Initiating Coverage

Choice
Institutional Equities

Varun Beverages Ltd. (VBL IN)

India Penetration and Africa Scale-up to Drive the Next Leg of Growth

August 28, 2026

institutional.equities@choiceindia.com

Varun Beverages Ltd

August 28, 2026 | CMP: INR 420 | Target Price: INR 550

Expected Share Price Return: 31% I Dividend Yield: 0.4% I Expected Total Return: 31.4%

Choice Institutional Equities

BUY

Company Description

VBL is one of the largest PepsiCo franchise bottlers globally outside the US. The Company manufactures and distributes a diverse portfolio of carbonated soft drinks (CSDs) including Pepsi, Mountain Dew, Sting, 7UP and Mirinda, alongside NCBs such as Slice, Tropicana, Gatorade and Aquafina. VBL has franchises across 26 Indian states and 6 Union Territories, with India contributing ~67% of CY25 net revenues. Internationally, VBL operates across markets including Nepal, Sri Lanka, Africa and Morocco, with additional distribution rights in select African countries. Its strong brand portfolio, extensive distribution network and expanding geographic footprint provide significant growth opportunities.

Company Information

BB Code	VBL IN
ISIN	INE200M01039
Face Value (INR)	2
52 Week High (INR)	555
52 Week Low (INR)	381
Mkt Cap (INR Bn)	1,434
Mkt Cap (USD Bn)	15.1
Shares Out. (Mn)	3,382
Free Float (%)	40.1
CY28E EPS (INR)	14.2

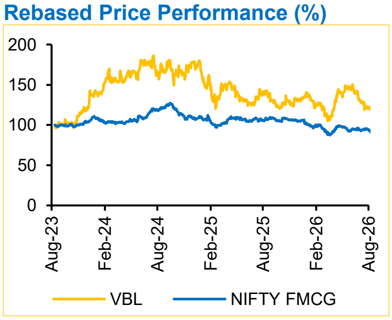
Shareholding Pattern (%)

	Jun-26	Mar-26	Dec-25
Promoters	59.43	59.43	59.44
FIIs	19.03	19.51	20.31
DIIs	15.16	14.35	13.56
GOV	0.05	0.04	0.00
Public	6.33	6.66	6.69

Relative Performance (%)

YTD	1Y	6M	3M
NIFTY FMCG	(15.6)	(8.9)	(5.5)
VBL	(16.8)	(5.9)	(20.3)

Rebased Price Performance (%)



[Bull / Bear Case](#)

[Investors Concerns Answered](#)

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Twin Engines of Growth: Scaling up India, Expanding in Africa

VBL's growth rests on **two growth levers running in parallel**. In India, the opportunity is **penetration led where** VBL reaches only **~4 Mn of an estimated 12 Mn FMCG outlets** and per capita consumption (7 litres) remains a fraction of the global level (31 litres), leaving a **multi year runway** even as Reliance's Campa and Coca-Cola compete intensely. In international markets, **increasingly Africa centric**, VBL has methodically built scale through a mix of **greenfield entry (DRC, Kenya) and bolt-on M&A (BevCo, Twizza, Crickley Dairy in South Africa)**, lifting International's share of revenue from **20% in CY21 to 33% in CY25** and estimated to reach **~40% by CY28E**.

Portfolio Transformation: Beyond Beverages

VBL's distribution network with **~4 Mn India outlets, +1 Mn visi-coolers and an expanding Africa route-to-market** is increasingly being used as a platform to **cross-sell categories beyond core CSD and water**, including **value-added dairy, hydration, energy, snacks and, more recently, fermented dairy (Calpis, with Asahi), a beer test (Carlsberg, in Africa) and proposed entry into RTD & alcoholic beverages in India**. These categories offer **higher realisations, favourable tax treatment or better margins than base CSD**, while leveraging **infrastructure VBL has already established**.

Capital Discipline and Backward Integration Underpin Margin Expansion

VBL's margin expansion is supported by three key pillars: **(a) Extensive backward integration** across preforms, closures, crates, crowns and PET recycling, providing a **~300–400 bps EBITDA margin advantage** versus non-integrated facilities; **(b) Disciplined, bolt-on M&A**, with acquisitions focussed on strategically adjacent territories and subsequently integrated to improve operating efficiency and margin; and **(c) Prudent capital allocation**, with capex largely funded through internal accruals and debt deployed tactically around major acquisition and expansion cycles. **This combination has enabled VBL to expand consolidated EBITDA margin, from ~17% in CY19 to ~23% in CY25 and expected to remain in the range of 23–24% over CY25–CY28E.**

Valuation and View: VBL offers a compelling medium to long term growth opportunity, driven by **India's underpenetrated distribution footprint, Africa led international expansion and portfolio diversification beyond core beverages**. Sustained **outlet additions, increased contribution from energy, dairy and snacks**, along with **margin benefits from backward integration and operating leverage**, should support **Revenue/EBITDA/PAT CAGR of 15%/16%/17% over CY25–28E**, respectively. **We initiate coverage with a 'BUY' rating and a TP of INR 550, valuing the stock at 40x Sep-28E EPS, a ~20% discount to its long-term average PE multiple of 50x. This implies ~31% upside from the current level.**

Upside Triggers: (a) **Faster international scale-up and margin convergence**, alongside continued India volume growth through deeper distribution and visi-cooler penetration; and (b) **premiumisation and portfolio diversification** through energy drink, dairy, snacks and new adjacencies such as **Calpis, Carlsberg and proposed entry into RTD alcoholic beverages in India**.

Key Risks: (a) Rising competitive intensity and adverse weather conditions, including **higher rainfall or prolonged winters**; (b) **slower than expected international margin convergence** toward India levels; (c) **slower than expected scaling of new categories and adjacencies**, including **dairy, snacks, Calpis and AlcoBev; and (d) Regulatory risk pertaining** over product categorisation, formulation standards, and misleading labelling

Key Financials

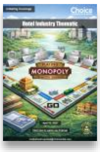
INR Mn	CY25	CY26E	CY27E	CY28E
Net Sales	**216.9**	**256.0**	**291.9**	**332.3**
YoY Growth (%)	8.4	18.1	14.0	13.9
EBIDTA	**50.5**	**59.8**	**68.8**	**78.4**
EBITDA Margin (%)	**23.3**	**23.4**	**23.6**	**23.6**
YoY Growth (%)	7.2	18.5	14.9	14.0
PAT	**30.4**	**34.9**	**41.3**	**48.1**
YoY Growth (%)	17.0	14.9	18.2	16.7
EPS, Rs	**9.0**	**10.3**	**12.2**	**14.2**
PER, x	48.6	40.9	34.6	29.7
EV/EBIDTA, x	28.3	23.4	19.9	17.0
ROE, %	16.8	16.6	16.9	17.0
Debt/Equity	0.1	0.1	0.1	0.0

Source: VBL, Choice Institutional Equities

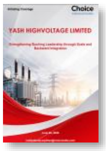
Report Structure

Our recent 'Initiating Coverage' reports


Game of Liquor_Indian AlcoBev_Spirits Industry_Thematic


Playing Monopoly In Micro-Markets_Indian Hotel Industry_Thematic


Lloyds Metals_Initiating Coverage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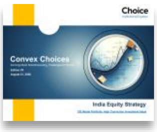
Convex_Choices_Equity Strategy and High-Conviction Ideas_Quarterly_Q1FY27

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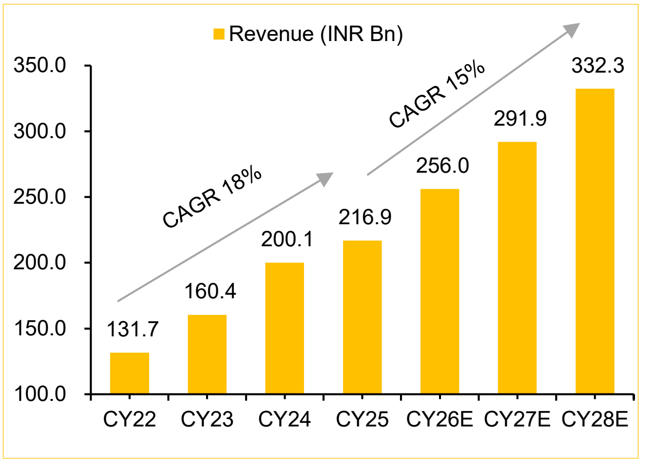
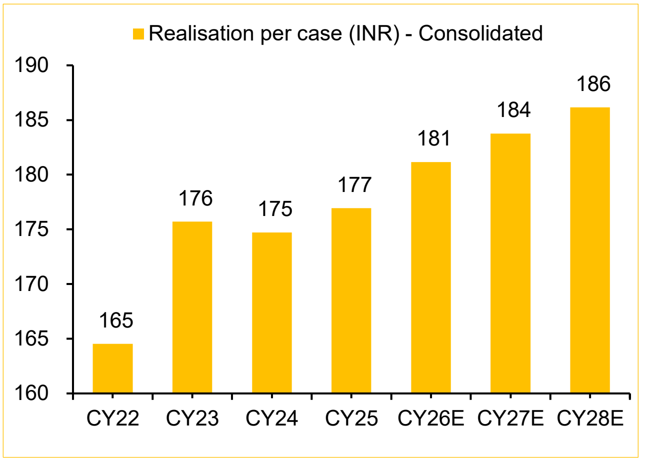
Investment Thesis in Charts

Revenue growth to be driven by India penetration, Africa scale-up and premiumisation



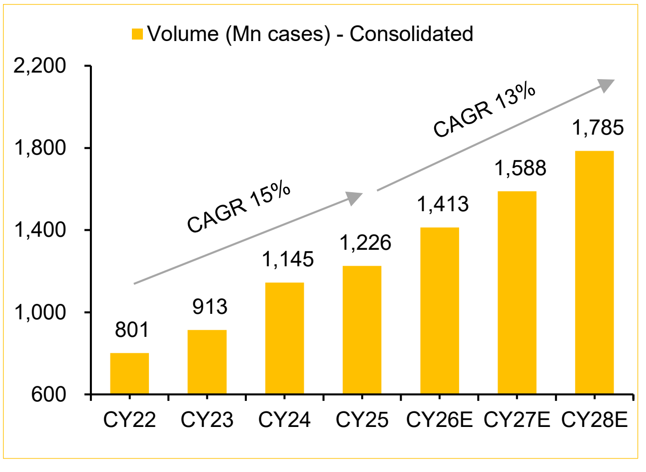
Source: VBL, Choice Institutional Equities

Realisation per case to improve on favourable mix and higher PepsiCo contribution in South Africa



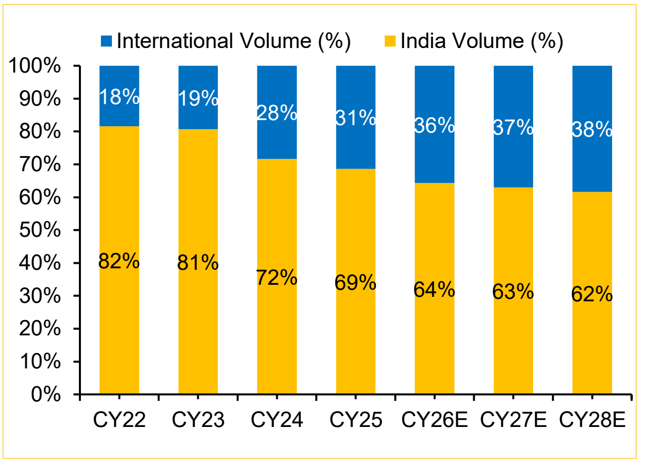
Source: VBL, Choice Institutional Equities

India distribution and Africa scale-up to sustain volume growth



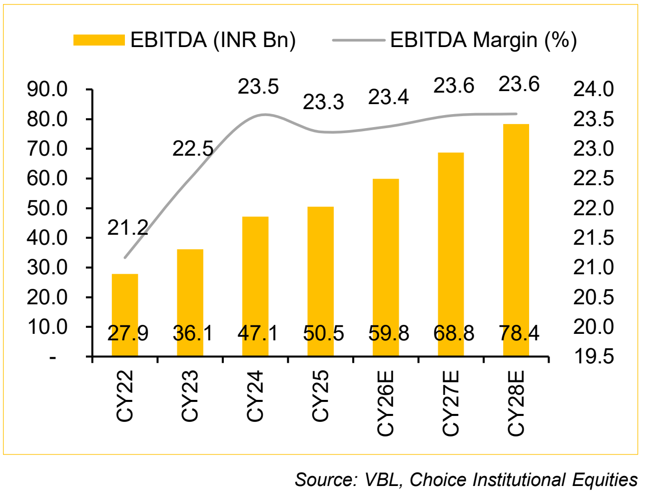
Source: VBL, Choice Institutional Equities

Africa-led international volume growth to offset moderating India volumes



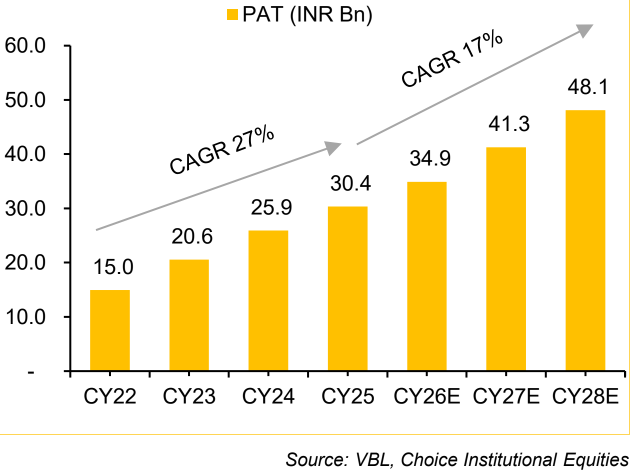
Source: VBL, Choice Institutional Equities

Mix improvement and international Margin convergence to lift margin



Source: VBL, Choice Institutional Equities

PAT growth forecast to normalise from elevated level



Source: VBL, Choice Institutional Equities

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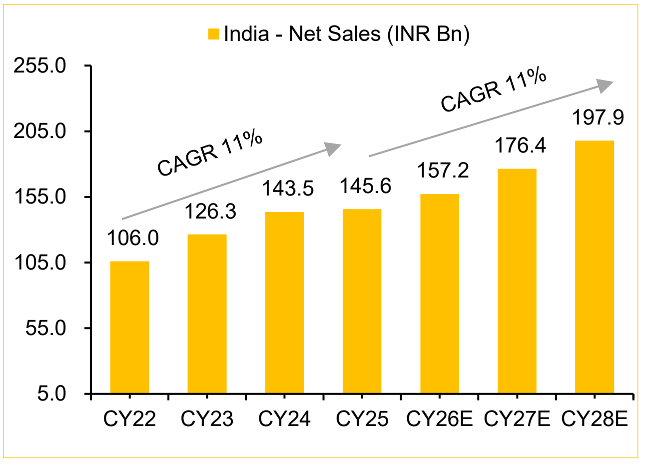
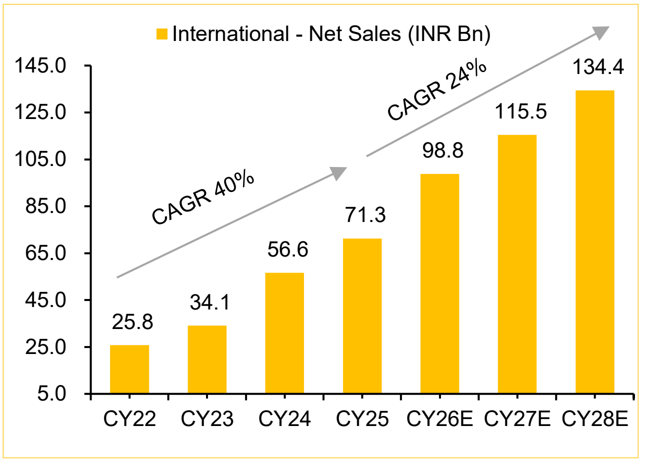
Investment Thesis in Charts

