

# Varun Beverages Limited

13<sup>th</sup> May 2024

## Not just a bottler anymore

In Q1 CY24, Varun Beverages Limited (VBL) reported substantial topline growth of ~11% and volume growth of ~7% on a YoY basis. The Company has improved its Gross and EBITDA margins by 385 bps and 240 bps on a YoY basis, respectively, on the back of the softening of PET chip prices and better product mix. For the next leg of growth, VBL has commenced 3 greenfield facilities and expects the DRC facility to come online in Q2 CY24.

### Not just a bottler anymore

Varun Beverages Morocco SA, a wholly-owned subsidiary entity, has entered into an Exclusive Snacks Appointment Agreement, which confers upon it the rights to manufacture and package the Cheetos brand of snack products within the territory of Morocco, commencing from May 2025. This agreement serves as a complementary addition to the existing distribution arrangement for PepsiCo's snack portfolio, marking yet another progressive step in the strong and mutually beneficial partnership between the two entities. This new agreement is supplementary to the existing distribution agreement for PepsiCo's snack portfolio, encompassing brands such as Lays, Cheetos, and Doritos, within the Moroccan territory.

### Acquisition

In March 2024, the Company completed the acquisition of 'The Beverage Company (BevCo). BevCo holds franchise rights for PepsiCo beverage products in South Africa, Lesotho, and Eswatini, along with distribution rights in Namibia and Botswana. This acquisition aligns perfectly with the Company's strategic goals and offers an excellent opportunity to significantly enhance its presence in the African market—a region known for the high demand for soft drinks and favorable demographics. The integration of BevCo into VBL's operations is expected to yield substantial synergistic benefits in the future. BevCo did a topline of ~ZAR 3.6 Bn in 2023. BevCo's own brands constitute ~85% of the total sales volumes, which includes a popular energy drink – "Reboost" and the other CSD brands – "Refreshhh", "Coo-ee" and "Jive".

### View & Valuation

Based on the increase in operating capacity and change in product mix, we believe that in CY24, VBL would see substantial growth in its volume as well as realization. However, we also believe that growth has been already discounted in price. Based on our revised estimates, we changed our rating from 'REDUCE' to 'NEUTRAL' on Varun Beverages with a target of Rs. 1,494 (66.6x CY24 earnings).

## NEUTRAL

CMP Rs. 1,477

TARGET Rs. 1,494 (1.2%)

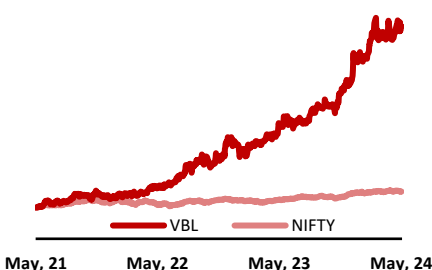
### Company Data

Bloomberg Code	VBL IN
MCAP (Rs. Mn)	19,20,258
O/S Shares (Mn)	1299
52w High/Low	1560/754
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	2,976

### Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	62.9	63.1	63.1
FII's	25.8	26.6	27.5
DII's	4.2	3.6	3.4
Non-Institutional	7.2	6.7	6.0

### VBL vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	CY23	CY24	CY25E
Revenue	160.0	215.8	254.3
EBITDA	36.1	49.6	57.7
Net Profit	20.6	29.2	34.6
Total Assets	151.9	184.9	218.5
ROCE (%)	22%	25%	24%
ROE (%)	34%	35%	31%

Source: Company, Keynote Capitals Ltd.

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## Varun Beverages Limited | Quarterly Update

### Q1 CY24 Result Update

#### Result Highlights (Rs. Mn)

Particulars	Q1 CY24	Q1 CY23	Change % (Y-o-Y)	Q4 CY23	Change % (Q-o-Q)	CY23
Revenue from Operation	43,173	38,930	11%	26,677	62%	1,60,426
Gross Profit	24,298	20,413	19%	15,108	61%	86,377
<b>Gross Profit %</b>	<b>56.3%</b>	<b>52.4%</b>	<b>385 Bps</b>	<b>56.6%</b>	<b>-35 Bps</b>	<b>53.8%</b>
Employee Cost	3,937	3,391	16%	3,713	6%	14,466
Other Expenses	10,473	9,041	16%	7,212	45%	35,816
EBITDA	9,888	7,981	24%	4,183	136%	36,095
<b>EBITDA %</b>	<b>22.9%</b>	<b>20.5%</b>	<b>240 Bps</b>	<b>15.7%</b>	<b>722 Bps</b>	<b>22.5%</b>
Depreciation	1,875	1,722	9%	1,660	13%	6,809
EBIT	8,012	6,259	28%	2,523	218%	29,286
<b>EBIT %</b>	<b>18.6%</b>	<b>16.1%</b>	<b>248 Bps</b>	<b>9.5%</b>	<b>910 Bps</b>	<b>18.3%</b>
Finance Cost	937	626	50%	737	27%	2,681
Other Income	84	101	-17%	91	-8%	793
PBT	7,159	5,734	25%	1,878	281%	27,398
Tax Expenses	1,678	1,348	24%	442	279%	6,375
Profit from Associates	-2	0		2		-5
Minority Interest	107	95	13%	118	-9%	459
PAT	5,373	4,291	25%	1,320	307%	20,559
<b>EPS</b>	<b>4.13</b>	<b>3.30</b>		<b>1.02</b>		<b>15.83</b>

