

Varun Beverages

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	VBL IN
Equity Shares (m)	3382
M.Cap.(INRb)/(USDb)	1766.5 / 20.9
52-Week Range (INR)	683 / 419
1, 6, 12 Rel. Per (%)	-7/-14/-19
12M Avg Val (INR M)	3906

Financials & Valuations (INR b)

Y/E Dec	2024	2025E	2026E
Sales	200.1	239.3	277.5
EBITDA	47.1	56.3	63.7
Adj. PAT	25.9	35.1	41.1
EBITDA (%)	23.5	23.5	23.0
EPS (INR)	7.7	10.4	12.2
EPS Gr. (%)	26.2	35.4	17.1
BV/Sh. (INR)	49.1	57.0	66.7

Ratios

Net D/E	-0.0	-0.1	-0.3
RoE (%)	22.0	19.6	19.7
RoCE (%)	19.2	18.9	20.0
Payout (%)	32.6	24.1	20.6

Valuations

P/E (x)	67.9	50.2	42.8
EV/EBITDA (x)	37.4	30.9	26.7
Div Yield (%)	0.5	0.5	0.5
FCF Yield (%)	-0.2	1.9	2.3

Shareholding pattern (%)

	Mar-25	Dec-24	Mar-24
Promoter	60.2	60.2	62.9
DII	9.2	7.0	4.2
FII	23.0	25.3	25.8
Others	7.6	7.5	7.2

Note: FII includes depository receipts

CMP: INR522 **TP: INR665 (+27%)** **Buy**

Double-digit volume growth in domestic market despite intensifying competition

In-line operating performance

- Varun Beverages (VBL) reported a revenue growth of 29% YoY in 1QCY24, led by volume growth of 30% YoY, which was driven by organic volume growth of ~15.5% YoY and consolidation of South Africa & DRC in the current quarter. Realization remained flat YoY at INR178/case.
- VBL maintained its volume growth trajectory in the domestic market and its expansion in international markets, with the integration in South Africa progressing well. Management is confident about its double-digit growth guidance on the back of industry tailwinds and expansion into new markets every year via the addition of visi-coolers (in domestic and international markets).
- We largely maintain our CY25/CY26 earnings estimates. **We reiterate our BUY rating on the stock with a TP of INR665.**

Margins flat YoY due to higher mix of owned brands in South Africa

- VBL's revenue grew 29% YoY to INR55.7 (est. in line) on account of healthy volume growth (+30% YoY to 312m cases). Realization was flat YoY at INR178/case.
- EBITDA margins were flat YoY at 22.7% (est. 22.9%) in 1QCY25 compared to 22.9% in 1QCY24 due to the consolidation of South Africa business (low margins due to high mix of owned brands). EBITDA per case declined 2% YoY to INR40, while EBITDA stood at INR12.6b, up 28% YoY (est. in line).
- Adj. PAT grew 35% YoY to INR7.2b (est. INR8.3b), driven by higher sales growth and stable margins YoY, partly offset by higher depreciation (up 45% YoY).
- Subsidiary (consolidated minus standalone) revenue/EBITDA grew 74%/51% YoY to INR15b/INR2.5b, while adj. PAT declined 29% YoY to INR484m in 1QCY25
- CSD/Juice/water volumes grew 38%/22%/6% YoY to 234m/22m/56m unit cases in 1QCY25.

Highlights from the management commentary

- **Domestic demand outlook:** The company expects to sustain double-digit growth in the long term and ~21% margins in the Indian market. The Indian beverage market remains largely untapped and continues to grow. With an increase in competition, VBL is also increasing its efforts to put out more visi-coolers.
- **International market:** While the integration of the South Africa territory has progressed well, margins remain low as compared to India due to a higher mix of owned products. Going forward, the company aims to drop some of the non-profitable products in this market and increase the scale of PepsiCo's portfolio.

- **Change in consumer preference:** There is a clear shift of consumer preference toward healthier products, including nimbooz, which is recording ~100% YoY growth. Energy drinks witnessed strong traction, remaining the fastest-growing segment in the market.