India Growth to Shift from Territory Expansion to Deeper Penetration



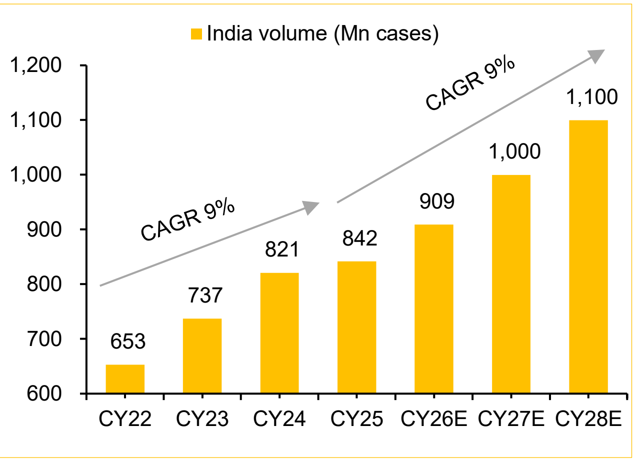
Source: VBL, Choice Institutional Equities

Africa-led International Growth to Offset Normalising India Growth



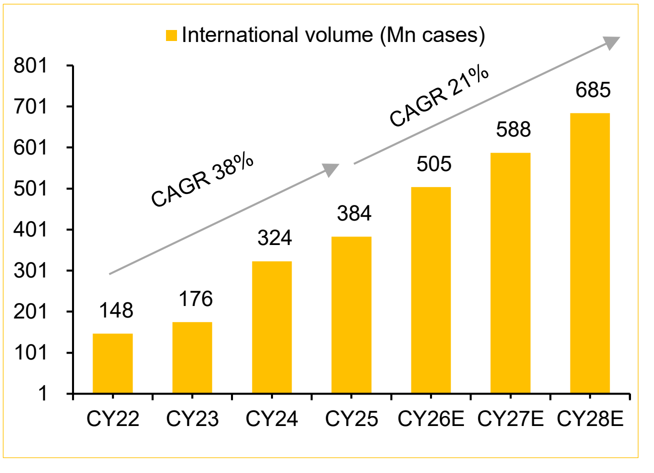
Source: VBL, Choice Institutional Equities

Distribution, Visi-Coolers and New Categories to Drive Volumes



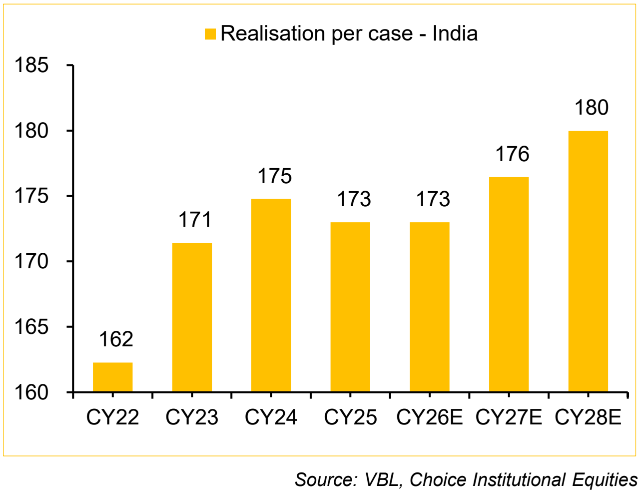
Source: VBL, Choice Institutional Equities

Africa Scale-up to Drive International Volume Growth



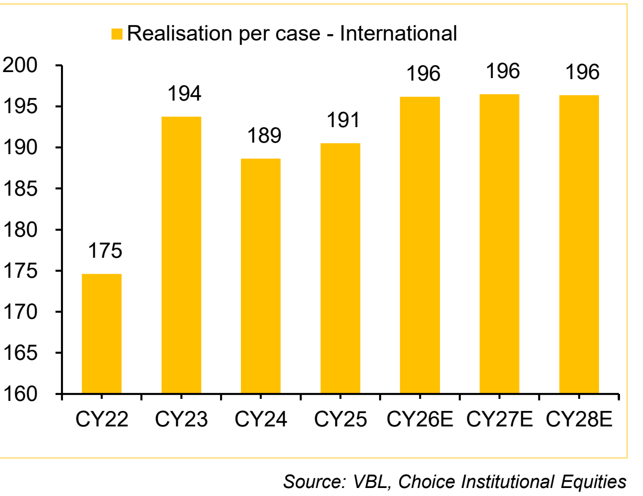
Source: VBL, Choice Institutional Equities

India realisation to improve on favourable mix, led by higher contribution from energy and value-added categories



Source: VBL, Choice Institutional Equities

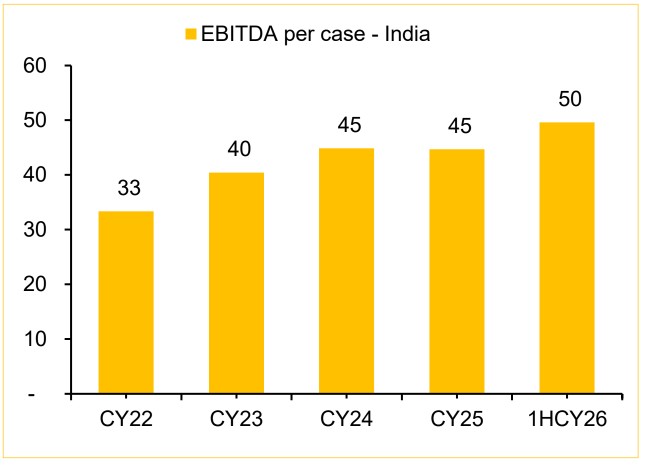
Higher international realisation reflects category mix, premiumisation and market specific pricing, excluding the South Africa drag



Source: VBL, Choice Institutional Equities

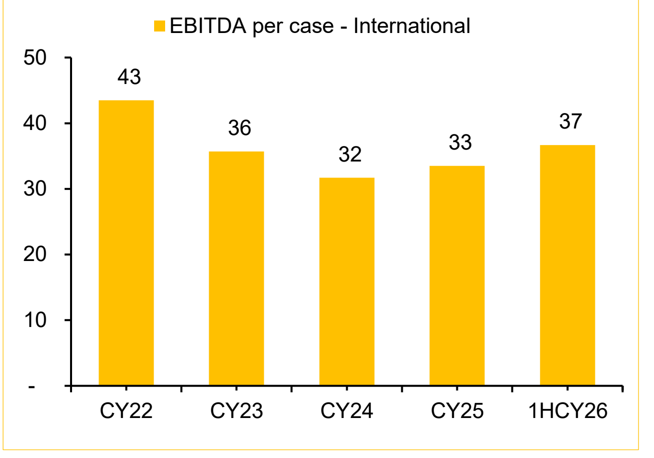
Investment Thesis in Charts

India EBITDA per case improved despite competition, led by favourable mix, backward integration, scale benefits and operating leverage



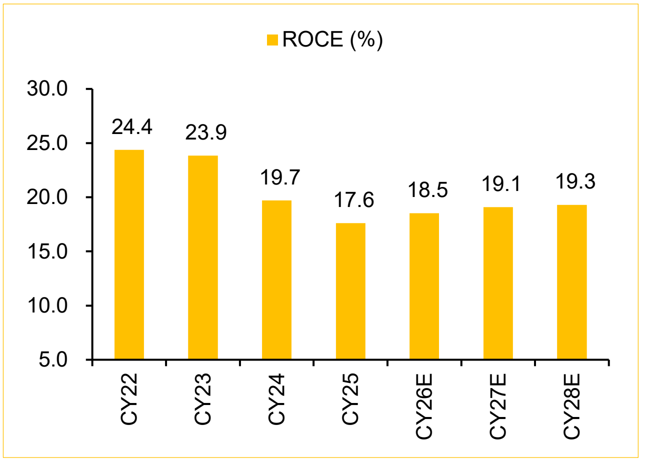
Source: VBL, Choice Institutional Equities

International EBITDA per case trails India due to own-brand/modern-trade mix and integration gaps; scale-up, backward integration and higher PepsiCo mix should drive convergence



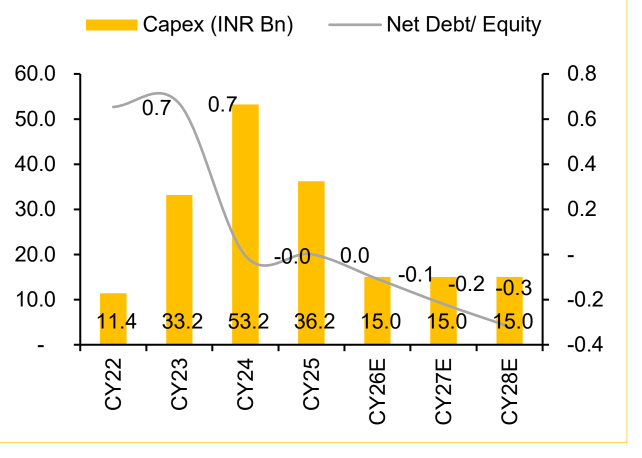
Source: VBL, Choice Institutional Equities

ROCE moderated on front-loaded India/Africa capex; higher utilisation, margin convergence and lower capex intensity should drive recovery



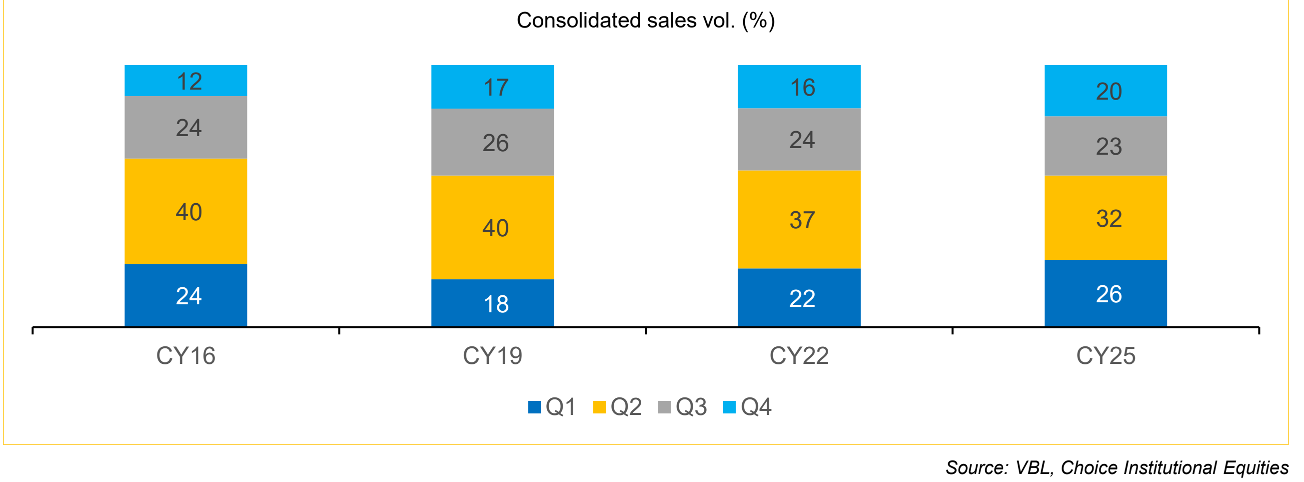
Source: VBL, Choice Institutional Equities

Capex led growth while maintaining balance sheet discipline



Source: VBL, Choice Institutional Equities

Rising Africa Contribution and Category Diversification Reduced Seasonality



Source: VBL, Choice Institutional Equities

2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

VBL's growth rests on **two growth levers running in parallel**. In India, the opportunity is **penetration led where** VBL reaches only **~4 Mn of an estimated 12 Mn e FMCG outlets** and per capita consumption (7 litres) remains a fraction of the global level (31 litres), leaving a **multi year runway** even as Reliance's Campa and Coca-Cola compete intensely. In international markets, **increasingly Africa centric**, VBL has methodically built scale through a mix of **greenfield entry (DRC, Kenya) and bolt-on M&A (BevCo, Twizza, Crickley Dairy in South Africa)**, lifting International's share of revenue from **20% in CY21 to 33% in CY25** and estimated to reach **~40% by CY28E**.

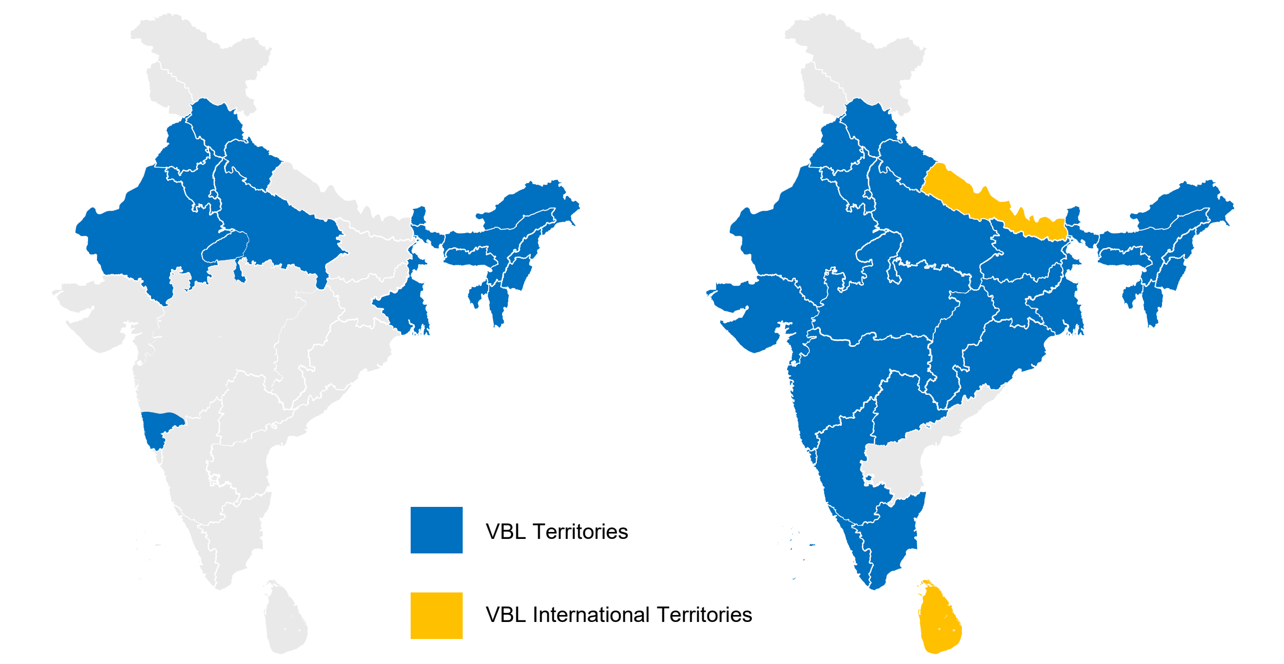
2.1.1 India Business: Sustaining Growth Through Reach, Capacity and Category Expansion

VBL contribution to PepsiCo's sales volume increased from 51% (CY17) to 80% (CY19) & +90% (CY25)

(A)Territorial expansion gave huge scale benefits

- VBL was traditionally concentrated in North and East India (until CY16), and it was only after the acquisition of PepsiCo's own bottling operations and several smaller regional bottlers from CY17–CY19 that the company began to consolidate territories and built a pan-India PepsiCo franchise.
- **VBL contribution to PepsiCo's sales volume increased from 51% (CY17) to 80% (CY19) & +90% (CY25)**
- This territorial expansion allowed VBL to scale up manufacturing and logistics, unlock procurement savings, and progressively lower its unit cost of production.

