

Temporary Topline Blip, Long-Term Growth Intact; Maintain BUY
Est. Vs. Actual for Q2CY25: Revenue – **BEAT** ; EBITDA – **BEAT** ; PAT – **BEAT**
Changes in Estimates post Q2CY25
CY25E/CY26E: Revenue: -4%/-4%; EBITDA: -2%/-1%; PAT:-2%/-2%

Recommendation Rationale

- **Volume Dips, but Global Growth Cushions the Blow:** In Q2CY25, the company's consolidated sales volume declined 3% YoY to ~390 Mn cases. In India, volumes were adversely impacted by abnormally high and unseasonal rainfall throughout the quarter, leading to a 7.1% decline. However, this was partially offset by strong performance in international markets, where volumes grew 15.1%, led by a 16.1% increase in South Africa. Realisation per case at the consolidated level rose by 0.5%, supported by a 6.6% improvement in international markets.
- **Margin Performance:** EBITDA margin expanded 82 bps YoY to 28.5% in Q2CY25, despite elevated fixed costs from newly commissioned greenfield plants that are yet to ramp up volumes. The margin improvement was supported by operational efficiencies, stronger international currencies, and deeper backward integration. Low- and no-sugar products accounted for 55% of the total sales volume.
- **Manufacturing Footprint Expansion:** The newly commissioned greenfield plants at Prayagraj, Damtal, Buxar, and Mendi Pathar are expected to bolster capacity and improve logistics efficiency in high-potential, under-penetrated markets. Coupled with an increased deployment of distribution assets such as visi-coolers, this expanded footprint strategically positions VBL to capture the anticipated demand recovery and support sustained, profitable growth.

Sector Outlook: Positive

Company Outlook & Guidance: Despite temporary disruption from unseasonal rains during peak summer, VBL's structural growth drivers remain intact. We expect the company to sustain strong momentum over the medium to long term and **maintain our BUY rating on the stock.**

Current Valuation: 38xMar-27EPS (Earlier: 42xMar-27EPS)

Current TP: Rs 590/share (Earlier TP: Rs 650/ share)

Recommendation: With a 15% upside potential from the CMP, we **maintain** our **BUY** rating on the stock.

Financial Performance

Revenue declined by 2.5% YoY in Q2CY25, impacted by the unusual early onset of monsoon rains across India. Consolidated sales volumes dropped 3% YoY to 389.7 Mn cases, with a 7.1% decline in India partly offset by a 15.1% growth in international markets. Realisation per case at the consolidated level improved marginally by 0.5% YoY, aided by a favourable product mix internationally. Gross margins contracted by 17 bps YoY to 54.5%. However, EBITDA margin expanded by 82 bps YoY to 28.5%, driven by operational efficiencies. PAT grew 5% YoY to Rs 1,317 Cr, primarily supported by lower finance costs.

Outlook: VBL is expected to sustain its strong growth momentum supported by multiple strategic drivers. These include: 1) The successful acquisition of BevCo, strengthening its footprint in South Africa and DRC; 2) Expansion of its snacks portfolio beyond India, particularly in Zimbabwe and Zambia; 3) Continued efforts to enhance distribution reach, with a focus on rural penetration; 4) Commissioning of several greenfield and brownfield facilities, boosting manufacturing capacity and market access while optimising logistics costs; and 5) Ongoing expansion of the high-margin Sting energy drink, coupled with a sharper focus on value-added dairy, sports drinks (Gatorade), and juice categories. These initiatives are expected to reinforce the company's long-term growth trajectory and profitability.

