Varun Beverages Limited (VBL)

13 August 2025

Time Horizon- 12 months

Q2-CY25 Result Update

CMP: ₹ 511

Target: ₹630

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- Revenue from operations net of excise and GST stood at the level of Rs. 70,174 million in Q2 CY2025, down 2.5% YoY. For H1 CY25, revenue grew by 9.3% to Rs. 125,843 million. The decline in Q2 was primarily due to a 3% drop in consolidated sales volume, which stood at 389 million cases. In India, volumes were impacted by abnormally high and unseasonal rainfall all through the quarter, resulting in a 7.1% decline in India. However, this was partially offset by healthy growth in international markets where volumes grew 15.1% led by a growth of 16.1% in South Africa.

- Net realization per case at the consolidated level improved marginally by 0.% supported by a favorable mix in the international markets per case realization recorded a 6.6% increase. CSD accounted for 75% of the total volumes in Q2 CY25 with packaged drinking water contributing 18% and NCB making up the remaining 7%

- EBITDA remained flat at Rs. 19,988 million from Rs. 19,912 million in Q2 CY24. EBITDA margin improving by 82 basis points YoY to 28.5% in Q2 CY25, driven by operational efficiencies and a strong currency in international operations. PAT grew by 5% to the level of Rs. 13,255 million as compared to Rs 12,618 million in Q2 CY24, supported by improved operational efficiencies and lower finance costs.

- Depreciation increased by 26.3% due to the commissioning of the new plants in India and DRC, along with Brownfield expansion in other geographies. Finance costs have been reduced significantly with the Indian business now net debt-free following the QIP proceeds and the remaining costs largely attributable to South Africa. Working capital days remained broadly stable at ~ 35 days compared to last year's 33 days, supported by disciplined inventory and receivables management, despite high-capacity additions and an expanded operating footprint across both domestic and international markets.

- Focus remains on sustainable growth both in Indian and international markets. The board of directors has approved an interim dividend of Rs 0.5 per share.

- We expect VBL to see strong growth going forward due to many factors such as: 1) Strategic investment in enhancing production capabilities and making new acquisitions which have significantly strengthened their global presence 2) Increasing its presence in the domestic market and looking for exports opportunities. We maintain **BUY** rating on the stock with a target price of **₹ 630 per share.**

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Concall Key Takeaways

Earnings Call highlights :

- In international markets, company has commenced commercial productions of PepsiCo snack product 'Cheetos' complementing their beverages portfolio. Company has also set up a line in Durban to enhance its capacity. Company is also waiting for approval for land parcel for purchase adjoining to their production facility from CCI South Africa to further enhance their capacity and backward integration.

- In H1 2025, company capitalized net assets of ~ 25,000 million, which included investments in the four Greenfield plants across India, Brownfield expansion in Sricity and strategic projects in DRC, Morocco, and South Africa. Additional CAPEX was allocated towards visi-coolers, returnable glass bottles, pallets and logistics infrastructure to strengthen their on-ground execution. As of June 30th, 2025, capital working progress stood at Rs. 6,000 million, primarily for Phase II of the Greenfield expansion in India and the upcoming snacks facility in Zimbabwe.

- Four new facilities have been commissioned in Prayagraj (UP), Damtal (HP), Buxar (Bihar), and Mendipathar (Meghalaya), catering to multiple product lines (CSD, JBD, water) and targeting high-growth, under-served regions while enhancing logistics efficiency. These plants had minimal impact on Q2 performance, having commenced operations in April–May, and are strategically positioned to meet future demand. Management anticipates better fixed cost absorption and operational leverage as production volumes scale up. Current capacity utilization stands at around 70%, providing sufficient headroom for at least the next two years. Domestic CAPEX is expected to remain modest at Rs 6,000–7,000 million next year, with expansion efforts shifting toward international markets.

- Freight costs are being reduced through distributor consolidation, proximity of new plants to markets, and route optimization. Manpower costs are improving via efficient new lines, while renewable energy usage is rising. Management stressed these savings are sustainable. Margins, guided at 21% but often exceeded, are supported by cost discipline, productivity gains, and a debt-free domestic business earning interest on surplus funds. Marketing spend remains intact, with BTL (Below the line) by the company and ATL (Above the line) by PepsiCo. Freight, manpower, energy efficiencies, backward integration, and favorable currency are boosting margins, especially internationally.

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Financials:

(In ₹ mn)	Q2-CY25	Q1-CY25	Q2-CY24	Chg	6M-CY25	6M-CY24	Chg
Net Sales	70,174	55,669	71,969	-2.5%	1,25,843	1,15,142	9.3%
Operating Expense	50,186	43,030	52,056	-3.6%	93,216	85,342	9.2%
EBITDA	19,988	12,640	19,912	0.4%	32,627	29,800	9.5%
Other Income	772	281	440	-	1,052	524	-
Depreciation	3,062	2,725	2,425	-	5,787	4,300	-
EBIT	17,698	10,195	17,928	-1.3%	27,893	26,024	7.2%
Interest	365	411	1,292	-	777	2,228	-
PBT	17,332	9,784	16,636	4.2%	27,116	23,795	14.0%
Tax	4,066	2,465	4,012	-	6,530	5,690	-
PAT	13,267	7,319	12,624	5.1%	20,586	18,105	13.7%
Minority /Other Adj.	(12)	-5.77	(5)	-	(18)	(7)	-
Consolidated PAT	**13,255**	**7,314**	**12,618**	**5.0%**	**20,568**	**18,098**	**13.6%**