VBL's territorial expansion in India, CY16–CY25



Source: VBL, Choice Institutional Equities

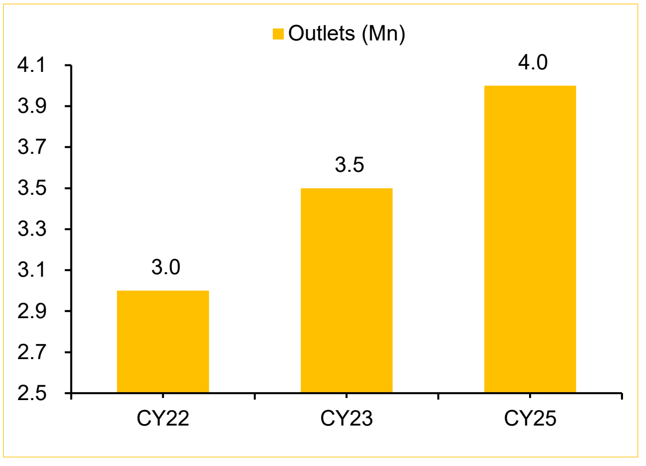
Of the estimated ~12 million FMCG outlet universe, VBL at present reaches ~4 million, leaving significant headroom for further penetration

(B) Distribution expansion moved in tandem with territorial expansion

- Distribution has expanded in tandem following the integration of the West and South geographies. While the pandemic temporarily disrupted this rollout, execution has been swift since normalisation. **Of the estimated ~12 million FMCG outlet universe, VBL a**t present **reaches ~4 million, leaving significant headroom for further penetration. The company continues to add 300,000–500,000 outlets and 70,000–80,000 visi-coolers annually,** with visi-coolers currently deployed across ~30% of its outlet base, strengthening product availability and cold-chain penetration.
- Volume growth remained resilient at 14% in 1HCY26 despite heightened competitive intensity. **India volumes are expected to normalise to ~9% CAGR over CY25–28E as territorial expansion benefit moderates**, with new category expansion, widening distribution reach and increased visi-cooler penetration to support growth momentum.

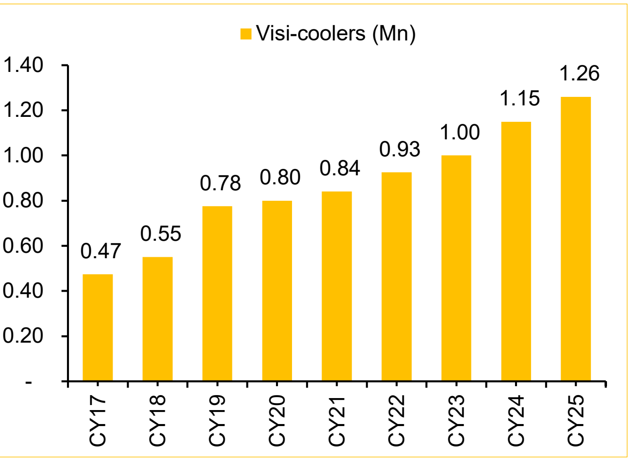
2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

Significant distribution headroom with only ~4Mn of ~12Mn FMCG outlets currently covered



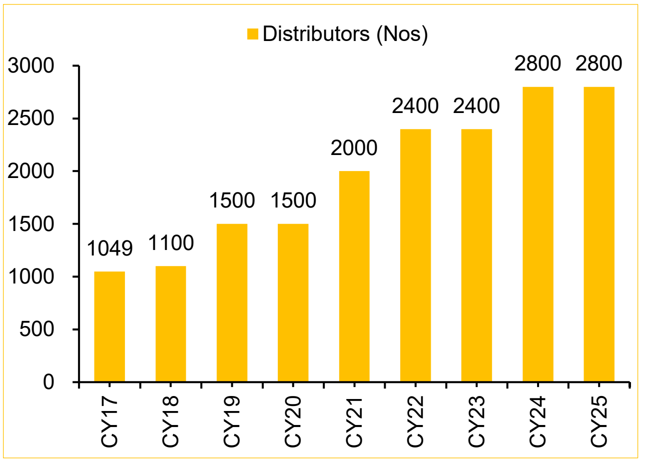
Source: VBL, Choice Institutional Equities

Visi-cooler expansion continues to deepen VBL's outlet penetration and improve product availability, supporting volume growth



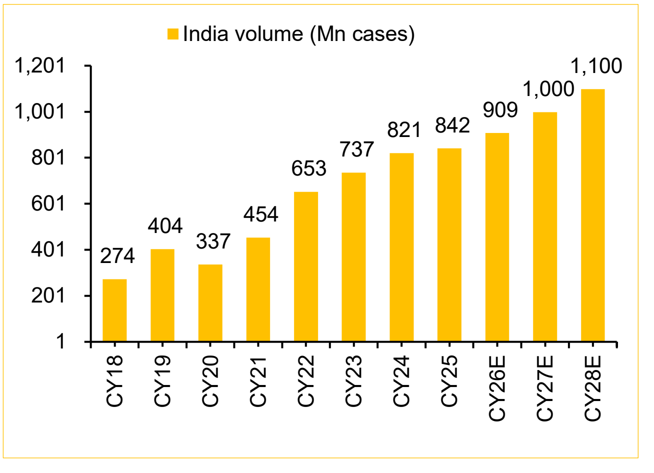
Source: VBL, Choice Institutional Equities

Distribution has expanded in tandem following the integration of the West and South geographies



Source: VBL, Choice Institutional Equities

India volumes driven by territory expansion, distribution and capacity; deeper penetration, visi-coolers and new categories to sustain growth



Source: VBL, Choice Institutional Equities

Diversified Portfolio Supports Resilient India Volumes Despite Intensifying Competition

Category	Comments
CSD portfolio	~20% of VBL's portfolio is exposed to core cola competition, while ~80% comes from non-cola categories (Sting, Mountain Dew, 7Up, Mirinda, Slice, Nimbooz, Gatorade, water and other beverages), providing insulation from competition intensity from players, such as Campa.
Energy (Sting)	~15% of India volume mix, now one of the largest brands in the portfolio.
INR 10 packs	~5–7% of portfolio, used selectively in competitive markets rather than across the network.

Source: VBL, Choice Institutional Equities

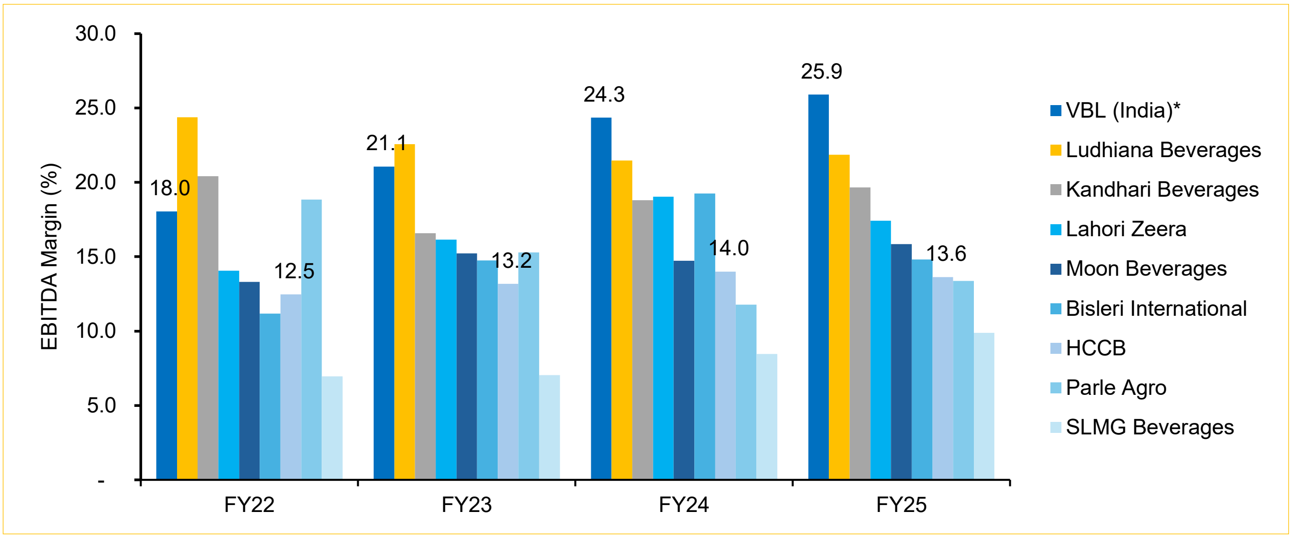
2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

With most India capacity additions over and no major near term capex planned, higher utilisation should support further margin and return ratio improvement.

(C) Manufacturing scale and integration set the stage for margin expansion:

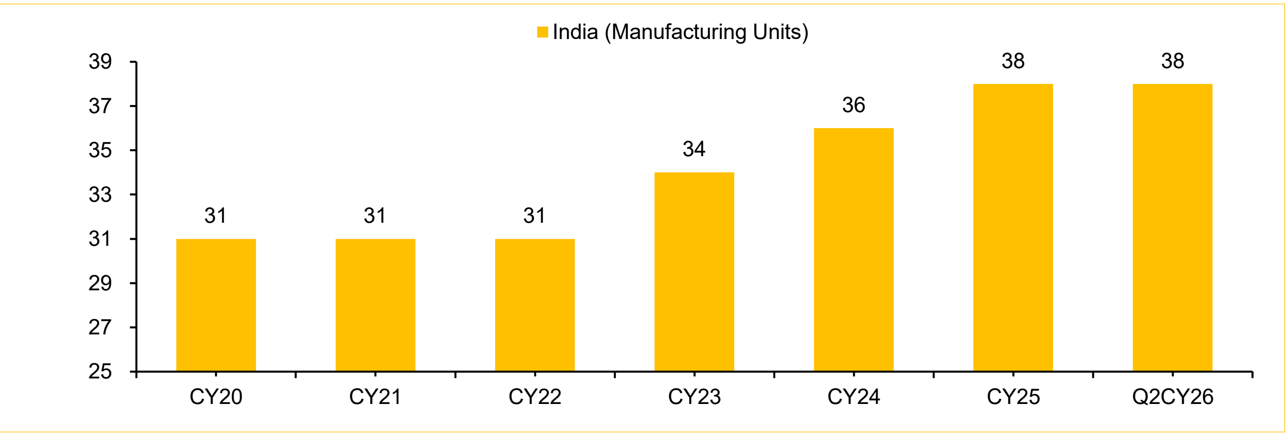
- VBL has undertaken a significant capacity expansion in India. India's manufacturing capacity increased by **~45% over CY23–CY25** through a combination of greenfield investments and backward integration. The company commissioned four large integrated plants in **Prayagraj (UP), Damtal (HP), Buxar (Bihar) and Mendipathar (Meghalaya)** in CY25. Importantly, the new plants are equipped with **multi-line capabilities across CSD, juice and water**, providing flexibility to scale up faster-growing categories alongside traditional carbonated beverages.
- The new plants are **larger with high-speed production lines** (up to **1,000 Bottles Per Minute (BPM) versus older 200 BPM lines**), which enables nearly five times higher output with similar manpower, materially improving manufacturing productivity. In parallel, VBL has consolidated production into these larger facilities while phasing out smaller, high-cost plants, further enhancing operating efficiency.
- Continued backward integration across PET preforms, closures, corrugated boxes and crowns, along with the White Peak Refrigeration JV (visi-coolers), strengthens VBL's cost and route-to-market advantage. **With most India capacity additions over and no major near-term capex planned**, higher utilisation should **support further margin and return ratio improvement.**

EBITDA Margin as Compared to Competition



*Source: FactSet, Lahori Zeera – Archian Foods; CIE, Note: *VBL India Margin adjusted for FY*

CY23–CY25 has Witnessed Major Capacity Addition in India



Source: VBL, Choice Institutional Equities

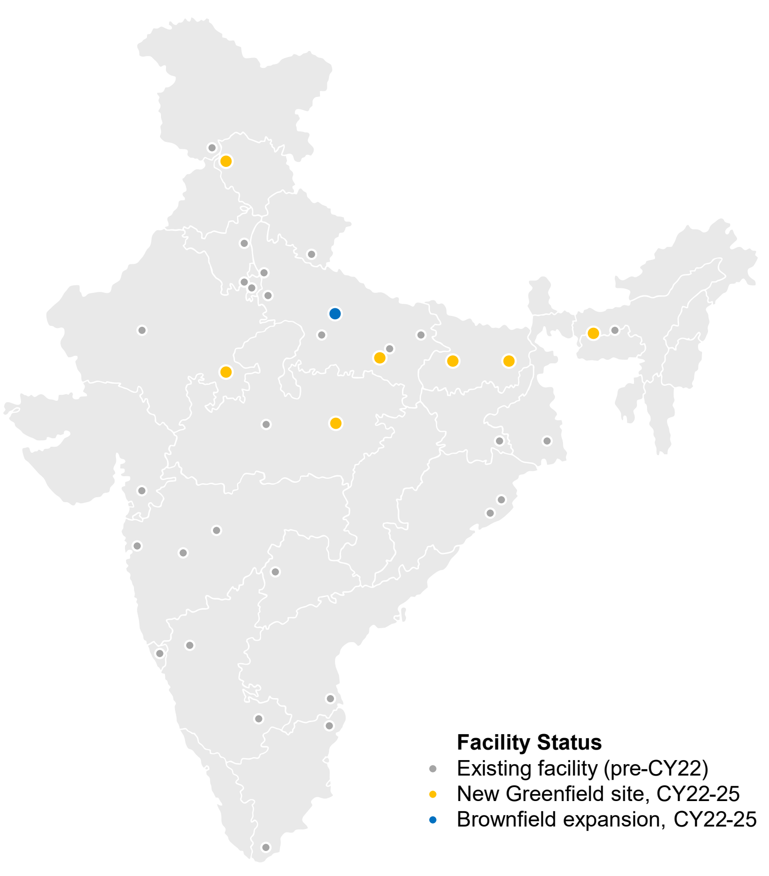
2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

Capacity Additions and Capex Journey (CY22–CY25)

Year	Capex Type	Location	Amount (INR Mn)
CY25	Greenfield	Prayagraj (UP)	17,000
	Greenfield	Buxar (Bihar)	
	Greenfield	Damtal (Himachal Pradesh)	
	Greenfield	Mendipathar (Meghalaya)	
	Brownfield	Sricity & Gorakhpur	3,000
CY24	Greenfield	Supa (Maharashtra)	10,000
	Greenfield	Gorakhpur (Uttar Pradesh)	11,000
	Greenfield	Khordha (Odisha)	5,000
CY23	Greenfield	Bundi (Rajasthan)	8,500
	Greenfield	Jabalpur (MP)	
	Brownfield	6 plants: Pathankot, Kosi, Bharuch, Tirunelveli, Begusarai, Guwahati	8,000
CY22	Greenfield	Bihar	6,300
	Greenfield	Jammu	
	Brownfield	Sandila (UP)	

Source: VBL, Choice Institutional Equities

VBL India manufacturing footprint
36 mapped production facilities across 19 states



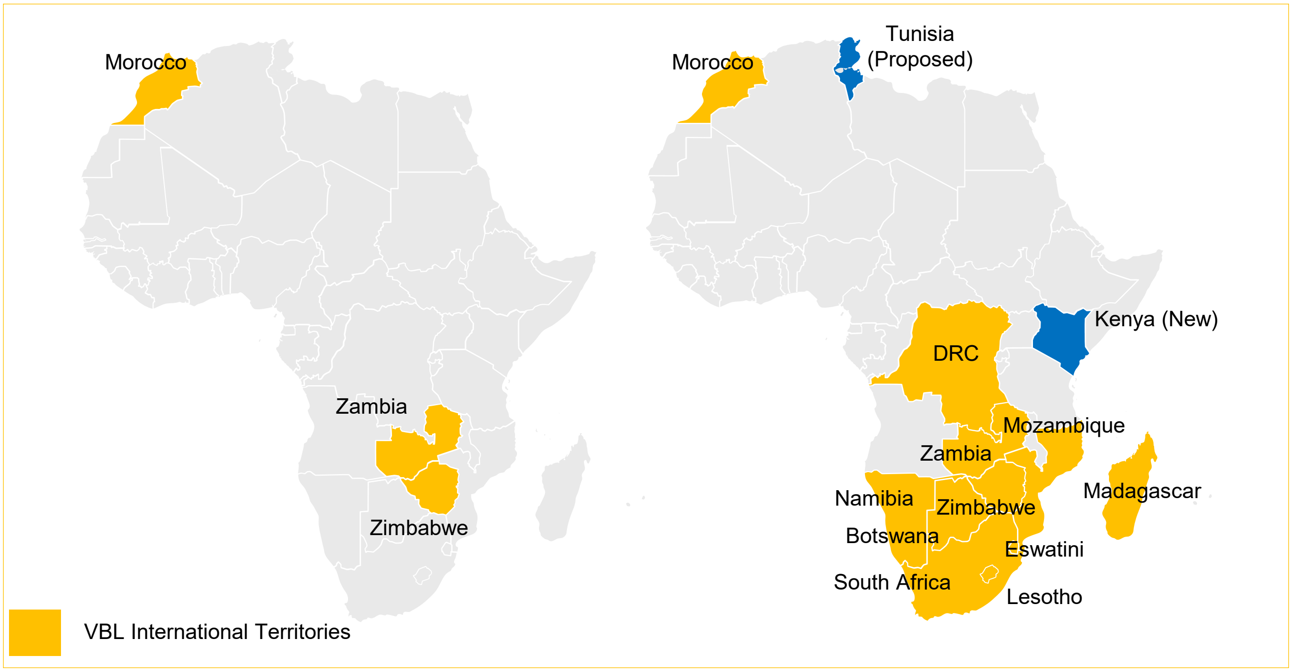
Source: VBL, Choice Institutional Equities

