jaipuria (15.40%) and Devyani Jaipuria (2.33%), they have not pledged any portion of their share. The parent group company RJ Corp holds a 25.7% stake in VBL. 0.02% of overall shares outstanding are pledged, by persons belonging to the promoter group.

- **Board of Directors:**

As of 31st December 2024, the strength of board of directors is 10, out of which three are Executive Directors, two are Non-Executive Non-Independent Directors and five are Independent Directors. The chairman of the Board is a Non-Executive Director. The detailed designations, qualifications, and experience of the directors are as follows:

Ravi Kant Jaipuria: He is the Promoter and Chairman of the company. As the promoter, he brings over 40 years of experience growing and expanding the food, beverage, and dairy sectors across South Asia and Africa. A successful entrepreneur and business leader, he was honored with the 'International Bottler of the Year' award in 1997 and received the 'Distinguished Entrepreneurship Award' at the PHD Chamber Annual Awards for Excellence in 2018.

Varun Jaipuria: He is the Promoter and Executive Vice-Chairman of the company. He holds a bachelor's degree in international business from Regent's University, London and has completed the Leadership Development Program at Harvard Business School, Boston. Since joining the company in 2009, he has played a key role in the growth and development of the business, including overseeing acquisitions and the integration of new territories. Under his leadership, the company was recognized as the Best Bottler in the AMESA (Africa, Middle East, and South Asia) region in 2021.

Raj Gandhi: He is a full-time director of the company and a member of the Institute of Chartered Accountants of India. With over 44 years of experience (32 years of experience in the RJ Corp Group), he has played a key role in shaping the company's strategy, focusing on diversification, expansion, mergers and acquisitions, capital expenditure planning, capital fundraising, and investor relations.

Rajinder Jeet Singh Bagga: He is a Whole-time Director of the company, holding a Master's degree in Mechanical Engineering from the Indian Institute of Technology (IIT), Kanpur. He has been with the company since 1996 and has led its technical operations since 2003.

Dr. Naresh Trehan: He is a Non-Executive, Non-Independent Director of the company. He is a Graduate from King George Medical College and a renowned Cardiothoracic Surgeon by the American Board of Thoracic Surgery. He received certification from the New York University Medical Center in Manhattan, USA. Dr. Trehan was elected as a Fellow of the American Society of Angiology and the Indian Association of Cardiovascular-Thoracic Surgeons. He is also an Honorary Fellow of the Royal Australasian College of Surgeons. In recognition of his contributions to the field, he was awarded the Padma Bhushan by the Government of India.

Sita Khosla: She is an Independent Director of the company. She holds a Bachelor of Arts degree in History and a Bachelor of Laws degree, both from the University of Delhi. She was enrolled with the Bar Council of Delhi in 1987.

Ravi Gupta: He is an Independent Director of the company, holding a Bachelor's and Master's degree in Commerce, a Doctorate in Philosophy on 'Country Risk Analysis in Investment Financing Decision Making,' and a Bachelor of Law degree, all from the University of Delhi. He also holds a diploma in Labour Law from the Indian Law Institute and is enrolled with the Bar Council of Delhi. He previously served as an Associate Professor in the Commerce Department of Shri Ram College of Commerce, University of Delhi.

Rashmi Dhariwal: She is an Independent Director of the company. She holds a Bachelor of Arts degree in Philosophy from the University of Delhi. She enrolled with the Bar Council of West Bengal in 1978. Since 2003, she has been serving as a trustee on the board of Prayatn, a registered charitable trust.

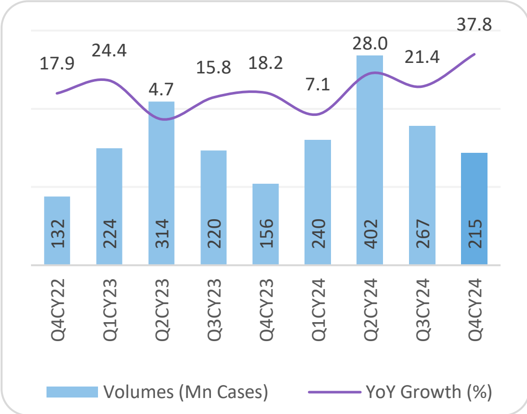
Abhiram Seth: He is an Independent Director. He holds a Bachelor of Arts degree in Economics from the University of Delhi and Masters in Management Studies from Jamnalal Bajaj Institute, Bombay University with specialization in marketing. Before joining the company, he was associated with Aquagri Processing Pvt. Ltd.

