

Varun Beverages (VBL:IN)

Focus on strategic expansion continues

VBL's reported revenues were in line with our estimates, while EBITDA saw a negative deviation of 2.6%. Consol revenues grew by 1.9% YoY to Rs 48,967 mn and consol sales volume increased by 2.4% YoY to 274 mn cases. Gross margins saw an expansion of 119 bps YoY to 56.7%, however this was due to reclassification of some expenses from RM costs to other expenses, resulting from backward integration in international business. EBITDA margins declined by 53 bps YoY against our estimates of slightly higher margins and EBITDA stood at Rs 19,988 mn, largely stable on a YoY basis. PAT saw a positive deviation of 12.6% vs our estimates, majorly due to higher other income on account of favourable FX movement. Reported PAT increased by 19.6% YoY to Rs 7,412 mn. Excluding the FX related income of Rs 1,000 mn, Adj. PAT growth was 6.8% YoY to Rs 6,620 mn, in-line with our estimate.

Resilience in domestic business

Despite the prolonged rainfall in India that impacted consumption, VBL's domestic business held its ground with largely stable volumes (0.9% drop). Distributor inventories were marginally affected in September due to transition to lower GST rates in juice and water portfolio, but normalised subsequently with replenishment of fresh stock. VBL's 1/4th domestic portfolio will benefit from the GST rate cut. Competitive intensity has not had a material impact on performance, and management believes it is beneficial for the industry in the long term. The impact on volume growth was largely due to the unfavourable weather patterns, and management has seen return of double-digit growth in regions where the season improved in October. Domestic ASP also remained largely stable YoY, with domestic EBITDA margin contraction of just 27 bps YoY.

International ASPs moderated due inferior product mix, growth to see uptick going ahead

International volumes grew 9.4% YoY, however, net realisations corrected by 2.5% due to higher mix of packaged water in the international markets, leading to a 6.7% YoY growth in international revenue. South Africa and Morocco are performing well, while Zimbabwe and DRC have started seeing improvement. Sustainable double-digit to mid-teens growth is realistic from 1 or 2 quarters down the line.

Territory and portfolio expansion

VBL incorporated a wholly-owned subsidiary in Kenya to explore manufacturing, distribution and selling of beverages. Furthermore, it has entered into an exclusive distribution agreement with Carlsberg Breweries A/S, to test market beer in some of the African territories with the brand 'Carlsberg'.

Valuation and view

VBL has shown some resilience in domestic business, amid challenging weather patterns, and has seen return of double-digit growth in some territories as weather conditions improved. This growth and largely steady margins are indicating limited impact of competition as of now. On the international front, growth is expected to see an uptick due to strong performance in South Africa and improvement in Zimbabwe and DRC. Strategic expansion foray continues, with the company exploring new territories (Kenya) and new categories (Alco-bev in Africa).

We remain constructive on the stock due to this focus on expansion, and strong execution capabilities of the company. We have moderated our Adj. EPS estimates for CY25/26/27E by 4.5/2.2/1.9%, respectively. We retain our valuation multiple of 52x and roll over to CY27E EPS of Rs 11.8, arriving at a price target of Rs 615 (Rs 605 earlier). With an upside potential of 24%, retain BUY on the shares of Varun Beverages Ltd.

Y/E March (Rs in mn)	CY23	CY24	CY25E	CY26E	CY27E
Revenue	1,60,426	2,00,077	2,15,537	2,62,010	2,90,296
Growth (%)	21.8	24.7	7.7	21.6	10.8
EBITDA	36,095	47,111	50,599	59,908	67,147
EBITDA (%)	22.5	23.5	23.5	22.9	23.1
Adj. PAT	20,559	25,946	29,469	35,397	40,667
Adj. EPS	15.8	7.7	8.7	10.5	12.0
Adj. EPS Growth (%)	37.3	(51.5)	13.6	20.1	14.9
ROE (%)	29.6	15.6	15.9	16.3	16.5
ROCE (%)	26.5	20.2	18.6	20.4	20.9
P/E (x)	33.0	68.1	56.9	47.3	41.2

Source: Company, ACMIIL Research

BUY

Target: Rs 615

Key Data

Bloomberg code:	VBL
Target price (Rs)	615
CMP (Rs)	496
Upside/ (Downside)	24.1
Rating:	BUY
Shares outstanding (mn):	3,382
Mcap (Rs bn) :	1,676
52-week H/L (Rs):	664/420