2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

2.1.2 International Business: Unlocking Long-Term Growth Through African Expansion

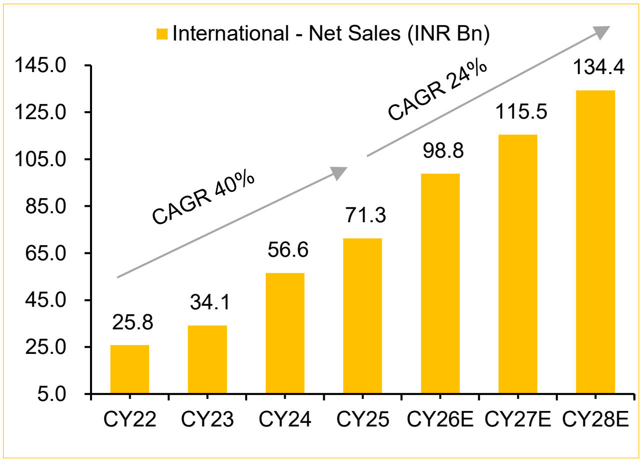
- VBL's international business has evolved, from a peripheral contributor into a strategically-important second growth engine (revenue share increased from 20% in CY22 to 33% in CY25 estimated to reach ~40% in CY28E). **Africa is emerging as VBL's next growth frontier as India's Pepsi bottling consolidation is largely complete** and Africa's per-capita consumption headroom is materially larger than that of India's (VBL estimates **3-6x India level**)
- Africa expansion also helps smoothen VBL's seasonal earnings profile, with stronger H2 contribution complementing India's relatively weak period.
- VBL is replicating its proven India playbook across Africa — **combining territory consolidation, local manufacturing, distribution expansion, backward integration and portfolio diversification to drive scale and margin convergence.**

Africa Emerges as VBL's Next Major Expansion Engine (CY16 – Aug'2026)



Source: VBL, Choice Institutional Equities

South Africa Projected to Emerge as The Key Driver for International Growth



South Africa Accounts for ~34% of VBL's International Business

	CY20	CY21	CY22	CY23	CY24	CY25
Nepal	23%	21%	24%	18%	11%	10%
Sri Lanka	10%	8%	8%	8%	6%	5%
Morocco	20%	19%	23%	28%	20%	19%
Zambia	9%	12%	14%	9%	6%	7%
Zimbabwe	43%	45%	36%	39%	27%	21%
Mozambique					0.1%	0.0%
DRC					5%	5%
South Africa					26%	34%

Source: VBL, Choice Institutional Equities

2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

VBL's African business is evolving into an integrated FMCG platform, led by South Africa, with growth driven by territory consolidation, local manufacturing, distribution expansion and backward integration. DRC and Kenya offer significant white space opportunities, while Morocco, Zimbabwe and Zambia provide platforms for category expansion and margin improvement.

Territory	Details	Future plans & growth driver
South Africa: *Scaling up through Integration and Market Share Gains*	▪ **Integration-led growth:** Following the **BevCo (2024)** and **Twizza (2025)** acquisitions, VBL is focussed on manufacturing integration, backward integration and procurement synergies ▪ **Premiumisation:** PepsiCo brand volume mix increased from **~15% in CY24 to ~20% in CY25**, while reducing **Modern Trade's ~40–45% sales share** should further support realisation and margin ▪ **Platform expansion: Twizza** added modern plants, owned facilities and a distribution fleet, while **Crickley Dairy (2026)** expands VBL into value-added dairy ▪ **Large growth runway:** South Africa's **~1.2 Bn case** beverage market, **~250 servings per capita (3–4x India)** and PepsiCo's low market share provides significant headroom for growth. ▪ **Regional hub:** evaluating South African countries for **Carlsberg's** distribution partnership	▪ **Integration and scale up** manufacturing capacities ▪ **Decrease share of MT** (40–45% of sales) ▪ **Increase share of PepsiCo portfolio** ▪ Diversify into dairy ▪ **Calsrberg's entry in southern Africa markets** ▪ Large market opportunity **(3–4x of India**
Democratic Republic of Congo (DRC): *Capacity Expansion to Meet Strong Demand*	▪ **White space opportunity:** VBL entered DRC in **CY23 through a distribution led model** before commissioning its first plant. Similar to its early expansion in **Zambia**, the absence of previous PepsiCo presence in DRC provides a significant headroom to build distribution, manufacturing scale and market share ▪ **Large growth runway:** DRC's ~**116 Mn population** (vs. **~22 Mn in Zambia**) and equatorial climate provide a large, underpenetrated market with **minimal seasonality** and stable year round demand ▪ **Rapid scale-up:** The **~35 Mn case** greenfield plant commissioned in **CY24** reached full utilisation within months, prompting capacity expansion to **~70 Mn cases in CY5** ▪ **Margin expansion: Backward integration will** led to margin expansion	▪ **Doubling capacity** from 35 Mn to 70 Mn cases. ▪ **Large population** ▪ **Minimal seasonality** (year round beverage demand)
Morocco: *From turnaround to Expanding Categories*	▪ **Successful turnaround:** Morocco has transitioned from a loss-making operation, constrained by a non-compete clause in bottled water, to a structurally profitable business following the removal of the restriction and **launch of Aquafina**, reaching **~12% water market shar**e and **~30% overall beverage market share** ▪ **Integrated model: Backward integration** will drive procurement efficiencies, lower packaging costs and **gradual convergence of international margins towards Indian levels** ▪ **Snacks led growth:** Morocco is **VBL's first international snacks hub**, with Cheetos production commencing in June 2025. Local manufacturing supports higher realisations. V**BL targets the combined snacks business across Morocco, Zimbabwe and Zambia to reach USD 100 Mn (INR 9.6 Bn) vs. (INR 3.4 Bn in CY25), with 27-28% EBITDA margins**	▪ **Margin driver:** snacks expansion, backward integration

2.1 Twin Engines of Growth: Scaling up India, Expanding in Africa

Territory	Details	Future plans & growth driver
Zimbabwe: *Expanding Categories*	▪ **Market leader:** VBL commands **~70% market share**, building the business from **negligible PepsiCo presence** following its entry in **2017 (template for DRC and South Africa)**. ▪ **Demand recovery:** The business has returned to **double digit volume growth** after successfully navigating the **2024 sugar tax** through portfolio reformulation (90% is low/no sugar) and pricing actions. ▪ **Snacks expansion: Simba Munchiez** facility (commissioned in **late 2025**) marks VBL's second international snacks hub, supporting higher margins and better asset utilisation. ▪ **New growth avenue:** Zimbabwe is also part of **Carlsberg's Southern Africa distribution** network, leveraging VBL's existing beverage infrastructure.	▪ **Margin driver :** snacks expansion, backward integration ▪ Carlsberg test market
Zambia: *The Foundation of VBL's Expansion in Africa*	▪ **Gateway to Africa:** Zambia was VBL's **first Africa market (2016)** and the launchpad for expansion into **Zimbabwe, DRC and Mozambique** ▪ **Steady growth:** Delivered **strong double digit volume growth** with **~35% market share**, supported by deepening beverage penetration. ▪ **Integrated model: Backward integration** will drive procurement efficiencies, lower packaging costs and **gradual convergence of international margins towards Indian levels** ▪ **Next growth phase: Simba Munchiez** production commencement in **April 2026**, leveraging the beverage distribution network to expand into snacks.	▪ **Margin driver:** snacks expansion, backward integration
Kenya and Other Africa Markets: *Building Growth Platforms*	▪ **Tunisia:** In Aug 2026, VBL entered in JV (75:25) with Bevanda Tunisia for production and distribution of CSD, water and dairy ▪ **Kenya:** In 2025, VBL has incorporated a **wholly owned subsidiary** to explore opportunities across **beverages and value-added dairy**. In **Aug-26, VBL acquired the value-added dairy, juices and water business of Devyani Food Industries (Kenya) for USD 32 Mn**, strengthening its presence ▪ **Asset-light expansion:** Across **Namibia, Botswana, Mozambique, Lesotho, Eswatini and Madagascar**, VBL is leveraging **BevCo & Twizza (SA)** network to deepen distribution and expand PepsiCo's portfolio with minimal incremental capital	

2.2 Portfolio Transformation: Beyond Beverages

VBL's distribution network with **~4 Mn India outlets, +1 Mn visi-coolers and an expanding Africa route-to-market** is increasingly being used as a platform to **cross-sell categories beyond core CSD and water**, including **value-added dairy, hydration, energy, snacks and, more recently, fermented dairy (Calpis, with Asahi), a beer test (Carlsberg, in Africa) and proposed entry into RTD & alcoholic beverages in India**. These categories offer **higher realisations, favourable tax treatment or better margins than base CSD**, while leveraging **infrastructure VBL has already established**.

2.2.1 Value added Dairy, Hydration & Energy: The India Adjacencies

- **Value added dairy (Cream Bell),** launched in 2019, has emerged as a strong growth driver, growing at +50% growth. It has higher realisation versus CSD, favourable 5% GST versus 40% for CSD and VBL's extensive cold-chain network provide a strong opportunity for scaling up of the category.

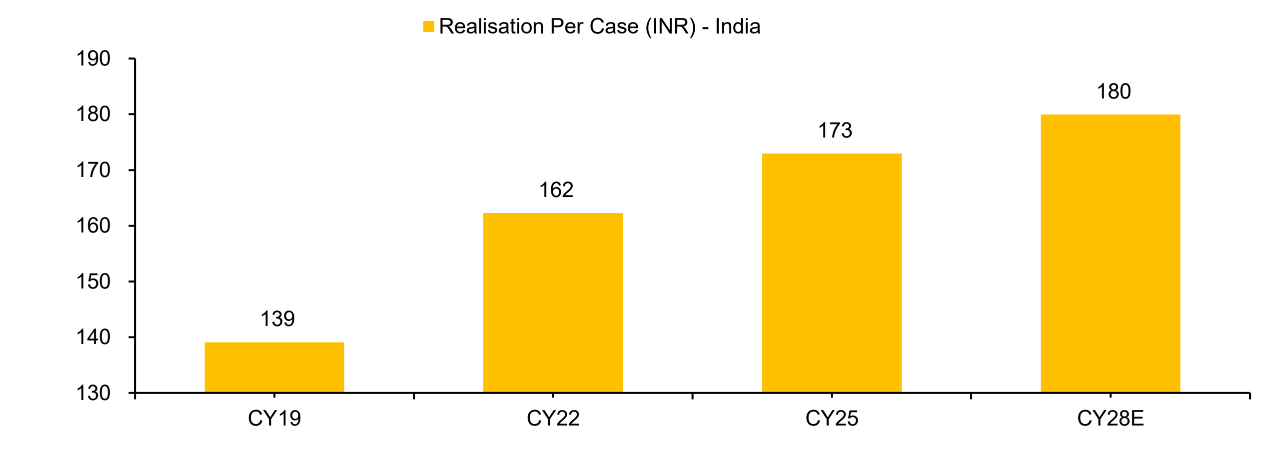
- **Nimbooz (hydration)** and value added dairy have emerged as key growth categories, consistently growing at 3–4x the overall business average. Nimbooz growth stands at +30%. VBL is consolidating the Nimbooz franchise by expanding distribution and launching new flavours, including the Nimbooz Jeera range, providing further runway for growth.

- **Energy Drinks** Sting (INR 20) and the newer mid priced Adrenaline Rush (INR 60) have increased their share of India volumes from **~5% in CY21 to ~15% currently**, still below the **>25% share in comparable emerging markets such as Pakistan and Vietnam**, indicating significant growth headroom. However, **recent regulatory changes around energy drinks remain a key monitorable.**

The realisation profile highlights the significant mix advantage of VBL's high value categories. With CSD indexed at 100, Sting realisation is 25% higher, while Tropicana juice and Cream Bell value-added dairy command 2.3x and 3.1x higher realisation, respectively. This portfolio shift towards energy, juices and VAD can structurally improve VBL's blended realisation and revenue per case.

Category (Brand)	Realisation Index (CSD =100) on MRP
Water (Aquafina)	38
Carbonated drink (Pepsi)	100
Energy Drink (Sting)	125
Juice (Tropicana)	225
Value Added Dairy (Cream Bell)	313

Source: Instamart, Choice Institutional Equities



Source: VBL, Choice Institutional Equities

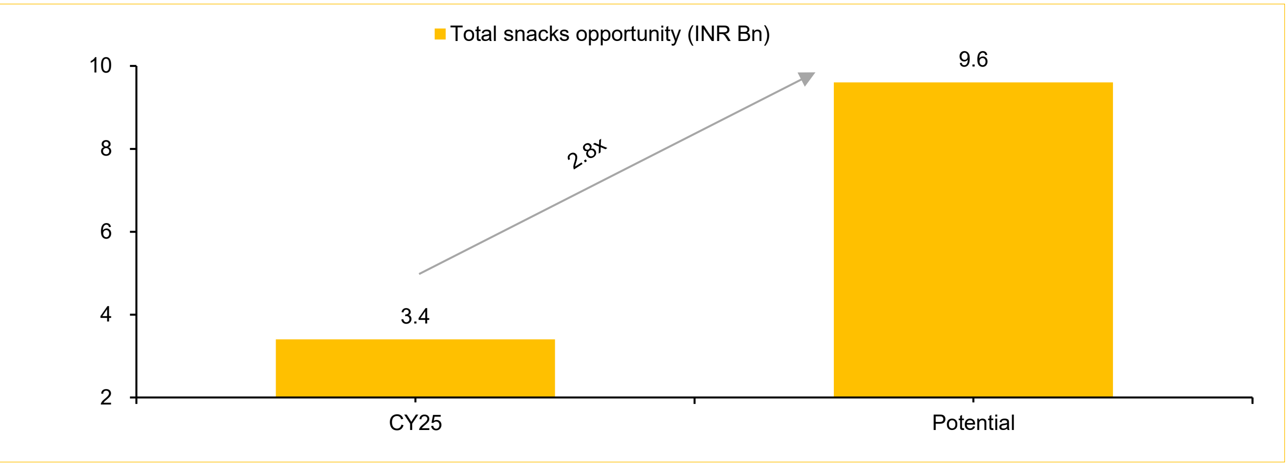
2.2 Portfolio Transformation: Beyond Beverages

2.2.2 Africa Snacks: A High Margin, Low Seasonality Adjacency

Snacks offer attractive economics, with EBITDA margins of ~27-28%, above the beverage business (~21-23%)

- PepsiCo does not typically franchise snacks manufacturing & distribution anywhere in the world. VBL is among the first bottlers globally to be granted snacks franchise.
  - **Morocco (CY25):** VBL has exclusive distribution rights for Lay's, Cheetos and Doritos, and subsequently received exclusive manufacturing and packaging rights for Cheetos.
  - **Zimbabwe & Zambia (CY25):** VBL received exclusive rights to manufacture, distribute and sell Simba Munchiez. Distribution started in February 2025, followed by local manufacturing.
  - **India (CY22):** VBL only co-manufactures Kurkure Puffcorn for PepsiCo; it does not have broad PepsiCo snacks franchise rights in India.
- Snacks offer attractive economics, with EBITDA margin of ~27-28%, above the beverage business (~21-23%). Their relatively flatter seasonality also enables better asset utilisation and potentially superior returns on capital versus the core beverage business.
- VBL generated INR 3.4 Bn in snacks revenue in CY25, with the Morocco, Zimbabwe and Zambia businesses offering a combined medium-term revenue opportunity at full capacity of USD 100 Mn (INR 9.6 Bn).

