

Exponential trends in India; maintain ADD on outperformance

Retail ▶ Result Update ▶ May 14, 2024

TARGET PRICE (Rs): 1,650

VBL's Q4 EBITDA was 8-13% ahead of estimates, led by better margins as revenue was in-line. Trends for the peak summer season remain robust, with 100% utilization of enhanced capacity in Apr-24 (which is up ~40% vs. the CY22 season). Given VBL's strong track-record of successful turnarounds for Pepsico, the acquired South Africa business (SA) improves VBL's medium-term growth profile, as Pepsico's market share is in a low single-digit in this large 1bn case market. Further, traction in DRC (Africa) and expanding engagement in Pepsico's foods business remain potential upsides. Our EPS estimates increase by 5-9% on strong trends and margin beat in the India business. Though consolidation of the SA business drives a ~9% increase in revenue estimate, we believe EPS contribution will be largely neutral for the forecasted period. We increase our multiple by ~10%, which is largely attributable to value creation in the SA market; maintain ADD with TP of Rs1,650 (Rs1,500 earlier).

Varun Beverages: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Revenue	131,731	160,426	213,280	267,042	321,657
EBITDA	27,881	36,095	48,663	61,710	75,567
Adj. PAT	14,975	20,559	27,440	36,596	48,181
Adj. EPS (Rs)	11.5	15.8	21.1	28.2	37.1
EBITDA margin (%)	21.2	22.5	22.8	23.1	23.5
EBITDA growth (%)	68.5	29.5	34.8	26.8	22.5
Adj. EPS growth (%)	115.8	37.3	33.5	33.4	31.7
RoE (%)	32.6	34.2	33.9	33.8	33.4
RoIC (%)	20.9	23.2	24.8	27.4	32.1
P/E (x)	128.2	93.4	69.9	52.4	39.8
EV/EBITDA (x)	70.2	54.6	40.7	31.7	25.5
P/B (x)	37.6	27.7	20.7	15.5	11.6
FCFF yield (%)	0.1	(0.4)	0.0	1.6	2.1

Source: Company, Emkay Research

Better margin drives 14% PAT beat in Q1; capacity ready for current season:

VBL posted a tepid but in-line sales growth of 11% in Q1, led by 7%/4% growth in volume/realization. Among geographies, India reported 7% growth, whereas the intl. business grew higher, at 30%. India/Intl. volumes were up 4%/22%. Realization increased 2%/6% for India/Intl. business, likely led by a higher mix of smaller SKUs. India volume was impacted by postponement of the *Holi* festival and preponement of *Eid*. However, this should translate into stronger sales in the peak summer season. Among categories, carbonate/juice volumes grew 6%/5%, whereas water volumes saw higher growth, at 10%. EBITDA margin improved by 240bps to 22.9% (~270bps higher vs Emkay Est.), largely led by ~390bps improvement in gross margin, partially offset by higher operating expenses. Higher gross margins were a result of favorable PET prices, light-weighting of PET bottles, and reducing sugar content. Low/no-sugar products contributed 46% to sales. Among geographies, India's EBITDA margin (standalone) improved by 290bps, whereas subsidiary margin (consol-standalone) was up by 50bps.