Anil Kumar Sondhi: He is an Independent Director of the company. He holds a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology, Delhi, and a Master of Business Administration degree from the University of Delhi. Before joining the company, he was associated with Pepsi Foods Ltd. and NourishCo Beverages Private Ltd..

Varun Beverages (VBL:IN)

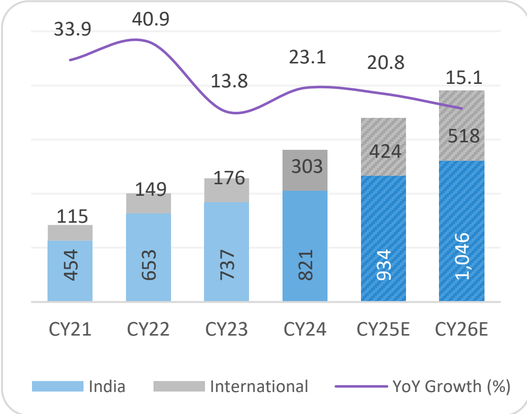
Story in charts:

Exhibit 31: Growth has largely been in double-digits; some quarters impacted due to weather disruptions



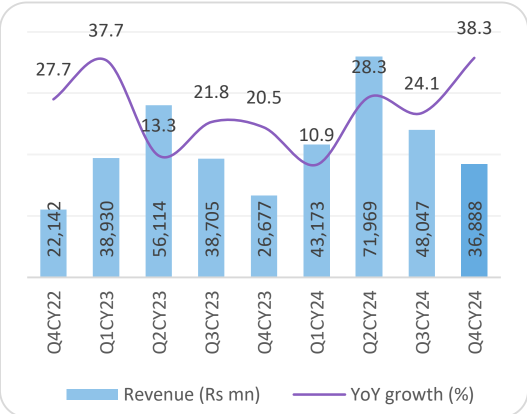
Source: Company, ACMIIL Research

Exhibit 32: Strong double-digit volume growth is expected to continue driven by both India and Africa (Mn cases)



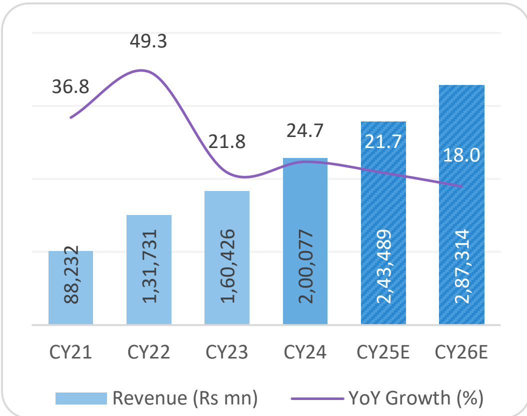
Source: Company, ACMIIL Research

Exhibit 33: Consistent double-digit growth in revenue across quarters



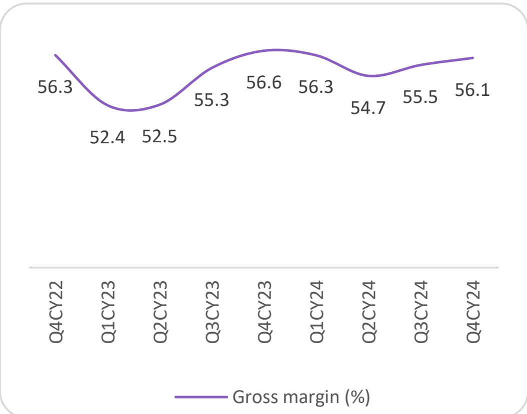
Source: Company, ACMIIL Research

Exhibit 34: Strong double-digit growth expected to continue backed by distribution & capacity expansion in India and territory & market share expansion in Africa