Key Financials (Consolidated)

(Rs Cr)	Q2CY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	7,017	26.1	(2.5)	6,937	1.2
EBITDA	1,999	58.1	0.4	1,732	15.4
EBITDA Margin (%)	28.5	578bps	82bps	25.0	352bps
Net Profit	1,317	81.3	5.1	1,127	16.8
EPS (Rs)	3.9	81.3	1.1	3.5	12.3

Source: Company, Axis Research

 (CMP as of 29th July 2025)

CMP (Rs)	512
Upside /Downside (%)	15%
High/Low (Rs)	682/419
Market cap (Cr)	1,73,221
Avg. daily vol.(6m) Shrs	9,390
No. of shares (Cr)	338

Shareholding (%)

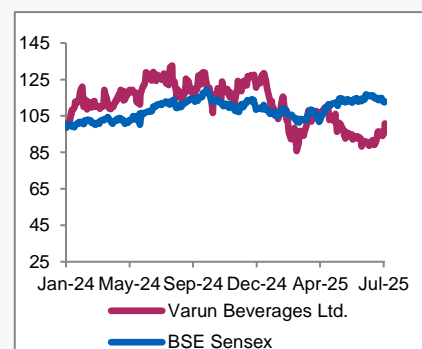
	Dec-24	Mar-25	Jun-25
Promoter	60.2	60.2	59.8
FII's	25.3	23.0	21.9
MFs / UTI	4.1	5.8	6.5
FIs/Banks	0.1	0.0	0.1
Others	10.4	11.0	11.8

Financial & Valuations

Y/E Dec (Rs Cr)	CY25E	CY26E	CY27E
Net Sales	23,519	29,141	36,105
EBITDA	5,600	7,021	8,783
Net Profit	3,498	4,584	5,885
EPS (Rs)	10.3	13.6	17.4
PER (x)	49.5	37.8	29.4
EV/EBITDA (x)	30.6	24.0	18.7
P/BV (x)	9.0	7.5	6.2
ROE (%)	18.2	19.9	21.0

Change in Estimates (%)

Y/E Dec	CY25E	CY26E
Sales	-4%	-4%
EBITDA	-2%	-1%
PAT	-2%	-2%

Relative Performance


Source: Ace Equity, Axis Securities

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Other Concall Highlights

H1CY25 Capex Update

During H1CY25, Varun Beverages capitalized net assets worth ~Rs 2,500 Cr, largely driven by:

- Rs 1,450 Cr for setting up four greenfield plants in Prayagraj, Buxar, Damtal, and Mendipathar.
- Rs 120 Cr for brownfield expansion in Sricity (India).
- Rs 450 Cr in international markets, backward integration in DRC, a snacks plant in Morocco, and a canning line in South Africa.

Remaining capex was directed towards visi-coolers, glass bottles, pallets, vehicles, and logistics. As of June 30, 2025, CWIP stood at ~Rs 600 Cr, mainly for Phase II work at greenfield expansion in India and the upcoming snacks plant in Zimbabwe. The investments reflect VBL's strategy of expanding capacity, strengthening backward integration, and scaling international operations.

New Capacity additions in Q2CY25

VBL commissioned new production facilities across four greenfield locations in India:

- Prayagraj (UP): 4 CSD lines, 1 JBD line, and 1 water line
- Damtal (HP): 2 CSD lines, 1 JBD line
- Buxar (Bihar): 2 CSD lines, 2 JBD lines, 1 water line
- Mendipathar (Meghalaya): 2 CSD lines, 2 JBD lines

Additionally, commercial production of PepsiCo's snacks brand Cheetos commenced at VBL's Morocco facility during the quarter ended 30 June 2025.

Distribution Expansion

VBL currently reaches ~4 Mn outlets and aims to expand its footprint by 10% in CY25, adding 3–4 Lc outlets. The year-end target is expected to be slightly below 4.3–4.4 Mn outlets, reflecting steady progress in market penetration.

International Business

Zimbabwe's performance is stabilising after a temporary dip caused by sugar tax and price hikes, with volumes returning to normal and growth expected in the upcoming quarter. The snacks plant in Morocco commenced production in June and received a positive market response. Zimbabwe's snacks plant is set to begin operations by October–November, with distribution already started in Zimbabwe and Zambia. Other international markets—including Morocco, South Africa, Zambia, and DRC—are performing well, supporting VBL's overall global growth momentum.

Beverage mix

For Q2CY25, CSG's non-carbonated beverages accounted for 75% of total sales, with packaged drinking water contributing 18%. Further, in Q2CY25, CSD salience declined, impacted by unseasonal rains and fewer outdoor events. As per the management, contrary to expectations, smaller packs continued to perform well due to attractive price points, while larger pack sales saw a sharper decline, affecting overall ASP. The trend reflects a shift in consumption patterns amid subdued out-of-home occasions.