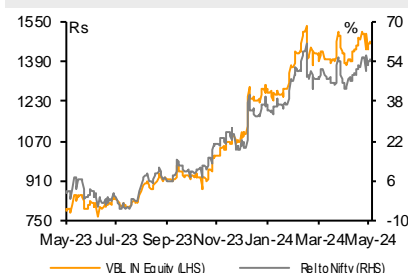
Earnings call KTAs: 1) Q1TD trends remain encouraging, in view of the on-going heat wave and election-related events. 2) All the 3 new plants (Supa-Maharashtra, Gorakhpur-UP and Khurda-Orissa) commenced operations in April; encouragingly, VBL has been operating at full utilization, to cater to demand and avoid stock-out scenarios. 3) International growth was led by Morocco and Zimbabwe. 4) Capex for CY24 is estimated at ~Rs24bn for Gorakhpur, Khurda, DRC and Brownfield expansion. In addition, VBL made an investment of Rs13bn for acquisition of the SA business (Bevco); VBL will be watchful about utilization in the CY24 season, to decide the CY25 capex. 5) Depreciation is likely to remain in line with historical trends, at 4.0-4.5% of sales. 6) VBL is focused on attaining better traction in *Gatorade* with renewed focus from Pepsico on pack-size correction, price correction, and permission to produce the product from more plants. 7) VBL plans to replicate its Morocco, Zimbabwe success in SA via Bevco, with focus on improving market share and profitability. 8) VBL has reached 89% of Low/No sugar sales in Africa, and Morocco is following the same path. Focus remains on increasing this in India too (~46% currently). 9) VBL aims to reduce debt to CY23 levels by CY24-end. 10) VBL has put 2 lines with 35-40mn case capacity in DRC which is likely to serve a population of ~100mn. 11) VBL acquired 5 plants from Bevco, all being operational; however, it is optimizing these plants aiming for full utilization before the season starts in Sep-24. 12) Cost of borrowing increased to 8.0% vs 7.7% earlier. 13) VBL secured the rights to produce and package *Cheetos* for the Morocco region, and is likely to set up a plant for this by May-25. In line with its Morocco operations, VBL has also formed a foods subsidiary in Zimbabwe.

Target Price – 12M	Mar-25
Change in TP (%)	10.0
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	11.7
CMP (13-May-24) (Rs)	1,477.3

Stock Data	Ticker
52-week High (Rs)	1,562
52-week Low (Rs)	754
Shares outstanding (mn)	1,299.4
Market-cap (Rs bn)	1,920
Market-cap (USD mn)	22,982
Net-debt, CY24E (Rs mn)	60,622
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	2,995.6
ADTV-3M (USD mn)	35.9
Free float (%)	36.0
Nifty-50	22,104
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	62.9
FPIs/MFs (%)	25.8/4.2

Price Performance	1M	3M	12M
(%)			
Absolute	6.6	5.9	89.9
Rel. to Nifty	8.6	4.2	57.3

1-Year share price trend (Rs)



Devanshu Bansal

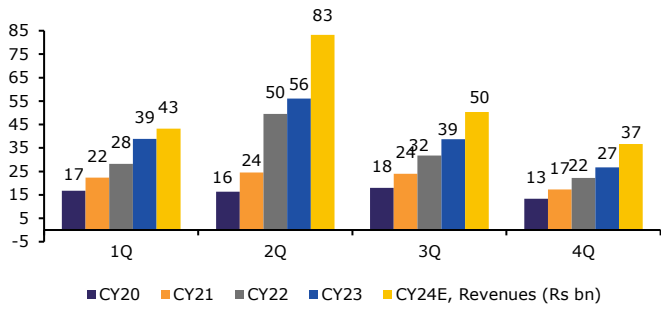
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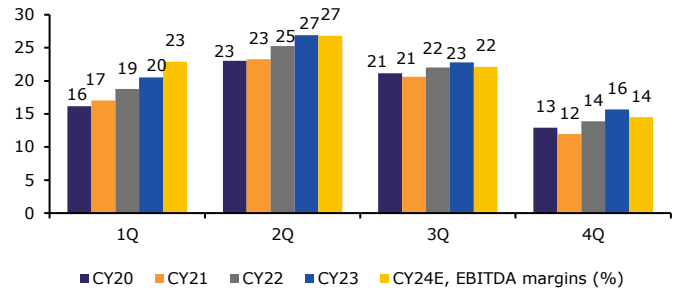
Story in Charts

Exhibit 1: Revenue grew 11% in Q1; strong trends in peak summer season and consolidation of the SA business should lead to higher growth in coming quarters



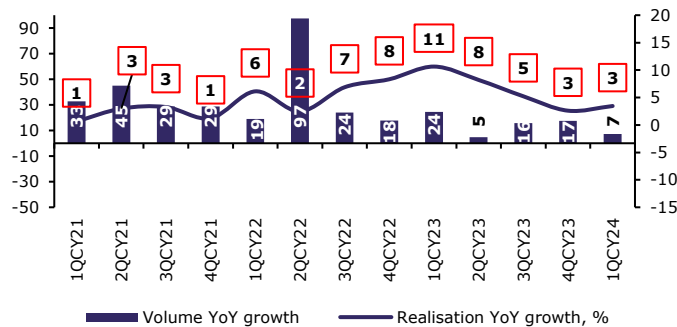
Source: Company, Emkay Research

Exhibit 2: EBITDA margin inched up by 240bps in Q1; consolidation of the SA business is likely to offset the margin gains in India, going ahead



