

# Varun Beverages Ltd.

## Aims double-digit volumes despite competition

Varun Beverages Ltd (VBL's) 4QCY24 operating performance was in-line with our estimates. In CY24, India business organic volume growth (up 11.4%) as well as commentary for CY25 remains healthy along with strong margin profile, which is likely to sustain. Management has already seen healthy growth in last ~40 days and is not worried of competition, but we believe it will remain a key monitorable for the coming season. New territory addition in International business has led to strong topline performance in CY24 and capacity additions will further aid in CY25. Margin profile in international will only improve over the next few years led by GT mix and backward integration. We maintain our BUY rating with revised target price (TP) of Rs675 (Rs705 earlier), as we assign a target multiple of ~54x on March'27E EPS.

### 4QCY24 Result Highlights

- Headline performance:** Consolidated net sales grew 38.3% YoY to Rs36.9bn (vs est. Rs35.8bn). EBITDA grew by 38.7% YoY to Rs5.8bn (vs est. Rs5.9bn). Adjusted PAT (APAT) grew by 40.3% to Rs1.9bn (vs est. Rs1.6bn).
- Volumes:** 4QCY24 overall volumes grew by 37.8% YoY to 215mn cases (including BevCo's. 43mn cases and 7.8mn cases from DRC) vs 207mn est. CSD (Carbonated Soft Drink; constituted 73%) volumes grew by ~49.1% YoY to 158mn cases vs 150mn est.
- Margins:** Overall gross margin down ~60bps to 56.1% (up ~50bps QoQ) in 4QCY24. EBITDA margins was flat YoY to 15.7% in 4QCY24.
- Per case:** Net revenue per case was up 0.3%YoY at Rs172 in 4QCY24 (vs est. Rs175) (it was Rs180 in 3QCY24). EBITDA per case stood at Rs27 in 4QCY24 vs Rs27 in 4QCY23.
- CY24 Consolidated** revenue, EBITDA & APAT grew by 24.7%, 30.5% & 26.2% YoY respectively. EBITDA margin up 100bps YoY at 23.5%.

### Key Conference Call Highlights

- Company has seen healthy growth in the ongoing quarter (1QCY25) till date. Management is confident of maintaining India business double-digit volume growth.
- Management sees no reason to not sustain margin going forward in India business while for international business, the margin will only improve driven by improving GT mix and backward integration.
- In 4Q, VBL has become net debt free through prepayment of debts by using the proceeds from the QIP issue.

### View & Valuation

There is no major revision in our CY25E/CY26E APAT. We now expect VBL's revenue to grow at ~17% CAGR over CY24-CY26E led by (1) Capacity & distribution expansion in India business. (2) New territory addition for the International business. We expect gross margins to improve by ~100bps over CY24-CY26E leading to EBITDA margin improvement of ~70bps largely driven by scale, efficiencies, channel mix improvement and backward integration. Pro-active capacity additions in domestic as well as international businesses along with long runway for distribution expansion, gives us good visibility on medium-to-long term growth. VBL is currently trading at ~56x/46x CY25E/CY26E EPS as we build 24% earnings CAGR. We have not yet baked-in Africa's snacking business in our earnings. We maintain our BUY rating with revised TP of Rs675 (Rs705 earlier), as we assign a target multiple of ~54x on March'27E EPS. Things to monitor: Competitive intensity.