Strategic JV for Cooling Infrastructure Expansion in India

VBL has entered into a 50:50 joint venture with Everest International Holdings, a Sri Lankan-based company, to incorporate White Peak Refrigeration Pvt. Ltd. in India. The new entity will operate in the visi-cooler and refrigeration equipment manufacturing space to strengthen VBL's cooling infrastructure, particularly for South and West India. The JV will have a total paid-up capital of Rs 42.5 Cr, with both partners subscribing equally (Rs 21.25 Cr each) in cash at a face value of Rs 10 per share.

Key Risks to Our Estimates and TP

- Increase in competitive intensity, RM inflation, weakening of the demand environment, and forex fluctuations

Change in Estimates

	Old estimates		Revised estimates		% Change	
	CY25E	CY26E	CY25E	CY26E	CY25E	CY26E
Sales	24,447	30,290	23,519	29,141	-4%	-4%
EBITDA	5,687	7,127	5,600	7,021	-2%	-1%
PAT	3,564	4,668	3,498	4,584	-2%	-2%
EPS	11	14	10	14	-6%	-3%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q2CY24	Q1CY25	Axis Sec Est.	Q2CY25	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
Total Revenue	7,197	5,567	6,937	7,017	(2.5)	26.1	1.2
COGS	3,261	2,529	3,163	3,191	(2.1)	26.2	0.9
Gross Profit	3,936	3,038	3,774	3,826	(2.8)	26.0	1.4
GM%	54.7	54.6	54.4	54.5	-17bps	-4bps	12bps
Expenditure							
Employee expenses	499	512	524	550	10.1	7.5	4.8
Other Exp	1,446	1,262	1,518	1,278	(11.6)	1.2	(15.8)
Total Expenditure	5,206	4,303	5,205	5,019	(3.6)	16.6	(3.6)
EBIDTA	1,991	1,264	1,732	1,999	0.4	58.1	15.4
EBITDA Margin (%)	27.7	22.7	25.0	28.5	82bps	578bps	352bps
Depreciation	242	273	286	306	26.3	12.3	7.0
EBIT	1,748.7	991.5	1,445.9	1,692.6	(3.2)	70.7	17.1
Interest	129	41	42	37	(71.7)	(11.1)	(12.0)
Oth. Inc.	44	28	41	77	75.3	175.0	89.7
Exceptional Items	-	-	-	-			#REF!
PBT	1,654	973	1,445	1,724	4.2	77.2	19.3
Tax	401	246	318	407	1.3	65.0	27.9
Effective Tax Rate(%)	24.3	25.3	22.0	23.6	-67bps	-174bps	159bps
PAT	1,253	726	1,127	1,317	5.1	81.3	16.8
PAT Margin (%)	17.40	13.05	16.25	18.77	136bps	572bps	252bps
EPS (Rs.)	3.9	2.1	3.5	3.9	1.1	81.3	12.3

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Dec, Rs Cr	CY24	CY25E	CY26E	CY27E
Net sales	19,445	23,519	29,141	36,105
Growth, %	24.5	21.0	23.9	23.9
Other operating income	563	608	668	735
Total income	20,008	24,127	29,809	36,840
Raw material expenses	(8,905)	(10,775)	(13,253)	(16,301)
Employee expenses	(1,885)	(2,205)	(2,911)	(3,843)
Other Operating Expenses	(4,507)	(5,547)	(6,624)	(7,914)
EBITDA (Core)	4,711	5,600	7,021	8,783
Growth, %	30.5	18.9	25.4	25.1
Margin, %	24.2	23.8	24.1	24.3
Depreciation	(947)	(1,047)	(1,130)	(1,213)
EBIT	3,764	4,553	5,890	7,570
Growth, %	28.5	21.0	29.4	28.5
Margin, %	19.4	19.4	20.2	21.0
Other Income	121	139	151	163
Non-recurring Items	-	-	-	-
Pre-tax profit	3,435	4,558	5,974	7,668
Tax provided	(799)	(1,060)	(1,389)	(1,783)
Net Profit	2,636	3,498	4,584	5,885
Unadj. shares (Cr)	338	338	338	338