Price Performance (%)

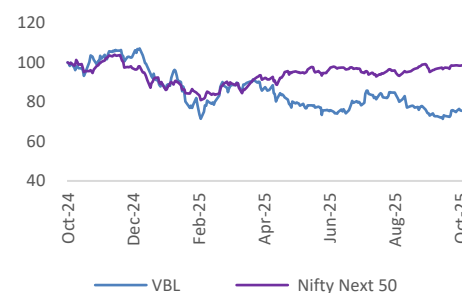
1 month	9.7
3 months	(3.3)
12 months	(18.7)

Shareholding Pattern (%)

	Mar'25	Jun'25	Sep'25
Promoter	60.2	59.8	59.4
FII's	23.0	21.9	21.9
DII's	9.2	10.5	11.8
Public/other	7.6	7.8	6.9
Pledge	0.0	0.0	0.0

Source: NSE

VBL performance vs. Nifty Next 50



Source: NSE

Analyst

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Varun Beverages (VBL IN)

Quarterly Performance – Consolidated

Y/E March (Rs in mn)	Q3CY25	Q3CY24	YoY (%)	Q2CY25	QoQ (%)	ACMIIL Est.	Var (%)	9MCY25	9MCY24	YoY (%)
Net Revenues	48,967	48,047	1.9	70,174	(30.2)	48,795	0.4	1,74,810	1,63,189	7.1
Expenses:										
Total Raw Material Cost	21,192	21,364	(0.8)	31,911	(33.6)			78,394	72,845	7.6
Employee Cost	5,533	5,130	7.9	5,497	0.7			16,145	14,060	14.8
Other Expenses	10,767	10,041	7.2	12,778	(15.7)			36,170	34,972	3.4
Total Operating Cost	37,493	36,536	2.6	50,186	(25.3)			1,30,708	1,21,878	7.2
EBITDA	11,474	11,511	(0.3)	19,988	(42.6)	11,775	(2.6)	44,101	41,311	6.8
EBITDA (%)	23.4	24.0	-53bps	28.5	-505bps	24.1	-70bps	25.2	25.3	-9bps
Depreciation	3,076	2,566	19.9	3,062	0.5			8,863	6,866	29.1
EBIT	8,398	8,945	(6.1)	16,926	(50.4)			35,239	34,445	2.3
Other income	480	243	98.0	772	(37.8)			1,532	766	100.0
Interest expense	452	1,185	(61.9)	365	23.7			1,229	3,414	(64.0)
Extraordinary Items	1,000	0	NA	0	NA			1,000	0	NA
PBT	9,426	8,002	17.8	17,332	(45.6)			36,542	31,797	14.9
Tax	1,957	1,713	14.3	4,066	(51.9)			8,487	7,403	14.6
Effective Tax Rate (%)	20.8	21.4	-64bps	23.5	-269bps			23.2	23.3	-6bps
Share of associates	(17)	(1)	(1,664.2)	(12)	(41.0)			(34)	(8)	(334.6)
Minority interest	40	92	(56.6)	85	52.7			173	292	(40.5)
RPAT	7,412	6,196	19.6	13,170	(43.7)			27,847	24,095	15.6
APAT	6,620	6,196	6.8	13,170	(49.7)	6,581	0.6	27,055	24,095	12.3
APAT (%)	13.5	12.9	62bps	18.8	-525bps	13.5	3bps	15.5	14.8	71bps
REPS	2.19	1.91	14.91	3.89	(43.72)			8.23	7.42	11.02
Adj. EPS (diluted) (Rs)	1.96	1.91	2.62	3.89	(49.74)			8.00	7.42	7.86

Source: Company, ACMIIL Research

VBL's reported revenues were in line with our estimates, while EBITDA saw a negative deviation of 2.6%. PAT saw a positive deviation of 12.6% vs our estimates, majorly due to higher other income.

Varun Beverages (VBL IN)

In Q3CY25, consolidated sales volumes improved by 2.4% YoY to 273.8 mn cases, driven by ~9% YoY growth in international business and marginal decline in domestic volumes.

