

Varun Beverages

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR549 **TP: INR680 (+24%)** **Buy**

Volume growth led by international market additions

In-line operating performance

Bloomberg	VBL IN
Equity Shares (m)	3382
M.Cap.(INRb)/(USDb)	1854.6 / 21.2
52-Week Range (INR)	683 / 517
1, 6, 12 Rel. Per (%)	-8/-5/-7
12M Avg Val (INR M)	3464

Financials & Valuations (INR b)

Y/E Dec	2024	2025E	2026E
Sales	200.1	239.5	278.0
EBITDA	47.1	53.9	63.9
Adj. PAT	25.9	34.2	42.0
EBITDA (%)	23.5	22.5	23.0
EPS (INR)	7.7	10.1	12.4
EPS Gr. (%)	26.2	31.6	23.0
BV/Sh. (INR)	49.1	56.7	66.6

Ratios

Net D/E	-0.0	-0.1	-0.3
RoE (%)	22.0	19.1	20.1
RoCE (%)	19.2	18.5	20.3
Payout (%)	32.6	24.8	20.1

Valuations

P/E (x)	71.5	54.3	44.1
EV/EBITDA (x)	39.4	34.0	28.1
Div Yield (%)	0.5	0.5	0.5
FCF Yield (%)	-0.2	1.7	2.2

Shareholding pattern (%)

	Dec-24	Sep-24	Dec-23
Promoter	60.2	62.7	63.1
DII	7.0	5.0	3.6
FII	25.3	24.2	26.6
Others	7.5	8.2	6.8

Note: FII includes depository receipts

- Varun Beverages (VBL) reported a revenue growth of 38% YoY in 4QCY24, led by volume growth of 38% YoY, which was majorly driven by the volume addition from South Africa and the Democratic Republic of Congo (DRC). Excluding these volumes, organic volume growth was ~5% YoY. Realization remained flat YoY at INR172/case.
- VBL ended the year on a high note, with healthy volume growth in India (~11%) and expansion in international markets (through acquisition and greenfield capacity expansion). Management has guided to continue this growth momentum with double-digit volume growth in the domestic market and a much higher growth rate in international markets.
- We largely maintain our CY25/CY26 earnings estimates. **We reiterate our BUY rating on the stock with a TP of INR680.**

Flat margins YoY impacted by Bevco consolidation

- VBL's revenue grew 38% YoY to INR36.9 (est. in line) on account of healthy volume growth (+38% YoY to 215m cases). Realization was flat YoY (at INR172/case). International market volumes (excl. South Africa and DRC) grew 8% YoY to 45.2m cases, while India volumes rose ~5% YoY to 119m cases. South Africa and DRC together reported volumes of ~51m cases.
- EBITDA margins were flat YoY at 15.7% (est. 16.3%) due to the consolidation of South Africa business (low margins due to ~80% mix of owned brands and fixed costs associated with new capex). EBITDA per case inched up 1% YoY to INR27. EBITDA stood at INR5.8b, up 39% YoY (est. in line).
- Adj. PAT grew 40% YoY to INR12.5b (est. INR14.2b), driven by higher sales growth and stable margins YoY, partly offset by higher depreciation (up 57% YoY) and increased finance costs (up 48% YoY; for acquisition of BevCo and setting up four new production facilities).
- Subsidiary (consolidated minus standalone) revenue/EBITDA grew 2x/2.1x YoY to INR18b/INR2.5b, with a net loss of INR235m (vs. adj. PAT of INR133m in 4QCY23).
- CSD/water volumes grew 49%/16% YoY to 158m/49m unit cases, while juice volumes remained flat at 8m unit cases in 4QCY24.
- For CY24, consolidated revenue/EBITDA/adj. PAT grew by 25%/31%/26% YoY to INR200b/INR47.1b/INR26b and total sales volume grew by 23% to 1,124m cases.
- VBL turned net debt free in 4QCY24 through QIP proceeds, and CFO stood at INR33.8b as of CY24 vs. INR23.9b in CY23.