Snacks: High Margin Category with Significant Growth Headroom



Source: VBL, Choice Institutional Equities

PepsiCo's Presence Across Global RTD Alcohol

HARD MTN DEW (5% ABV) for US market – Manufactured by Boston Beer Company

SVNS Hard 7UP (7% ABV) – Vodka based RTD in Canada, manufactured by Labatt (AB InBev)

2.2.3 RTD Alcohol, Carlsberg & Calpis: Optionality Beyond the Core Franchise

- **RTD & Alcohol beverages (India):** In Aug 2026, VBL announced its entry into India's **RTD & alcoholic beverages** market through wholly owned subsidiary **KIVA Spirits**, appointing former Diageo Japan & Korea MD **Prathmesh Mishra** as CEO & MD. The move follows PepsiCo's increased flexibility for VBL to diversify into **adjacent beverage categories.**
- **Carlsberg beer (Africa):** VBL's African subsidiaries have entered into an exclusive distribution agreement with Carlsberg Breweries to test market the Carlsberg brand across the Southern African belt (Zambia, Zimbabwe, DRC and South Africa). Management's rationale is **capital-light**, as beer can be distributed through the existing trucks and go-to-market infrastructure **(unlike India, where alcohol distribution is separately regulated)**. The African beer market is comparable or higher in size to soft drinks, while most of the target geography remains **white space with limited existing Carlsberg presence**.
- **Calpis (Q2CY26):** VBL entered into a strategic alliance with **Asahi Group Holdings** to launch Calpis, a fermented dairy beverage, in India, marking its **first branded partnership outside PepsiCo**. Management plans a **phased rollout**, focusing initially on stabilising Calpis and leveraging Asahi's manufacturing expertise, while keeping potential entry into adjacent categories such as RTD tea/coffee as future optionality.

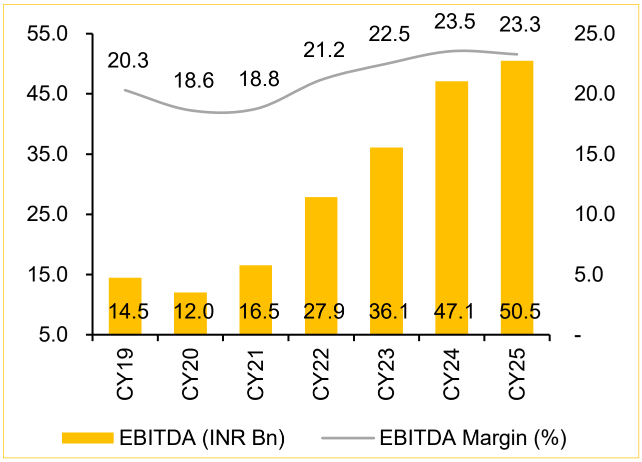
2.3 Capital Discipline and Backward Integration Underpin Margin Expansion

VBL's margin expansion is supported by three key pillars: **(a) Extensive backward integration** across preforms, closures, crates, crowns and PET recycling, providing a **~300–400 bps EBITDA margin advantage** versus non-integrated facilities; **(b) Disciplined, bolt-on M&A**, with acquisitions focussed on strategically adjacent territories and subsequently integrated to improve operating efficiency and margin; and **(c) Prudent capital allocation**, with capex largely funded through internal accruals and debt deployed tactically around major acquisition and expansion cycles. **This combination has enabled VBL to expand consolidated EBITDA margin, from ~17% in CY19 to ~23% in CY25 and expected to remain in the range of 23–24% over CY25–CY28E.**

2.3.1 Backward Integration and Plant Efficiency are Structural Margin Levers

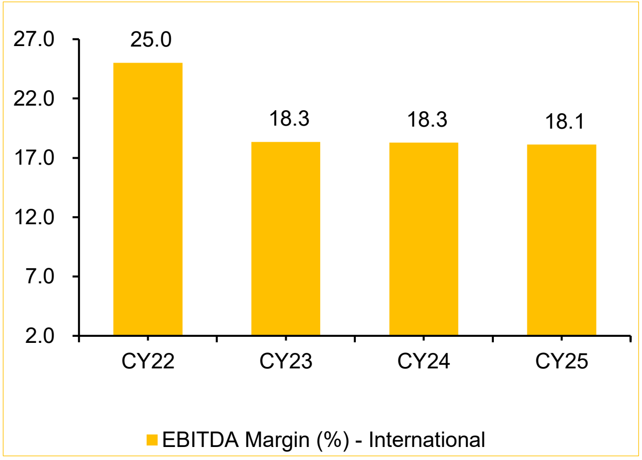
- VBL has extensive backward integration producing crown caps, shrink film, crates and PET preforms in-house, while also blowing its own PET bottles across its three dedicated and 19 integrated facilities.
- Backward integration helps earn 300-400 bps higher margin versus non integrated plants
- Newer, larger plants run dramatically more efficient lines - moving from 200 BPM in legacy plants to 1,000 BPM in new facilities, a 5x productivity gain using the same headcount, alongside freight savings from siting plants closer to demand centres and consolidating distributor loads into larger truck sizes.
- VBL is now replicating its India playbook internationally, with backward integration in South Africa, Zambia, Zimbabwe, DRC and Morocco. Combined with improving product mix, higher utilisation and greater contribution from PepsiCo brands (South Africa) and snacks, these initiatives are expected to drive gradual international EBITDA margin (~18%) convergence toward India levels (+20%)

EBITDA Margin Continue to Expand Despite International Scale up



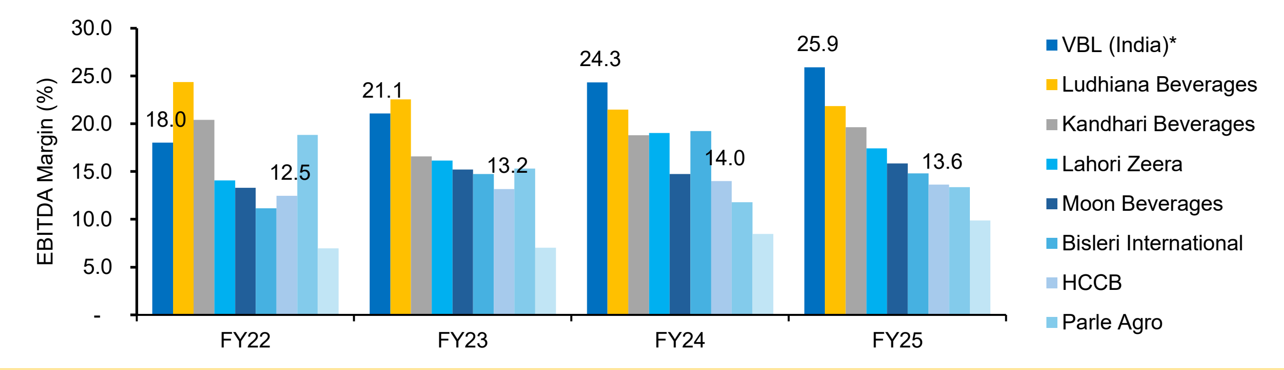
Source: VBL, Choice Institutional Equities

Negative product mix (SA), Zimbabwe sugar tax Pressured Margins; Improved Product mix Integration to Drive Recovery



Source: VBL, Choice Institutional Equities

Scale and Backward Integration Support Superior Margins than Peers



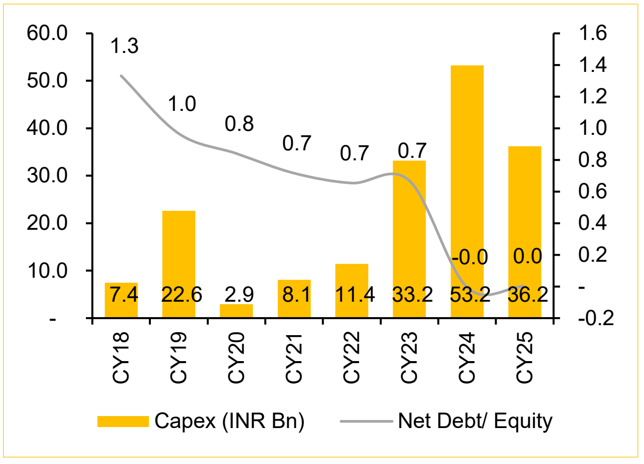
*Source: FactSet, Lahori Zeera – Archian Foods; CIE, Note: *VBL India Margin adjusted for FY*

2.3 Capital Discipline and Backward Integration Underpin Margin Expansion

2.3.2 Disciplined capital allocation supports sustained expansion without impacting the balance sheet

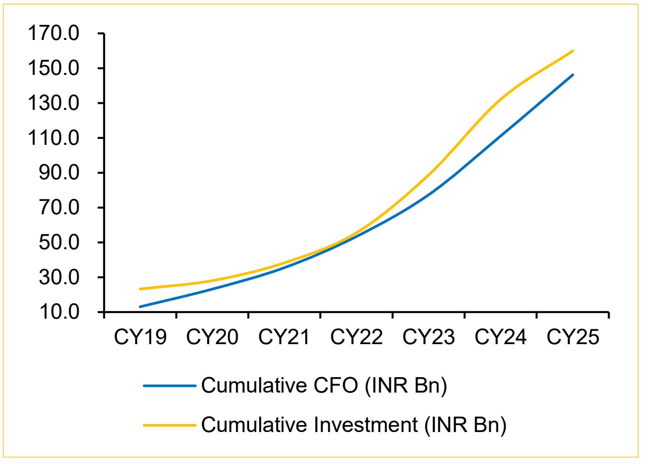
- VBL has consistently used acquisitions to enter new territories, consolidate fragmented markets and accelerate scale rather than building every market organically.
- **Despite an aggressive M&A and capacity expansion cycle, VBL has maintained balance-sheet discipline, with investments increasingly funded through internal accruals and operating cash flows.** VBL has generated INR 146 Bn of cumulative operating cash flow over CY19–25, funding a substantial portion of INR 160 Bn of cumulative M&A and capex, while maintaining a strong balance sheet and turning net debt-free in CY24.
- **The balance sheet subsequently strengthened sharply** following the INR 75 Bn QIP in Nov-24

Despite Rising Capex Intensity, VBL's Leverage Declined Sharply, Turning Net Cash positive



Source: VBL, Choice Institutional Equities

Strong Cash Generation Supported Aggressive M&A and Capex



Source: VBL, Choice Institutional Equities

Acquisition led Expansion Over the Years

Year	Acquisition / Transaction	Geography	Strategic Significance
2013	Delhi sub-territory	India	Expanded North India footprint
2015	PepsiCo bottling territories	UP, Uttarakhand, HP, Haryana, Punjab, Chandigarh	Major North India expansion
2016	60% stake in Varun Beverages Zambia	Zambia	Entry into Africa
2017	Additional 30% in Zambia	Zambia	Increased ownership to 90%
2017–19	Multiple PepsiCo territories	India	Expanded across MP, Odisha, Jharkhand, Bihar, Chhattisgarh, Maharashtra, Karnataka, South India
2024	BevCo – 100% acquisition	South Africa	Major Africa scale-up; access to SA, Lesotho, Eswatini + distribution territories
2025	50% stake in Everest Industrial Lanka	Sri Lanka	Entry into visi-cooler manufacturing
2026	Twizza – 100% acquisition	South Africa	Strengthens manufacturing, distribution and own-brand platform
2026	Crickley Dairy – 100% agreement	South Africa	Entry into value-added dairy & juice-based beverages
2026	DFIL Kenya beverage assets	Kenya	Entry into dairy beverages, juices & packaged water

Source: VBL, Choice Institutional Equities

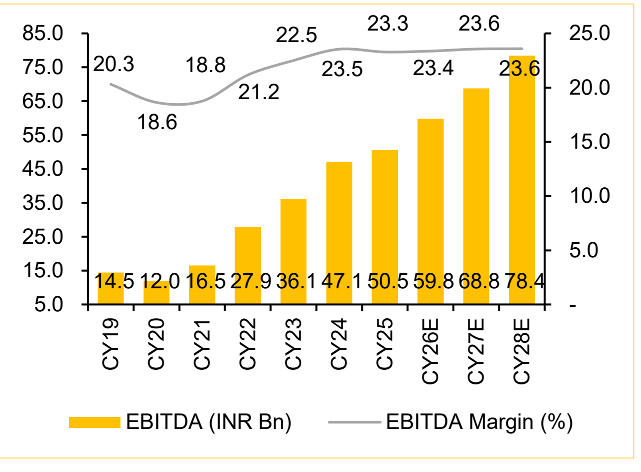
2.3 Capital Discipline and Backward Integration Underpin Margin Expansion

2.3.3 Disciplined Capital Deployment Supporting Long-Term ROCE Expansion

- **New-plant economics remain a key capital allocation hurdle**, with management targeting a **3–4 year payback and ~30% ROCE** on new investments. VBL increasingly prefers brownfield expansion, where adding lines to existing plants requires lower capex and can generate **~2x the revenue on capex** as compared with greenfield investments, supporting better asset turns and capital efficiency.

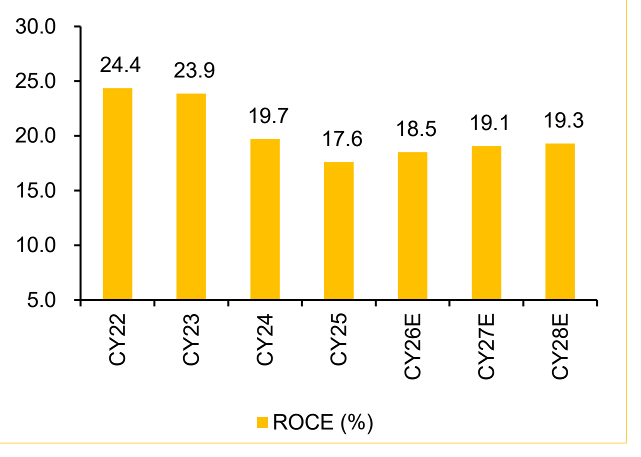
- This disciplined approach has supported a structural improvement in profitability, with **EBITDA margins expanding from 20.3% in CY19 to 23.3% CY25 (25.5% 1HCY26) and expected to reach 23.6% in CY28E**. **ROCE temporarily moderated to 17.6% in CY25**, reflecting the ongoing investment cycle across BevCo, Twizza, DRC and India greenfield capacity, as newly acquired and invested international businesses are yet to reach India level profitability. We expect ROCE to recover to **19.3% by CY28E**, driven by **completion of the India capex cycle, improving utilisation and margins in international operations, maturation of backward integration and structurally lower finance costs.**

EBITDA Scales Rapidly While Margins Remain Resilient at +23%



Source: VBL, Choice Institutional Equities

Investment Cycle Temporarily Weighs on ROCE, with recovery ahead



Source: VBL, Choice Institutional Equities

3.1 Risk to our Investment Thesis

Weather & Seasonality:
India remains structurally weather-sensitive, with unseasonal rainfall potentially impacting volumes despite stable underlying demand. The high concentration of earnings in the summer season further increases quarterly volatility, with ~60–65% of consolidated EBITDA generated in H1.

Intensifying Competition in India:
The entry and scaling up of Reliance's Campa, alongside renewed investment by Coca-Cola, could increase pricing, promotional and distribution intensity. While VBL continues to see category expansion offsetting competitive pressure, an aggressive price war, particularly in the INR 10 SKU could pressure realisation and trade margin.

