

South Africa acquisition – A good value creation opportunity

Retail ▶ Company Update ▶ December 20, 2023

TARGET PRICE (Rs): 1,150

With Bevco's acquisition, VBL has access to 10 African nations (incl. 5 existing nations) and now controls most of southern Africa. Among the new regions, South Africa gains significance as its NARTD market is ~40% of India's market, albeit growing at a slower pace (3-5% vol. CAGR). The market is mature, but we remain confident of share gains for VBL, given its strong track record in Zimbabwe and Nepal (over 50% share now). Portfolio-led pricing gain is also a big opportunity, given ~50% lower realizations for Bevco vs. CCBA, a Coke bottler. We also see cluster-based cost synergies, which should further boost earnings growth potential. Acquisition funding (Rs13.2bn) shall be a co-investment from a PE fund and remaining through debt raise by VBL. Acquisition multiple at 0.7x CY23E sales is attractive, in-line with the previous acquisitions and provides a 5x-7x value creation opportunity. Post ~70% run-up in the last 12M, we have a REDUCE rating on VBL. However, consistent outperformance vs. peers and value creation in intl. geos provide scope for further re-rating.

Varun Beverages: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,61,262	1,96,772	2,35,701
EBITDA	16,546	27,881	36,035	44,842	54,257
Adj. PAT	6,941	14,975	20,497	25,978	33,508
Adj. EPS (Rs)	5.3	11.5	15.8	20.0	25.8
EBITDA margin (%)	18.8	21.2	22.3	22.8	23.0
EBITDA growth (%)	37.7	68.5	29.2	24.4	21.0
Adj. EPS growth (%)	115.3	115.8	36.9	26.7	29.0
RoE (%)	18.3	32.6	34.3	32.6	31.9
RoIC (%)	11.7	20.9	22.9	25.3	29.4
P/E (x)	219.3	101.6	74.3	58.6	45.4
EV/EBITDA (x)	93.9	55.9	43.4	34.4	28.1
P/B (x)	37.3	29.8	22.2	16.8	12.8
FCFF yield (%)	0.2	0.1	0.2	1.7	1.8

Source: Company, Emkay Research

SA market is mature; brand/product investments and GTM to aid share gains

SA is a large consumption market (USD5.4bn in FY20) but is a relatively mature market with 60-80% urbanization and high per-capita consumption of ~90L/annum (~4x to that of India). The-Coca-Cola-Company (TCCC) and local brands hold majority share in SA, while Bevco has ~10% volume share through a combination of PepsiCo and its own brands. VBL's success in SA, in our view, will require marketing investments (ATL/BTL) and product/packaging innovation to influence consumer habits. Presence at magic price points also remains key to increasing market share from regional players. However, proof points of success in Zimbabwe/Nepal (>50% share now after starting from scratch) and VBL's best-in-class execution strengths give us confidence of share gains in SA as well.

Africa – A large and long-term growth opportunity: PepsiCo's low penetration in Africa and a sizable mix of regional brands offer it a long-term growth opportunity in the continent. We estimate PepsiCo's bottlers cater to 40-45% of the African market (value terms) via its presence in 15 countries, while TCCC addresses the entire African population of >1.25bn (>50 countries). Besides TCCC, which has a healthy share in most African markets, the other competition is regional and can likely be beaten by improving the affordability, affinity, and availability of PepsiCo's products, in our view.

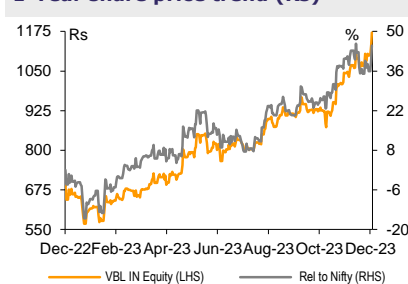
PepsiCo's wider product portfolio offers a key advantage: Energy drinks contribute a healthy value share of ~14% in SA (vs. <10% in India), which suggests strong demand for the category in Africa. PepsiCo has built a robust energy-drinks portfolio via the acquisition of Rockstar, its partnership with Starbucks/Bang in USA, and through organic investments in Mountain Dew/Sting. We reckon that a broad-based energy-drinks portfolio across price points should help PepsiCo gain traction in this category in SA.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(1.8)
CMP (19-Dec-23) (Rs)	1,171.7