Highlights from the management commentary

- **Domestic demand outlook:** In the long term, the company expects to sustain double-digit growth and ~21% margins in the Indian market. The Indian beverage market remains largely untapped and continues to grow, with no signs of a slowdown in VBL's growth trajectory despite rising competition.

- **Capex:** Projected capex for CY25 is ~INR31b, of which VBL has already spent ~INR16.5m as of Dec'24. The capex is aimed at increasing its total capacity by 25% from the CY24 level by setting up greenfield facilities in India (~INR20b - Prayagraj, Damtal, Buxar & Meghalaya) and snacks manufacturing in international territories.
- **International Market:** In South Africa, VBL is focusing on increasing the general trade mix (higher margin) vs. heavy mix (40-45%) of modern trade (low margin), thereby improving the margins for the region. In Tanzania, PepsiCo already has a strong foothold, and VBL will enhance its go-to-market strategy, along with building capacities.

Valuation and view

- VBL is expected to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in Africa, 2) stable growth in the domestic market, 3) continued expansion in capacity and distribution reach (10% annual addition in outlets), and 4) growing refrigeration in rural and semi-rural areas.
- We expect a CAGR of 12%/11%/17% in revenue/EBITDA/PAT over CY24-26.
- We largely maintain our CY25/CY26 earnings estimates. **We value the stock at 55x CY26E EPS to arrive at a TP of INR680. We reiterate our BUY rating on the stock.**

Consolidated - Quarterly Earning Model

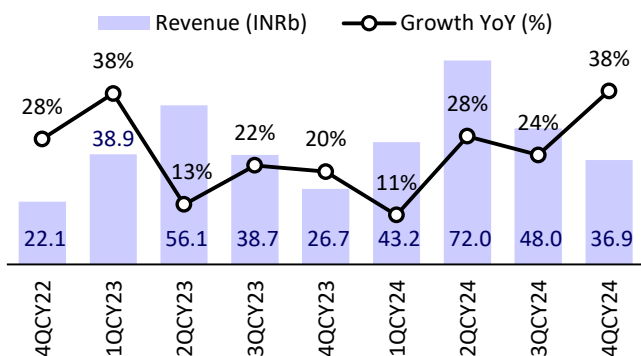
Y/E December	CY23				CY24				CY23	CY24	CY24E	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	38,930	56,114	38,705	26,677	43,173	71,969	48,047	36,888	160,425	200,077	36,014	2
YoY Change (%)	37.7	13.3	21.8	20.5	10.9	28.3	24.1	38.3	21.8	24.7	35.0	
Total Expenditure	30,949	41,004	29,884	22,494	33,286	52,056	36,536	31,088	124,331	152,966	30,145	
EBITDA	7,980	15,110	8,821	4,183	9,888	19,912	11,511	5,800	36,095	47,111	5,869	-1
Margins (%)	20.5	26.9	22.8	15.7	22.9	27.7	24.0	15.7	22.5	23.5	16.3	
Depreciation	1,722	1,719	1,708	1,660	1,875	2,425	2,566	2,608	6,809	9,474	2,575	
Interest	626	694	625	737	937	1,292	1,185	1,090	2,681	4,504	800	
Other Income	101	416	185	91	84	440	243	446	794	1,213	300	
PBT before EO expense	5,734	13,113	6,673	1,878	7,159	16,636	8,002	2,548	27,398	34,346	2,794	
PBT	5,734	13,113	6,673	1,878	7,159	16,636	8,002	2,548	27,398	34,346	2,794	
Tax	1,348	3,057	1,529	442	1,678	4,012	1,713	585	6,375	7,988	615	
Rate (%)	23.5	23.3	22.9	23.5	23.4	24.1	21.4	23.0	23.3	23.3	22	
MI & Profit/Loss of Asso. Cos.	95	118	130	118	107	98	92	105	461	402	110	
Reported PAT	4,291	9,938	5,015	1,318	5,374	12,526	6,197	1,858	20,561	25,956	2,069	
Adj PAT	4,291	9,938	5,015	1,318	5,374	12,526	6,197	1,858	20,561	25,956	2,069	-10
YoY Change (%)	68.8	26.2	31.6	76.3	25.2	26.0	23.6	41.0	37.3	26.2	57.1	
Margins (%)	11.0	17.7	13.0	4.9	12.4	17.4	12.9	5.0	12.8	13.0	5.7	