Valuation and view

- VBL is expected to maintain its earnings momentum, aided by: 1) scale-up in the international market, 2) stable growth in the domestic market, 3) continued expansion in capacity and distribution reach, and 4) growing refrigeration in rural and semi-rural areas.
- We expect a CAGR of 18%/16%/26% in revenue/EBITDA/PAT over CY25-26.
- We largely maintain our CY25/CY26 earnings estimates. **We value the stock at 55x CY26E EPS to arrive at a TP of INR665. We reiterate our BUY rating on the stock.**

Consolidated - Quarterly Earnings Model

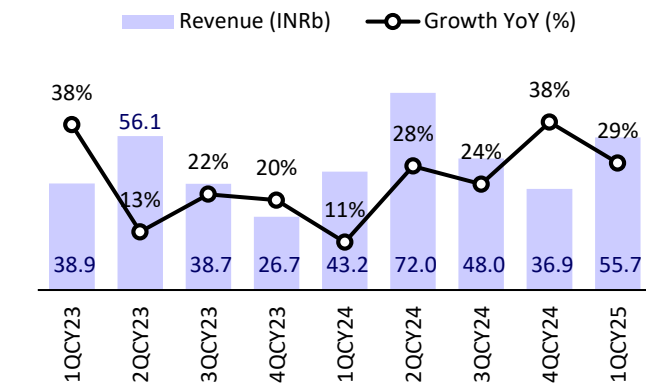
Y/E December	CY24				CY25				CY24	CY25E	CY25E	(INRm) Var %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1Q	
Net Sales	43,173	71,969	48,047	36,888	55,669	83,275	55,595	43,905	200,077	238,445	55,972	-1
YoY Change (%)	10.9	28.3	24.1	38.3	28.9	15.7	15.7	19.0	24.7	19.2	29.6	
Total Expenditure	33,286	52,056	36,536	31,088	43,030	60,278	42,280	37,057	152,966	182,644	43,143	
EBITDA	9,888	19,912	11,511	5,800	12,640	22,997	13,315	6,849	47,111	55,801	12,828	-1
Margins (%)	22.9	27.7	24.0	15.7	22.7	27.6	24.0	15.6	23.5	23.4	22.9	
Depreciation	1,875	2,425	2,566	2,608	2,725	2,850	2,950	3,080	9,474	11,605	2,750	
Interest	937	1,292	1,185	1,090	411	200	150	61	4,504	822	500	
Other Income	84	440	243	446	281	550	600	737	1,213	2,168	500	
PBT before EO expense	7,159	16,636	8,002	2,548	9,784	20,497	10,815	4,446	34,346	45,542	10,078	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	7,159	16,636	8,002	2,548	9,784	20,497	10,815	4,446	34,346	45,542	10,078	
Tax	1,678	4,012	1,713	585	2,465	4,509	2,379	978	7,988	10,331	2,217	
Rate (%)	23.4	24.1	21.4	23.0	25.2	22.0	22.0	22.0	23.3	22.7	22	
Minority Interest & Profit/Loss of Asso. Cos.	107	98	92	105	49	102	101	115	402	367	118	
Reported PAT	5,374	12,526	6,197	1,858	7,271	15,886	8,334	3,352	25,956	34,843	7,743	
Adj PAT	5,374	12,526	6,197	1,858	7,271	15,886	8,334	3,352	25,956	34,843	7,743	-6
YoY Change (%)	25.2	26.0	23.6	41.0	35.3	26.8	34.5	80.4	26.2	34.2	44.1	
Margins (%)	12.4	17.4	12.9	5.0	13.1	19.1	15.0	7.6	13.0	14.6	13.8	

Exhibit 1: Key performance indicators

Y/E December	4QCY22	1QCY23	2QCY23	3QCY23	4QCY23	1QCY24	2QCY24	3QCY24	4QCY24	1QCY25
Segment Volume Gr.										
CSD	25	27	6	19	25	6	32	23	42	36
NCB	17	23	-13	0	14	13	39	3	0	22
Water	5	17	7	8	5	10	7	12	17	6
Cost Break-up										
RM Cost (% of sales)	44	48	48	45	43	44	45	44	44	45
Employee Cost (% of sales)	14	9	6	10	14	9	7	11	13	9
Other Cost (% of sales)	28	23	19	23	27	24	20	21	27	23
Gross Margins (%)	56	52	52	55	57	56	55	56	56	55
EBITDA Margins (%)	14	20	27	23	16	23	28	24	16	23
EBIT Margins (%)	6	16	24	18	9	19	24	19	9	18