Forex, Regulatory & Tax Risks across India and Africa
Changes in GST, sugar-related regulations, packaging norms and other government policies can impact pricing, category economics and consumer demand. Moreover, exposure to multiple markets actually increases sensitivity to sugar tax changes (Zimbabwe), currency devaluation, tariffs and import regulations can temporarily disrupt volumes as consumers adjust to a higher price, while currency depreciation can weigh on reported profitability. As VBL continues to expand its manufacturing footprint in Africa, regulatory and foreign exchange risks remain key monitorables.

Execution Risk in New Categories: VBL is expanding beyond beverages into **snacks, dairy and other adjacent categories**, including the Calpis partnership, Carlsberg distribution arrangement and RTD alcohol beverage. While the asset-light model limits incremental capital requirements, slower-than-expected consumer adoption or execution challenges could constrain the contribution from these newer growth avenues.

International Margin Dilution: Recently-acquired businesses in South Africa continue to operate below VBL India's margin profile, reflecting a higher modern-trade mix, own-brand exposure and incomplete backward integration. Slower-than-expected margin convergence could delay the anticipated recovery in ROCE and remain a key monitorable for the investment thesis.

3.2 Key Investor Questions Answered

1. Is rising competition from Campa and Coca-Cola impacting VBL's growth trajectory?

A. Management remains confident that heightened competition is expanding the overall beverage category rather than materially impacting VBL's growth. Increased investments by players across distribution, visi-coolers and route to market infrastructure are driving greater outlet penetration and category development. VBL's **diversified portfolio also provides some insulation from direct cola competition**, with ~80% of its portfolio now coming from categories beyond the core cola segment, including **energy, juice, dairy, hydration and water**. Despite the intensified competitive environment, continued outlet additions and portfolio expansion should support **sustained volume growth over the medium term**.

2. How is VBL responding to Campa's aggressive INR-10 pricing strategy?

A. VBL is adopting a measured, profitability-focussed approach rather than engaging in broad-based price competition. Management has indicated that INR-10 packs are being introduced selectively in a few markets, while the company is prioritising **larger pack sizes, premiumisation and product innovation** to drive consumer value. Given VBL's diversified portfolio and relatively lower dependence on the core cola segment, the management does not see the need to respond to competition through an across-the-board price war.

3. How should investors think about South Africa margin convergence toward India levels?

A. VBL expects international margin to improve progressively as new acquired territories scale and the India playbook is replicated. The key levers are **operational efficiencies, improved logistics and route to market, higher plant utilisation, backward integration and a better product mix**, including a higher contribution from PepsiCo products.

4. With India capacity up ~45% in two years and ongoing Africa M&A, is there a risk of debt re-leveraging?

A. VBL has historically funded expansion largely through **internal accruals**, while the CY24 QIP provided additional financial headroom. VBL has maintained Net debt to Equity < 1x and has became **net debt-free in CY24** and management has indicated that leverage remains within its comfort range. Historically, any increase in debt around major capex or acquisitions has been **repaid as new capacity and acquired territories start generating cash flows**, limiting the risk of structural re-leveraging.

5. What is the medium-term ambition for FMCG diversification across dairy, snacks, Calpis and beer?

A. VBL's strategy is to leverage existing distribution and route-to-market infrastructure to build a broader FMCG platform beyond beverages. The approach remains **sequential and capital light** — entering new categories through small-scale pilots, leveraging the existing network and scaling up investments only after demonstrating consumer acceptance and commercial viability. This playbook, successfully applied to **Energy drink and Africa snacks**, is now being extended to **Calpis (dairy) and Carlsberg (beer)**, providing incremental growth opportunities without requiring significant upfront capital.

6. Is there a threat from the US and global tariff changes, given VBL's expanding manufacturing footprint across India, Africa and other geographies?

A. VBL's diversified manufacturing footprint is a strategic advantage rather than a major risk. Its presence across **India, Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, DRC and South Africa** provides a greater flexibility to localise production and optimise sourcing across markets. This multi-country footprint could allow VBL to **shift production and sourcing towards the most cost and tariff-efficient geography** for a given end market, providing an advantage over more geographically concentrated competitors.

7. What is VBL's dividend policy, and how does management balance shareholder returns with its ongoing capex and expansion requirements?

A. VBL follows a balanced capital allocation approach, **targeting a 10–15% Consolidated PAT** payout while **prioritising capex, acquisitions, organic growth and debt reduction.**

3.3 SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
Second-largest PepsiCo bottler globally (ex-US); exclusive licence extended to 2049	Earnings concentrated in H1 (India) - weather/monsoon sensitive	India still reaches <35% of eligible outlets; per-capita consumption well below global average	Campa and Coca-Cola competitive intensity in India, particularly at lower price points
Full backward integration in India (preforms, caps, crates) provides addition 300-400 bps EBITDA margin benefit	BevCo/Twizza and other new African countries diluting blended EBITDA margin in near term	Africa per-capita consumption 3-6x India in several markets; multiple PepsiCo white spaces (DRC, Kenya)	Execution risk in scaling up categories outside core beverage competency
~ 4 Mn India outlets, +1 Mn visi-coolers - a distribution moat for new categories	Limited pricing power - largely benchmarked to PepsiCo/Coke moves	FMCG adjacency expansion (dairy, hydration, energy, snacks, Calpis, beer) on existing distribution	Tariff and geopolitical disruption to cross-border sourcing and manufacturing

Source: VBL, Choice Institutional Equities

VBL's Distinct Strengths Vs Competitors

VBL's key competitive strengths lie in its **exclusive PepsiCo franchise (till 2049)**, **fully integrated manufacturing ecosystem** and **industry leading distribution network** of **~4 Mn outlets** and **+1 Mn visi-coolers**. Combined with a proven ability to integrate acquisitions and scale up new categories, these structural advantages support superior growth, margin and returns.

VBL's Distinct Weakness Vs Competition

VBL's earnings remain highly seasonal, with a **significant dependence on India's summer months**, making performance sensitive to weather disruption. The integration of **BevCo, Twizza and other African operations is likely to dilute blended margin in the near term** until scale and synergies are realised. Unlike brand owners, VBL also has **limited pricing flexibility**, with pricing largely aligned to PepsiCo's strategy. Additionally, newer growth platforms, such as **snacks, dairy, beer and functional beverages remain in the investment phase** and are yet to demonstrate meaningful scale or profitability.

VBL's Distinct Opportunities Vs Competition

VBL's long-term growth opportunity is supported by **India's underpenetrated beverage market**, where the company reaches only **~4 Mn of ~12 Mn FMCG outlets**, leaving significant headroom for distribution-led growth. Internationally, **Africa offers a multi-decade runway** with per-capita beverage consumption **3–6x higher than India** and large PepsiCo white-space markets, such as **DRC and Kenya**. VBL is also uniquely positioned to leverage its **existing manufacturing and distribution infrastructure** to scale **energy drinks, hydration, dairy, snacks, beer and functional beverages**, while **margin convergence in recently acquired African businesses** provides an additional earnings lever beyond volume growth.

VBL's Distinct Threats Vs Competitors

VBL faces rising **competitive intensity** from **Reliance's Campa and Coca-Cola**, particularly in the LUPs, which could impact volumes and margin in the near term. Its expanding operations in Africa also expose the company to **currency volatility, sugar tax changes and regulatory risk** across multiple jurisdictions. In addition, the strategy of scaling up **snacks, dairy, beer and other adjacent categories** carries execution risk, while **geopolitical disruptions and cross-border supply-chain challenges** could affect procurement costs and operational efficiency.

3.4 Michael Porter's Five Forces Analysis

Competitive Forces

Threat of New Entrants

Moderate

Backward-integrated, large-scale manufacturing, an exclusive multi-decade PepsiCo franchise, and an entrenched distribution/cold-chain network create high entry barriers in VBL's existing territories; however, well-capitalised new entrants (Reliance) have shown that scale capital can enter the broader Indian CSD category, albeit not directly displacing VBL's franchise position

Bargaining Power of Buyers

Low (General Trade) / Moderate (Modern Trade)

VBL's India business is skewed toward general trade with a large exclusive visi-cooler network, limiting retailer bargaining power (customers ask for brand). In markets with a higher modern trade mix (South Africa), large retail chains can dictate credit terms and squeeze margins - a factor management is actively addressing by shifting mix toward general trade

Threat of Substitutes

High and Rising

Rising consumer awareness regarding obesity, diabetes, and artificial ingredients pushes people toward healthier beverage

Bargaining Power on Suppliers

Low to Moderate

Concentrate pricing is contractually fixed as a percentage of net realisation with PepsiCo, limiting variability; backward integration further reduces dependence on external packaging suppliers. Commodity inputs (sugar, PET) are sourced from a fragmented global supplier base, limiting any single supplier's leverage.

Industry Rivalry

High

The entry and scale up of Campa alongside renewed Coca-Cola investment, has visibly increased promotional and distribution intensity in India. Management's consistent view is that this is expanding the overall category (more outlets, more chilling equipment) rather than declining VBL's own growth, evidenced by VBL's continued double-digit volume growth throughout the period.

Source: VBL, Choice Institutional Equities

VBL's competitive moat is underpinned by its exclusive long-term PepsiCo franchise, backward integrated manufacturing and distribution and cold-chain infrastructure, creating significant barriers to entry across its operating territories. While well capitalised players such as Reliance can enter the broader CSD market, replicating VBL's integrated manufacturing footprint, 4 Mn outlet distribution network and +1 Mn visi-cooler ecosystem remains a formidable challenge.

Supplier bargaining power is relatively low for VBL due to its scale, backward integration and contractual concentrate pricing mechanism with PepsiCo. VBL's in-house production of key packaging inputs significantly reduces supplier dependence, while sourcing commodities such as sugar and PET from a diversified supplier base limits procurement risk and supports margin stability.

Competition intensity has increased with the rapid expansion of Reliance's Campa and higher investments by Coca-Cola across pricing, distribution and marketing. Nevertheless, VBL's exclusive PepsiCo franchise, unmatched distribution infrastructure, backward integration and category diversification provide a durable competitive advantage. VBL believes the broader market expansion, especially in Africa, coupled with India's low beverage penetration, should enable multiple players to grow without materially impacting VBL's long-term growth trajectory.

VBL faces relatively low buyer bargaining power in India due to its dominant presence in General Trade and an extensive proprietary visi-cooler network, which strengthens retailer relationships and limits shelf space competition. However, buyer power is relatively higher in certain international markets, particularly South Africa, where Modern Trade forms a larger share of sales and large retail chains exert greater pressure on pricing, margin and credit terms. Management is actively addressing this by increasing General Trade penetration to improve channel profitability and reduce customer concentration.

Substitute risk is high as carbonated beverages continue to enjoy strong brand loyalty and convenience-led consumption. However, rising health-consciousness is gradually shifting demand towards **zero-sugar, hydration, dairy and functional beverages**, an area where VBL is well-positioned through its expanding non-carbonated portfolio.

3.5 View & Valuation Rationale

VBL is Trading at the Lowest P/E Multiple with Higher Earnings Visibility among Larger Peers

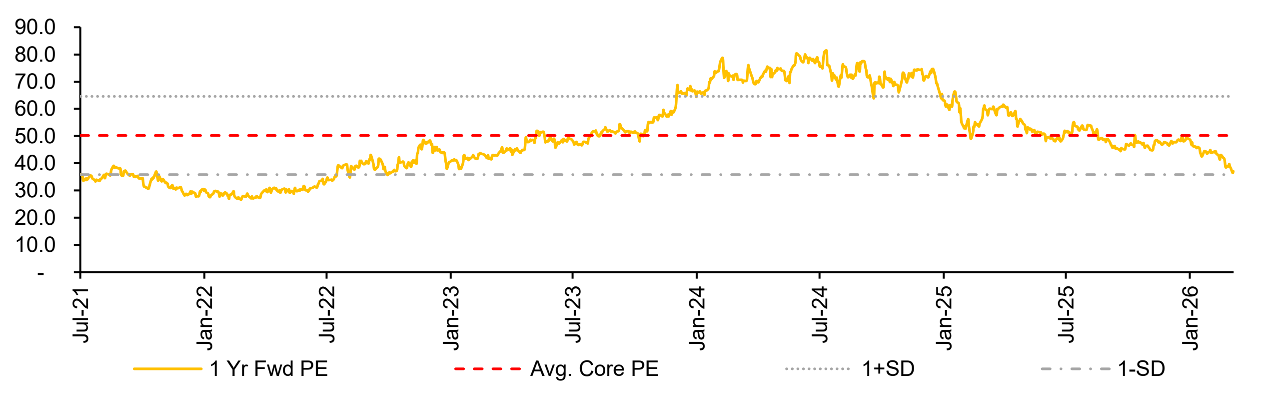
Company	CMP	Mcap	Revenue (CAGR) %		EBITDA (CAGR) %		EBITDA Margin (%)		PAT (CAGR) %		ROE (%)			P/E			PEG
	(INR)	(INR Bn)	(FY23-26)	(FY26-29E)	(FY23-26)	(FY26-29E)	FY26	FY29E	(FY23-26)	(FY26-29E)	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY26
			(CY22-25)	(CY25-28E)	(CY22-25)	(CY25-28E)	CY25	CY28E	(CY22-25)	(CY25-28E)	CY26E	CY27E	CY28E	CY26E	CY27E	CY28E	CY25
VBL*	426	1,459	18.4	15.7	21.9	16.8	22.7	23.3	26.6	17.8	16.8	17.3	17.4	41	34	29	2.7
HUL #	2,041	4,796	2.1	8.3	2.1	8.9	23.3	23.8	2.8	7.4	22	24	26	43	39	35	5.9
Britannia #	5,355	1,290	5.5	10.2	7.5	11.8	18.3	19.2	3.0	11.5	49	50	49	47	41	37	4.4
Nestle #	1,462	2,819	11.1	12.5	12.7	15.3	22.9	24.7	14.0	14.9	66	64	62	69	60	53	5.3
Tata Consumer #	1,050	1,039	13.8	11.5	-46.8	15.9	13.8	15.5	5.3	21.2	8	10	11	55	46	39	3.2
United Spirits ^	1,526	1,110	5.5	11.0	17.4	16.0	18.4	20.9	17.8	12.1	15	19	19	58	52	47	5.0
Mean														**52**	**45**	**40**	
Median														**47**	**41**	**37**	

Source: FactSet, VBL, Choice Institutional Equities; (#) Not under our coverage, estimates taken from FactSet; (*) VBL CY25-CY28E; (^) CIE estimates

Varun Beverages Limited offers an attractive medium- to long-term investment opportunity in the beverages and FMCG space. Our conviction originates from:

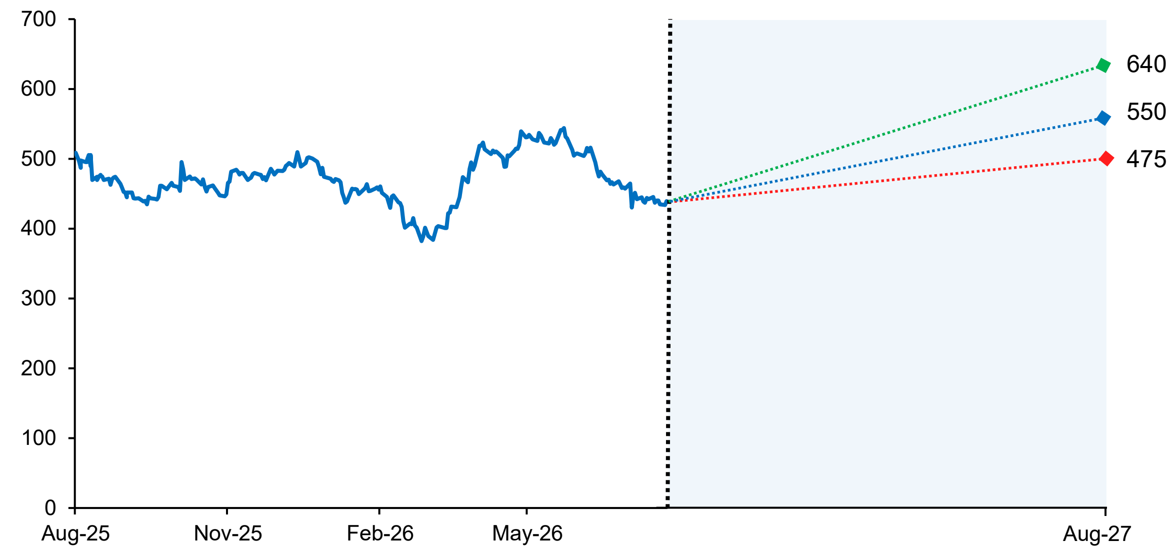
- **A multi-year India growth runway** supported by continued outlet expansion, visi-cooler penetration, deeper distribution and low per-capita beverage consumption, despite rising competitive intensity.
- **Rapid international expansion, led by Africa**, through territory consolidation, greenfield investments and bolt-on M&A, with International revenue contribution increasing, from 20% in CY21 to 33% in CY25 and expected to reach 40% by end of CY28E, providing a second growth engine.
- **Portfolio diversification beyond core CSD**, with strong growth in Sting, hydration, dairy and snacks, alongside new adjacencies, such as Calpis andCarlsberg, enabling premiumisation and higher utilisation of the existing distribution infrastructure.
- **Structural margin expansion** supported by backward integration, larger and more efficient plants, operating leverage and improving product mix, with EBITDA margin expanding from ~17% in CY19 to 23.3% in CY25 and expected increase to 23.9% in CY28E
- Additionally, di**sciplined capital allocation and a strong balance sheet**, with acquisitions and capacity expansion largely supported by internal cash generation, while the company became net cash-positive despite significant investments across India and Africa.
- **We estimate Revenue/EBITDA/PAT CAGR of 15%/16%/17% over CY25–28E**, respectively, supported by sustained volume growth, favourable mix and margin expansion. **We initiate coverage with a 'BUY' rating and a TP of INR 550, valuing the stock at 40x Sep-28E EPS, a ~20% discount to its long-term average PE multiple of 50x. This implies ~31% upside from the current level.**

One year forward PE Band chart



Source: Bloomberg, VBL, Choice Institutional Equities

3.6 Bull and Bear Case Scenarios



INR 640
52% Upside

BULL Assumptions

- VBL to witnessed consolidated revenue CAGR of **18%** over CY25–28E (volume growth of 15% and ASP of 2%)
- India revenue CAGR of 12% (10% volume); International revenue CAGR of 28% (26% volume)
- EBITDA CAGR of **19%** over CY25–28E
- PAT CAGR of **21%** over CY25–28E
- Target PE multiple of 42x Sep-28 EPS

INR 550
30% Upside

BASE Assumptions

- VBL to witnessed consolidated revenue CAGR of **15%** over CY25–28E (volume growth of 13% and ASP of 2%)
- India revenue CAGR of 11% (9% volume); International revenue CAGR of 23% (21% volume)
- EBITDA CAGR of **16%** over CY25–28E
- PAT CAGR of **17%** over CY25–28E
- Target PE multiple of 40x Sep-28 EPS

INR 475
13% Upside

BEAR Assumptions

- VBL to witnessed consolidated revenue CAGR of **13%** over CY25–28E (volume growth of 11% and ASP of 1.5%)
- India revenue CAGR of 9% (8% volume); International revenue CAGR of 20% (18% volume)
- EBITDA CAGR of **13%** over CY25–28E
- PAT CAGR of **13%** over CY25–28E
- Target PE multiple of 38x Sep-28 EPS

4.1 Financials & Ratios

Income Statement (INR Mn)

Particulars	CY25	CY26E	CY27E	CY28E
Net Sales	**2,16,854**	**2,56,049**	**2,91,864**	**3,32,288**
Gross Profit	**1,19,700**	**1,41,407**	**1,61,745**	**1,83,952**
EBITDA	**50,494**	**59,835**	**68,758**	**78,378**
Depreciation	(12,165)	(14,713)	(15,613)	(16,513)
EBIT	**38,329**	**45,123**	**53,145**	**61,865**
Interest paid	(1,696)	(1,943)	(1,749)	(1,574)
Other Income	2,523	3,281	3,445	3,617
Non-recurring Items	1,000	-	-	-
Profit after tax	**30,620**	**35,156**	**41,509**	**48,382**
Others (Minorities, Associates)	(255.5)	(255.5)	(255.5)	(255.5)
Net Profit	**30,365**	**34,901**	**41,254**	**48,126**
EPS	9.0	10.3	12.2	14.2

Key Ratios

Particulars	CY25	CY26E	CY27E	CY28E
Growth Ratios (%)				
Revenue	8.4	18.1	14.0	13.9
EBITDA	7.2	18.5	14.9	14.0
EBIT	1.8	17.7	17.8	16.4
PAT	17.0	14.9	18.2	16.7
Margin (%)				
Gross Margin	55.2	55.2	55.4	55.4
EBITDA Margin	23.3	23.4	23.6	23.6
PAT Margin	14.0	13.6	14.1	14.5
Profitability (%)				
ROE	16.8	16.6	16.9	17.0
ROCE	17.6	18.5	19.1	19.3
Turnover Ratios				
Asset Turnover (x)	0.9	1.0	1.0	1.0
Receivable Days	21.0	21.0	21.0	21.0
Inventory Days	49.7	49.7	49.7	49.7
Payable Days	23.6	23.6	23.6	23.6
Working Capital Days	47.1	47.1	47.1	47.1
Liquidity Ratios				
Current Ratio (x)	1.9	2.7	3.5	4.4
Quick Ratio (x)	1.2	1.8	2.5	3.4
Total Debt/Equity (%)	0.1	0.1	0.1	0.0
Valuation				
PER (x)	48.6	40.9	34.6	29.7
EV/EBITDA (x)	28.3	23.4	19.9	17.0
EV/EBIT (x)	37.2	31.1	25.8	21.5

Source: VBL, Choice Institutional Equities

Balance Sheet (INR Mn)

Particulars	CY25	CY26E	CY27E	CY28E
Cash & Cash Equivalents	19,985	40,733	71,599	1,09,806
Debtors	12,490	14,748	16,811	19,139
Inventory	29,518	34,853	39,728	45,231
Other current assets	16,967	16,967	16,967	16,967
Total current assets	**78,960**	**1,07,301**	**1,45,106**	**1,91,143**
Investments	1,743	1,743	1,743	1,743
Gross fixed assets	2,30,213	2,45,213	2,60,213	2,75,213
Less: Depreciation	(66,166)	(80,878)	(96,491)	(1,13,004)
Add: Capital WIP	2,708	2,708	2,708	2,708
Goodwill	3,542	3,542	3,542	3,542
Defered Tax Assets (Net)	(5,948)	(5,948)	(5,948)	(5,948)
Other Non-Current Assets	4,407	4,407	4,407	4,407
Total assets	**2,49,460**	**2,78,088**	**3,15,279**	**3,59,804**
Creditors	14,013	16,546	18,860	21,472
Other current liabilities	11,890	11,890	11,890	11,890
Total Loans	20,241	16,193	14,574	13,116
Other Non-current liabilities	5,906	5,906	5,906	5,906
Total liabilities	**52,050**	**50,535**	**51,230**	**52,384**
Paid-up capital	6,764	6,764	6,764	6,764
Reserves & surplus	1,89,023	2,18,851	2,55,032	2,98,085
Shareholders' equity	**1,95,787**	**2,25,615**	**2,61,796**	**3,04,849**
Minority Interest	1,623	1,938	2,254	2,570
Total equity & liabilities	**2,49,460**	**2,78,088**	**3,15,279**	**3,59,804**

Cash Flow (INR Mn)

Particulars	CY25	CY26E	CY27E	CY28E
Cash Flow from Operations	**35,093**	**46,812**	**54,307**	**61,310**
Cash Flow from Investing	**(27,349)**	**(15,000)**	**(15,000)**	**(15,000)**
Cash Flow from Financing	**(12,565)**	**(11,064)**	**(8,441)**	**(8,104)**

DuPont Analysis

Particulars	CY25	CY26E	CY27E	CY28E
Tax Burden	78%	75%	75%	75%
Interest Burden	102%	103%	103%	103%
EBIT Margin	18%	18%	18%	19%
Asset Turnover	0.9	1.0	1.0	1.0
Equity Multiplier	1.3	1.3	1.2	1.2
ROE (%)	**16.8**	**16.6**	**16.9**	**17.0**

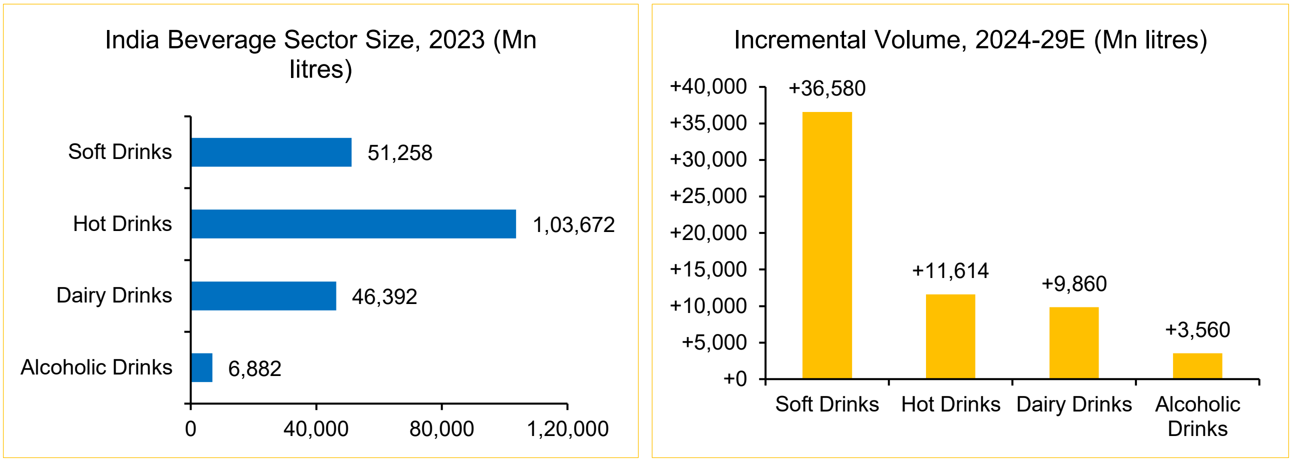
Source: VBL, Choice Institutional Equities

5.1 Overview: India Beverage Market

5.1.1 Soft Drinks is the Standout Growth Pool

- India's commercial beverage market covers four segments - Hot drinks – tea & coffee (50%), Soft Drinks (25%), Dairy Drinks (22%) and Alcoholic Drinks (3%) - Totalling 208.2 Bn litres in 2023
- Hot drinks remain the largest segment by both, volume (50% share) and per-capita consumption (72.6 litres/year), reflecting India's tea drinking culture), but Soft Drinks - VBL's category, is the fastest growing of the four, forecast at a 9.9% volume CAGR through 2029E versus 2.1% for hot drinks, 3.7% for dairy and 7.9% for alcoholic drinks

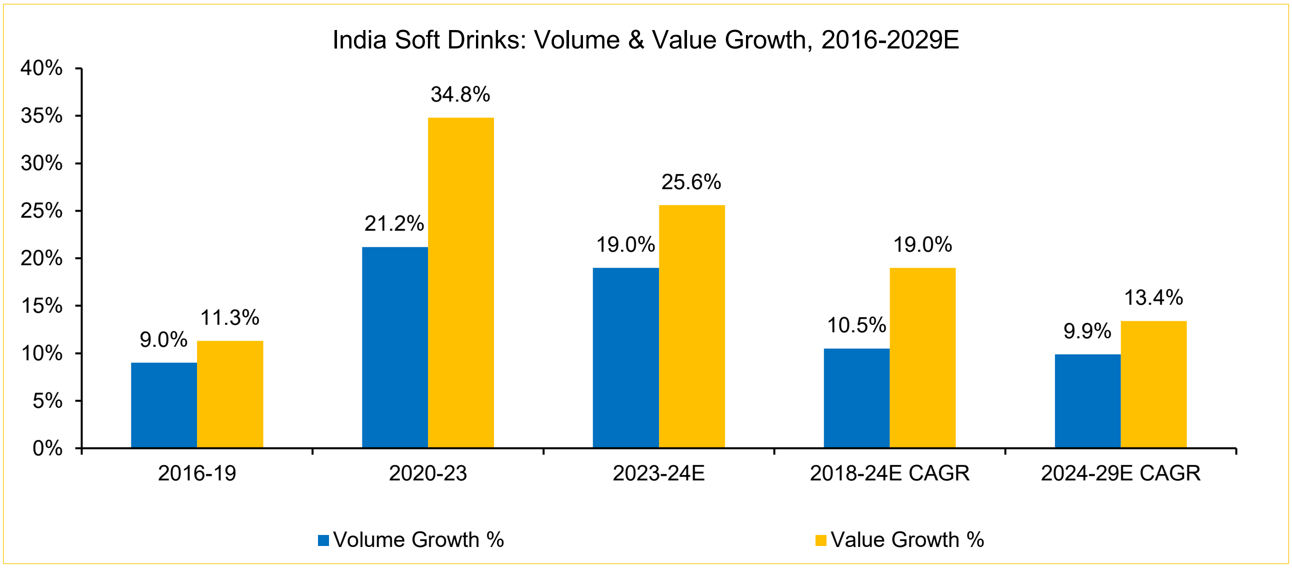
The soft drinks category is expected to grow faster than other beverage categories



Source: VBL QIP, Choice Institutional Equities

5.1.2 Soft Drinks: A Post-Pandemic Structural Re-Rating, Now Normalising to Still-Strong Growth

- India's soft drinks sector volume grew at 21.2% CAGR and value at 34.8% CAGR over CY2020-2023 - an exceptional post-pandemic low-base recovery. However it is now normalising to a more sustainable, still-robust 9.9% volume / 13.4% value CAGR over 2024-2029E.
- Value continuing to outpace volume throughout the period reflects both, premiumisation and pricing power, across the category.



Source: VBL QIP, Choice Institutional Equities

5.1 Overview: India Beverage Market

5.1.3 Category Growth: Energy Drinks and Juice are the Standouts - Both PepsiCo Strongholds

- Energy drinks (+63.7% volume, +70.7% value) and juice (+70.8% volume, +69.7% value) recorded the fastest growth and both categories are PepsiCo and VBL stronghold.
- Marke share Sting at 72.5% volume share in energy drinks; Tropicana at 11.2% share in juice.