Exhibit 1: Key performance indicators

Y/E December	3QCY22	4QCY22	1QCY23	2QCY23	3QCY23	4QCY23	1QCY24	2QCY24	3QCY24	4QCY24
Segment Volume Gr.										
CSD	23	25	27	6	19	25	6	32	23	42
NCB	38	17	23	-13	0	14	13	39	3	0
Water	25	5	17	7	8	5	10	7	12	17
Cost Break-up										
RM Cost (% of sales)	46	44	48	48	45	43	44	45	44	44
Employee Cost (% of sales)	10	14	9	6	10	14	9	7	11	13
Other Cost (% of sales)	22	28	23	19	23	27	24	20	21	27
Gross Margins (%)	54	56	52	52	55	57	56	55	56	56
EBITDA Margins (%)	22	14	20	27	23	16	23	28	24	16
EBIT Margins (%)	17	6	16	24	18	9	19	24	19	9

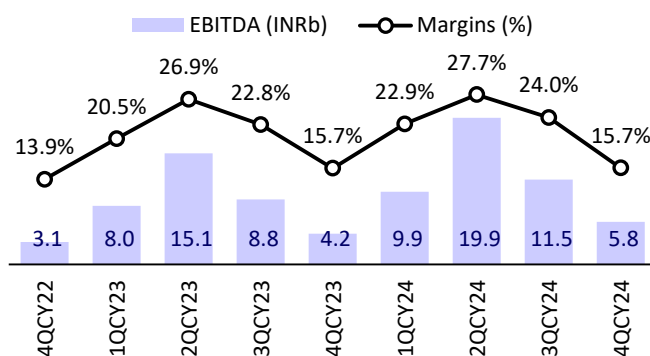
Key exhibits

Exhibit 2: Trend in consolidated revenue



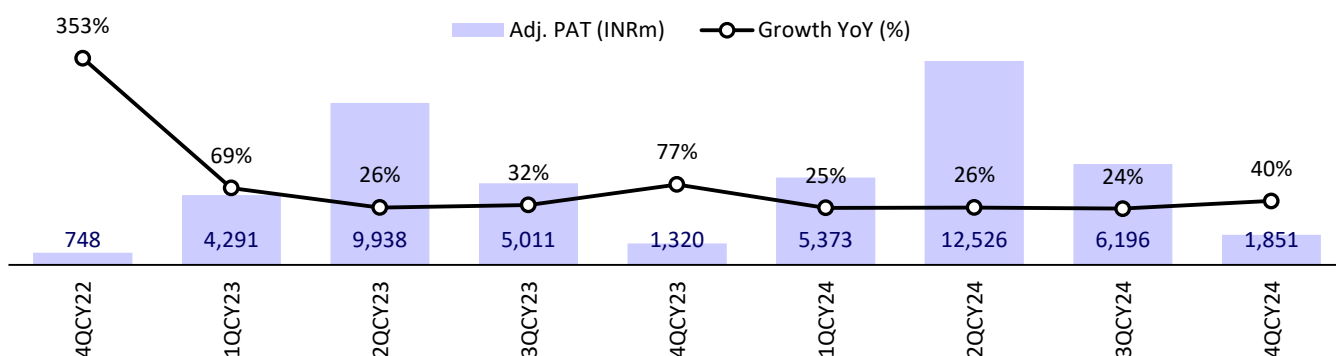
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA



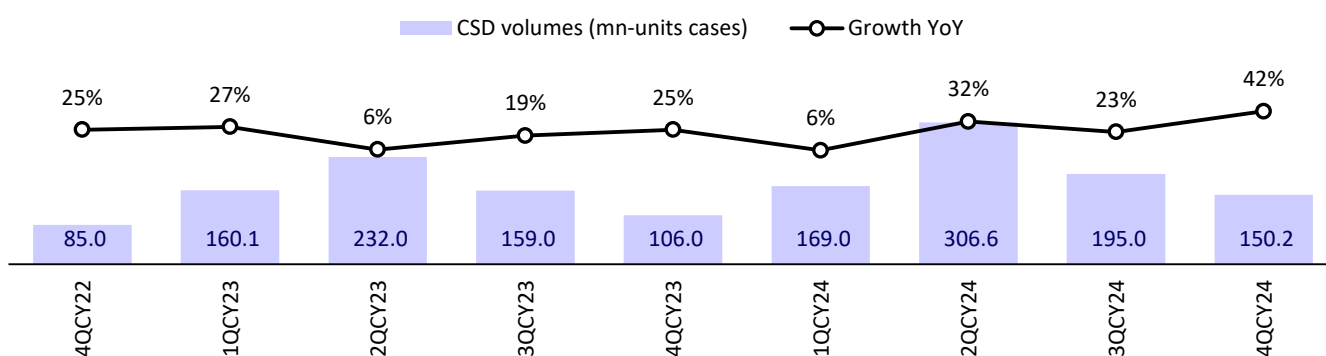
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT



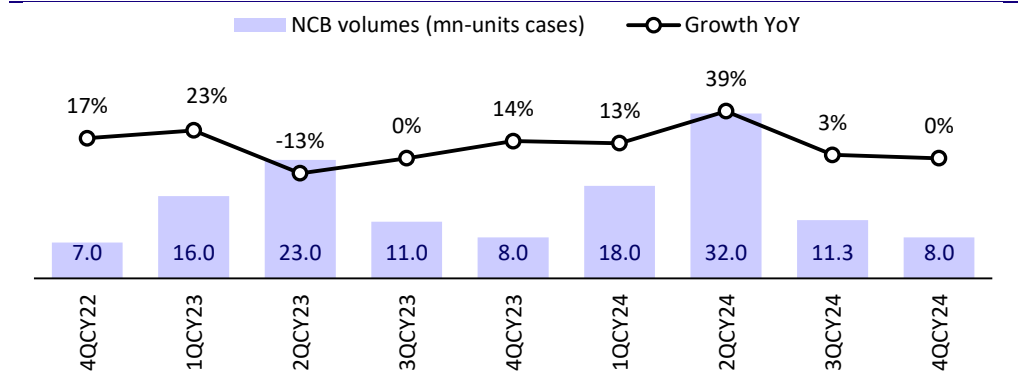
Source: Company, MOFSL

Exhibit 5: CSD sales volumes trend



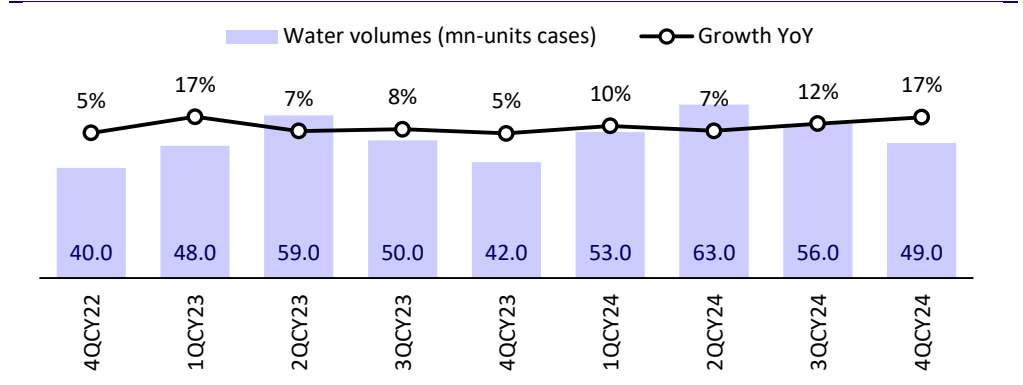
Source: Company, MOFSL

Exhibit 6: NCB sales volume trend



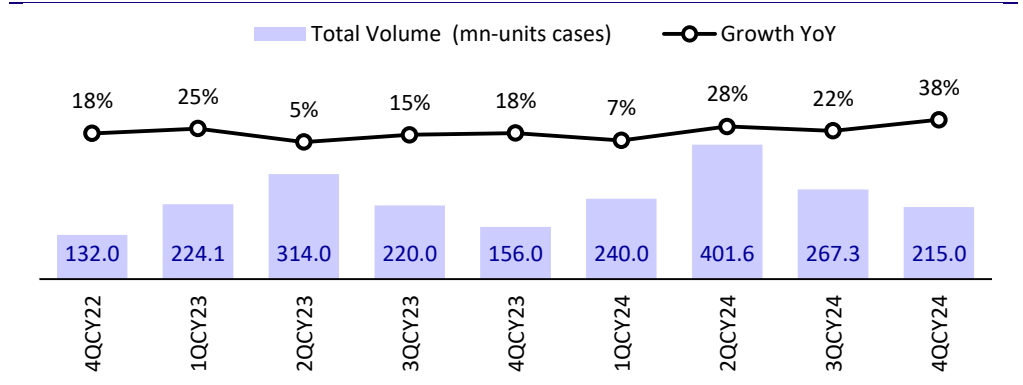
Source: Company, MOFSL

Exhibit 7: Water sales volumes trend



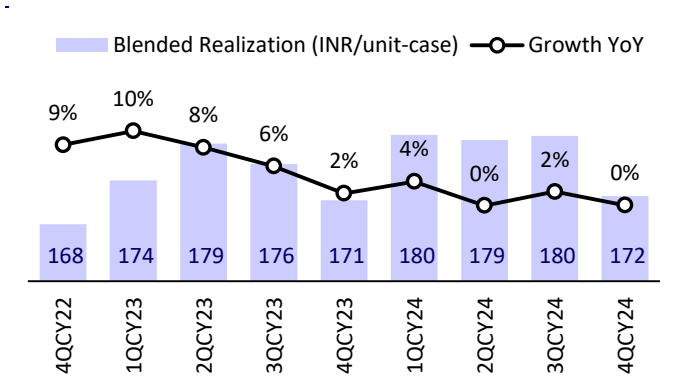
Source: Company, MOFSL

Exhibit 8: Strong Total Volume growth trend



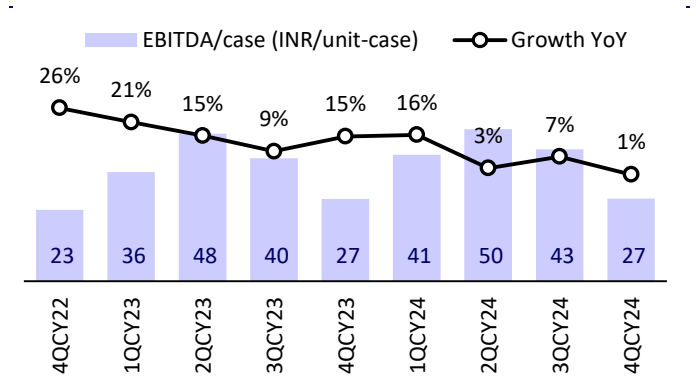
Source: Company, MOFSL

Exhibit 9: Trend in blended realization



Source: Company, MOFSL

Exhibit 10: Trend in EBITDA/case



Source: Company, MOFSL

Highlights from the management interaction

India

- The soft drink industry in India is growing at a faster rate than any other FMGC industry.
- Management targets a double-digit volume growth in the domestic business.
- VBL is not competing with the lower-priced products in the domestic markets. Management focuses on growing its outlet reach.
- VBL currently operates in 4 million outlets across India, out of a total of 12 million outlets. The company aims to expand its presence by 10% annually.
- The company continues to experience strong growth in India, with no signs of decline. Instead, it is witnessing accelerated expansion, with no disruptions to its growth trajectory.
- India business is expected to maintain margins at ~21% over the long term.
- There is ample room for competition in India, and the increased competition will further strengthen and expand this market segment in India.

South Africa

- Modern trade accounts for 40-45% of the South African market, leading to lower margins. To drive margin expansion, VBL is increasingly focusing on the general trade market, which makes up ~60% of the market in South Africa, coupled with the implementation of backward integration, which is starting next year.
- Margins are improving, and the South African market is expected to evolve similarly to the Australian market.
- VBL anticipates strong growth of 30% in this market.