Stock Data	Ticker
52-week High (Rs)	1,178
52-week Low (Rs)	550
Shares outstanding (mn)	1,299.2
Market-cap (Rs bn)	1,522
Market-cap (USD mn)	18,300
Net-debt, CY23E (Rs mn)	40,168
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,956.7
ADTV-3M (USD mn)	23.5
Free float (%)	36.0
Nifty-50	21,453
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	63.1
FPIs/MFs (%)	27.6/3.4

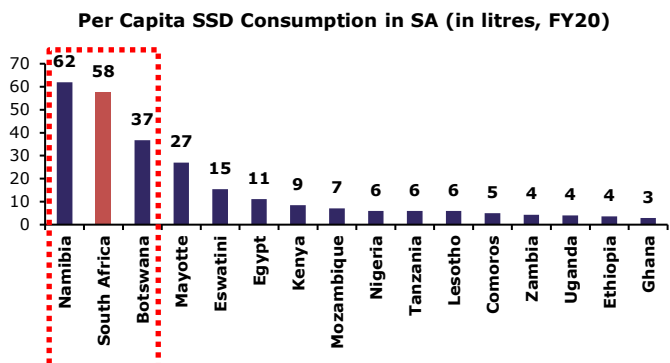
Price Performance

(%)	1M	3M	12M
Absolute	12.3	28.5	65.7
Rel. to Nifty	3.3	20.6	42.3

1-Year share price trend (Rs)**Devanshu Bansal**devanshu.bansal@emkayglobal.com
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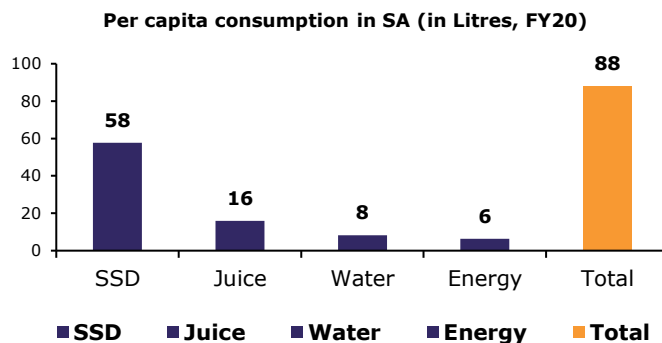
Story in Charts

Exhibit 1: South Africa has a leading per-capita carbonate consumption among African markets



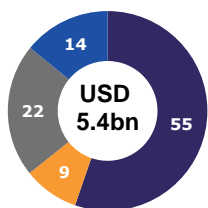
Source: CCBA Capital Markets Day presentation, Emkay Research, *SSD is sparkling soft drinks

Exhibit 2: Per-capita consumption is even higher at 88L/annum compared with ~25L in India



Source: CCBA Capital Markets Day presentation, Emkay Research, *SSD is sparkling soft drinks

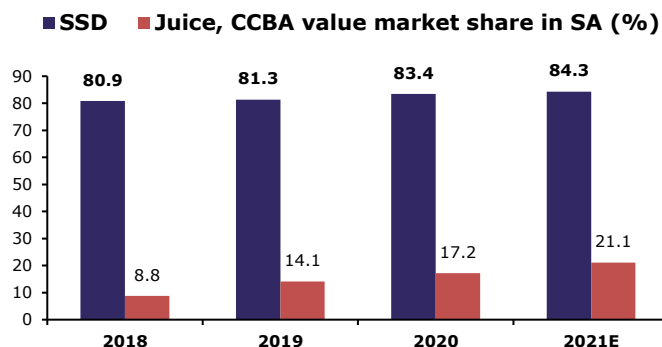
Exhibit 3: Category mix is better with 36% mix from juice/energy drinks in SA; PepsiCo has a strong energy drinks portfolio



■ SSD ■ Water ■ Juice ■ Energy, South Africa Market (FY20, %)

Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 4: CCBA has 80%/20% value share in CSD/juice segments in SA, through a combination of TCCC brands and local brands