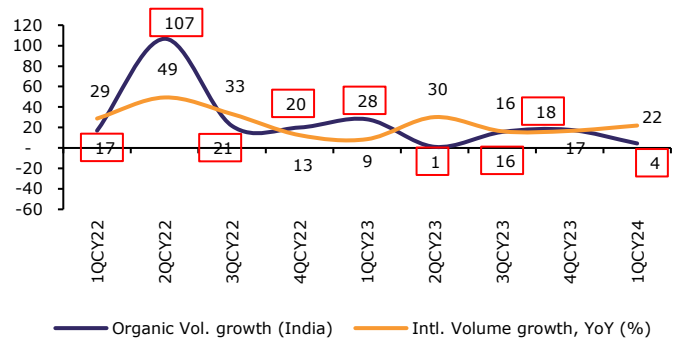
Source: Company, Emkay Research

Exhibit 3: Q1 volume growth at 7% was low due to adverse shift in festivals; positive impact of this should be visible in Q2



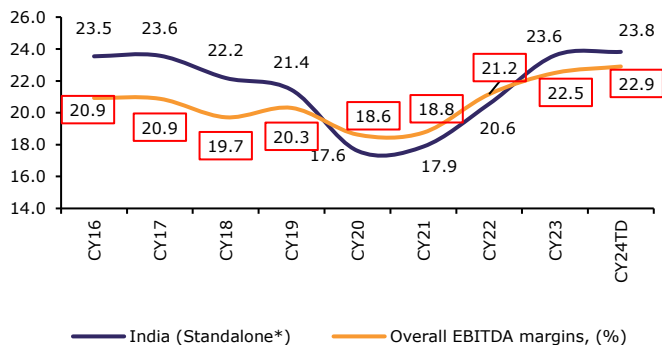
Source: Company, Emkay Research

Exhibit 4: Demand remains stable in International geographies, as volume grew 22%



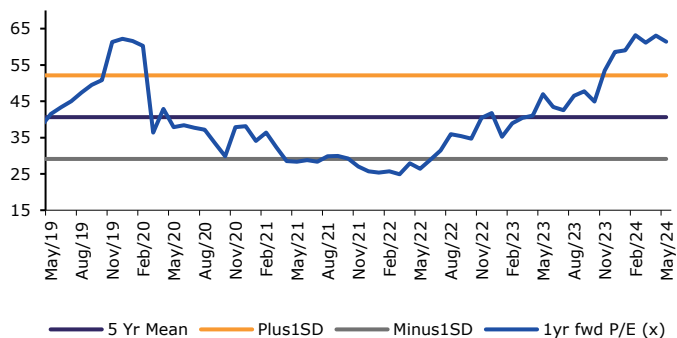
Source: Company, Emkay Research

Exhibit 5: Consolidated margin improved by 40bps in CY24TD, led by 20bps improvement in India operations



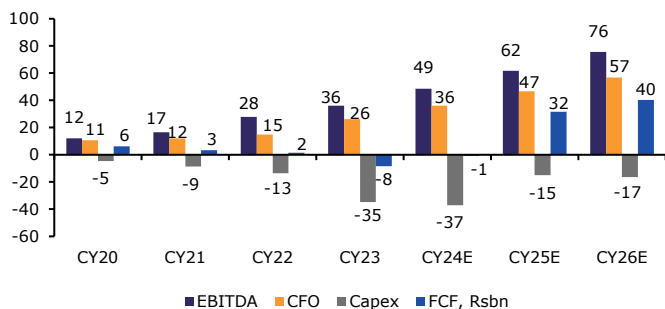
Source: Company, Emkay Research

Exhibit 6: VBL's one-year forward P/E



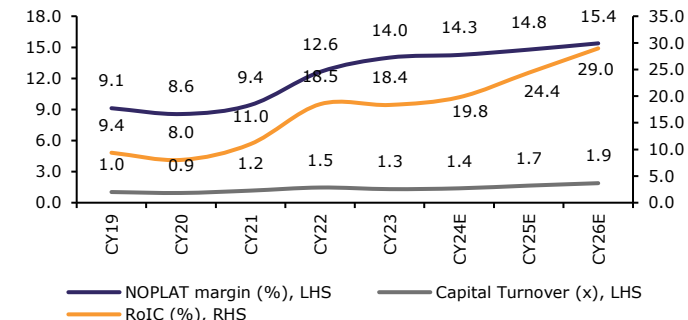
Source: Company, Emkay Research

Exhibit 7: FCF should continue improving, despite the strong expansion plans



Source: Company, Emkay Research

Exhibit 8: Asset turnover and margin improvement should lead to sustained improvement in RoIC