### Exhibit 1: Actual vs estimate

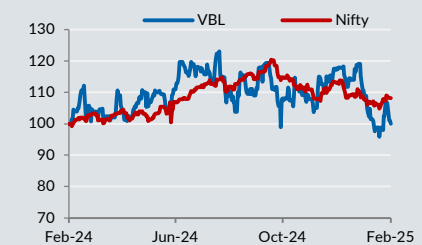
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	36,888	35,809	35,626	3.0	3.5
EBITDA	5,800	5,852	5,719	(0.9)	1.4
EBITDA Margin (%)	15.7	16.3	16.1	(0.6)	(0.3)
Recurring PAT	1,851	1,581	1,841	17.1	0.6

RECO	:	<b>BUY</b>
CMP	:	Rs 548
Target Price	:	Rs 675
Potential Return	:	+23.2%

### Stock data (as on Feb 10, 2025)

Nifty	23,382
52 Week h/l (Rs)	681 / 504
Market cap (Rs/USD mn)	1872342 / 21409
Outstanding Shares (mn)	3,382
6m Avg t/o (Rs mn):	3,400
Div yield (%):	0.2
Bloomberg code:	VBL IN
NSE code:	VBL

### Stock performance



	1M	3M	1Y
Absolute return	-8.1%	-7.3%	0.1%

### Shareholding pattern (As of Dec'24 end)

Promoter	60.2%
FII+DII	32.3%
Others	7.5%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	675	705

### Δ in earnings estimates

	CY25e	CY26e
EPS (New)	9.8	11.9
EPS (Old)	10.0	12.4
% change	-2.4%	-4.2%

### Financial Summary

(Rs bn)	CY24	CY25E	CY26E
Revenue	200	233	272
YoY Growth (%)	24.7	16.6	16.4
EBIDTA	47	56	66
Margins (%)	23.5	23.9	24.3
APAT	26	33	40
EPS	7.7	9.8	11.9
YoY Growth (%)	25.4	25.7	21.3
Pre-tax RoCE (%)	24.0	22.5	24.9
ROE (%)	22.4	19.0	21.1
P/E (x)	71.4	55.9	46.1
EV/EBITDA (x)	11.2	10.2	9.3

### VISHAL PUNMIYA

Lead Analyst

☎ +91 22 6992 2934 / 35 / 36



MANAS RASTOGI, Associate

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	4QCY23	3QCY24	4QCY24	YoY (%)	QoQ (%)	CY23	CY24	YoY (%)
Net Sales	26,677	48,046	36,888	38.3	-23.2	160,425	200,076	24.7
COGS	11,569	21,364	16,202	40.0	-24.2	74,048	89,047	20.3
% of sales	43.4	44.5	43.9	0.6	-0.5	46.2	44.5	-1.7
<b>Gross margin %</b>	<b>56.6</b>	<b>55.5</b>	<b>56.1</b>	<b>-0.6</b>	<b>0.5</b>	<b>53.8</b>	<b>55.5</b>	<b>3.1</b>
Employee costs	3,713	5,130	4,790	29.0	-6.6	14,466	18,850	30.3
% of sales	13.9	10.7	13.0	-0.9	2.3	9.0	9.4	0.4
Other expenses	7,212	10,041	10,096	40.0	0.5	35,817	45,068	25.8
% of sales	27.0	20.9	27.4	0.3	6.5	22.3	22.5	0.2
<b>EBITDA</b>	<b>4,183</b>	<b>11,511</b>	<b>5,800</b>	<b>38.7</b>	<b>-49.6</b>	<b>36,094</b>	<b>47,110</b>	<b>30.5</b>
<b>EBITDA margin %</b>	<b>15.7</b>	<b>24.0</b>	<b>15.7</b>	<b>0.0</b>	<b>-8.2</b>	<b>22.5</b>	<b>23.5</b>	<b>1.0</b>
Depreciation	1,660	2,566	2,608	57.1	1.6	6,809	9,474	39.1
EBIT	2,523	8,945	3,192	26.5	-64.3	29,285	37,636	28.5
<b>EBIT margin %</b>	<b>9.5</b>	<b>18.6</b>	<b>8.7</b>	<b>-0.8</b>	<b>-10.0</b>	<b>18.3</b>	<b>18.8</b>	<b>0.6</b>
Interest expense	737	1,185	1,090	48.0	-8.0	2,681	4,504	68.0
Other income	91	243	446	389.7	84.1	794	1,213	52.8
PBT	1,878	8,002	2,548	35.7	-68.2	27,398	34,345	25.4
Tax	442	1,713	585	32.3	-65.9	6,839	8,399	22.8
Effective tax rate %	23.5	21.4	23.0	-0.6	1.5	25.0	24.5	-2.0
Adj.PAT after Share of Assc & JV	1,320	6,196	1,851	40.3	-70.1	20,558	25,946	26.2
<b>PAT margin %</b>	<b>4.9</b>	<b>12.9</b>	<b>5.0</b>	<b>0.1</b>	<b>-7.9</b>	<b>12.8</b>	<b>13.0</b>	<b>0.2</b>

