

## Growth Story Remains Intact: Maintain BUY

**Est. Vs. Actual for Q4CY24:** Revenue – **INLINE**; EBITDA – **BEAT**; PAT – **BEAT**

### Changes in Estimates post Q4CY24

**CY25E/CY26E:** Revenue: 2%/4%; EBITDA: -3%/-2%; PAT: 1%/3%

### Recommendation Rationale

- Volume-led growth:** In Q4CY24, the company delivered a strong performance, driven by a 38.1% YoY increase in volume growth (~23.2% for CY24), fueled by expanded international operations. This included 43 million cases from South Africa and 7.8 million cases from the DRC. Realisation for CY24 rose by 1.3% to Rs 177.9 per case, led by a better product mix. In India, organic volume growth for CY24 was 11.4%, while international markets saw growth of 6.3%. However, the transition to a zero-sugar portfolio in Zimbabwe impacted growth due to the introduction of a sugar tax. The management remains optimistic, forecasting continued double-digit growth moving forward.
- Margin performance:** EBITDA margins remained flat at 15.7% in Q4CY24, despite a 56 bps YoY contraction in gross margins. However, gross margins for CY24 rose by 290 bps to 55.5%, mainly due to strategic procurement and storage of PET chips for price advantages, efforts to lower sugar content, and the growing benefits of backward integration. The share of low-sugar and no-sugar products grew to 53% of total sales volume. The company experienced a 100bps improvement in EBITDA margins for CY24, driven by gains in gross margins. This improvement was achieved despite the consolidation of South Africa's operations, characterised by lower margins due to a high proportion of own brands (~80%) and the fixed costs tied to new capital expenditures not yet fully utilised.
- Raised funds through QIP:** The company successfully raised Rs 7,500 Cr through a Qualified Institutional Placement (QIP) in Q4CY24, which is utilised for debt repayment and acquisitions.

### Sector Outlook: **Positive**

**Company Outlook & Guidance:** We expect VBL to continue its strong growth momentum in the mid- to long-term. Hence, we maintain our BUY recommendation on the stock.

**Current Valuation:** 48xDec-26EPS (Earlier: 52xSep-26EPS)

**Current TP:** Rs 710/share (Earlier TP: Rs 700/ share)

**Recommendation:** With an 30% upside potential from the CMP, we **maintain** our **BUY** rating on the stock.

### Financial Performance

Revenue increased by 38.3% YoY in Q4CY24, driven by consolidated volume growth of ~38.1% YoY to 215.1 Mn cases in Q4CY24, which includes 43 Mn cases from South Africa and 7.8 Mn cases from DRC. India volumes grew by 11.4% YoY in CY24, while international markets grew by 6.3% YoY. Realisation per case increased by 1.3% YoY to Rs 177.9 in CY24. EBITDA margins improved by 4 bps YoY to 15.7% in Q4CY24. However, this was partly offset by a gross margin contraction of 56 bps YoY.

### Key Financials (Consolidated)

(Rs Cr)	Q4CY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,689	(23.2)	38.3	3,663	0.7
EBITDA	580	(49.6)	38.7	571	1.6
EBITDA Margin (%)	15.7	-824bps	4bps	15.6	13bps
Net Profit	185	(70.1)	40.3	156	19.0
EPS (Rs)	0.6	(70.1)	40.3	0.5	19.2

Source: Company, Axis Research

(CMP as of 10<sup>th</sup> February 2025)

CMP (Rs)	548
Upside /Downside (%)	30%
High/Low (Rs)	682/516
Market cap (Cr)	1,85,506
Avg. daily vol.(6m) Shrs '000.	5,412
No. of shares (Cr)	338

### Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	62.7	62.7	60.2
FII's	25.3	24.2	25.3
MFs / UTI	2.4	2.6	4.1
FIs/Banks	0.0	0.0	0.1
Others	9.6	10.5	10.4