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q1CY24)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	43,173	43,343	43,720	0%	-1%	Topline was in line with estimates
EBITDA	9,888	8,741	9,162	13%	8%	EBITDA margin is higher, led by ~330bps higher gross margin vs expectations.
EBITDA Margin	22.9%	20.2%	21.0%	273 bps	195 bps	
PAT	5,373	4,703	5,184	14%	4%	PAT beat on account of better margin performance; partially offset by higher interest expense

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, March (Rs mn)	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	YoY%	QoQ%	CY24TD	CY23TD	YoY%
Sales	38,930	56,114	38,705	26,677	43,173	10.9	61.8	43,173	38,930	10.9
Cost of Revenue	18,517	26,666	17,297	11,569	18,875	1.9	63.2	18,875	18,517	1.9
As a % of sales	47.6	47.5	44.7	43.4	43.7			43.7	47.6	
Employee Cost	3,391	3,646	3,716	3,713	3,937	16.1	6.0	3,937	3,391	16.1
As a % of sales	8.7	6.5	9.6	13.9	9.1			9.1	8.7	
Other Expenses	9,041	10,692	8,871	7,212	10,473	15.8	45.2	10,473	9,041	15.8
As a % of sales	23.2	19.1	22.9	27.0	24.3			24.3	23.2	
Total Expenditure	30,949	41,004	29,884	22,494	33,286	7.5	48.0	33,286	30,949	7.5
EBITDA	7,980	15,110	8,821	4,183	9,888	23.9	136.4	9,888	7,980	23.9
Depreciation	1,722	1,719	1,708	1,660	1,875	8.9	13.0	1,875	1,722	8.9
EBIT	6,258	13,391	7,113	2,523	8,012	28.0	217.6	8,012	6,258	28.0
Other Income	101	416	185	91	84	-17.6	-8.4	84	101	-17.6
Interest cost	626	694	625	737	937	49.7	27.2	937	626	49.7
PBT	5,734	13,113	6,673	1,878	7,159	24.9	281.3	7,159	5,734	24.9
Tax	1,348	3,057	1,529	442	1,678	24.5	279.4	1,678	1,348	24.5
PAT before Minority	4,386	10,057	5,145	1,436	5,481	25.0	281.8	5,481	4,386	25.0
Minority Interest	-95	-119	-134	-116	-109	14.8	-6.1	-109	-95	14.8
Exceptional Items	0	0	0	0	0			0	0	
Reported PAT	4,291	9,938	5,011	1,320	5,373	25.2	307.1	5,373	4,291	25.2
Reported EPS (Rs)	3.3	7.6	3.9	1.0	4.1	25.2	307.1	4.1	3.3	25.2

(%)	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	YoY (bps)	QoQ (bps)	CY24TD	CY23TD	YoY (bps)
EBITDA margin	20.5	26.9	22.8	15.7	22.9	240.0	720.0	22.9	20.5	240.0
EBIT margin	16.1	23.9	18.4	9.5	18.6	250.0	910.0	18.6	16.1	250.0
EBT margin	14.7	23.4	17.2	7.0	16.6	190.0	950.0	16.6	14.7	190.0
PAT margin	11.3	17.9	13.3	5.4	12.7	140.0	730.0	12.7	11.3	140.0
Effective Tax rate	23.5	23.3	22.9	23.5	23.4	-10.0	-10.0	23.4	23.5	-10.0