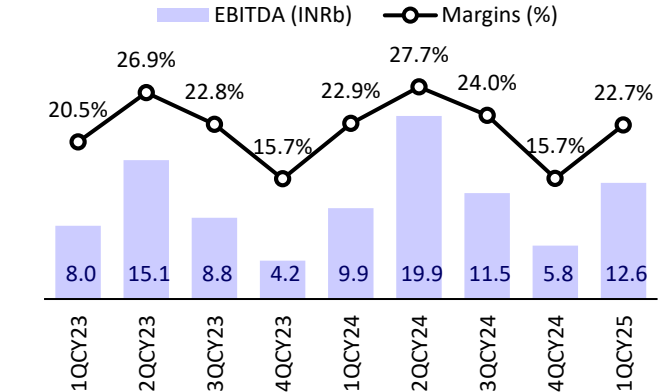
Key exhibits

Exhibit 2: Trend in consolidated revenue



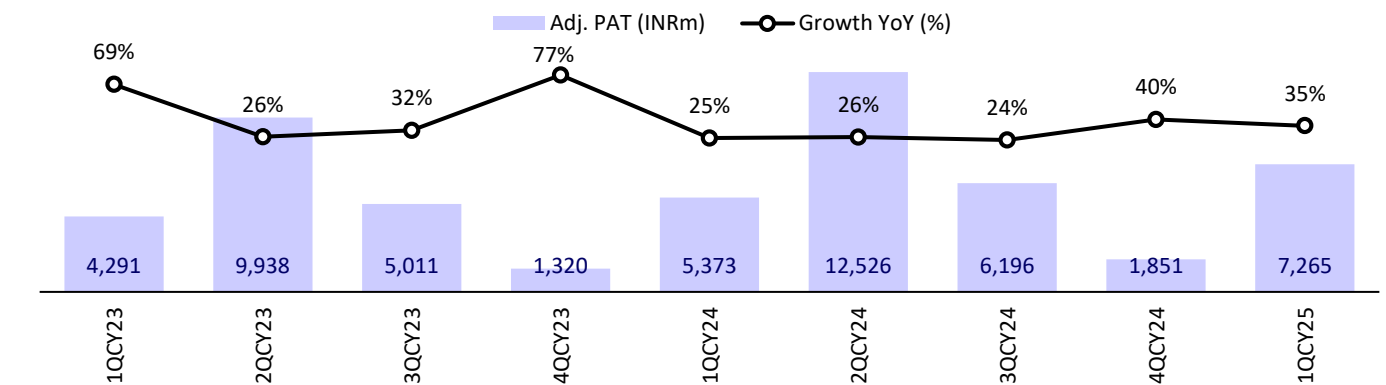
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA



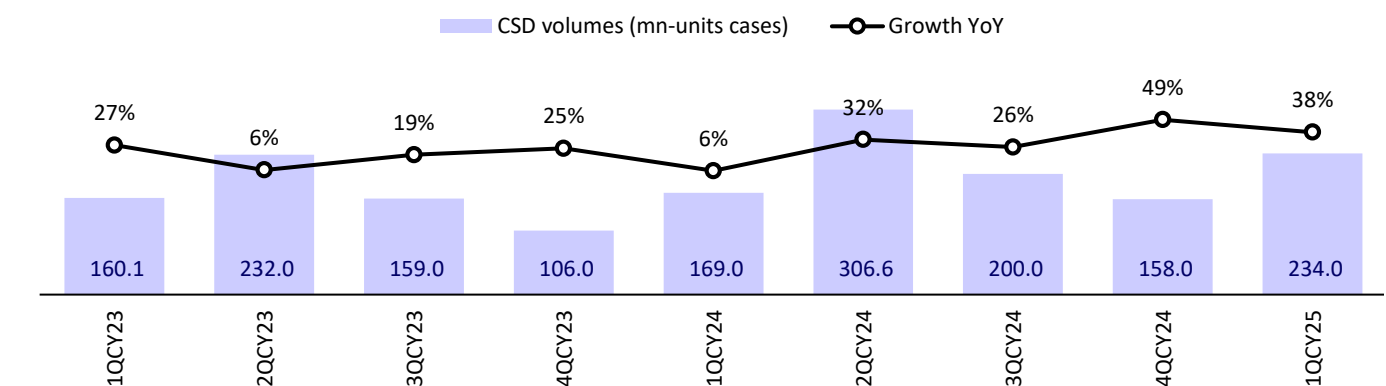
Source: Company, MOFSL

Exhibit 4: Trend in consolidated adjusted PAT



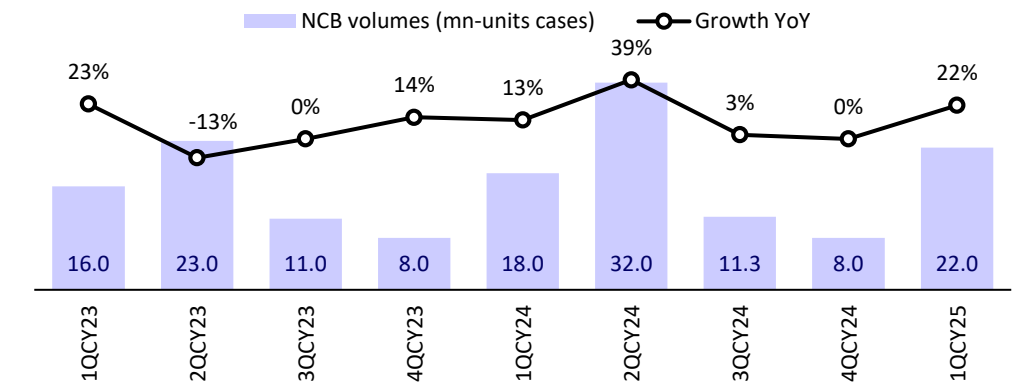
Source: Company, MOFSL

Exhibit 5: CSD sales volumes trend



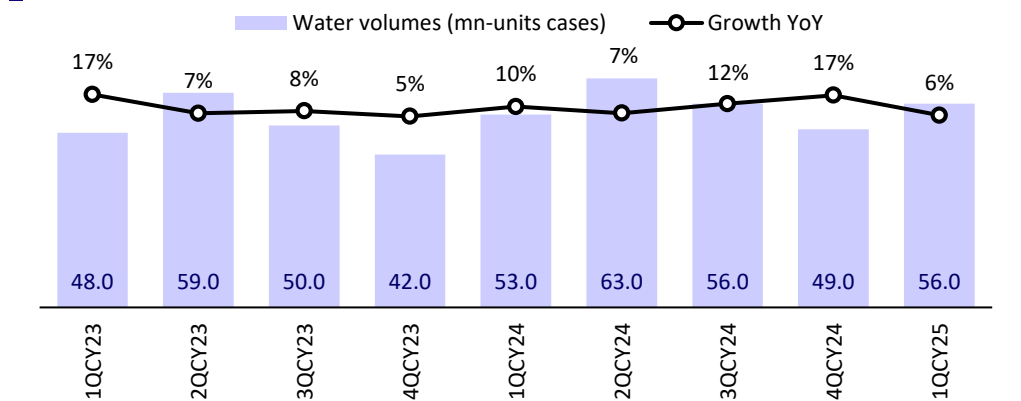
Source: Company, MOFSL

Exhibit 6: NCB sales volume trend



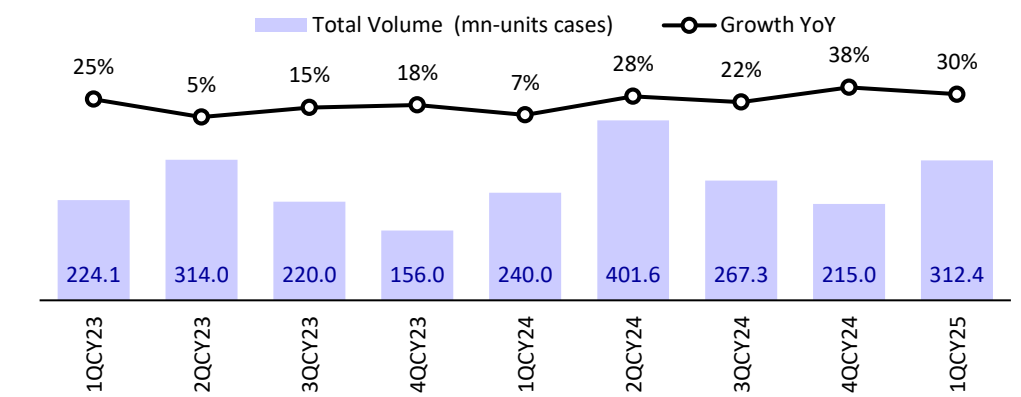
Source: Company, MOFSL

Exhibit 7: Water sales volumes trend



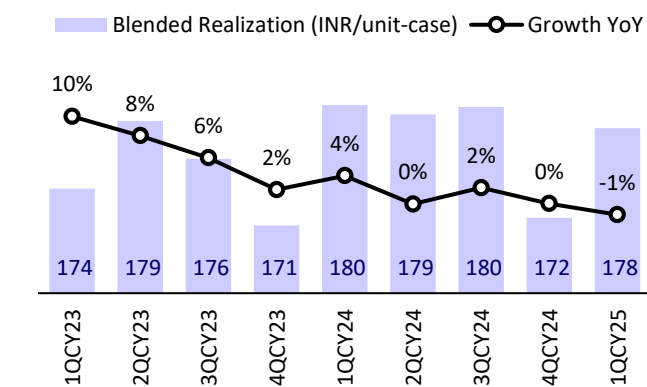
Source: Company, MOFSL

Exhibit 8: Strong Total Volume growth trend



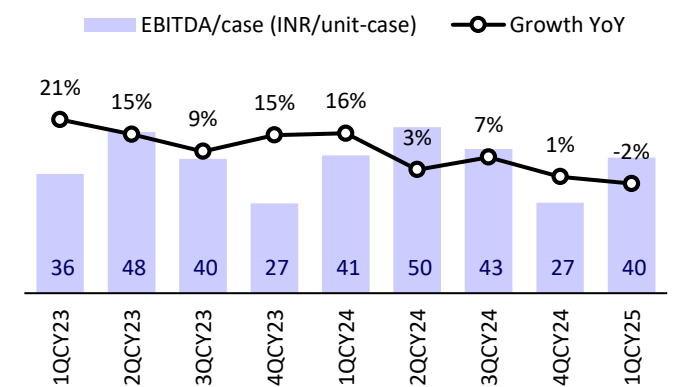
Source: Company, MOFSL

Exhibit 9: Trend in blended realization



Source: Company, MOFSL

Exhibit 10: Trend in EBITDA/case



Source: Company, MOFSL



Highlights from the management interaction

Operational highlights

- Gross margins declined due to the relatively lower margin profile of the owned brands in South Africa and the higher mix of CSD in India.
- Aligned with the company's long-term goals, low-sugar/no-sugar products now contribute to ~59% of its consolidated sales volume.
- While EBITDA margins improved in India on account of operational efficiencies from the robust volume growth, consolidated EBITDA margins declined due to lower profitability in the South African market.
- Depreciation increased by ~45 % on account of the commissioning of new plants last year (Supa, Gorakhpur and Khordha), which were not present in the base quarter and consolidation of SA & DRC in the current quarter.
- Margins in India continued to do well as VBL put more operationally efficient plants.

Guidance

- The company maintains its guidance of double-digit growth, led by industry tailwinds.
- VBL expects to maintain these current margins of ~21% in the soft drink industry, with a potential of margin expansion driven by the backward integration in the new plants.

Expansion plans

- The implementation of other two greenfield production facilities scheduled for CY25 season in Bihar and Meghalaya is on track.
- Further, VBL has set up backward integration facilities at the Prayagraj plant in to increase efficiency.
- The company is increasing its go-to-market strategy every year via the addition of visi-coolers in new markets.

Market scenario

- The entry of new competitors has had a positive impact on overall growth of India market, which continues to grow at a faster rate than previously seen.
- The Indian market remains underpenetrated despite growth in competition, with total retail outlets of ~12m; VBL has only reached ~4m outlets. This indicates the huge growth potential in this market.
- There is a clear shift of consumer preference toward healthier products like hydration, with nimbooz recording ~100% YoY growth.
- The energy drink segment continues to be the fastest-growing segment, while VBL continues to enjoy its market leadership position.
- Mid/low calories drinks like Sting have a huge market in India, whereas no-sugar products have a smaller market in India.