Ghana and Tanzania

- PepsiCo already holds the leading position in the Tanzanian market. VBL aims to further strengthen its market presence by enhancing its go-to-market strategy and expanding production capacity.
- In Ghana, PepsiCo has a minimal presence, making it a largely untapped market for expansion, and the company has plans to redevelop the entire market.
- Management expects African markets to achieve strong double-digit growth.

Capacity and capex

- Management expects to incur a capex of INR31b for CY25. As of 31st Dec'24, about INR16.5b has already been incurred through capital work in progress (CWIP) and capital advances.
- Out of the expected capex, VBL will spend INR20b to establish greenfield facilities in India (in Prayagraj, Damtal, Buxar, and Meghalaya).
- In CY25, capacity is set to increase by 25% compared to CY24, with new plants becoming operational by Mar'25, ahead of the peak season.
- VBL does not anticipate any capacity shortages this year, supported by strong growth.
- From the CY22 level, India annual production capacity increased by ~45% in CY24 and ~25% in CY23.

Sting

- Sting contributes ~15% of total volume, while the energy drink segment in India remains underpenetrated, accounting for only 5-6% of total beverage volume. VBL plans to expand its presence by continuously adding new products.
- The company is set to launch a new energy drink variant, Sting Gold, soon. Unlike Sting Blue, which was introduced as a limited edition for the World Cup, Sting Gold is planned as a long-term product.
- New products will provide customers with a wider variety of tastes and options, expanding choices in the energy drink market.

Others

- The no-sugar and low-sugar product mix is improving, with 7Up and Mirinda expanding into low and no-sugar variants, along with Sting offering low-sugar alternatives.
- Morocco is expected to generate ~USD25m-USD30m or more in revenue, with production starting in Jun'25.
- Zimbabwe and Zambia operations began in Feb'25, while the plant is set to commence production in 3QCY25.
- The Indorama JV capacity expansion is on track, with production set to begin in early 3QCY25. Once operational, VBL will have ample recycled products to meet its requirements.
- Currency devaluation in Africa is currently lower than in India. In cases of significant devaluation, costs are passed on to customers, while minor fluctuations have a minimal impact. Pricing adjustments and cost fluctuations are easily absorbed in the African markets.
- The company now has three backward-integrated facilities.

Valuation and view

- VBL is expected to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in Africa, 2) stable growth in the domestic market, 3) continued expansion in capacity and distribution reach (10% annual addition in outlets), and 4) growing refrigeration in rural and semi-rural areas.
- We expect a CAGR of 12%/11%/17% in revenue/EBITDA/PAT over CY24-26.
- We largely maintain our CY25/CY26 earnings estimates. **We value the stock at 55x CY26E EPS to arrive at a TP of INR680. We reiterate our BUY rating on the stock.**

Exhibit 11: Summary of our revised estimates

Earnings change (INRm)	Old		New		Change	
	CY25E	CY26E	CY25E	CY26E	CY25E	CY26E
Revenue	237,535	275,776	239,497	278,027	1%	1%
EBITDA	53,449	63,364	53,891	63,881	1%	1%
Adj. PAT	35,061	42,320	34,154	42,018	-3%	-1%