The impact on domestic volume growth was largely due to the unfavourable weather patterns, and management has seen return of double-digit growth in regions where the season improved in October.

The company, through its African subsidiaries, is foraying into the alcoholic beverages segment and has entered into an exclusive distribution arrangement with 'Carlsberg Breweries A/S' to test-market beer under the 'Carlsberg' brand in some of its operating territories.

Con-Call Key Take Away

Business update

In Q3CY25, consolidated sales volumes improved by 2.4% YoY to 273.8 mn cases, driven by ~9% YoY growth in international business and marginal decline in domestic volumes. The CSD segment accounted for 74% of total volumes, while packaged drinking water saw an increased salience of 22%; NCBs contributed 4%. The water and juice segments saw volume improvements, while the CSD segment held steady. The sales of Nimbooz in the hydration portfolio saw strong growth of ~50%. Growth in value-added dairy was almost around 100% levels.

Domestic business

Adverse weather conditions weighed on performance during the quarter; however, revenues remained broadly stable. Distributor inventories were marginally affected in September due to transition to lower GST rates in juice and water portfolio, but normalised subsequently with replenishment of fresh stock. VBL's 1/4th domestic portfolio will benefit from the GST rate cut. Competitive intensity in the category has not had any material impact on performance, and management remains of the view that rise in competition is structurally positive for the category over the long term.

International business

VBL's international business recorded sales of 96 mn cases, up 9.4% YoY, supported by broad-based volume growth across key markets. Zimbabwe has started to recover in line with management's earlier commentary and is expected to deliver healthy growth in the coming year. Morocco and South Africa sustained their strong momentum. Management indicated that operational missteps in DRC have been addressed, positioning the business for a meaningful recovery in CY26E. Growth trends in Nepal and Sri Lanka remain largely in line with those seen in the domestic market. VBL's market share in South Africa is now at ~17%.

Capex spends

Management indicated that existing capacity is sufficient to meet near-term demand requirements, and therefore no significant capex is planned in the foreseeable future.

Growth outlook

With weather conditions turning more favorable, VBL is likely to witness a return to domestic double-digit growth momentum by year-end. The impact on volume growth was largely due to the unfavourable weather patterns, and management has seen return of double-digit growth in regions where the season improved in October. In international territories, sustainable double-digit to mid-teens growth is realistic from 1 or 2 quarters down the line.

Snack portfolio

The Morocco facility has scaled up to full operations, while the upcoming Zimbabwe plant remains on schedule for commissioning by the end of the fiscal year. The foods segment has reached an annual run rate of ~Rs 3,000 mn in revenue.

Low-sugar and no-sugar products

The share of low- and no-sugar products increased to 56% (vs. 49% in 9MCY24), reflecting the company's ongoing portfolio rationalisation towards healthier alternatives. Management remains focused on further expanding the contribution of mid-calorie and no-sugar variants, in line with evolving consumer preferences and category trends.

New product launches

The company has recently introduced 'Adrenaline Rush (A-Rush)', an energy drink launched across four cities, priced at Rs 60 positioned between 'Sting' and 'Red Bull'. Management continues to focus on scaling the hydration portfolio and indicated plans to expand the category further with the potential launch of 1–2 new products in the coming year.

Other income

Other income saw a forex gain of Rs 1,000 mn during the quarter, against a loss of Rs 100 mn in Q3 of last year.

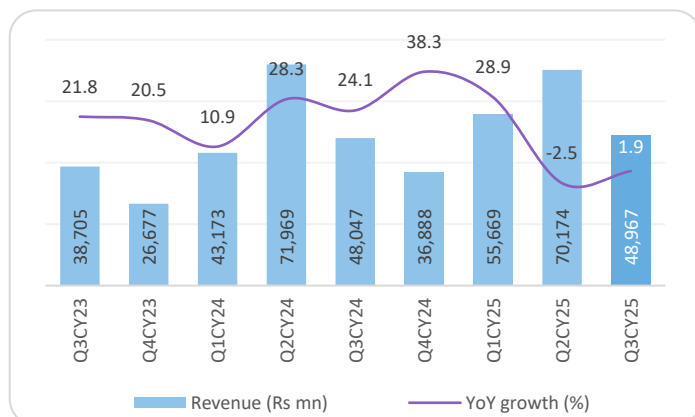
Product portfolio expansion

The company, through its African subsidiaries, is foraying into the alcoholic beverages segment and has entered into an exclusive distribution arrangement with 'Carlsberg Breweries A/S' to test-market beer under the 'Carlsberg' brand in some of its operating territories. Management indicated that beer consumption across most African markets is comparable to or exceeds that of soft drinks, implying a sizeable addressable market. The initial rollout will focus on the southern region of the continent. Furthermore, the relatively liberal regulatory environment for beer in Africa allows a go-to-market approach similar to that of soft drinks, with only limited additional investment required.