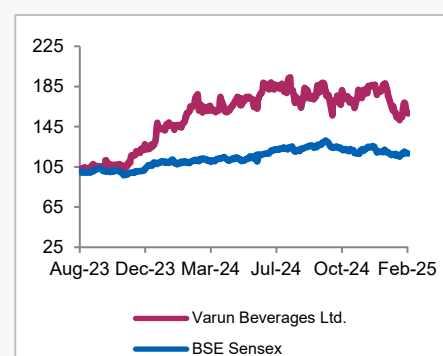
### Financial & Valuations

Y/E Dec (Rs Cr)	CY24	CY25E	CY26E
Net Sales	20,008	24,421	30,258
EBITDA	4,711	5,842	7,312
Net Profit	2,595	3,684	4,812
EPS (Rs)	8.0	11.3	14.8
PER (x)	67.5	48.3	37.0
EV/EBITDA (x)	37.8	30.2	23.8
P/BV (x)	10.7	9.1	7.6
ROE (%)	15.9	18.9	20.5

### Change in Estimates (%)

Y/E Dec	CY25E	CY26E
Sales	2%	4%
EBITDA	-3%	-2%
PAT	1%	3%

### Relative Performance



Source: Ace Equity, Axis Securities

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## Distribution Expansion

VBL reaches 4 Mn FMCG outlets out of 12 Mn outlets, presenting significant opportunities. The company plans to expand to 8-10 Mn outlets over time, adding 10-12% new outlets annually. This expansion fuels growth, with India's untapped market offering substantial potential.

## New launches

The company plans to introduce a new flavor to its energy drink line, Sting Gold, and hopes to launch it soon. Additionally, other products are in development and expected to be ready before the upcoming season. Sting Gold is positioned as a long-term addition to the product portfolio.

## Outlook

VBL is expected to maintain its strong growth momentum driven by several key factors: 1) The successful strategic acquisition of the BevCo, which consolidates its presence in South Africa and DRC; 2) Expansion of its snacks portfolio outside India, particularly in Zimbabwe and Zambia; 3) Continued focus on increasing distribution reach, especially in rural areas; 4) The commissioning of multiple greenfield and brownfield facilities, enhancing manufacturing capabilities and market reach while reducing transportation costs; and 5) Expansion of the high-margin Sting energy drink, along with increased emphasis on value-added dairy, sports drinks (Gatorade), and juice segments. These investments are expected to support the company's long-term growth and profitability.

## Other Concall Highlights

- 1. Acquisition of Tanzania and Ghana Territories** - VBL signed a share purchase agreement on November 13, 2024, to acquire 100% stake in Tanzania Bottling Company SA and SBC Beverages Ghana Limited, subject to regulatory approvals, including from PepsiCo Inc. The deal is valued at ~USD 154.50 million for Tanzania and ~USD 15.06 million for Ghana, with completion expected by February 28, 2025, for Ghana and March 31, 2025, for Tanzania. Additionally, the management highlighted that in Tanzania, Pepsi already holds a leadership position, requiring only enhancements in market execution and additional capacity to drive growth. The business is performing well. In contrast, Ghana presents a redevelopment opportunity, as PepsiCo's portfolio is currently limited, making it akin to entering a new market.
- 2. Snack Business** - Varun Beverages has secured exclusive snacks franchising agreements in Morocco, Zimbabwe, and Zambia. In Morocco, its wholly owned subsidiary, Varun Beverages Morocco SA, has entered into an exclusive agreement to manufacture and package Cheetos, expanding on its existing distribution arrangement for PepsiCo's snacks portfolio, which includes Lays, Cheetos, and Doritos. In Zimbabwe and Zambia, its subsidiaries have partnered with Premier Nutrition Trading LLC, a PepsiCo subsidiary, to produce, distribute, and sell Simba Munchiez in both countries. Distribution began in Zimbabwe and Zambia on February 1, 2025, while manufacturing facilities are expected to be operational by May 2025 in Morocco, October 2025 in Zimbabwe, and April 2026 in Zambia.
- 3. South Africa Business** - In South Africa, the company achieved 12.5% sales growth in its first year, focusing on expanding its general trade distribution network to improve margins. By placing more visi-coolers than previous operators, they are enhancing market presence. Despite the dominance of low-margin modern trade, the company is shifting focus to general trade, where margins are better. Backward integration plans are underway, expected to boost margins in the coming year. With solid growth expectations, the company aims for sustained double-digit growth and improved profitability moving forward.
- 4. Manufacturing Footprint-** In CY2024, the company established three new greenfield production facilities in India, located in Supa (Maharashtra), Gorakhpur (Uttar Pradesh), and Khordha (Odisha), all with integrated backward operations. Additionally, a new greenfield facility was set up in Kinshasa, Democratic Republic of Congo. The company also enhanced its backward integration at the Guwahati plant in India, as well as at its facilities in Morocco, Zambia, and Zimbabwe internationally.
- 5. Capex-** In CY2024, the company capitalized net assets of approx. Rs. 4,500 Cr, of which about Rs. 2,400Cr was spent in CY2023. This includes the establishment of four greenfield production facilities totaling Rs. 3,200Cr million, broken down as follows: -
  - Supa (Maharashtra) – Rs. 1,000 Cr
  - Gorakhpur (Uttar Pradesh) – Rs. 1,100 Cr,
  - Khordha (Odisha) – Rs. 500Cr and
  - DRC – Rs. 600Cr.