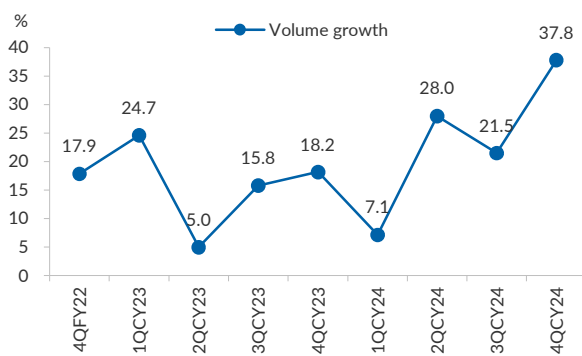
Source: Company, YES Sec

## VBL 4QCY24 CON CALL HIGHLIGHTS

- **Volume growth:** The company is confident of achieving double digit volume growth in future as well.
- **Margins:** For India business, the company is comfortable at 21% margin but has delivered better than that. In International markets, margins will significantly improve next year after the backwards integration of SA business.
- **Capex:** Projected capex for CY25 is Rs. 31bn out of which (as on 31 Dec 2024, the CWIP and Capital advances, already paid for, stood at ~Rs16.5bn) Rs20bn is towards setting up of greenfield facilities in India (Prayagraj, Damtal, Buxar & Meghalaya). The balance capex is for snacks manufacturing in international territories, brownfield expansion in India (Sricity), rPET facilities in India and expansion in DRC.
- **Competition:** There has been rebrands to the level of 20% in India which were lower priced, but the company's products are not competing in that segment. It is not seeing any decline in growth rates in 1QCY25 despite competitive intensity. The management believes there is enough room for all the players to grow.
- **South Africa** is a large MT market (45%) vs India (10%) where large retailers squeeze the margins. It plans to enter into GT (65% of the market) in SA where the margins are better than MT. The margins would improve in SA business as and when it completes the backward integration and improves the GT channel mix. It is looking at better than double digit growth (30% in 3 years). The margins of South Africa business are lower than India business. It expects most African markets to grow in double digit.
- **Ghana and Tanzania:** Pepsi is already a market leader in Tanzania. Ghana market has a low Pepsi penetration, and the company would be expanding the go-to market.