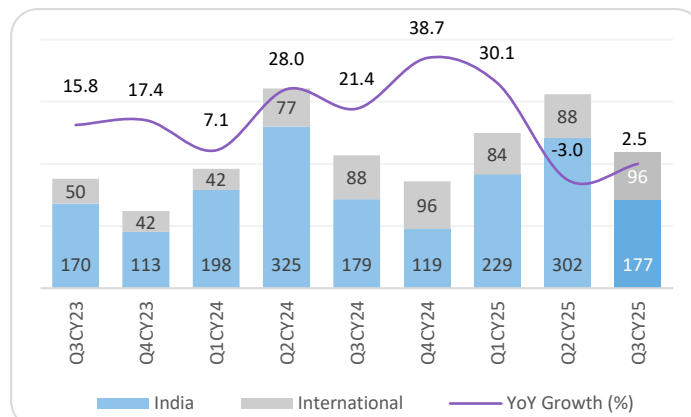
WOS in Kenya

VBL has incorporated a wholly owned subsidiary in Kenya to explore opportunities in the dairy and alcoholic beverages segments. The initiative is currently at an early stage, and the company is expected to provide further updates as the business progresses.

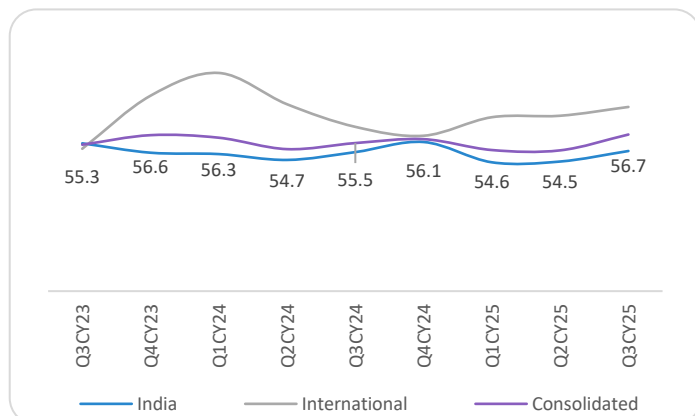
Varun Beverages (VBL IN)

Exhibit 1: Revenue growth was driven by growth in international operations while domestic growth declined marginally


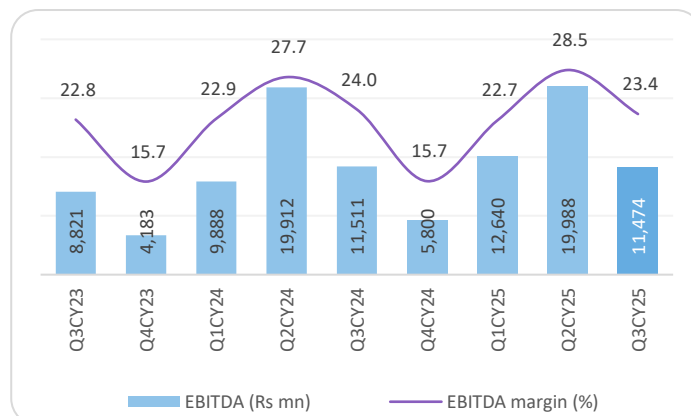
Source: Company, ACMIIL Research

Exhibit 2: International volume growth stood at 9.4% YoY; India volume decline at 0.9%