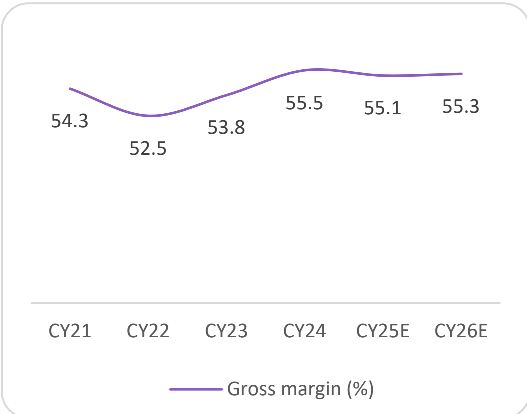
Source: Company, ACMIIL Research

Exhibit 35: Gross margin operates largely in a stable band



Source: Company, ACMIIL Research

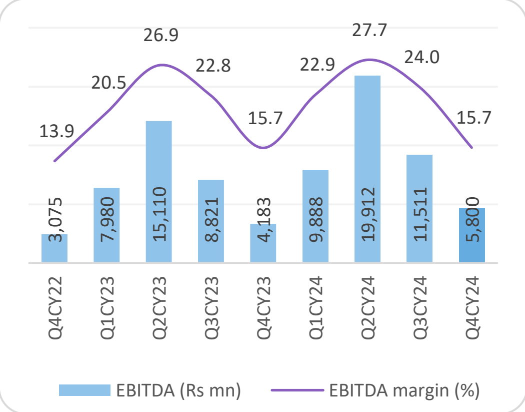
Exhibit 36: We forecast stable gross margins going ahead



Source: Company, ACMIIL Research

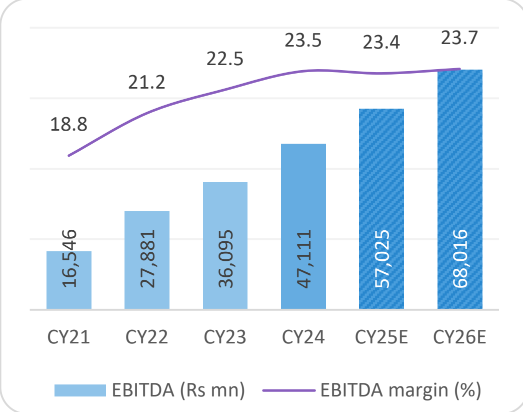
Story in charts:

Exhibit 37: Seasonality leads to wide dispersion in margin and EBITDA performance



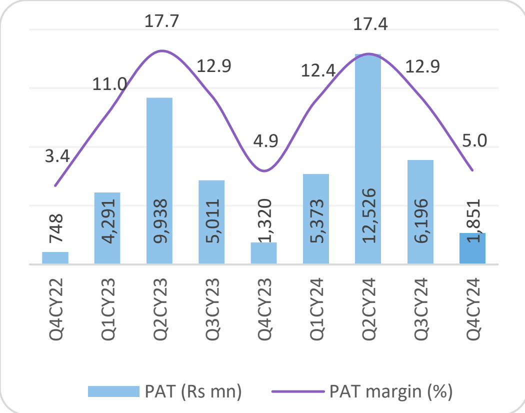
Source: Company, ACMIIL Research

Exhibit 38: We expect EBITDA margin stability, despite elevated levels, due to positive bias especially in Africa portfolio



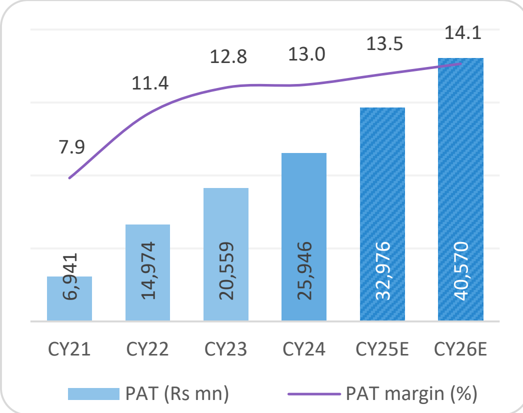
Source: Company, ACMIIL Research

Exhibit 39: Apr-Jun is the most profitable quarter due to seasonality benefit



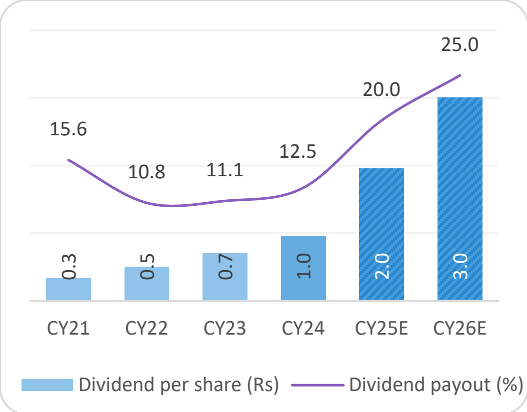
Source: Company, ACMIIL Research

Exhibit 40: PAT margin expansion on account of lowering depreciation and finance costs as % of sales