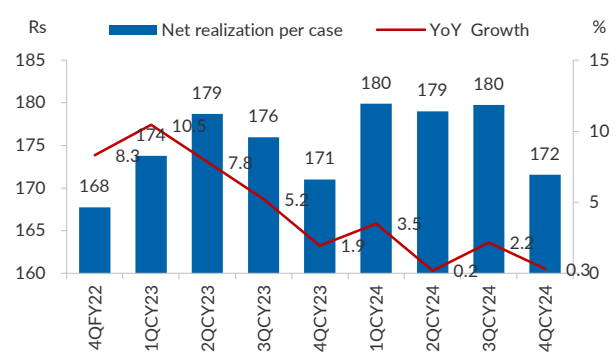
- **Volume mix:** CSD volume share is 57%, Sting share is 15%. Juices is 7.5% & Water is 18%
- **Capacity:** The increase in capacity from CY23 to CY24 is 25%. The capacity increase in CY25 will also be 25%. All the capacities planned will be commissioned before the peak season. The company believes it will not fall short on capacity during peak season.
- **NO sugar/ low sugar products** include Pepsi and 7up. Every product will slowly move towards no sugar/ low sugar. Pepsi Black has been well received by the consumers. It has reached Coke level of zero sugar.
- **Snacks:** Morocco snacks business started in CY24 and did \$25-30mn of topline. Currently the company is operating through import given the lack of production facility. The plant in Morocco will be commissioned in 1HCY25. It also started importing to Zimbabwe and Zambia and the respective plants are expected to commission by 3Q.
- **Distribution:** The company is present in 4mn outlets of total 12mn outlets in India. It is adding 400k-500k outlets every year.
- **New Launches:** VBL will adding another flavor in energy drink named Sting Gold and some other products which would be ready before the season. Sting gold will be a permanent product unlike Sting Blue.
- **Energy drinks** market is 15-20% of the overall mix in neighboring countries whereas in India it is just 6-7%.
- **Currency devaluation** in South African countries is less than in India. If there is major fluctuation in currency, the company will pass it on the consumers.
- **Others:** (1) The company is on track for recycled PET requirements. The production has started this year and will meet 100% requirements by CY26. (2) Soft industry is growing much faster than other FMCG players. (3) The company is expecting Jeera drink to come this season. It is waiting for PepsiCo for provide the product.