Source: Company, Keynote Capitals Ltd.

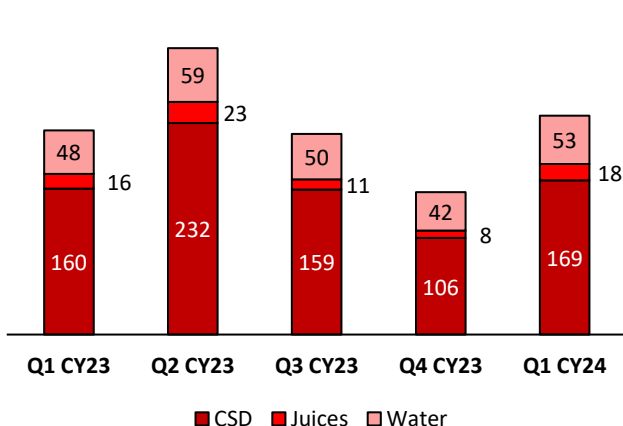
#### Unit Economics (Rs/Case)

Particulars	Q1 CY24	Q1 CY23	Change % (Y-o-Y)	Q4 CY23	Change % (Q-o-Q)	CY23
Volume Sold (Mn Cases)	240	224	7%	156	54%	913
Revenue from Operation	179.9	173.8	4%	171.0	5%	175.7
Gross Profit	101.2	91.1	11%	96.8	5%	94.6
Employee Cost	16.4	15.1	8%	23.8	-31%	15.8
Other Expenses	43.6	40.4	8%	46.2	-6%	39.2
EBITDA	41.2	35.6	16%	26.8	54%	39.5
EBIT	33.4	27.9	19%	16.2	106%	32.1
PBT	29.8	25.6	17%	12.0	148%	30.0
Tax Expenses	7.0	6.0	16%	2.8	147%	7.0
PAT attributable to shareholders	22.4	19.2	17%	8.5	165%	22.5

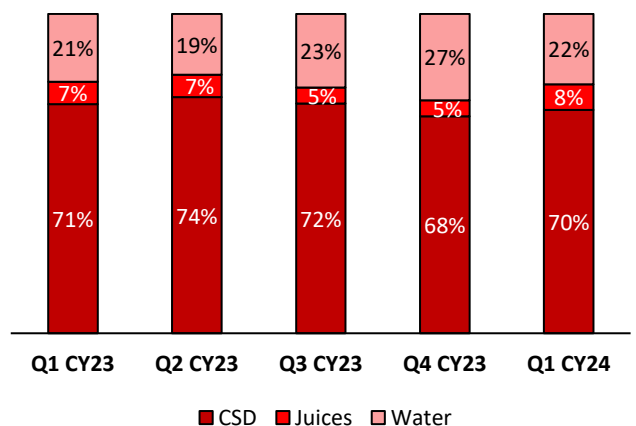
Source: Company, Keynote Capitals Ltd.

### Quarterly Business Progression

Volume Sold (in Mn cases) [Product-wise]



Volume Mix% [Product-wise]



Source: Company, Keynote Capitals Ltd.

## Q1 CY24 Conference Call Takeaways

### General Highlights

- There is a slight delay in the seasonality cycle due to the Holi festival.
- During the Q1 CY24, the Company's gross profit margins exhibited a substantial improvement, rising by 385 Bps to reach 56.3%, up from the previous level of 52.4%. This favorable development was primarily driven by two key factors: a reduction in PET prices and the Company's strategic emphasis on diminishing the sugar content in its products and employing lightweight packaging solutions. Notably, products categorized as low-sugar or sugar-free account for ~46% of the Company's consolidated sales volumes.
- In Q1 CY24, the Company's sales volumes experienced growth in both international and domestic markets. Specifically, the international market witnessed a robust increase of ~22%, while the domestic market registered a more modest growth rate of ~4%. The substantial expansion in the international market was spearheaded by strong performance in Morocco and Zimbabwe.