International business

- The integration of the South Africa territory has progressed well, with focused efforts on strengthening on-ground infrastructure, streamlining operations, and enhancing execution across the market.
- VBL has initiated the distribution and sales of PepsiCo's snack products in Zimbabwe and Zambia.
- Historically, net realizations in South Africa are lower due to a higher mix of own brands; however, the company is actively working to scale up PepsiCo's portfolio, which is expected to support improvements in realizations and margins going forward.
- While margins in South Africa can come close to India business margins, it may take time.
- Sales in Morocco were impacted by the early ramzan this year, while the sugar tax continued to have a marginal impact on volumes and margin in Zimbabwe.
- The paper work of Tanzania and Ghana could not be done in time, so the deal is on hold.
- VBL has expanded margins in South Africa business to ~14% from ~10% before the business was acquired.
- Sales of Pepsi brands in South Africa rose to 20% from 15% last year, with good traction seen in both owned and PepsiCo products, with PepsiCo products growing at a faster rate.
- Going ahead, VBL will cut down on non-profitable products in South Africa and maintain its growth trajectory via additions of visi-coolers.
- VBL had already launched Sting in Africa, which is witnessing strong traction in some countries and flat demand in others due to local competition and price points.
- VBL is still in the process of launching its energy drink; it should be launched in the next quarter.

Other

- VBL recently commenced operations at the new greenfield production facilities in Kangra (Himachal Pradesh) and Prayagraj (Uttar Pradesh), significantly enhancing capacity concurrently with the peak summer season.
- The new launches of Sting gold and Gatorade have witnessed strong traction.
- Water costs have been shifted to direct costs, leading to an impact on the gross margins, along with the higher mix of CSD.
- VBL is spending roughly the same amount of money on ads as it used to earlier. Going forward, as volumes increase, the company will increase its spending on ads. New companies entering the market tend to spend more on ads.
- VBL is not expecting the prices of key raw materials to increase. The marginal increase in sugar prices was offset by the decrease in packaging prices.

Valuation and view

- VBL is expected to maintain its earnings momentum, aided by: 1) scale up in the international market, 2) stable growth in the domestic market, 3) continued expansion in capacity and distribution reach, and 4) growing refrigeration in rural and semi-rural areas.
- We expect a CAGR of 18%/16%/26% in revenue/EBITDA/PAT over CY25-26.
- We largely maintain our CY25/CY26 earnings estimates. **We value the stock at 55x CY26E EPS to arrive at a TP of INR665. 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	2,38,747	2,76,825	2,39,290	2,77,457	0%	0%
EBITDA	55,989	63,605	56,275	63,750	1%	0%
Adj. PAT	35,316	40,925	35,119	41,119	-1%	0%

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	1,31,731	1,60,426	2,00,077	2,39,290	2,77,457
Change (%)	39.7	-9.5	36.8	49.3	21.8	24.7	19.6	15.9
RM Cost	32,194	27,639	40,347	62,612	74,049	89,047	1,08,441	1,27,623
Employees Cost	8,108	8,897	10,077	12,166	14,466	18,850	21,388	24,139
Other Expenses	16,517	15,946	21,262	29,072	35,816	45,068	53,186	61,945
Total Expenditure	56,819	52,483	71,686	1,03,850	1,24,331	1,52,966	1,83,015	2,13,707
% of Sales	79.7	81.4	81.2	78.8	77.5	76.5	76.5	77.0
EBITDA	14,477	12,019	16,546	27,881	36,095	47,111	56,275	63,750
Margin (%)	20.3	18.6	18.8	21.2	22.5	23.5	23.5	23.0
Depreciation	4,886	5,287	5,313	6,172	6,809	9,474	11,630	12,790
EBIT	9,590	6,732	11,234	21,709	29,286	37,637	44,645	50,960
Int. and Finance Charges	3,096	2,811	1,847	1,861	2,681	4,504	911	500
Other Income	425	370	679	388	794	1,213	2,168	2,775
PBT bef. EO Exp.	6,919	4,290	10,066	20,236	27,398	34,346	45,903	53,234
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	45,903	53,234
Total Tax	2,241	52	2,606	4,735	6,375	7,988	10,411	11,712
Tax Rate (%)	32.4	1.4	25.9	23.4	23.3	23.3	22.7	22.0
Share of profit from associates	44	0	0	0	-5	-15	-6	0
Minority Interest	32	283	520	527	459	397	367	404
Reported PAT	4,690	3,290	6,941	14,974	20,559	25,946	35,119	41,119
Adjusted PAT	4,690	3,251	6,941	14,974	20,559	25,946	35,119	41,119
Change (%)	60.1	-30.7	113.5	115.8	37.3	26.2	35.4	17.1
Margin (%)	6.6	5.0	7.9	11.4	12.8	13.0	14.7	14.8