**Exhibit 3: Overall volume growth was 37.8% in 4QCY24 led by 49.1% growth in CSD segment**



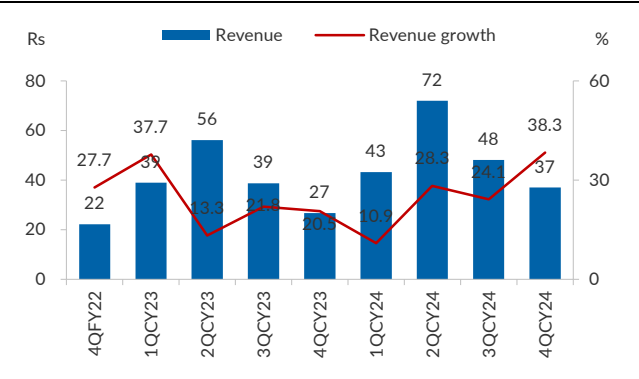
Source: Company, YES Sec

**Exhibit 4: Net realization per case was flattish YoY at ~Rs172 in 4QCY24**



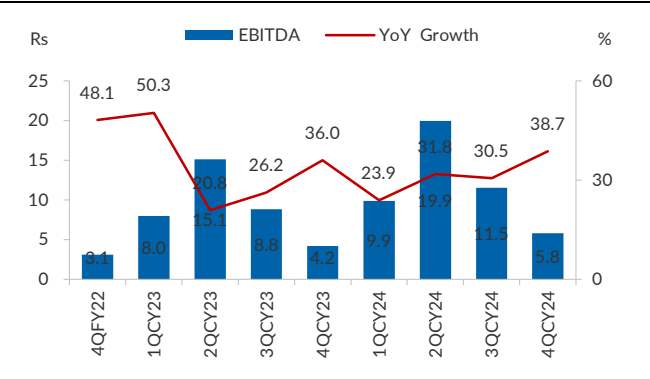
Source: Company, YES Sec

**Exhibit 5: Revenue grew by 38.3% YoY to Rs36.9bn in 4QCY24**



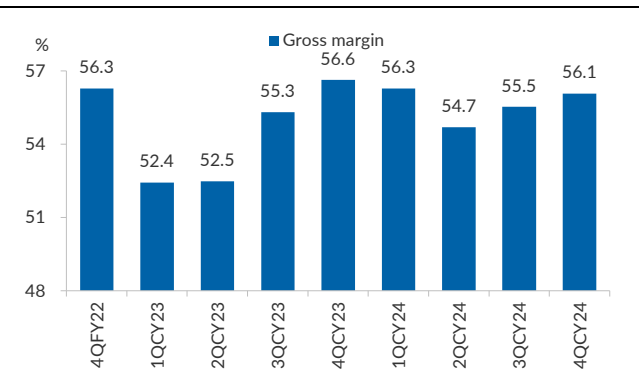
Source: Company, YES Sec

**Exhibit 6: EBITDA grew by 38.7% YoY to Rs5.8bn in 4QCY24**



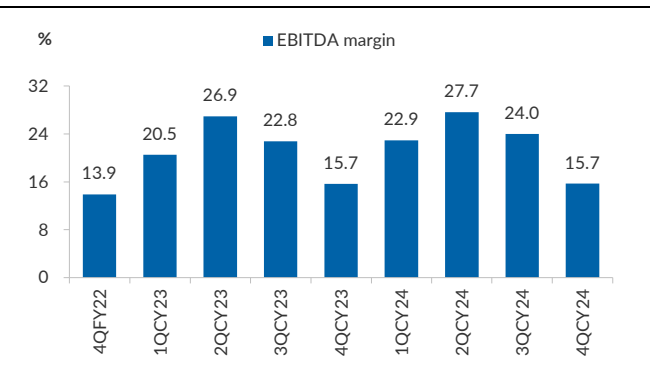
Source: Company, YES Sec

**Exhibit 7: Gross margin contracted by 60bps YoY to 56.1%**



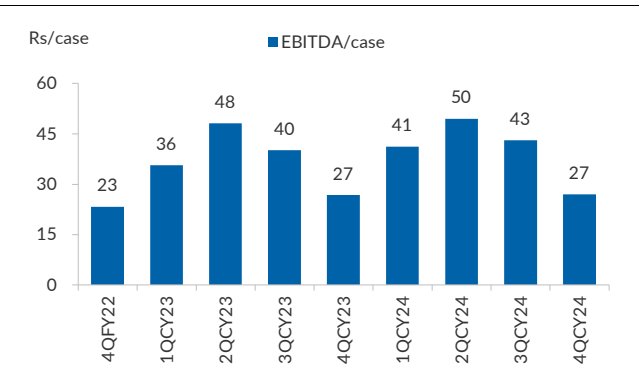
Source: Company, YES Sec

**Exhibit 8: EBITDA margins was flat YoY to 24%**



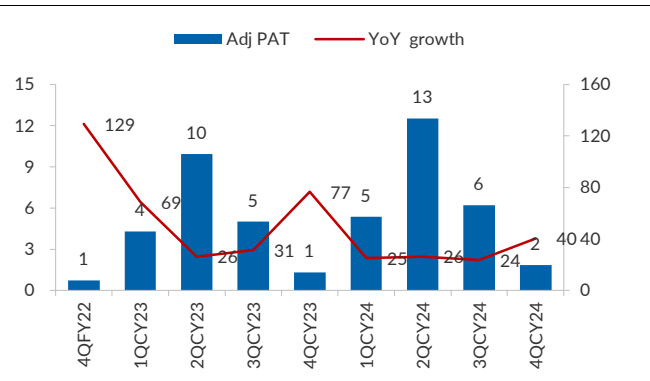
Source: Company, YES Sec

**Exhibit 9: EBITDA per case was flat YoY at Rs 27 in 4QCY24**



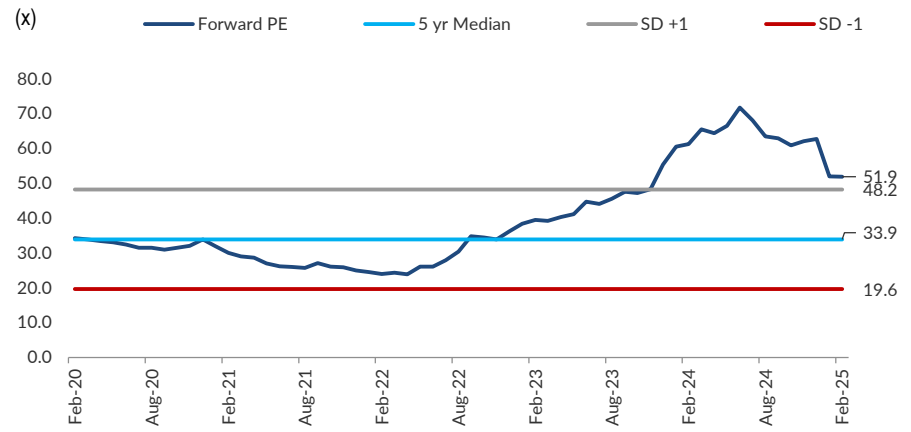
Source: Company, YES Sec

**Exhibit 10: Adj PAT was Rs1.9bn, up by 40.3% YoY**



Source: Company, YES Sec

**Exhibit 11: Currently trading at ~52x on 1yr fwd. earnings**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 12: Income statement

Income statement	CY21	CY22	CY23	CY24	CY25E	CY26E
Net Sales	88,232	131,731	160,426	200,077	233,288	271,567