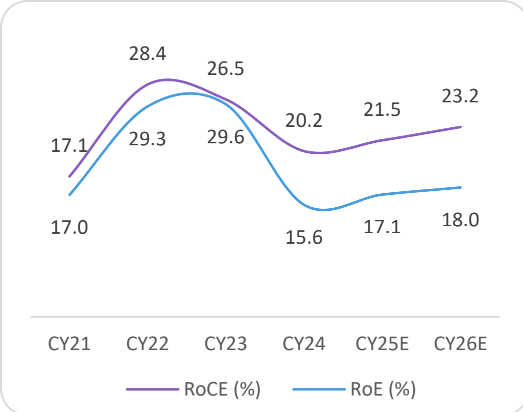
Source: Company, ACMIIL Research

Exhibit 41: We expect an uptick in dividend payout ratio, due to improving FCF generation and VBL's endeavor to have a payout ratio between 10-30%



Source: Company, ACMIIL Research

Exhibit 42: Return ratios dipped in CY24 due to the QIP, acquisitions, and large capex cycle; expected to improve going ahead



Source: Company, ACMIIL Research

Peer Comparison

VBL has a unique business model, and there is no listed player in India which can be a direct comparison. As a result, we compare with other food processing companies to get a sense of the industry valuations. These companies share commonalities in terms of consumer demand patterns, importance of distribution intensity, brand-led growth, and seasonality-driven sales.

Although Britannia and VBL are similar in size, their growth rates differ significantly; Britannia's PAT CAGR is 13% over FY25-27E, while VBL's is 25%. As a result, VBL is valued higher than Britannia based on CY25E EPS, but almost in-line based on CY26E EPS.

Bikaji Foods, Hatsun Agro, Mrs. Bectors Foods and Dodla Dairy are much smaller in size and distribution strength when compared to VBL. Despite its larger size, its revenues are anticipated to grow at higher rates vs these relatively smaller players, hence, VBL is assigned a higher valuation multiple.

Despite the distinctive nature of VBL's business model, these peers aid in the analysis of broader themes including consumer preference shifts, input cost volatility, distribution scalability, and brand leverage. Important lessons on volume growth, margin expansion, and capital efficiency can be learned by benchmarking against successful FMCG companies, even in the absence of a direct listed competition.

Exhibit 43: VBL trades at a comparable valuations to its broad-based peers

	Market cap (Rs Bn)	P/E (x)			
		CY23	CY24	CY25E	CY26E
VBL	1,717	80.1	66.1	52.0	42.3
Britannia Industries	1,129	52.2	52.6	46.3	40.8
Bikaji Foods International	171	64.3	81.7	60.3	46.5
Hatsun Agro Product	200	74.6	59.1	44.7	34.3
Mrs. Bector Food Specialities	91	60.9	62.4	47.5	37.7
Dodla Dairy	63	37.5	25.8	21.3	17.7

Source: Bloomberg, ACMIIL Research
While VBL numbers are on CY basis, other companies report based on FY ending March. We have compared CY23/24/25E/26E for VBL with FY24/25E/26E/27E for other companies.

Exhibit 44: Robust growth and margin enhancement anticipated for VBL

	Revenue (Rs mn)			CAGR % (CY24-26E)	EBITDA (Rs mn)			CAGR % (CY24-26E)	PAT (Rs mn)			CAGR % (CY24-26E)
	CY24	CY25E	CY26E		CY24	CY25E	CY26E		CY24	CY25E	CY26E	
VBL	200,077	243,489	287,314	19.8	47,111	57,025	68,016	20.2	25,946	32,976	40,570	25.0
Britannia Industries	178,576	195,813	214,711	9.7	31,190	34,827	39,033	11.9	21,461	24,486	27,565	13.3
Bikaji Foods International	26,376	30,649	35,756	16.4	3,287	4,190	5,251	26.4	2,549	3,278	3,921	24.0
Hatsun Agro Product	88,463	100,213	113,099	13.1	10,668	12,174	14,158	15.2	3,339	4,552	5,661	30.2
Mrs. Bector Food Specialities	18,950	22,035	25,419	15.8	2,572	3,200	3,849	22.3	1,473	1,940	2,489	30.0
Dodla Dairy	36,968	42,318	48,357	14.4	3,733	4,275	5,097	16.8	2,481	2,930	3,422	17.4

Source: Bloomberg, ACMIIL Research
While VBL numbers are on CY basis, other companies report based on FY ending March. We have compared CY23/24/25E/26E for VBL with FY24/25E/26E/27E for other companies.