Source: CCBA Capital Markets Day presentation, Emkay Research

Exhibit 5: Given the turnaround in Zimbabwe, Nepal, and Morocco, we remain confident of market-share led growth for VBL in SA; medium-term prospects are similar to India and offer a 5x-7x value creation opportunity, in our view

Particulars	CY22	CY25	CY33	CY42	CY22-25E	CY25-33E	CY33-43E
SA market volumes (mn cases)	1,186	1,373	1,897	2,357	5%	4%	2%
VBL's volume market share (%)	9.9	12.1	18.2	25.0			
VBL SA volumes (mn cases)	117	158	341	589	11%	10%	6%
Realization (Rs/case)	136	159	241	370	5%	5%	4%
Revenue (Rs mn)	15,900	25,204	82,283	2,18,035	17%	16%	10%
EBITDA (Rs mn)	1,908	3,251	12,589	39,246	19%	18%	12%
Margin (%)	12.0	12.9	15.3	18.0			

Source: Emkay Research

Exhibit 6: VBL has a strong track record of turning around international geographies; now controls >50% market share in Zimbabwe/Nepal, after starting from scratch

Particulars	International operations					Remarks
	CY18	CY19	CY20	CY21	CY22	
Zimbabwe						
Revenue (Rs mn)	4,687	5,669	7,235	10,534	10,029	VBL has >50% market share in Zimbabwe and has grown strongly at a 21% CAGR over CY18-22.
Growth (%)	460	21	28	46	-5	Penetration improvement, product pricing, and efficient operations have helped gain market share.
PAT (Rs mn)	804	-179	1,721	2,273	2,054	Zimbabwe's profitability has improved significantly.
Shareholding (%)	85	85	85	85	85	
Nepal						
Revenue (Rs mn)	4,384	4,755	3,913	4,915	6,599	In Nepal, VBL's market share is ~50%.
Growth (%)	9	8	-18	26	34	Nepal has seen consistent trends with an 11% topline CAGR over CY18-22, despite pandemic-led disruptions
PAT (Rs mn)	388	558	296	-268	295	
Shareholding (%)	100	100	100	100	100	
Morocco						
Revenue (Rs mn)	2,504	3,507	3,281	4,440	6,539	VBL has ~15% market share in Morocco with only one plant vs. seven plants of competition.
Growth (%)	8	40	-6	35	47	VBL has seen a strong turnaround with the introduction of water line post completion of the non-compete agreement.
PAT (Rs mn)	-696	-195	-170	19	96	Morocco operations have turned profitable since CY20.
Shareholding (%)	100	100	100	100	100	Entry into the foods business is a potential upside

Source: Company, Emkay Research

Exhibit 7: Bevko's existing portfolio consists of both licensed as well as own brands



Source: Company

Exhibit 8: List of acquisitions done by VBL over CY17-CY19 timeframe; acquisitions were done at 0.8x-0.9x sales

Year	Consolidation date	Manufacturing Unit	Franchise Rights	Company	Ent. Value (Rs mn)
CY17	26-09-2017	Bargarh (Orissa)	Orissa	SMV Beverages	832
CY17	27-09-2017	Bhopal (MP)	Madhya Pradesh	SMV Agencies	47
CY18	11-01-2018	NA	Chhattisgarh	SMV Beverages	150
CY18	17-01-2018	NA	Bihar	Lumbini Beverages	450
CY18	18-01-2018	Cuttack (Orissa)	-	SMV Beverages	438
CY18	23-03-2018	Jamshedpur (Jharkhand)	Jharkhand	SMV Agencies	552
CY18	05-04-2018	Jamshedpur (Jharkhand)	-	Steel City Beverages	102
CY19	14-02-2019	NA	Maharashtra	SMV Beverages	154
CY19	14-02-2019	NA	Karnataka	Nectar Beverages	349
CY19	Q4CY19	Dharwad (Karnataka)	-	Nectar Beverages	747
CY19	01-05-2019	NA	7 States and 5 UTs	PepsiCo India	16,150
CY19	Q4CY19	Tirunelveli (Tamil Nadu)	-	Prathishta Business	200
CY19	Q4CY19	Sricity (Tamil Nadu)	-	Co-Packer	100
Total Capex					20,270