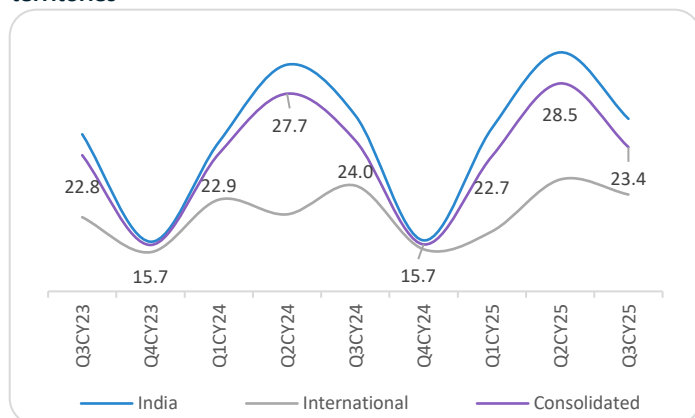
Source: Company, ACMIIL Research

Exhibit 3: Gross margins saw expansion due to reclassification of certain costs to other expenses


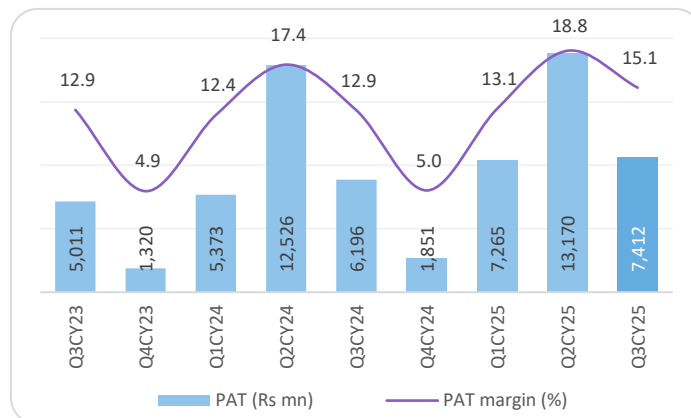
Source: Company, ACMIIL Research

Exhibit 4: EBITDA margins impacted due to operating deleverage and lower contribution of domestic operations.


Source: Company, ACMIIL Research

Exhibit 5: Margin contraction seen in both India and international territories


Source: Company, ACMIIL Research

Exhibit 6: PAT margin boosted by lower finance cost, higher other income


Source: Company, ACMIIL Research

Varun Beverages (VBL IN)

Valuation and View

VBL has shown some resilience in domestic business, amid challenging weather patterns, and has seen return of double-digit growth in some territories as weather conditions improved. This growth and largely steady margins are indicating limited impact of competition as of now. On the international front, growth is expected to see an uptick due to strong performance in South Africa and improvement in Zimbabwe and DRC. Strategic expansion foray continues, with the company exploring new territories (Kenya) and new categories (Alco-bev in Africa).

We remain constructive on the stock due to this focus on expansion, and strong execution capabilities of the company. We have moderated our Adj. EPS estimates for CY25/26/27E by 4.5/2.2/1.9%, respectively. We retain our valuation multiple of 52x and roll over to CY27E EPS of Rs 11.8, arriving at a price target of Rs 615 (Rs 605 earlier). With an upside potential of 24%, retain BUY on the shares of Varun Beverages Ltd.

Exhibit 7: Valuation Summary

Valuation	
Adj. EPS (4 qtr ending Sep-27E)	11.8
P/E (x)	52
Target price	615
CMP	495
Upside potential (%)	24.1
Rating	BUY