Exhibit 45: Improving return ratios for VBL in the forecast period

	ROE (%)		
	CY24	CY25E	CY26E
VBL	15.6	17.1	18.0
Britannia Industries	49.0	48.7	47.8
Bikaji Foods International	17.6	19.6	20.6
Hatsun Agro Product	19.5	23.1	24.4
Mrs. Bector Food Specialities	12.9	14.9	15.9
Dodla Dairy	18.0	17.7	17.1

Source: Bloomberg, ACMIIL Research
While VBL numbers are on CY basis, other companies report based on FY ending March. We have compared CY23/24/25E/26E for VBL with FY24/25E/26E/27E for other companies.

Valuation and View

We initiate coverage on Varun Beverages Ltd. with a “BUY” rating. We like the company for its demonstrated execution capabilities in India, further headroom for distribution expansion in India, continued territorial expansion in Africa, international margin improvement and strengthening ties with PepsiCo.

VBL already contributes 90% of PepsiCo’s beverage volume in India, as it holds the franchise rights for almost all sub-territories in the country. Further growth is expected due to the rising per capita consumption for the soft drink industry along with expanding capacities and deepening distribution reach by VBL. From the current 4 mn retail touchpoint presence, VBL is growing its reach by 10-12% each year, as it has a huge headroom to cover considering 12 mn FMCG retail outlets. To service this demand, it has expanded its capacities by 45% between CY22 and CY24, and by a further 25% in CY25.

Over the last decade, VBL has expanded its footprint in the African continent. While it has held the franchise rights for PepsiCo Beverages in Morocco, Zimbabwe and Zambia for a long time, it has added several others through a combination of franchise/ distribution rights. These include countries of Democratic Republic of Congo (DRC), South Africa, Lesotho, Eswatini, Namibia, Botswana, Madagascar, Mozambique, Tanzania and Ghana. The management hopes to continue to gain more territories in Africa. With some of these markets being untapped by PepiCo, VBL has strong headroom to grow.

Margins in South African business are lower at low to mid teens vs consolidated margins of 23.5%, due to high share of own brands, high proportion of sales through modern trade, less absorption of fixed costs due to new capex and absence of backward integration till now. VBL has started focusing on its go-to-market strategy to improve share of distribution through general trade, which will lead to margin improvement. Backward integration about 1 year down the line will further aid margins.

VBL is making meaningful inroads in PepsiCo’s snack business in the African region. PepsiCo generally does not give the rights to its snacks business to external parties. The fact that VBL has received these rights in 3 African countries, points to the strong relationship between the two entities. The 3 territories where VBL has received franchise rights for some snack brands, Morocco, Zimbabwe and Zambia, the snack market size is ~USD 800 mn. More territories in Africa may be in the pipeline.

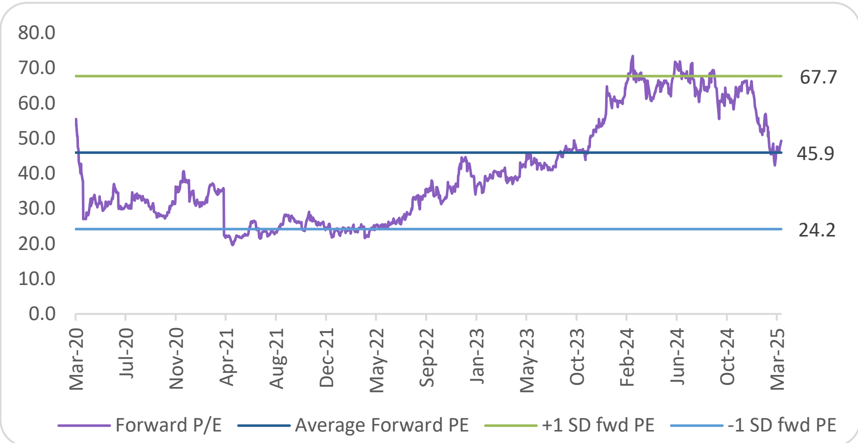
VBL is currently trading at 52.0x/42.3x CY25/26E EPS. We factor in a Revenue/ EBITDA/ PAT CAGR of 19.8/20.2/25.0%, respectively owing to healthy growth in India, strong uptick in international revenue, margin stability, and lower depreciation and finance costs as % of sales. We think the company has a long runway for growth ahead, seeing as it has a steady focus to increase its presence in the African region, after it executed the same in India over the last decade. **We value the shares of VBL at 52x its CY26E EPS of Rs 12, arriving at a price target of Rs 625. With an upside potential of 23.2%, we assign a “BUY” rating on the shares of Varun Beverages Ltd.**