Source: Company, Emkay Research

Varun Beverages: Consolidated Financials and Valuations

Profit and Loss					
Y/E December (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Revenue	88,232	1,31,731	1,61,262	1,96,772	2,35,701
Revenue growth (%)	36.8	49.3	22.4	22.0	19.8
EBITDA	16,546	27,881	36,035	44,842	54,257
EBITDA growth (%)	37.7	68.5	29.2	24.4	21.0
Depreciation & Amortization	5,313	6,172	6,884	8,184	8,947
EBIT	11,234	21,710	29,152	36,658	45,310
EBIT growth (%)	66.9	93.3	34.3	25.7	23.6
Other operating income	0	0	0	0	0
Other income	679	388	802	450	500
Financial expense	1,847	1,861	2,594	2,209	896
PBT	10,066	20,237	27,360	34,899	44,914
Extraordinary items	0	0	0	0	0
Taxes	2,606	4,735	6,389	8,376	10,779
Minority interest	(520)	(527)	(474)	(545)	(627)
Income from JV/Associates	0	0	0	0	0
Reported PAT	6,941	14,975	20,497	25,978	33,508
PAT growth (%)	115.3	115.8	36.9	26.7	29.0
Adjusted PAT	6,941	14,975	20,497	25,978	33,508
Diluted EPS (Rs)	5.3	11.5	15.8	20.0	25.8
Diluted EPS growth (%)	115.3	115.8	36.9	26.7	29.0
DPS (Rs)	0.8	1.2	2.3	3.0	3.9
Dividend payout (%)	15.6	10.8	14.3	15.0	15.0
EBITDA margin (%)	18.8	21.2	22.3	22.8	23.0
EBIT margin (%)	12.7	16.5	18.1	18.6	19.2
Effective tax rate (%)	25.9	23.4	23.4	24.0	24.0
NOPLAT (pre-IndAS)	8,326	16,630	22,345	27,860	34,436
Shares outstanding (mn)	1,299.1	1,299.1	1,299.1	1,299.1	1,299.1

Source: Company, Emkay Research

Cash Flows					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
PBT	10,066	20,237	27,360	34,899	44,914
Others (non-cash items)	5,313	6,172	6,884	8,184	8,947
Taxes paid	(1,754)	(4,478)	(5,883)	(7,795)	(10,111)
Change in NWC	(3,442)	(8,782)	(2,335)	(3,128)	(3,143)
Operating cash flow	12,031	15,010	28,619	34,370	41,503
Capital expenditure	(8,632)	(13,487)	(25,000)	(10,000)	(15,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	0	0	0	0	0
Investing cash flow	(8,632)	(13,487)	(25,000)	(10,000)	(15,000)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	1,250	3,529	0	(15,000)	(20,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,847)	(1,861)	(2,594)	(2,209)	(896)
Dividend paid (incl tax)	(1,083)	(1,624)	(2,923)	(3,897)	(5,026)
Others	(253)	(2,081)	243	428	440
Financing cash flow	(1,933)	(2,037)	(5,274)	(20,678)	(25,483)
Net chg in Cash	1,466	(514)	(1,655)	3,692	1,021
OCF	12,031	15,010	28,619	34,370	41,503
Adj. OCF (w/o NWC chg.)	15,472	23,792	30,954	37,498	44,646
FCFF	3,399	1,523	3,619	24,370	26,503
FCFE	1,552	(338)	1,026	22,161	25,607
OCF/EBITDA (%)	72.7	53.8	79.4	76.6	76.5
FCFE/PAT (%)	22.4	(2.3)	5.0	85.3	76.4
FCFF/NOPLAT (%)	40.8	9.2	16.2	87.5	77.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Dec (Rs mn)	CY21	CY22	CY23E	CY24E	CY25E
Share capital	4,330	6,495	6,495	6,495	6,495
Reserves & Surplus	36,469	44,528	62,103	84,184	1,12,666
Net worth	40,799	51,024	68,598	90,679	1,19,161
Minority interests	1,168	1,131	1,131	1,131	1,131
Deferred tax liability (net)	3,111	3,368	3,874	4,455	5,123
Total debt	35,511	40,649	41,366	27,339	8,406
Total liabilities & equity	80,590	96,173	1,14,969	1,23,605	1,33,821
Net tangible fixed assets	57,280	63,571	81,603	83,379	89,424
Net intangible assets	5,586	5,509	5,593	5,632	5,641
Net ROU assets	0	0	0	0	0
Capital WIP	4,966	6,066	6,066	6,066	6,066
Goodwill	242	242	242	242	242
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	3,366	2,853	1,198	4,890	5,911
Current assets (ex-cash)	24,379	37,941	45,756	54,433	63,658
Current Liab. & Prov.	15,229	20,010	25,490	31,039	37,122
NWC (ex-cash)	9,150	17,932	20,266	23,394	26,537
Total assets	80,590	96,173	1,14,969	1,23,605	1,33,821
Net debt	32,145	37,797	40,168	22,449	2,495
Capital employed	80,590	96,173	1,14,969	1,23,605	1,33,821
Invested capital	72,257	87,254	1,07,705	1,12,648	1,21,844
BVPS (Rs)	31.4	39.3	52.8	69.8	91.7
Net Debt/Equity (x)	0.8	0.7	0.6	0.2	0.0
Net Debt/EBITDA (x)	1.9	1.4	1.1	0.5	0.0
Interest coverage (x)	0.2	0.1	0.1	0.1	0.0
RoCE (%)	15.6	25.0	28.4	31.1	35.6