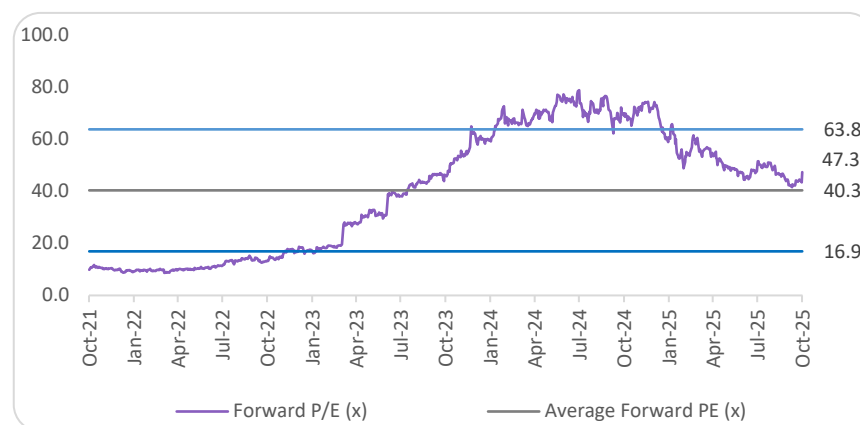
Source: Company, ACMIIL Research

Exhibit 8: Change in Estimates

Rs. in mn	CY25E			CY26E			CY27E		
	Old	New	Var (%)	Old	New	Var (%)	Old	New	Var (%)
Revenue	2,24,513	2,15,537	(4.0)	2,68,367	2,62,010	(2.4)	2,97,389	2,90,296	(2.4)
EBITDA	53,293	50,599	(5.1)	61,842	59,908	(3.1)	69,228	67,147	(3.0)
Adj. PAT	30,844	29,469	(4.5)	36,208	35,397	(2.2)	41,433	40,667	(1.8)

Source: Company, ACMIIL Research

Exhibit 9: 1-year forward P/E



Source: Company, ACMIIL Research

Financial (Consolidated)

Income Statement

YE March (Rs mn)	CY23	CY24	CY25E	CY26E	CY27E
Net Sales	1,60,426	2,00,077	2,15,537	2,62,010	2,90,296
Growth (%)	21.8	24.7	7.7	21.6	10.8
RM cost	74,049	89,047	95,721	1,19,343	1,31,851
Employee cost	14,466	18,850	21,643	24,096	26,260
Other expenses	35,816	45,068	47,573	58,663	65,039
Total expenses	1,24,331	1,52,966	1,64,937	2,02,102	2,23,149
EBITDA	36,095	47,111	50,599	59,908	67,147
Growth (%)	29.5	30.5	7.4	18.4	12.1
EBITDA margin (%)	22.5	23.5	23.5	22.9	23.1
Depreciation	6,809	9,474	11,964	12,666	13,178
EBIT	29,286	37,637	38,635	47,242	53,969
EBIT margin (%)	18.3	18.8	17.9	18.0	18.6
Other income	794	1,213	1,899	1,048	1,161
Interest expense	2,681	4,504	1,675	1,453	1,103
PBT before exceptional items	27,398	34,346	38,859	46,837	54,027
Exceptional items	0	0	1,000	0	0
PBT	27,398	34,346	37,859	46,837	54,027
Tax	6,375	7,988	9,260	10,913	12,588
Effective tax rate (%)	23.3	23.3	24.5	23.3	23.3
Minority interest	459	397	300	507	748
Share of associates	(5)	(15)	(38)	(20)	(23)
Rep. PAT	20,559	25,946	28,261	35,397	40,667
Rep. PAT Growth (%)	37.3	26.2	16.6	17.0	14.9
Rep. PAT Margin (%)	12.8	13.0	13.1	13.5	14.0
Adj. PAT	20,559	25,946	27,261	35,397	40,667
Adj. PAT Growth (%)	37.3	26.2	13.6	20.1	14.9
Adj. PAT Margin (%)	12.8	13.0	12.6	13.5	14.0

Source: Company, ACMIIL Research

Cash Flow

YE March (Rs mn)	CY23	CY24	CY25E	CY26E	CY27E
PBT	27,398	34,346	39,859	46,837	54,027
Add: Depreciation	6,809	9,474	11,964	12,666	13,178
Add: Interest	2,681	4,504	1,675	1,453	1,103
Other adjustments	434	(543)	(1,038)	(20)	(23)
Chg in working cap	(6,735)	(6,694)	(3,333)	(10,532)	(6,153)
Tax	6,679	7,276	9,260	10,913	12,588
Operating Cash flow	23,908	33,811	39,867	39,491	49,544
Capex	(31,939)	(37,404)	(27,324)	(8,000)	(8,000)
Free Cash Flow	(8,031)	(3,593)	12,543	31,491	41,544
Investments	(1,180)	(6,045)	1,000	0	0
Interest/ dividend income	220	281	0	0	0
Investing Cash flow	(32,899)	(43,168)	(26,324)	(8,000)	(8,000)
Equity Capital	44	75,119	0	0	0
Debt	14,769	(37,075)	(5,000)	(5,000)	(5,000)
Dividend paid	(2,273)	(3,248)	(6,052)	(8,849)	(12,200)
Interest paid	(2,694)	(4,650)	(1,675)	(1,453)	(1,103)
Others	4	(611)	0	0	0
Financing Cash flow	9,849	29,535	(12,727)	(15,303)	(18,304)
Net chg in cash	858	20,179	816	16,189	23,240
Opening cash position	1,543	2,422	22,663	23,479	39,668
Forex translation impact	21	62	0	0	0
Closing cash position	2,422	22,663	23,479	39,668	62,908