Exhibit 46: Valuation Summary

Valuation	Rs
Adj. EPS (CY26E)	12
P/E (x)	52
Target price	**625**
CMP	507
Upside potential (%)	**23.2**
Rating	**BUY**

Source: Company, ACMIIL Research

Exhibit 47: 1-yr forward PE



Source: Company, ACMIIL Research

Varun Beverages (VBL:IN)

Financial (Consolidated)

Income Statement

YE March (Rs mn)	CY22	CY23	CY24	CY25E	CY26E
Net Sales	**131,731**	**160,426**	**200,077**	**243,489**	**287,314**
Growth (%)	49.3	21.8	24.7	21.7	18.0
RM cost	62,612	74,049	89,047	109,228	128,559
Employee cost	12,166	14,466	18,850	22,277	25,820
Other expenses	29,072	35,816	45,068	54,959	64,920
Total expenses	**103,850**	**124,331**	**152,966**	**186,464**	**219,299**
EBITDA	**27,881**	**36,095**	**47,111**	**57,025**	**68,016**
Growth (%)	68.5	29.5	30.5	21.0	19.3
EBITDA margin (%)	21.2	22.5	23.5	23.4	23.7
Depreciation	6,172	6,809	9,474	11,688	12,663
EBIT	**21,709**	**29,286**	**37,637**	**45,338**	**55,353**
EBIT margin (%)	16.5	18.3	18.8	18.6	19.3
Other income	388	794	1,213	974	1,149
Interest expense	1,861	2,681	4,504	2,061	2,061
PBT before exceptional items	**20,236**	**27,398**	**34,346**	**44,251**	**54,441**
Exceptional items	0	0	0	0	0
PBT	**20,236**	**27,398**	**34,346**	**44,251**	**54,441**
Tax	4,735	6,375	7,988	10,310	12,685
Effective tax rate (%)	23.4	23.3	23.3	23.3	23.3
Minority interest	527	459	397	846	1,040
Share of associates	(0)	(5)	(15)	(119)	(147)
Rep. PAT	**14,974**	**20,559**	**25,946**	**32,976**	**40,570**
Rep. PAT Growth (%)	115.8	37.3	26.2	27.1	23.0
Rep. PAT Margin (%)	11.4	12.8	13.0	13.5	14.1
Adj. PAT	**14,974**	**20,559**	**25,946**	**32,976**	**40,570**
Adj. PAT Growth (%)	115.8	37.3	26.2	27.1	23.0
Adj. PAT Margin (%)	11.4	12.8	13.0	13.5	14.1

Source: Company, ACMIIL Research

Cash Flow

YE March (Rs mn)	CY22	CY23	CY24	CY25E	CY26E
PBT	**20,236**	**27,398**	**34,346**	**44,251**	**54,441**
Add: Depreciation	6,172	6,809	9,474	11,688	12,663
Add: Interest	1,854	2,681	4,504	2,061	2,061
Other adjustments	(777)	434	(543)	(119)	(147)
Chg in working cap	(5,852)	(6,735)	(6,694)	(9,580)	(9,527)
Tax	3,733	6,679	7,276	10,310	12,685
Operating Cash flow	**17,900**	**23,908**	**33,811**	**37,990**	**46,807**
Capex	(17,499)	(31,939)	(37,404)	(17,500)	(15,000)
Free Cash Flow	**401**	**(8,031)**	**(3,593)**	**20,490**	**31,807**
Investments	221	(1,180)	(6,045)	0	0
Interest/ dividend income	232	220	281	0	0
Investing Cash flow	**(17,046)**	**(32,899)**	**(43,168)**	**(17,500)**	**(15,000)**
Equity Capital	0	44	75,119	0	0
Debt	3,161	14,769	(37,075)	(5,000)	(5,000)
Dividend paid	(1,624)	(2,273)	(3,248)	(6,595)	(10,142)
Interest paid	(1,717)	(2,694)	(4,650)	(2,061)	(2,061)
Others	0	4	(611)	0	0
Financing Cash flow	**(179)**	**9,849**	**29,535**	**(13,656)**	**(17,203)**
Net chg in cash	675	858	20,179	6,834	14,603
Opening cash position	**1,508**	**1,543**	**2,422**	**22,663**	**29,497**
Exchange difference on translation of foreign operations	(639)	21	62	0	0
Closing cash position	1,543	2,422	22,663	29,497	44,100