### Management guidance

- Heat waves can have a positive effect on demand. The management is expecting a good growth in Q2 CY24.
- In South Africa, the majority of the product sales are of low/no sugar content products.

### Important Highlight

- Varun Beverages Morocco SA, a wholly-owned subsidiary entity, has entered into an Exclusive Snacks Appointment Agreement, which confers upon it the rights to manufacture and package the Cheetos brand of snack products within the territory of Morocco, commencing from May 2025. This agreement serves as a complementary addition to the existing distribution arrangement for PepsiCo's snack portfolio, marking yet another progressive step in the strong and mutually beneficial partnership between the two entities. This new agreement is supplementary to the existing distribution agreement for PepsiCo's snack portfolio, encompassing brands such as Lays, Cheetos, and Doritos, within the Moroccan territory.
- It is expected to commence its production from CY25.

### Capex

- The Company has commenced 3 greenfield facilities in the quarter. These facilities are located as follows: 1) Supa, Maharashtra, commenced in Jan 2024 with a capex outlay: Rs. 10 Bn), 2) Gorakhpur, Uttar Pradesh, commenced in Apr 2024 with a capex outlay Rs. 11 Bn and 3) Khordha, Odisha, commenced in Apr 2024 with a capex outlay: Rs. 7 Bn.
- DRC facility is expected to come online in Q2 CY24.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	CY22	CY23	CY24E	CY25E	CY26E
<b>Net Sales</b>	<b>1,31,731</b>	<b>1,60,426</b>	<b>2,15,822</b>	<b>2,54,316</b>	<b>2,99,902</b>
Growth %		22%	35%	18%	18%
Raw Material Expenses	62,612	74,049	99,278	1,17,748	1,39,454
Employee Expenses	12,166	14,466	19,424	22,888	26,991
Other Expenses	28,893	35,581	47,481	55,950	65,978
<b>EBITDA</b>	<b>28,061</b>	<b>36,330</b>	<b>49,639</b>	<b>57,730</b>	<b>67,478</b>
Growth %		29%	37%	16%	17%
Margin%	21%	23%	23%	23%	23%
Depreciation	6,172	6,809	7,977	8,937	9,837
<b>EBIT</b>	<b>21,889</b>	<b>29,521</b>	<b>41,662</b>	<b>48,793</b>	<b>57,641</b>
Growth %		35%	41%	17%	18%
Margin%	17%	18%	19%	19%	19%
Interest Paid	2,041	2,916	3,403	3,403	3,403
Other Income & exceptional	388	794	400	450	500
<b>PBT</b>	<b>20,236</b>	<b>27,398</b>	<b>38,659</b>	<b>45,839</b>	<b>54,737</b>
Tax	4,735	6,375	9,007	10,681	12,754
<b>PAT</b>	<b>15,501</b>	<b>21,023</b>	<b>29,651</b>	<b>35,159</b>	<b>41,984</b>
Others (Minorities, Associates)	-527	-459	-482	-506	-531
<b>Net Profit</b>	<b>14,974</b>	<b>20,564</b>	<b>29,169</b>	<b>34,653</b>	<b>41,452</b>
Growth %		37%	42%	19%	20%
Shares (Mn)	649.5	1299.2	1299.2	1299.2	1299.2
<b>EPS</b>	<b>23.05</b>	<b>15.82</b>	<b>22.45</b>	<b>26.67</b>	<b>31.91</b>

### Cash Flow

Y/E Mar, Rs. Mn	CY22	CY23	CY24E	CY25E	CY26E
Pre-tax profit	20,236	27,398	38,659	45,839	54,737
Adjustments	7,249	9,924	11,462	12,396	13,272
Change in Working Capital	-5,852	-6,735	-4,759	-4,651	-4,931
Total Tax Paid	-3,733	-6,679	-9,007	-10,681	-12,754
<b>Cash flow from operating Activities</b>	<b>17,900</b>	<b>23,908</b>	<b>36,354</b>	<b>42,905</b>	<b>50,324</b>
Net Capital Expenditure	-17,499	-31,939	-17,000	-15,000	-15,000
Change in investments	4	-312	0	0	0
Other investing activities	449	-647	400	450	500
<b>Cash flow from investing activities</b>	<b>-17,046</b>	<b>-32,899</b>	<b>-16,600</b>	<b>-14,550</b>	<b>-14,500</b>
Equity raised / (repaid)	0	47.92	0	0	0
Debt raised / (repaid)	3,396	15,064	0	0	0
Dividend (incl. tax)	-1,624	-2,273	-3,500	-4,158	-4,974
Other financing activities	-1,951	-2,989	-3,403	-3,403	-3,403
<b>Cash flow from financing activities</b>	<b>-179</b>	<b>9,849</b>	<b>-6,904</b>	<b>-7,562</b>	<b>-8,378</b>
<b>Net Change in cash</b>	<b>675</b>	<b>858</b>	<b>12,851</b>	<b>20,793</b>	<b>27,446</b>