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Dec, Rs Cr	CY24	CY25E	CY26E	CY27E
Cash & bank	2,450	4,293	7,153	11,274
Debtors	846	644	798	989
Inventory	2,791	3,376	4,183	5,183
Loans & advances	840	840	840	840
Other current assets	936	936	936	936
Total current assets	7,864	10,091	13,911	19,223
Investments	6	6	6	6
Gross fixed assets	18,860	20,660	22,160	23,660
Less: Depreciation	(5,400)	(6,447)	(7,577)	(8,790)
Add: Capital WIP	1,162	1,162	1,162	1,162
Net fixed assets	14,622	15,375	15,745	16,032
Non-current assets	512	512	512	512
Total assets	23,144	26,123	30,314	35,913
Current liabilities	4,524	4,851	5,302	5,861
Provisions	189	189	189	189
Total current liabilities	4,714	5,041	5,492	6,051
Non-current liabilities	1,690	1,690	1,690	1,690
Total liabilities	6,404	6,731	7,182	7,741
Paid-up capital	676	676	676	676
Reserves & surplus	15,934	18,586	22,325	27,365
Shareholders' equity	16,740	19,392	23,131	28,171
Total equity & liabilities	23,144	26,123	30,314	35,913

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Dec, Rs Cr	CY24	CY25E	CY26E	CY27E
Pre-tax profit	3,435	4,558	5,974	7,668
Depreciation	947	1,047	1,130	1,213
Change in working capital	(1,167)	(56)	(510)	(632)
Total tax paid	(674)	(1,060)	(1,389)	(1,783)
Cash flow from operating activities	2,542	4,488	5,205	6,466
Capital expenditure	(5,220)	(1,800)	(1,500)	(1,500)
Change in marketable securities	-	-	-	-
Cash flow from investing activities	(5,223)	(1,800)	(1,500)	(1,500)
Free cash flow	(2,681)	2,688	3,705	4,966
Equity raised/(repaid)	27	-	-	-
Dividend (incl. tax)	(227)	(845)	(845)	(845)
Cash flow from financing activities	(2,567)	(845)	(845)	(845)
Net change in cash	(5,248)	1,843	2,860	4,121
Opening cash balance	460	2,450	4,293	7,153
Closing cash balance	2,450	4,293	7,153	11,274