Source: Company, Emkay Research

Exhibit 11: Changes in estimates

(Rs mn)	CY24E			CY25E			CY26E		
	Old	New	% change	Old	New	Change (%)	Old	New	Change (%)
Revenue	199,628	213,280	6.8	244,155	267,042	9.4	293,129	321,657	9.7
EBITDA	45,503	48,663	6.9	56,456	61,710	9.3	68,632	75,567	10.1
EBITDA margin (%)	22.8	22.8	0 bps	23.1	23.1	0 bps	23.4	23.5	10 bps
Net profit	26,524	27,440	3.5	34,862	36,596	5.0	44,115	48,181	9.2
EPS (Rs)	20.4	21.1	3.5	26.8	28.2	5.0	34.0	37.1	9.2

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	CY18	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
CSD* (mn cases)	257	347	309	400	563	657	912	1,117	1,309
JNSD** (mn cases)	22	33	26	36	58	58	84	110	138
Water (mn cases)	61	111	90	132	181	199	204	242	276
Total Volume (mn cases)	340	491	425	568	802	914	1,200	1,470	1,722
Revenue/Case (Rs)	150	145	152	155	164	176	178	182	187
EBITDA/Case (Rs)	30	29	28	29	35	39	41	42	44

Source: Company, Emkay Research; *CSD is Carbonated soft drinks, **JNSD is juices, nectars, and still drinks

Exhibit 13: Peer Comparison

Companies	Closing price (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV / EBITDA (x)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,254	2,889	Buy	4,150	39.4	49.7	63.5	82.6	65.5	51.3	54.9	43.3	34.9
Page Industries	35,147	392	Reduce	36,300	527.9	609.4	725.5	66.6	57.7	48.4	42.5	37.3	31.7
Jubilant FoodWorks	472	312	Sell	420	4.3	5.3	6.7	108.8	89.1	70.2	27.4	23.8	20.4
Devyani International	155	187	Reduce	165	0.7	1.5	2.3	234.6	102.4	66.9	29.4	22.6	17.6
ABFRL	254	258	Reduce	230	-5.6	-4.4	-2.2	-45.0	-57.7	-113.2	18.3	12.8	10.0
Westlife Foodworld	828	129	Reduce	875	4.4	3.6	9.6	186.5	232.8	86.0	35.1	33.6	23.5
Sapphire Foods	1,376	88	Add	1,600	8.2	11.3	25.1	168.3	121.2	54.8	18.6	15.7	11.6
Go Fashion	958	52	Buy	1,300	15.3	18.9	26.3	62.5	50.7	36.4	20.6	17.6	13.6
Ethos	2,313	57	Buy	2,950	34.0	42.5	55.7	68.0	54.4	41.5	35.5	28.0	20.5
Senco Gold	837	65	Buy	1,100	23.4	29.8	37.7	35.8	28.1	22.2	18.6	15.1	12.3
Varun Beverages	1,477	1,920	Add	1,650	15.8	21.1	28.2	93.4	69.9	52.4	54.3	40.3	31.8
Aditya Vision	3,488	45	Buy	5,150	66.6	93.2	133.7	52.4	37.4	26.1	27.8	20.9	15.6

Source: Company, Emkay Research; *Post-IndAS116 EBITDA

Varun Beverages: Consolidated Financials and Valuations

Profit and Loss					
Y/E Dec (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Revenue	131,731	160,426	213,280	267,042	321,657
Revenue growth (%)	49.3	21.8	32.9	25.2	20.5
EBITDA	27,881	36,095	48,663	61,710	75,567
EBITDA growth (%)	68.5	29.5	34.8	26.8	22.5
Depreciation & Amortization	6,172	6,809	8,891	10,123	10,883
EBIT	21,710	29,286	39,773	51,588	64,684
EBIT growth (%)	93.3	34.9	35.8	29.7	25.4
Other operating income	0	0	0	0	0
Other income	388	794	350	385	424
Financial expense	1,861	2,681	3,593	3,408	1,327
PBT	20,237	27,398	36,529	48,564	63,780
Extraordinary items	0	0	0	0	0
Taxes	4,735	6,375	8,584	11,413	14,988
Minority interest	(527)	(459)	(505)	(555)	(611)
Income from JV/Associates	0	(5)	0	0	0
Reported PAT	14,975	20,559	27,440	36,596	48,181
PAT growth (%)	115.8	37.3	33.5	33.4	31.7
Adjusted PAT	14,975	20,559	27,440	36,596	48,181
Diluted EPS (Rs)	11.5	15.8	21.1	28.2	37.1
Diluted EPS growth (%)	115.8	37.3	33.5	33.4	31.7
DPS (Rs)	1.2	1.7	3.2	4.2	5.6
Dividend payout (%)	10.8	11.1	15.0	15.0	15.0
EBITDA margin (%)	21.2	22.5	22.8	23.1	23.5
EBIT margin (%)	16.5	18.3	18.6	19.3	20.1
Effective tax rate (%)	23.4	23.3	23.5	23.5	23.5
NOPLAT (pre-IndAS)	16,630	22,471	30,426	39,465	49,483
Shares outstanding (mn)	1,299.1	1,299.2	1,299.1	1,299.1	1,299.1