Additionally, Rs. 800Cr was allocated to international projects, including a CSD PET line in Nepal, a CSD PET and water line in Morocco, and a CSD PET line in Zimbabwe, along with backward integration initiatives in Morocco, Zambia, and Zimbabwe. The remaining capital expenditure covered land acquisition for future projects and investments in visi-coolers, glass bottles, pallets, vehicles, and other assets.

For CY2025, the projected capex is Rs. 3,100Cr, with Rs. 1,650Cr already paid as of 31 December 2024, reflected in CWIP and capital advances. The major allocation for CY2025 includes Rs. 2,000Cr for the setup of new greenfield facilities in India (Prayagraj, Damtal, Buxar, and Meghalaya), while the remainder will fund international snack manufacturing, brownfield expansions in India (Sricity), rPET facilities in India, and further growth in the DRC.

6. **Debt**— In Q4CY24, the company became net debt-free through debt prepayment using the proceeds from the QIP issue. This action has helped strengthen the Company's balance sheet, creating a war chest for future growth and enhancing value for stakeholders.
7. **Beverage mix:** For CY24, CSG's non-carbonated beverages accounted for 74.2% of total sales, with packaged drinking water contributing 19.6%. Further, the share of low and no-sugar products increased to 53% of consolidated sales volume, up from 42% in 2023, underscoring the company's focus on offering healthier options. Breaking down the beverage mix, carbonated soft drinks (CSD), which includes Mountain Dew, represent around 57% of volumes, while Sting makes up 15%. Juice accounts for 7.5%, and water contributes 18%. Over the past two years, capacity has grown by 45%, with a 25% increase recorded in CY23 alone.
8. **Capacities** - The company has expanded its production capacity in India by 45% over the past two years, including a 25% increase in the last year alone. Management anticipates an additional 25% capacity expansion by 2025.

### Key Risks to Our Estimates and TP

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

### Change in Estimates

	Old estimates		Revised estimates		% Change	
	CY25E	CY26E	CY25E	CY26E	CY25E	CY26E
Sales	23,967	29,215	24,421	30,258	2%	4%
EBITDA	6,044	7,473	5,842	7,312	-3%	-2%
PAT	3,637	4,687	3,684	4,812	1%	3%
EPS	11.2	14.4	11	15	1%	3%