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	CY23	CY24	CY25E	CY26E	CY27E
Equity share capital	6,496	6,763	6,763	6,763	6,763
Reserves & surplus	62,869	1,59,335	1,83,845	2,10,899	2,40,114
Non-controlling interests	1,482	1,298	1,298	1,298	1,298
Net Worth	70,847	1,67,396	1,91,906	2,18,960	2,48,175
Non-current borrowings (incl. lease liabilities)	33,868	11,978	8,978	5,978	2,978
Provisions	2,126	1,894	1,894	1,894	1,894
Deferred tax liabilities	3,430	4,879	4,879	4,879	4,879
Other non-current liabilities	68	47	47	47	47
Non current liabilities	39,493	18,798	15,798	12,798	9,798
Borrowings	20,054	15,236	13,236	11,236	9,236
Trade payables	7,582	15,604	16,774	20,913	23,105
Lease liabilities	390	1,049	1,049	1,049	1,049
Other current financial liabilities	7,638	7,043	7,043	7,043	7,043
Other current liabilities	5,866	6,312	6,312	6,312	6,312
Current liabilities	41,532	45,244	44,414	46,553	46,745
Equity & liabilities	1,51,872	2,31,439	2,52,118	2,78,312	3,04,718
Net PPE	78,378	1,19,857	1,43,840	1,39,174	1,33,995
CWIP	19,222	11,623	3,000	3,000	3,000
Intangible assets	5,713	14,204	14,204	14,204	14,204
Financial assets	834	1,801	1,801	1,801	1,801
Other non current assets	5,368	5,314	5,708	6,896	7,620
Non current assets	1,09,516	1,52,799	1,68,553	1,65,075	1,60,620
Inventories	21,505	27,912	30,004	37,409	41,329
Trade receivables	3,594	8,458	9,110	11,074	12,270
Cash	2,422	22,663	23,479	39,668	62,908
Bank balances	2,177	1,838	1,838	1,838	1,838
Other financial assets	7,388	8,356	9,000	10,940	12,121
Other current assets	5,270	9,412	10,134	12,308	13,631
Current assets	42,356	78,640	83,565	1,13,236	1,44,098
Total assets	1,51,872	2,31,439	2,52,118	2,78,312	3,04,718

Source: Company, ACMIIL Research

Key Ratios

YE March (Rs)	CY23	CY24	CY25E	CY26E	CY27E
EPS	15.8	7.7	8.7	10.5	12.0
CEPS	18.4	10.0	11.8	11.7	14.6
BVPS	54.5	49.5	56.7	64.7	73.4
DPS	1.7	1.0	1.8	2.6	3.6
Valuations (x)					
P/E	33.0	68.1	56.9	47.3	41.2
P/BV	9.6	10.6	8.7	7.7	0.0
EV/Sales	11.0	8.8	7.8	6.4	5.8
EV/EBITDA	48.9	37.5	33.1	28.0	25.0
Dividend Yield (%)	0.3	0.2	0.4	0.5	0.7
Return Ratio (%)					
RoCE	26.5	20.2	18.6	20.4	20.9
RoE	29.6	15.6	15.9	16.3	16.5
Gearing Ratio (x)					
Net Debt/Equity	0.9x	0.2x	0.2x	0.1x	0.1x
Net Debt/EBITDA	1.7x	0.7x	0.6x	0.4x	0.3x
Working Cap Cycle (days)	77	66	66	66	66
Profitability (%)					
EBITDA Margin	22.5	23.5	23.5	22.9	23.1
EBIT Margin	18.3	18.8	17.9	18.0	18.6
Adj. PAT Margin	12.8	13.0	14.0	13.5	14.0

Source: Company, ACMIIL Research

Note: EPS adjusted for all stock splits

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
ACCUMULATE	5% to 15%
HOLD	-5% to +5%
REDUCE	-15% to -5%
SELL	$< -15\%$

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