<b>% growth</b>	<b>34.9</b>	<b>49.3</b>	<b>21.8</b>	<b>24.7</b>	<b>16.6</b>	<b>16.4</b>
COGS	40,346	62,612	74,049	89,047	102,647	118,132
<b>Gross Profits</b>	<b>47,886</b>	<b>69,120</b>	<b>86,377</b>	<b>111,029</b>	<b>130,641</b>	<b>153,435</b>
Staff costs	10,077	12,166	14,466	18,850	21,929	25,392
Selling & Admin costs	1,249	1,398	1,964	0	3,033	3,802
Other expenses	20,013	27,675	33,852	45,068	49,924	58,387
Total Expenses	71,686	103,850	124,330	152,966	177,532	205,712
EBITDA	16,547	27,881	36,096	47,111	55,756	65,855
<b>% growth</b>	<b>40.8</b>	<b>68.5</b>	<b>29.5</b>	<b>30.5</b>	<b>18.4</b>	<b>18.1</b>
<b>EBITDA margin</b>	<b>18.8</b>	<b>21.2</b>	<b>22.5</b>	<b>23.5</b>	<b>23.9</b>	<b>24.3</b>
Depreciation	5,313	6,172	6,809	9,474	11,097	12,080
Other income	679	388	794	1,213	1,395	1,562
Interest cost	1,847	1,861	2,681	4,504	2,855	2,920
Profit before tax	10,066	20,236	27,399	34,346	43,198	52,417
Tax	2,606	4,735	6,375	7,988	10,065	12,213
Tax Rate	25.9	23.4	23.3	23.3	23.3	23.3
PAT	7,461	15,501	21,024	26,358	33,133	40,204
Adj. PAT	7,461	15,501	20,560	25,946	33,111	40,171
<b>% growth</b>	<b>87.9</b>	<b>107.8</b>	<b>32.6</b>	<b>26.2</b>	<b>27.6</b>	<b>21.3</b>
<b>Adj PAT margin</b>	<b>8.5</b>	<b>11.8</b>	<b>12.8</b>	<b>13.0</b>	<b>14.2</b>	<b>14.8</b>