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26E
Total Income from Operations	71,296	64,501	88,232	131,731	160,426	200,077	239,497	278,027
Change (%)	39.7	-9.5	36.8	49.3	21.8	24.7	19.7	16.1
RM Cost	32,194	27,639	40,347	62,612	74,049	89,047	110,648	127,885
Employees Cost	8,108	8,897	10,077	12,166	14,466	18,850	21,076	24,188
Other Expenses	16,517	15,946	21,262	29,072	35,816	45,068	53,883	62,072
Total Expenditure	56,819	52,483	71,686	103,850	124,331	152,966	185,606	214,146
% of Sales	79.7	81.4	81.2	78.8	77.5	76.5	77.5	77.0
EBITDA	14,477	12,019	16,546	27,881	36,095	47,111	53,891	63,881
Margin (%)	20.3	18.6	18.8	21.2	22.5	23.5	22.5	23.0
Depreciation	4,886	5,287	5,313	6,172	6,809	9,474	11,028	12,128
EBIT	9,590	6,732	11,234	21,709	29,286	37,637	42,862	51,752
Int. and Finance Charges	3,096	2,811	1,847	1,861	2,681	4,504	911	48
Other Income	425	370	679	388	794	1,213	2,395	2,780
PBT bef. EO Exp.	6,919	4,290	10,066	20,236	27,398	34,346	44,347	54,484
EO Items	0	-665	0	0	0	0	0	0
PBT after EO Exp.	6,919	3,625	10,066	20,236	27,398	34,346	44,347	54,484
Total Tax	2,241	52	2,606	4,735	6,375	7,988	9,756	11,987
Tax Rate (%)	32.4	1.4	25.9	23.4	23.3	23.3	22.0	22.0
Share of profit from associates	44	0	0	0	-5	-15	0	0
Minority Interest	32	283	520	527	459	397	436	480
Reported PAT	4,690	3,290	6,941	14,974	20,559	25,946	34,154	42,018
Adjusted PAT	4,690	3,251	6,941	14,974	20,559	25,946	34,154	42,018
Change (%)	60.1	-30.7	113.5	115.8	37.3	26.2	31.6	23.0
Margin (%)	6.6	5.0	7.9	11.4	12.8	13.0	14.3	15.1

Consolidated - Balance Sheet

(INRm)

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26E
Equity Share Capital	2,887	2,887	4,330	6,496	6,496	6,763	6,763	6,763
Total Reserves	30,397	32,353	36,469	44,528	62,869	159,335	185,036	218,600
Net Worth	33,284	35,240	40,799	51,024	69,365	166,098	191,799	225,363
Minority Interest	307	648	1,168	1,131	1,482	1,298	1,734	2,214
Total Loans	34,172	32,059	33,418	36,948	51,944	23,643	643	643
Deferred Tax Liabilities	2,697	2,149	3,087	3,368	3,430	4,879	4,879	4,879
Capital Employed	70,459	70,096	78,473	92,471	126,221	195,918	199,055	233,099
Gross Block	87,203	90,086	94,420	106,807	128,385	185,018	216,018	225,018
Less: Accum. Deprn.	22,655	26,242	31,555	37,727	44,536	54,010	65,038	77,167
Net Fixed Assets	64,548	63,844	62,865	69,080	83,849	131,008	150,980	147,851
Goodwill on Consolidation	242	242	242	242	242	3,009	3,009	3,009
Capital WIP	638	668	4,966	6,066	19,222	11,667	667	667
Total Investments	0	0	0	0	211	595	595	595
Current Investments	0	0	0	0	211	0	0	0
Curr. Assets, Loans&Adv.	18,327	19,719	27,721	40,794	48,347	85,160	84,873	128,562
Inventory	8,815	9,288	14,481	19,939	21,505	27,912	32,104	37,040
Account Receivables	1,726	2,418	2,212	2,993	3,594	8,458	5,365	6,228
Cash and Bank Balance	1,711	1,901	3,366	2,853	4,599	24,501	25,849	60,271
Loans and Advances	6,076	6,113	7,661	15,009	18,649	24,288	21,555	25,022
Curr. Liability & Prov.	13,297	14,378	17,322	23,711	25,651	35,521	41,069	47,586
Account Payables	4,777	5,114	7,118	8,243	7,582	15,604	12,713	14,668
Other Current Liabilities	6,517	6,893	7,622	13,135	15,117	17,283	23,950	27,803
Provisions	2,003	2,371	2,583	2,333	2,952	2,633	4,407	5,116
Net Current Assets	5,031	5,342	10,399	17,083	22,696	49,639	43,804	80,976
Appl. of Funds	70,459	70,096	78,473	92,471	126,221	195,918	199,055	233,099