Margins	Q2-CY25	Q1-CY25	Q2-CY24	Chg	6M-CY25	6M-CY24	Chg
Operating Margin %	28.5%	22.7%	27.7%	82	25.9%	25.9%	5
Net Margin %	18.9%	13.1%	17.5%	136	16.3%	15.7%	63

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Consolidated Financials:

(In ₹ mn)	CY-23	CY-24	CY-25E	CY-26E
Net Sales	**1,60,426**	**2,00,077**	**2,54,875**	**3,21,351**
Operating Expense	1,24,096	1,52,641	1,93,050	2,39,001
EBITDA	**36,330**	**47,435**	**61,825**	**82,350**
Other Income	794	1,213	1,261	1,590
Depreciation	6,809	9,474	10,946	12,659
EBIT	30,314	39,174	52,140	71,281
Interest	2,916	4,829	4,668	5,000
Misc Item	(5)	(15)	-	-
PBT	27,394	34,331	47,472	66,280
Tax	6,375	7,988	10,681	14,913
PAT	**21,018**	**26,343**	**36,791**	**51,367**

(In ₹ mn)	CY-23	CY-24	CY-25E	CY-26E
Liabilities				
Equity Share Capital	6,525	6,585	6,585	6,585
Reserves & Surplus	44,499	62,780	99,571	1,50,938
Totat Shareholder's Funds	51,024	69,365	1,06,156	1,57,523
Minority Interest	1,131	1,482	1,482	1,482
Long tern Liabilities	17,270	31,889	31,889	31,889
Other Long-term Liabilities	3,701	4,174	4,174	4,174
Deferred Tax Liability	3,368	3,430	3,430	3,430
Short-term Liabilities	39,689	41,533	53,808	66,056
Total	**1,16,183**	**1,51,873**	**2,00,938**	**2,64,554**
Assets				
Net Fixed Assets	75,389	1,03,314	1,24,282	1,50,016
Long-Term L&A	6,717	5,912	5,912	5,912
Non-Current Investments	0	211	211	211
Other Non-Current Assets	36	79	79	79
Current Asset	34,041	42,357	70,454	1,08,336
Total	**1,16,183**	**1,51,873**	**2,00,938**	**2,64,554**

Margins	CY-23	CY-24	CY-25E	CY-26E
Sales Growth %	-	24.7%	27.4%	26.1%
Operating Margin %	22.6%	23.7%	24.3%	25.6%
Net Margin %	13.1%	13.2%	14.4%	16.0%

(In ₹ mn)	CY-23	CY-24	CY-25E	CY-26E
EPS (₹)	6.5	8.1	11.3	15.8
P/E (x)	79.0	63.0	45.1	32.3
P/B (x)	32.5	23.9	15.6	10.5
ROE	41.2%	38.0%	34.7%	32.6%

Source: Company, Anand Rathi Research

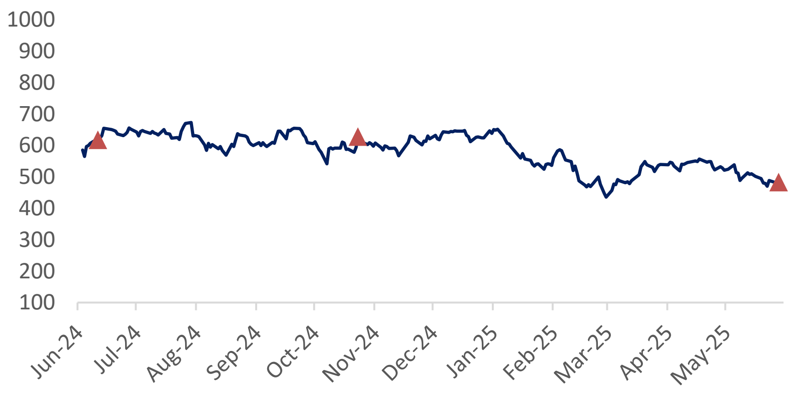
Key Risks:

- VBL depends on strategic alliances and agreements with PepsiCo. If these agreements are terminated or renewed under less favorable terms, it could negatively impact profitability..
- Changes in consumer preferences, influenced by factors like demographic shifts, nutritional concerns associated with VBL's products, perceptions of their health effects, and alterations in weather patterns, among others, could potentially affect the demand for VBL's offerings.
- VBL encounters regulatory challenges concerning consumer health and the potential for its products to be subjected to discriminatory taxation and regulations regarding packaging waste management.

Varun Beverages Limited (VBL)

Rating and Target Price history:

VBL in rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 13 August 2025 close.

VBL in rating details

Date	Rating	Target Price (₹)	Share Price (₹)
11-June-2024	BUY	760	619
25-Oct-2024	BUY	760	609
13-Aug-2025	BUY	630	511

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