Source: Company, YES Sec

### Exhibit 13: Balance sheet

Balance sheet	CY21	CY22	CY23	CY24	CY25E	CY26E
Equity capital	4,330	6,496	6,496	6,763	6,763	6,763
Reserves and surplus	36,469	44,528	62,869	159,335	175,538	192,038
<b>Net worth</b>	<b>40,799</b>	<b>51,024</b>	<b>69,364</b>	<b>166,098</b>	<b>182,301</b>	<b>198,801</b>
Minority Interest	1,168	1,131	1,482	1,298	1,298	1,298
Total Debt	33,419	36,948	51,943	23,643	23,947	24,724
Other LT liabilities	2,092	2,283	2,195	1,942	2,036	2,136
<b>Total liabilities</b>	<b>77,791</b>	<b>91,622</b>	<b>126,962</b>	<b>196,552</b>	<b>213,154</b>	<b>230,531</b>
Gross Block	93,880	103,075	124,902	185,104	191,978	201,978
Depreciation	30,991	37,163	43,972	53,446	64,543	76,623
Net Block	62,889	65,912	80,930	131,658	127,435	125,355
Capital work-in-progress	4,966	6,066	19,222	11,667	11,667	11,667
Goodwill	242	242	242	3,009	3,009	3,009
Net deferred tax	(3,087)	(3,368)	(3,430)	(4,879)	(4,879)	(4,879)
Other assets	2,260	6,709	5,833	5,347	5,614	5,895
Investments	0	0	211	534	35,534	50,534
Cash	3,366	2,853	4,599	25,085	9,934	10,519
Inventories	14,481	19,939	21,505	27,912	30,679	35,713
Debtors	2,212	2,993	3,594	8,458	5,113	5,952
Other current assets	5,847	8,540	12,517	17,768	20,009	22,543
Current Assets	22,540	31,472	37,616	54,139	55,801	64,208
Creditors	7,118	8,243	7,582	15,604	10,687	12,622
Other CL	8,268	10,021	10,677	14,404	20,274	23,155
Current Liabilities	15,386	18,264	18,259	30,008	30,961	35,778
Net Current Assets	7,155	13,208	19,357	24,131	24,840	28,430

<b>Total Assets</b>	<b>77,791</b>	<b>91,622</b>	<b>126,963</b>	<b>196,552</b>	<b>213,154</b>	<b>230,531</b>
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Source: Company, YES Sec

## Exhibit 14: Cash flow statement

Cash flow statement	CY21	CY22	CY23	CY24	CY25E	CY26E
PBT	10,066	20,236	27,398	34,331	43,176	52,384
Add: Depreciation	5,313	5,831	6,409	8,387	11,097	12,080
Add: Interest	1,705	1,626	2,443	397	2,855	2,920
Less: taxes paid	(1,242)	(3,733)	(6,679)	(7,276)	(10,065)	(12,213)
Add: other adjustments	(840)	(208)	1,072	4,665	(267)	(281)
Less: WC changes	(2,687)	(5,852)	(6,735)	(6,694)	(709)	(3,590)
<b>Cash flow from operations</b>	<b>12,314</b>	<b>17,900</b>	<b>23,908</b>	<b>33,810</b>	<b>46,086</b>	<b>51,299</b>
Capital expenditure	(8,154)	(17,499)	(31,939)	(37,403)	(31,000)	(10,000)
Net cash after capex	4,160	401	(8,031)	(3,594)	15,086	41,299
(Inc.)/Dec in investments	(1,953)	453	(959)	(5,763)	(35,000)	(15,000)
<b>Cash flow from investing activities</b>	<b>(10,107)</b>	<b>(17,046)</b>	<b>(32,899)</b>	<b>(43,167)</b>	<b>(66,000)</b>	<b>(25,000)</b>
Dividends paid	(1,083)	(1,624)	(2,273)	(3,248)	(16,908)	(23,671)
Others	(694)	1,444	12,122	32,784	(4,855)	(4,920)
<b>Cash from financing activities</b>	<b>(1,777)</b>	<b>(180)</b>	<b>9,849</b>	<b>29,535</b>	<b>(21,763)</b>	<b>(28,591)</b>
Opening cash balance	1,046	1,507	1,543	2,422	22,662	(19,014)
Closing cash balance	1,507	1,543	2,422	22,662	(19,014)	(21,306)
Change in cash balance	430	675	858	20,179	(41,676)	(2,291)