Source: Company, Emkay Research

Cash Flows					
Y/E Dec (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
PBT	20,237	27,398	36,529	48,564	63,780
Others (non-cash items)	6,172	6,809	8,891	10,123	10,883
Taxes paid	(4,478)	(6,314)	(8,070)	(10,821)	(14,308)
Change in NWC	(8,782)	(4,339)	(4,832)	(4,663)	(4,908)
Operating cash flow	15,010	26,235	36,111	46,612	56,775
Capital expenditure	(13,487)	(34,734)	(37,000)	(15,000)	(16,500)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	(13,487)	(34,945)	(37,000)	(15,000)	(16,500)
Equity raised/(repaid)	0	1	0	0	0
Debt raised/(repaid)	3,529	14,996	5,000	(23,000)	(32,500)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,861)	(2,681)	(3,593)	(3,408)	(1,327)
Dividend paid (incl tax)	(1,624)	(2,273)	(4,116)	(5,489)	(7,227)
Others	(2,081)	414	1,165	918	886
Financing cash flow	(2,037)	10,456	(1,545)	(30,980)	(40,169)
Net chg in Cash	(514)	1,746	(2,433)	631	106
OCF	15,010	26,235	36,111	46,612	56,775
Adj. OCF (w/o NWC chg.)	23,792	30,575	40,943	51,274	61,682
FCFF	1,523	(8,499)	(889)	31,612	40,275
FCFE	(338)	(11,180)	(4,482)	28,203	38,948
OCF/EBITDA (%)	53.8	72.7	74.2	75.5	75.1
FCFE/PAT (%)	(2.3)	(54.4)	(16.3)	77.1	80.8
FCFF/NOPLAT (%)	9.2	(37.8)	(2.9)	80.1	81.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Dec (Rs mn)	CY22	CY23	CY24E	CY25E	CY26E
Share capital	6,496	6,496	6,496	6,496	6,496
Reserves & Surplus	44,528	62,869	86,193	117,300	158,254
Net worth	51,024	69,365	92,689	123,796	164,750
Minority interests	1,131	1,482	1,482	1,482	1,482
Deferred tax liability (net)	3,368	3,430	3,945	4,536	5,217
Total debt	40,649	56,118	62,787	41,260	10,256
Total liabilities & equity	96,173	130,394	160,902	171,074	181,705
Net tangible fixed assets	63,571	78,378	106,427	111,258	116,850
Net intangible assets	5,509	5,471	5,531	5,578	5,603
Net ROU assets	0	0	0	0	0
Capital WIP	6,066	19,222	19,222	19,222	19,222
Goodwill	242	242	242	242	242
Investments [JV/Associates]	0	211	211	211	211
Cash & equivalents	2,853	4,599	2,165	2,797	2,903
Current assets (ex-cash)	37,941	43,748	55,385	66,969	78,907
Current Liab. & Prov.	20,010	21,478	28,282	35,203	42,234
NWC (ex-cash)	17,932	22,271	27,103	31,766	36,673
Total assets	96,173	130,394	160,902	171,074	181,705
Net debt	37,797	51,519	60,622	38,463	7,354
Capital employed	96,173	130,394	160,902	171,074	181,705
Invested capital	87,254	106,363	139,304	148,844	159,369
BVPS (Rs)	39.3	53.4	71.3	95.3	126.8
Net Debt/Equity (x)	0.7	0.7	0.7	0.3	0.0
Net Debt/EBITDA (x)	1.4	1.4	1.2	0.6	0.1
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
RoCE (%)	25.0	26.6	27.5	31.3	36.9