### Valuation Ratios

	CY22	CY23	CY24E	CY25E	CY26E
<b>Per Share Data</b>					
EPS	23	16	22	27	32
Growth %		-31%	42%	19%	20%
Book Value Per Share	79	53	75	99	128

### Balance Sheet

Y/E Mar, Rs. Mn	CY22	CY23	CY24E	CY25E	CY26E
Cash, Cash equivalents & Bank	2,853	4,599	17,449	38,242	65,688
Current Investments	0	0	0	0	0
Debtors	2,993	3,594	6,475	7,629	8,997
Inventory	19,939	21,505	29,783	35,325	41,836
Other Current Assets	8,255	12,659	12,659	12,659	12,659
Total Current Assets	34,040	42,356	66,366	93,855	1,29,180
Net Block & CWIP	75,388	1,03,314	1,12,337	1,18,400	1,23,563
Long Term Investments	0	211	211	211	211
Other Non-current Assets	6,754	5,991	5,991	5,991	5,991
<b>Total Assets</b>	<b>1,16,182</b>	<b>1,51,872</b>	<b>1,84,904</b>	<b>2,18,456</b>	<b>2,58,945</b>
Creditors	8,243	7,582	13,982	16,028	18,976
Provision	1,048	1,215	1,215	1,215	1,215
Short Term Borrowings	6,277	10,032	10,032	10,032	10,032
Other Current Liabilities	24,120	22,702	22,702	22,702	22,702
Total Current Liabilities	39,688	41,532	47,932	49,977	52,925
Long Term Debt	17,270	31,889	31,889	31,889	31,889
Deferred Tax Liabilities	3,368	3,430	3,430	3,430	3,430
Other Long Term Liabilities	3,701	4,174	4,174	4,174	4,174
Total Non Current Liabilities	24,340	39,493	39,493	39,493	39,493
Paid-up Capital	6,496	6,496	6,496	6,496	6,496
Reserves & Surplus	44,528	62,869	89,020	1,20,020	1,57,029
Shareholders' Equity	51,024	69,365	95,516	1,26,516	1,63,526
Non Controlling Interest	1,131	1,482	1,963	2,469	3,001
<b>Total Equity &amp; Liabilities</b>	<b>1,16,182</b>	<b>1,51,872</b>	<b>1,84,904</b>	<b>2,18,456</b>	<b>2,58,945</b>

### Return Ratios

Return on Assets (%)	14%	15%	17%	17%	17%
Return on Equity (%)	33%	34%	35%	31%	28%
Return on Capital Employed (%)	23%	23%	25%	24%	24%

### Turnover Ratios

Asset Turnover (x)	1.2	1.2	1.3	1.3	1.3
Sales / Gross Block (x)	1.3	1.4	1.6	1.7	1.8
Working Capital / Sales (%)	-4%	-2%	4%	12%	20%
Receivable Days	7	7	9	10	10
Inventory Days	100	102	94	101	101
Payable Days	41	38	37	44	44
Working Capital Days	66	71	66	67	67

### Liquidity Ratios

Current Ratio (x)	0.9	1.0	1.4	1.9	2.4
Interest Coverage Ratio (x)	10.9	10.4	12.4	14.5	17.1
Total Debt to Equity	0.7	0.7	0.4	0.3	0.3
Net Debt to Equity	0.7	0.7	0.3	0.0	-0.1

### Valuation

PE (x)	30.1	88.3	65.8	55.4	46.3
Earnings Yield (%)	3%	1%	2%	2%	2%
Price to Sales (x)	6.8	11.3	8.9	7.5	6.4
Price to Book (x)	17.7	26.2	20.1	15.2	11.7
EV/EBITDA (x)	33.3	53.7	39.3	33.8	28.9
EV/Sales (x)	7.1	11.6	9.0	7.7	6.5

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 <sup>th</sup> December 2022	BUY	659	+16.8%
7 <sup>th</sup> February 2022	BUY	653	+11.8%
2 <sup>nd</sup> May 2023	BUY	708	+14.7%
3 <sup>rd</sup> August 2023	BUY	824	+17%
7 <sup>th</sup> November 2023	BUY	992	+11.7%
5 <sup>th</sup> February 2024	REDUCE	1,302	-3.6%
13 <sup>th</sup> May 2024	NEUTRAL	1,477	+1.2%

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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