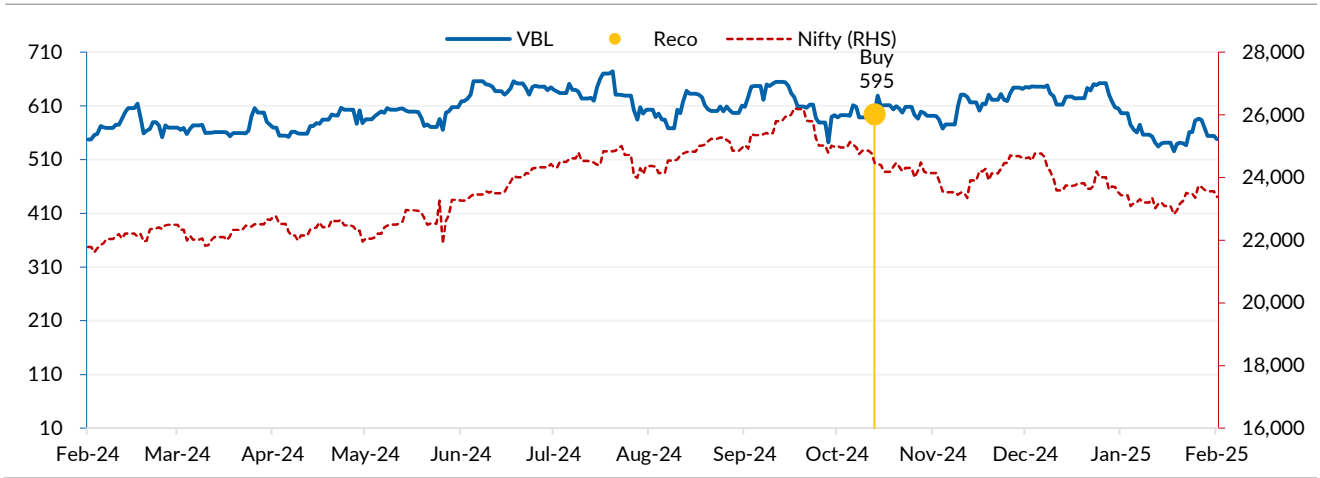
Source: Company, YES sec

## Exhibit 15: Ratio analysis

Ratios (%)	CY21	CY22	CY23	CY24	CY25E	CY26E
<b>Per share numbers (Rs)</b>						
Reported earnings	17.2	23.9	15.8	7.7	9.8	11.9
Dividend	3.0	5.0	3.5	1.8	5.0	7.0
Book Value	141.3	176.7	53.4	49.1	53.9	58.8
<b>Valuations (x)</b>						
P/E	61.5	44.4	34.6	71.4	55.9	46.1
EV / EBITDA	29.6	25.9	21.0	39.3	32.8	27.6
P/Sales	5.2	5.2	4.4	9.3	7.9	6.8
<b>Profitability Ratios</b>						
Gross margin	54.3	52.5	53.8	55.5	56.0	56.5
EBITDA margin	18.8	21.2	22.5	23.5	23.9	24.3
PAT margin	8.5	11.8	12.8	13.0	14.2	14.8
<b>Return Ratios</b>						
ROCE (pre-tax)	16.7	26.1	27.5	24.0	22.5	24.9
RONW	19.6	33.8	34.9	22.4	19.0	21.1
<b>Turnover ratios</b>						
Total asset turnover ratio (x)	1.1	1.4	1.3	1.0	1.1	1.2
Fixed asset turnover ratio (x)	1.3	1.8	1.6	1.4	1.7	2.0
Debtors days	9	8	8	16	8	8
Inventory days	60	55	49	51	48	48
Payable days	64	48	37	64	38	39
NWC days	5	16	20	3	18	17

Source: Company, YES sec

## Recommendation Tracker





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Analyst signature

Analyst signature

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