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Dec	CY21	CY22	CY23E	CY24E	CY25E
P/E (x)	219.3	101.6	74.3	58.6	45.4
P/CE(x)	117.2	67.9	52.4	42.0	33.8
P/B (x)	37.3	29.8	22.2	16.8	12.8
EV/Sales (x)	17.6	11.8	9.7	7.8	6.5
EV/EBITDA (x)	93.9	55.9	43.4	34.4	28.1
EV/EBIT(x)	130.6	67.9	50.6	39.8	31.7
EV/IC (x)	20.3	16.9	13.7	12.9	11.8
FCFF yield (%)	0.2	0.1	0.2	1.7	1.8
FCFE yield (%)	0.1	0.0	0.1	1.5	1.8
Dividend yield (%)	0.1	0.1	0.2	0.3	0.3
DuPont-RoE split					
Net profit margin (%)	7.9	11.4	12.7	13.2	14.2
Total asset turnover (x)	1.2	1.5	1.5	1.6	1.8
Assets/Equity (x)	2.0	1.9	1.8	1.5	1.2
RoE (%)	18.3	32.6	34.3	32.6	31.9
DuPont-RoIC					
NOPLAT margin (%)	9.4	12.6	13.9	14.2	14.6
IC turnover (x)	1.2	1.7	1.7	1.8	2.0
RoIC (%)	11.7	20.9	22.9	25.3	29.4
Operating metrics					
Core NWC days	4.1	6.2	7.1	6.3	6.4
Total NWC days	37.9	49.7	45.9	43.4	41.1
Fixed asset turnover	1.0	1.3	1.4	1.5	1.6
Opex-to-revenue (%)	35.5	31.3	31.5	31.4	31.2

Source: Company, Emkay Research

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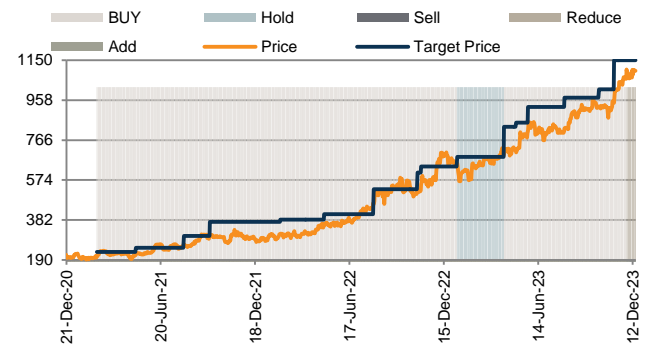
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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
03-May-21	223	249	Buy	Devanshu Bansal
17-Feb-21	210	229	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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