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	1,59,335	1,86,001	2,18,666
Net Worth	33,284	35,240	40,799	51,024	69,365	1,66,098	1,92,764	2,25,429
Minority Interest	307	648	1,168	1,131	1,482	1,298	1,665	2,069
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	1,26,221	1,95,918	1,99,951	2,33,020
Gross Block	87,203	90,086	94,420	1,06,807	1,28,385	1,85,018	2,16,018	2,25,018
Less: Accum. Deprn.	22,655	26,242	31,555	37,727	44,536	54,010	65,640	78,430
Net Fixed Assets	64,548	63,844	62,865	69,080	83,849	1,31,008	1,50,378	1,46,588
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	86,335	1,29,649
Inventory	8,815	9,288	14,481	19,939	21,505	27,912	32,076	36,964
Account Receivables	1,726	2,418	2,212	2,993	3,594	8,458	5,361	6,216
Cash and Bank Balance	1,711	1,901	3,366	2,853	4,599	24,501	27,362	61,497
Loans and Advances	6,076	6,113	7,661	15,009	18,649	24,288	21,536	24,971
Curr. Liability & Prov.	13,297	14,378	17,322	23,711	25,651	35,521	41,034	47,488
Account Payables	4,777	5,114	7,118	8,243	7,582	15,604	12,702	14,637
Other Current Liabilities	6,517	6,893	7,622	13,135	15,117	17,283	23,929	27,746
Provisions	2,003	2,371	2,583	2,333	2,952	2,633	4,403	5,105
Net Current Assets	5,031	5,342	10,399	17,083	22,696	49,639	45,301	82,160
Appl. of Funds	70,459	70,096	78,473	92,471	1,26,221	1,95,918	1,99,951	2,33,020

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	10.4	12.2
Cash EPS	2.8	2.5	3.6	6.3	8.1	10.5	13.8	15.9
BV/Share	9.8	10.4	12.1	15.1	20.5	49.1	57.0	66.7
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	24.1	20.6
Valuation (x)								
P/E	375.7	542.0	253.8	117.7	85.7	67.9	50.2	42.8
Cash P/E	184.0	206.4	143.8	83.3	64.4	49.7	37.7	32.7
P/BV	52.9	50.0	43.2	34.5	25.4	10.6	9.1	7.8
EV/Sales	25.2	27.8	20.3	13.6	11.3	8.8	7.3	6.1
EV/EBITDA	124.0	149.1	108.4	64.5	50.2	37.4	30.9	26.7
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	9.8	11.9
Return Ratios (%)								
RoE	17.6	9.5	18.3	32.6	34.2	22.0	19.6	19.7
RoCE	11.8	10.4	12.5	20.9	22.1	19.2	18.9	20.0
RoIC	11.5	9.8	12.1	21.6	24.2	22.1	20.9	23.3
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	49	102
Net Debt/Equity	1.0	0.9	0.7	0.7	0.7	0.0	-0.1	-0.3

Consolidated - Cash Flow Statement

(INRm)

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24	CY25E	CY26E
OP/(Loss) before Tax	6,919	3,625	10,066	20,236	27,398	34,346	45,903	53,234
Depreciation	4,826	5,287	5,313	6,172	6,809	9,474	11,630	12,790
Interest & Finance Charges	2,948	2,730	1,850	1,854	2,681	4,504	-1,257	-2,275
Direct Taxes Paid	-1,201	-775	-1,242	-3,733	-6,679	-7,276	-10,411	-11,712
(Inc)/Dec in WC	-828	-1,109	-2,688	-5,851	-6,735	-6,694	7,199	-2,724
CF from Operations	12,664	9,758	13,299	18,678	23,474	34,354	53,063	49,315
Others	411	362	-985	-778	434	-543	-6	0
CF from Operating incl EO	13,075	10,120	12,314	17,900	23,908	33,811	53,058	49,315
(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	33,058	40,315
(Pur)/Sale of Investments	0	0	0	0	-216	-6,418	0	0
Others	-15,862	-429	-877	453	-743	654	2,168	2,775
CF from Investments	-23,193	-4,711	-10,106	-17,046	-32,898	-43,168	-17,832	-6,225
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	-500
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	-8,954
Inc/Dec of Cash	776	190	1,465	-513	1,747	19,902	2,861	34,136
Opening Balance	935	1,711	1,901	3,366	2,852	4,599	24,501	27,362
Closing Balance	1,711	1,901	3,366	2,852	4,599	24,501	27,362	61,497

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NOTES

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