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	CY22	CY23	CY24	CY25E	CY26E
Equity share capital	6,496	6,496	6,763	6,763	6,763
Reserves & surplus	44,528	62,869	159,335	186,561	218,029
Non-controlling interests	1,131	1,482	1,298	1,298	1,298
Net Worth	**52,155**	**70,847**	**167,396**	**194,622**	**226,090**
Non-current borrowings (incl. lease liabilities)	18,924	33,868	11,978	8,978	5,978
Provisions	2,041	2,126	1,894	1,894	1,894
Defered tax liabilities	3,368	3,430	4,879	4,879	4,879
Other non-current liabilities	6	68	47	47	47
Non current liabilities	**24,340**	**39,493**	**18,798**	**15,798**	**12,798**
Borrowings	19,678	20,054	15,236	13,236	11,236
Trade payables	8,243	7,582	15,604	19,141	22,528
Lease liabilities	236	390	1,049	1,049	1,049
Other current financial liabilities	5,594	7,638	7,043	7,043	7,043
Other current liabilities	5,937	5,866	6,312	6,312	6,312
Current liabilities	**39,688**	**41,532**	**45,244**	**46,781**	**48,168**
Equity & liabilities	**116,182**	**151,872**	**231,439**	**257,201**	**287,056**
Net PPE	63,571	78,378	119,857	134,292	136,630
CWIP	6,066	19,222	11,623	3,000	3,000
Intangible assets	5,751	5,713	14,204	14,204	14,204
Financial assets	487	834	1,801	1,801	1,801
Other non current assets	6,267	5,368	5,314	6,424	7,545
Non current assets	**82,142**	**109,516**	**152,799**	**159,722**	**163,180**
Inventories	19,939	21,505	27,912	34,238	40,297
Trade receivables	2,993	3,594	8,458	10,294	12,146
Cash	1,543	2,422	22,663	29,497	44,100
Bank balances	1,309	2,177	1,838	1,838	1,838
Other financial assets	3,977	7,388	8,356	10,169	12,000
Other current assets	4,278	5,270	9,412	11,444	13,495
Current assets	**34,040**	**42,356**	**78,640**	**97,479**	**123,876**
Total assets	**116,182**	**151,872**	**231,439**	**257,201**	**287,056**

Source: Company, ACMIIL Research

Key Ratios

YE March (Rs)	CY22	CY23	CY24	CY25E	CY26E
EPS	4.6	6.3	7.7	9.8	12.0
CEPS	5.5	7.4	10.0	11.2	13.8
BVPS	16.1	21.8	49.5	57.6	66.9
DPS	0.5	0.7	1.0	2.0	3.0
Valuations (x)					
P/E	110.0	80.1	66.1	52.0	42.3
P/BV	31.6	23.3	10.2	8.8	7.6
EV/Sales	13.0	10.7	8.6	7.0	6.0
EV/EBITDA	61.5	47.5	36.4	30.1	25.2
Dividend Yield (%)	0.1	0.1	0.2	0.4	0.6
Return Ratio (%)					
RoCE	28.4	26.5	20.2	21.5	23.2
RoE	29.3	29.6	15.6	17.1	18.0
Gearing Ratio (x)					
Net Debt/Equity	0.9x	0.9x	0.2x	0.2x	0.1x
Net Debt/EBITDA	1.6x	1.7x	0.7x	0.5x	0.4x
Working Cap Cycle (days)	76	77	66	66	66
Profitability (%)					
EBITDA Margin	21.2	22.5	23.5	23.4	23.7
EBIT Margin	16.5	18.3	18.8	18.6	19.3
Adj. PAT Margin	11.4	12.8	13.0	13.5	14.1

Source: Company, ACMIIL Research
Note: EPS adjusted for all stock splits

Varun Beverages (VBL:IN)

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<-10%
HOLD	>-10% to 15%

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