Financials and valuations

Ratios

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26E
Basic (INR)								
EPS	1.4	1.0	2.1	4.4	6.1	7.7	10.1	12.4
Cash EPS	2.8	2.5	3.6	6.3	8.1	10.5	13.4	16.0
BV/Share	9.8	10.4	12.1	15.1	20.5	49.1	56.7	66.6
DPS	0.2	0.2	0.3	0.7	1.0	2.5	2.5	2.5
Payout (%)	16.7	21.9	15.6	15.2	16.4	32.6	24.8	20.1
Valuation (x)								
P/E	395.5	570.6	267.3	123.9	90.2	71.5	54.3	44.1
Cash P/E	193.7	217.3	151.4	87.7	67.8	52.4	41.1	34.3
P/BV	55.7	52.6	45.5	36.4	26.7	11.2	9.7	8.2
EV/Sales	26.5	29.2	21.4	14.3	11.9	9.3	7.6	6.5
EV/EBITDA	130.4	156.9	114.0	67.8	52.7	39.4	34.0	28.1
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.5	0.5	0.5
FCF per share	1.7	1.7	0.9	0.1	-2.4	-1.1	9.3	11.9
Return Ratios (%)								
RoE	17.6	9.5	18.3	32.6	34.2	22.0	19.1	20.1
RoCE	11.8	10.4	12.5	20.9	22.1	19.2	18.5	20.3
RoIC	11.5	9.8	12.1	21.6	24.2	22.1	20.2	23.5
Working Capital Ratios								
Fixed Asset Turnover (x)	0.8	0.7	0.9	1.2	1.2	1.1	1.1	1.2
Asset Turnover (x)	1.0	0.9	1.1	1.4	1.3	1.0	1.2	1.2
Inventory (Days)	45	53	60	55	49	51	49	49
Debtor (Days)	9	14	9	8	8	15	8	8
Creditor (Days)	24	29	29	23	17	28	19	19
Leverage Ratio (x)								
Current Ratio	1.4	1.4	1.6	1.7	1.9	2.4	2.1	2.7
Interest Cover Ratio	3.1	2.4	6.1	11.7	10.9	8.4	47	1,073.7
Net Debt/Equity	1.0	0.9	0.7	0.7	0.7	0.0	-0.1	-0.3

Consolidated - Cash Flow Statement

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26E
(INRm)								
OP/(Loss) before Tax	6,919	3,625	10,066	20,236	27,398	34,346	44,347	54,484
Depreciation	4,826	5,287	5,313	6,172	6,809	9,474	11,028	12,128
Interest & Finance Charges	2,948	2,730	1,850	1,854	2,681	4,504	-1,484	-2,732
Direct Taxes Paid	-1,201	-775	-1,242	-3,733	-6,679	-7,276	-9,756	-11,987
(Inc)/Dec in WC	-828	-1,109	-2,688	-5,851	-6,735	-6,694	7,183	-2,751
CF from Operations	12,664	9,758	13,299	18,678	23,474	34,354	51,318	49,144
Others	411	362	-985	-778	434	-543	0	0
CF from Operating incl EO	13,075	10,120	12,314	17,900	23,908	33,811	51,318	49,144
(Inc)/Dec in FA	-7,331	-4,282	-9,229	-17,499	-31,939	-37,404	-20,000	-9,000
Free Cash Flow	5,744	5,838	3,085	401	-8,031	-3,593	31,318	40,144
(Pur)/Sale of Investments	0	0	0	0	-216	-6,418	0	0
Others	-15,862	-429	-877	453	-743	654	2,395	2,780
CF from Investments	-23,193	-4,711	-10,106	-17,046	-32,898	-43,168	-17,605	-6,220
Issue of Shares	9,002	0	0	0	44	267	0	0
Inc/(Dec) in Debt	6,487	-2,130	1,286	3,396	15,064	-35,516	-23,000	0
Interest Paid	-3,011	-2,774	-1,791	-1,717	-2,694	-4,650	-911	-48
Dividend Paid	-690	-722	-1,083	-1,624	-2,273	-3,248	-8,454	-8,454
Others	-894	407	845	-1,423	596	72,405	0	0
CF from Fin. Activity	10,893	-5,219	-743	-1,368	10,737	29,259	-32,364	-8,502
Inc/Dec of Cash	776	190	1,465	-513	1,747	19,902	1,348	34,422
Opening Balance	935	1,711	1,901	3,366	2,852	4,599	24,501	25,849
Closing Balance	1,711	1,901	3,366	2,852	4,599	24,501	25,849	60,271

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