Source: Company, Axis Securities

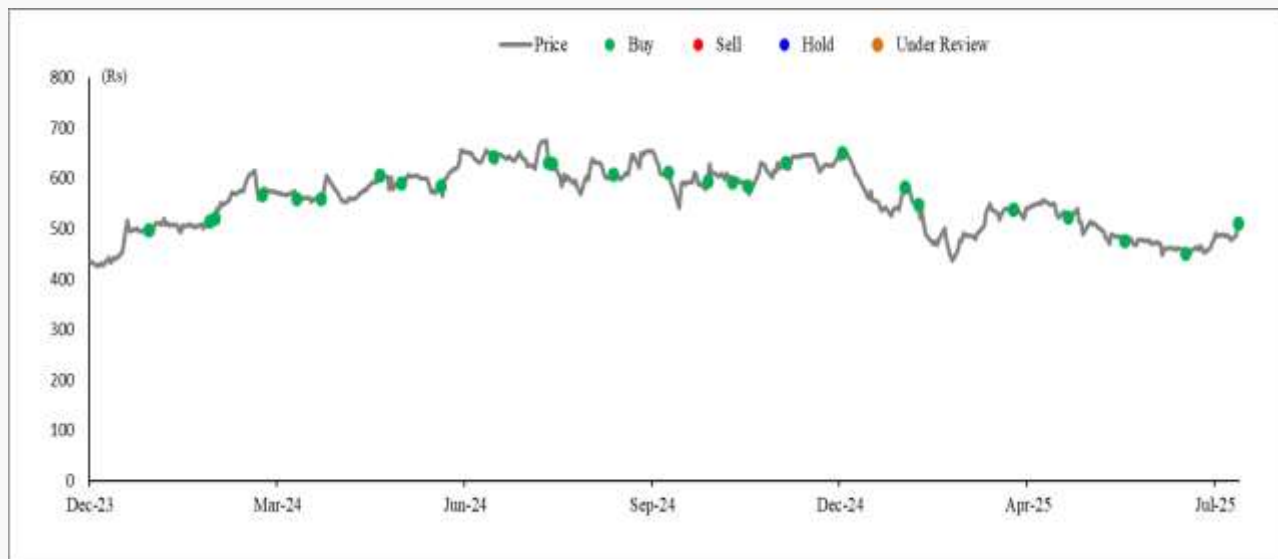
Ratio Analysis

(%)

Y/E Mar	CY24	CY25E	CY26E	CY27E
EPS (INR)	7.7	10.3	13.6	17.4
Growth, %	(52.1)	32.7	31.1	28.4
Book NAV/share (INR)	49.1	57.0	68.1	83.0
FDEPS (INR)	7.8	10.3	13.6	17.4
CEPS (INR)	10.6	13.4	16.9	21.0
CFPS (INR)	8.3	12.9	15.0	18.7
DPS (INR)	0.7	2.5	2.5	2.5
Return ratios				
Return on assets (%)	16.1	14.7	16.5	18.0
Return on equity (%)	15.9	18.2	19.9	21.0
Return on capital employed (%)	20.8	18.2	20.1	21.6
Turnover ratios				
Asset turnover (x)	1.4	1.4	1.6	1.9
Receivable days	15.9	10.0	10.0	10.0
Inventory days	52.4	52.4	52.4	52.4
Payable days	37.2	37.2	37.5	37.7
Working capital days	16.7	14.7	18.2	21.1
Liquidity ratios				
Current ratio (x)	1.7	2.1	2.6	3.3
Quick ratio (x)	1.1	1.4	1.8	2.4
Interest cover (x)	8.4	33.7	87.2	117.9
Total debt/Equity (%)	0.1	0.1	0.1	0.1
Net debt/Equity (%)	(0.2)	(0.3)	(0.4)	(0.5)
Valuation				
PER (x)	65.7	49.5	37.8	29.4
PEG (x) - y-o-y growth	(1.3)	1.5	1.2	1.0
Price/Book (x)	10.4	9.0	7.5	6.2
EV/Net sales (x)	8.9	7.3	5.8	4.6
EV/EBITDA (x)	36.8	30.6	24.0	18.7
EV/EBIT (x)	46.0	37.6	28.6	21.7

Source: Company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research		Date	Reco	TP	Research
01-Jan-24	BUY	580	Top Picks		11-Feb-25	BUY	710	Result Update
02-Feb-24	BUY	580	Top Picks		01-Mar-25	BUY	600	Top Picks
05-Feb-24	BUY	572	Result Update		01-Apr-25	BUY	710	Top Picks
01-Mar-24	BUY	620	Result Update		02-May-25	BUY	650	Result Update
19-Mar-24	BUY	620	AAA		30-Apr-25	BUY	650	Top Picks
01-Apr-24	BUY	620	Top Picks		01-Jun-25	BUY	650	Top Picks
02-May-24	BUY	660	Top Picks		01-Jul-25	BUY	650	Top Picks
13-May-24	BUY	700	Result Update		30-Jul-25	BUY	590	Result Update
03-Jun-24	BUY	700	Top Picks					
01-Jul-24	BUY	732	Top Picks					
31-Jul-24	BUY	720	Result Update					
01-Aug-24	BUY	720	Top Picks					
02-Sep-24	BUY	720	Top Picks					
01-Oct-24	BUY	717	Top Picks					
22-Oct-24	BUY	700	Result Update					
04-Nov-24	BUY	700	Top Picks					
14-Nov-24	BUY	700	Company Update					
02-Dec-24	BUY	700	Top Picks					
01-Jan-25	BUY	700	Top Picks					
03-Feb-25	BUY	700	Top Picks					

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.