VBL presence in the fastest growing sector to provide long term growth catalyst

Category	Volume Growth	Value Growth	Relevance to VBL
Energy Drinks	63.7%	70.7%	Highest growth category; PepsiCo (Sting) dominant
Juice	70.8%	69.7%	Highest growth; health & wellness tailwind; Tropicana share 11.2%
Enhanced Water	35.2%	40.7%	Functional-drink demand; off-premise 96.5% of volume
Bulk/HOD Water	26.7%	29.4%	Institutional demand; Aquafina present, +4.1% growth
Packaged Water	15.9%	21.7%	Largest category by volume; Aquafina share 4.1%
Carbonates	15.1%	23.8%	3rd-largest category (20.9% vol. share); PepsiCo #2 player
Iced/RTD Tea	11.8%	17.7%	Warm-weather driven
Nectars	11.4%	19.1%	Niche; PepsiCo among top-2 players
Sports Drinks	10.3%	12.8%	QSR channel strongest (+24.6%)
Iced/RTD Coffee	9.9%	16.1%	Premium, urban-skewed
Fruit Powders	8.4%	15.3%	Losing momentum on health trend
Flavored Water	6.5%	14.3%	Smallest, steady growth

Source: VBL QIP, Choice Institutional Equities

5.1.4 PepsiCo's Category Positioning - The Direct Read-through for VBL

As PepsiCo's exclusive India bottler, VBL's category exposure mirrors PepsiCo's own competitive standing

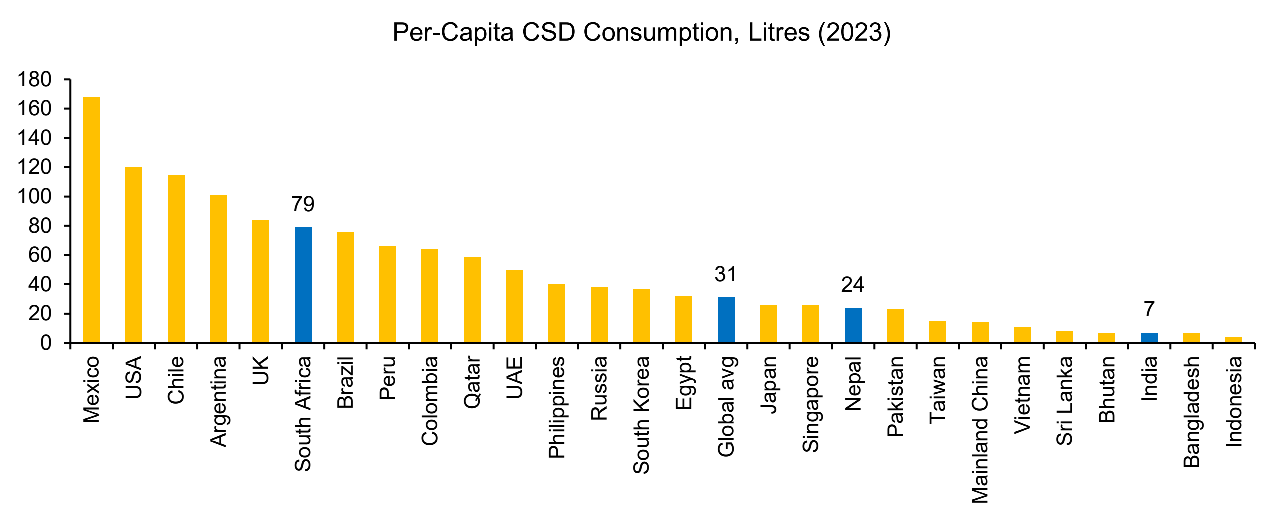
Category	PepsiCo/VBL Share	Commentary
Energy Drinks (Sting)	72.5% volume / 62.5% value	Category leader by a wide margin; +71% annual volume growth, fastest of any major player
Juice (Tropicana)	11.2%	Among category leaders; off-premise (61.3% of volume) is the core channel
Packaged Water (Aquafina)	4.1% volume / 3.4% value	Smaller share in the largest category; +14.1% brand growth
Bulk/HOD Water (Aquafina)	Present, +4.1% growth	Institutional-demand category
Carbonates (Pepsi, Pepsi Black, Mirinda, 7Up)	#2 player in category	Pepsi Black +64.8% - one of the fastest-growing zero-sugar SKUs in the category

Source: VBL QIP, Choice Institutional Equities

5.1 Overview: India Beverage Market

5.1.5 India is Structurally Under-penetrated - The Core of the Volume Thesis

India's per-capita CSD consumption ranks among the lowest of any major or emerging market globally at just 7 lt/year, a quarter of the global average of 31 lt/ year.



Source: VBL QIP, Choice Institutional Equities

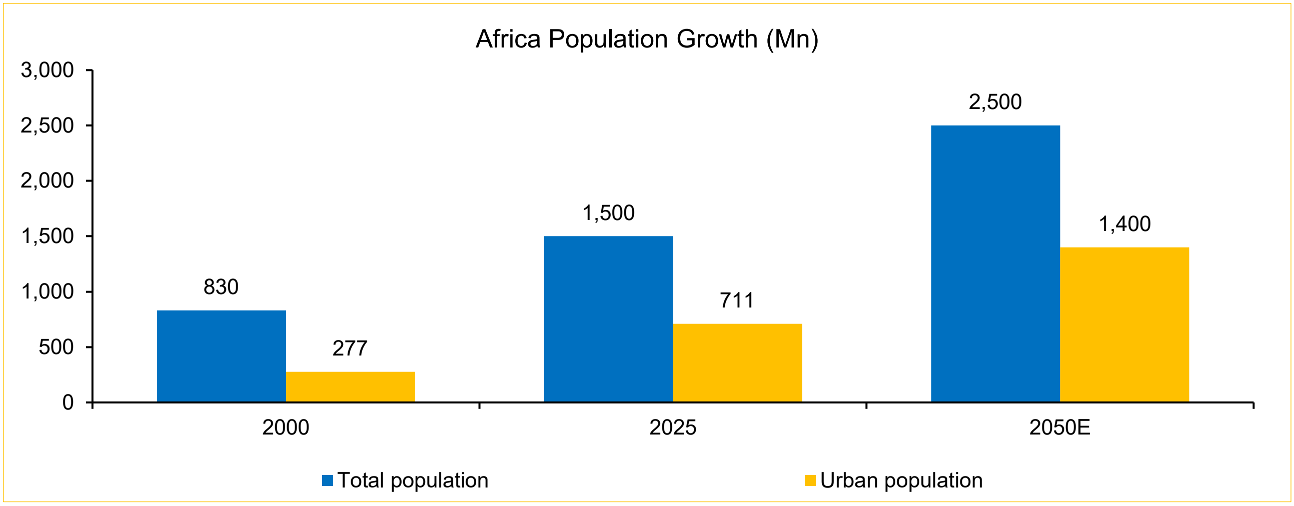
Choice Institutional Equities

5.2 Overview: Africa Beverage Market

5.2.1 Africa: A Younger, Fast Growing, More Fragmented Opportunity

- The continent's population is forecast to nearly double from ~1.5 Bn (2025) to ~2.5 Bn by 2050, the fastest growing region globally. Median age of just 19.5 years, among the youngest in the world.
- Urbanisation is compounding even faster than the population itself: Africa's urban population is projected to double from ~711 Bn (2025) to ~1.4 Bn by 2050, with urban Africa adding an estimated 24 Mn people every year. Since urbanisation is one of the strongest known correlates of packaged beverage adoption (formal retail, refrigeration access, disposable income), this is a structural multi decade tailwind behind VBL's African expansion.

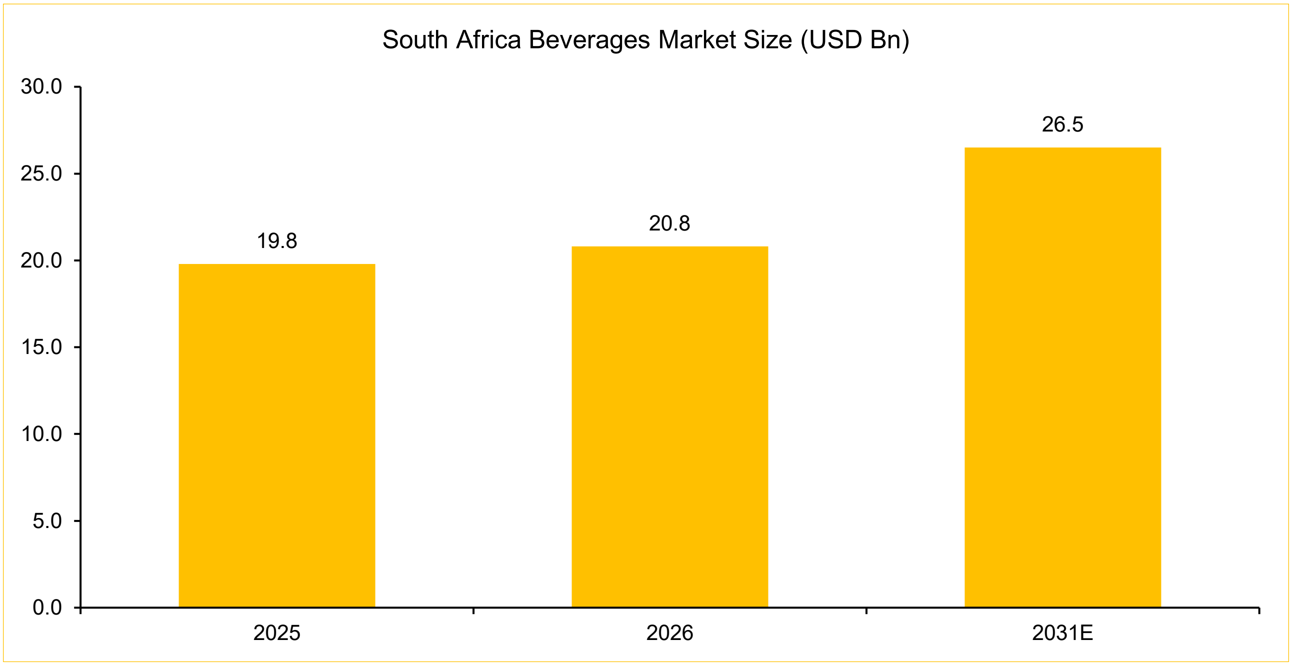
Africa's Favourable Demographics Offer a Multi-Year Growth Runway



Source: Africa Demographics Forecast (2026); World Population Prospects 2025 Revision

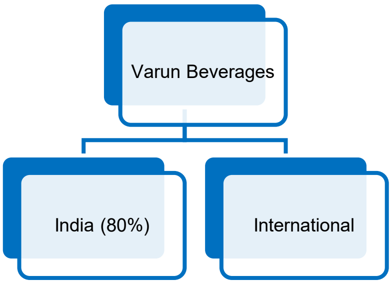
5.2.2 South Africa: VBL's Largest Single African Market

- South Africa's beverages market was valued at USD 19.8-20.8 Bnn in 2025-26 and is forecast to grow at a ~5% CAGR to USD 26.5 Bn by 2031
- Beer and carbonated soft drinks together represent an estimated 54% of 2025 market value.
- South African Breweries (beer) and Coca-Cola Beverages South Africa are the incumbent leaders across their respective categories.



Source: Ken Research, South Africa Beverages Market Report 2025-2031 (2025 figure); Mordor Intelligence

6.1 Company Overview



Varun Beverages Limited (VBL), promoted by the Jaipuria family (RJ Corp), is the second-largest PepsiCo bottler in the world outside the United States and the largest in the Indian subcontinent.
Over three decades, VBL has consolidated the vast majority of PepsiCo's India bottling franchise and, since 2016, has built a fast-growing international business covering Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, DRC, South Africa and, most recently, Kenya. In April 2026, PepsiCo extended VBL's exclusive India bottling and trademark licence to 2049 and removed the prior restriction requiring VBL to operate solely as its India SPV, opening the door to the non-PepsiCo initiatives (Calpis, Carlsberg) now under way.

Key Milestones

1991

Entered into a licensing agreement with PepsiCo through a group company for trademark use and bottling operations

1996

Commenced commercial operations in Jaipur

1998

PepsiCo acquired 26% stake in Varun Beverages Limited

2004

Devyani Beverages Limited merged with Varun Beverages Limited, consolidating operations

2012

Consolidated sub- territories across Goa, select districts of Maharashtra, and North-East India

Subsidiaries in Nepal, Sri Lanka, and Morocco integrated into the Group.

PepsiCo divested its 26% stake in VBL

2015

Expanded footprint across parts of Uttar Pradesh and Haryana, Uttarakhand, Himachal Pradesh, Punjab and the Union Territory of Chandigarh

2016

Acquired 60% stake in Varun Beverages (Zambia) Limited

IPO

2017-2019

Expanded sub-territories across parts of Madhya Pradesh and Odisha

Increased stake in Varun Beverages (Zambia) Limited by an additional 30%

Expanded presence across Jharkhand, Chhattisgarh and Bihar

Established greenfield production facilities in Nepal and Zimbabwe

Expanded sub-territories across Maharashtra (14 districts), Karnataka (13 districts) and Madhya Pradesh (3 districts), covering seven states

2022-2024

Signed agreements to distribute Lay's, Doritos and Cheetos in Morocco)

Commenced commercial production at the Kurkure Puffcorn facility in Kosi, Uttar Pradesh

Incorporated VBL Mozambique, S.A. and Varun Beverages South Africa (Pty) Ltd, to strengthen distribution operations

Acquired BevCo

Secured exclusive snacks franchising rights for PepsiCo brands in Morocco, Zimbabwe, and Zambia

2025-2026

Acquired Twizza

Incorporated a wholly owned subsidiary in Kenya

Commenced Cheetos production in Morocco and Zimbabwe and expanded PepsiCo snacks distribution in Zimbabwe and Zambia

Entered exclusive distribution rights with Carlsberg Breweries A/S in select African markets

Entered strategic alliance with Asahi Group Holdings to launch Calpis in India

6.2 Business Model

Relationship with Pepsico

VBL (Demand Delivery)

- Production, Sales & Distribution – GTM & Logistics, In outlet Management – Visi coolers, Consumer Push (BTL) = Market share gains

Pepsico (Demand Creation)

- Trademark & Concentrate (Formulation), Product & Packaging, Innovation (R&D), Consumer Pull (ATL) = Brand development

Revenue streams

Core PepsiCo Bottling Franchise

- Exclusive India bottling & trademark licence through April 2049
- Franchise/ JV or acquired bottling rights across Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, DRC, South Africa, Kenya

Adjacent / Branded FMCG Businesses

- Value-added dairy (Cream Bell), hydration (Nimbooz), energy (Sting/Adrenaline Rush)
- African snacks (Cheetos/Doritos/Lay's manufacturing, Simba Munchiez franchise)
- Carlsberg beer distribution test (Southern Africa) using existing route-to-market
- Calpis (Asahi partnership) - first non-PepsiCo branded India launch

Cost Structure

- Raw materials — Concentrate (~30% of RM – Not fixed, linked to realisation); PET (~20% of RM); Sugar (~25% of RM) and Others (~25% of RM)
- Manufacturing — 53 (38 in India) and (15 in International)
- Backward integration – 3 exclusive and 19 integrated

Channels

- General trade (GT) — Total reach 4.5 Mn outlets (4.0 Mn India vs. ~Total addressable outlets in India ~12 Mn)
- Visi Coolers – 1.26 Mn (CY25)
- India GT — >85% of sales; MT - <10%
- South Africa – GT > 55-60%; MT ~40-45%
- Ecom/ Q-Com - small

Strategic Opportunities

- Distribution White Space in India (Largest Opportunity) - VBL currently reaches **~4 Mn of India's ~12 Mn FMCG outlets**
- **International margin convergence** as Africa adopts India's operating model.
- **Evolution into a diversified FMCG distribution platform**, not just a beverage bottler. – Calpis (fermented dairy beverage); Carlsberg; Snacks

6.3 About the Management

Name	Designation	Qualification	Experience
 **Mr. Ravi Jaipuria**	**Promoter & Chairman**	**Business Management**	Mr. Ravi Jaipuria is the promoter of the Company and has over three decades of experience in conceptualising, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He has an established reputation as an entrepreneur and business leader. He was awarded the 'PepsiCo International Bottler of the Year' in 1997 and 2022, and PepsiCo's Best Bottler in the AMESA Region in 2020, 2021 and 2022
 **Mr. Varun Jaipuria**	**Promoter, Executive Vice-Chairman and Whole-time Director**	**Leadership Development, Harvard Business School**	Mr. Varun Jaipuria is the Promoter & Executive Vice-Chairman of the Company. He has been actively working with the Company since 2009 and has been instrumental in comprehensive development of the Company's business including acquisitions and integration of acquired territories.
 **Mr. Raj Pal Gandhi**	**President & Whole-Time Director**	**CA**	Mr. Raj Gandhi is instrumental in formulating VBL's strategy towards diversification, expansion, mergers and acquisitions, capex planning including capital/fund raising.
 **Mr. Pankaj Madan**	**CFO**	**CA**	Mr. Pankaj Madan is a seasoned finance leader, with a rich experience spanning 35 years across multiple sectors namely - Aviation, Hospitality, Retail, Telecom, BFSI and Manufacturing. Previously, he was last associated with Interglobe Enterprises as Group Chief Financial Officer. Prior to that, through his career span, he was CFO of several organisations including IndiGo airlines, Bharti Walmart, Cargill Thailand, Grampian Country Food (Thailand), Telstra Singapore & India.

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Choice Rating Distribution & Methodology	
Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

***Large Cap: More Than INR 20,000 Cr Market Cap**
***Mid & Small Cap: Less Than INR 20,000 Cr Market Cap**

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