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Dec	CY22	CY23	CY24E	CY25E	CY26E
P/E (x)	128.2	93.4	69.9	52.4	39.8
P/CE(x)	90.8	70.1	52.8	41.1	32.5
P/B (x)	37.6	27.7	20.7	15.5	11.6
EV/Sales (x)	14.9	12.3	9.3	7.3	6.0
EV/EBITDA (x)	70.2	54.6	40.7	31.7	25.5
EV/EBIT(x)	90.1	67.3	49.8	37.9	29.8
EV/IC (x)	22.4	18.5	14.2	13.2	12.1
FCFF yield (%)	0.1	(0.4)	0.0	1.6	2.1
FCFE yield (%)	0.0	(0.6)	(0.2)	1.5	2.0
Dividend yield (%)	0.1	0.1	0.2	0.3	0.4
DuPont-RoE split					
Net profit margin (%)	11.4	12.8	12.9	13.7	15.0
Total asset turnover (x)	1.5	1.4	1.5	1.6	1.8
Assets/Equity (x)	1.9	1.9	1.8	1.5	1.2
RoE (%)	32.6	34.2	33.9	33.8	33.4
DuPont-RoIC					
NOPLAT margin (%)	12.6	14.0	14.3	14.8	15.4
IC turnover (x)	1.7	1.7	1.7	1.9	2.1
RoIC (%)	20.9	23.2	24.8	27.4	32.1
Operating metrics					
Core NWC days	6.2	9.3	10.1	10.6	10.8
Total NWC days	49.7	50.7	46.4	43.4	41.6
Fixed asset turnover	1.3	1.4	1.5	1.6	1.7
Opex-to-revenue (%)	31.3	31.3	31.9	31.7	31.5

Source: Company, Emkay Research

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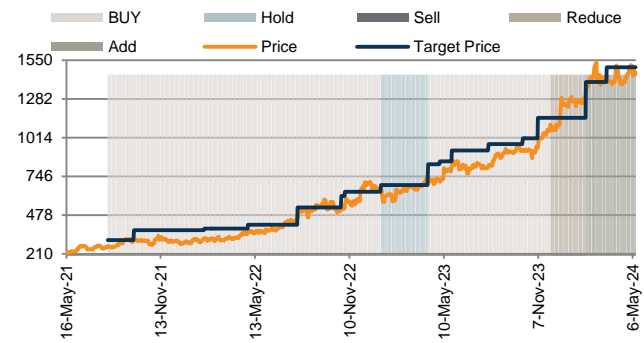
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Apr-24	1,494	1,500	Add	Devanshu Bansal
17-Mar-24	1,434	1,500	Add	Devanshu Bansal
06-Feb-24	1,347	1,400	Add	Devanshu Bansal
10-Jan-24	1,269	1,150	Reduce	Devanshu Bansal
20-Dec-23	1,253	1,150	Reduce	Devanshu Bansal
30-Nov-23	1,105	1,150	Reduce	Devanshu Bansal
06-Nov-23	946	1,150	Buy	Devanshu Bansal
08-Oct-23	927	1,010	Buy	Devanshu Bansal
03-Aug-23	823	970	Buy	Devanshu Bansal
10-Jul-23	812	925	Buy	Devanshu Bansal
25-May-23	809	925	Buy	Devanshu Bansal
02-May-23	708	850	Buy	Devanshu Bansal
09-Apr-23	697	830	Buy	Devanshu Bansal
06-Feb-23	611	685	Hold	Devanshu Bansal
09-Jan-23	654	685	Hold	Devanshu Bansal
01-Nov-22	554	640	Buy	Devanshu Bansal
25-Oct-22	516	610	Buy	Devanshu Bansal
02-Aug-22	458	530	Buy	Devanshu Bansal
29-Apr-22	361	410	Buy	Devanshu Bansal
08-Apr-22	321	383	Buy	Devanshu Bansal
20-Mar-22	316	383	Buy	Devanshu Bansal
04-Feb-22	317	383	Buy	Devanshu Bansal
29-Oct-21	283	373	Buy	Devanshu Bansal
22-Sep-21	305	373	Buy	Devanshu Bansal
03-Aug-21	263	305	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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