Source: Company, Axis Securities

## Results Review

(Rs Cr)	Q4CY23	Q3CY24	Axis Sec Est.	Q4CY24	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
<b>Total Revenue</b>	<b>2,668</b>	<b>4,805</b>	<b>3,663</b>	<b>3,689</b>	<b>38.3</b>	<b>(23.2)</b>	<b>0.7</b>
COGS	1,157	2,136	1,643	1,620	40.0	(24.2)	(1.4)
<b>Gross Profit</b>	<b>1,511</b>	<b>2,668</b>	<b>2,021</b>	<b>2,069</b>	<b>36.9</b>	<b>(22.5)</b>	<b>2.4</b>
<b>GM%</b>	<b>56.6</b>	<b>55.5</b>	<b>55.2</b>	<b>56.1</b>	<b>-56bps</b>	<b>54bps</b>	<b>92bps</b>
<b>Expenditure</b>							
Employee expenses	371	513	498	479	29.0	(6.6)	(3.7)
Other Exp	721	1,004	952	1,010	40.0	0.5	6.1
<b>Total Expenditure</b>	<b>2,249</b>	<b>3,654</b>	<b>3,092</b>	<b>3,109</b>	<b>38.2</b>	<b>(14.9)</b>	<b>0.5</b>
<b>EBIDTA</b>	<b>418</b>	<b>1,151</b>	<b>571</b>	<b>580</b>	<b>38.7</b>	<b>(49.6)</b>	<b>1.6</b>
<b>EBITDA Margin (%)</b>	<b>15.7</b>	<b>24.0</b>	<b>15.6</b>	<b>15.7</b>	<b>4bps</b>	<b>-824bps</b>	<b>13bps</b>
Depreciation	166	257	269	261	57.1	1.6	(3.2)
<b>EBIT</b>	<b>252.3</b>	<b>894.5</b>	<b>301.7</b>	<b>319.2</b>	<b>26.5</b>	<b>(64.3)</b>	<b>5.8</b>
Interest	74	119	120	109	48.0	(8.0)	(9.0)
Oth. Inc.	9	24	25	45	389.7	84.1	75.3
Exceptional Items	-	-	-	-			#REF!
<b>PBT</b>	<b>176</b>	<b>791</b>	<b>207</b>	<b>244</b>	<b>38.3</b>	<b>(69.2)</b>	<b>17.5</b>
Tax	44	171	52	58	32.3	(65.9)	12.8
Effective Tax Rate(%)	25.1	21.7	25.0	24.0	-109bps	235bps	-99bps
<b>PAT</b>	<b>132</b>	<b>620</b>	<b>156</b>	<b>185</b>	<b>40.3</b>	<b>(70.1)</b>	<b>19.0</b>
<b>PAT Margin (%)</b>	<b>4.95</b>	<b>12.90</b>	<b>4.25</b>	<b>5.02</b>	<b>7bps</b>	<b>-788bps</b>	<b>77bps</b>
EPS (Rs.)	<b>0.4</b>	<b>1.9</b>	<b>0.5</b>	<b>0.6</b>	<b>40.3</b>	<b>(70.1)</b>	<b>19.2</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24	CY25E	CY26E
<b>Net sales</b>	<b>16,043</b>	<b>20,008</b>	<b>24,421</b>	<b>30,258</b>
Growth, %	24.2	24.7	22.1	23.9
Other operating income	-	-	-	-
Total income	16,043	20,008	24,421	30,258
Raw material expenses	(7,405)	(8,905)	(10,819)	(13,362)
Employee expenses	(1,447)	(1,885)	(2,262)	(2,986)
Other Operating expenses	(3,582)	(4,507)	(5,498)	(6,598)
<b>EBITDA (Core)</b>	<b>3,609</b>	<b>4,711</b>	<b>5,842</b>	<b>7,312</b>
Growth, %	29.5	30.5	24.0	25.2
Margin, %	22.5	23.5	23.9	24.2
Depreciation	(681)	(947)	(1,046)	(1,128)
<b>EBIT</b>	<b>2,929</b>	<b>3,764</b>	<b>4,796</b>	<b>6,184</b>
Growth, %	34.9	28.5	27.4	29.0
Margin, %	18.3	18.8	19.6	20.4
Other Income	79	121	139	153
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>2,740</b>	<b>3,435</b>	<b>4,800</b>	<b>6,270</b>
Tax provided	(638)	(799)	(1,116)	(1,458)
<b>Net Profit</b>	<b>2,102</b>	<b>2,636</b>	<b>3,684</b>	<b>4,812</b>
Unadj. shares (Cr)	129	325	325	325

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24	CY25E	CY26E
Cash & bank	460	2,450	3,856	6,817
Debtors	359	846	669	829
Inventory	2,151	2,791	3,274	4,056
Loans & advances	539	22	22	22
Other current assets	726	1,777	1,777	1,777
Total current assets	4,235	7,886	9,597	13,501
Investments	3	6	6	6
Gross fixed assets	12,463	18,439	20,239	21,739
Less: Depreciation	(4,036)	(4,983)	(6,029)	(7,158)
Add: Capital WIP	1,922	1,162	1,162	1,162
Net fixed assets	10,349	14,618	15,372	15,744
Non-current assets	537	512	512	512
<b>Total assets</b>	<b>15,187</b>	<b>23,140</b>	<b>25,605</b>	<b>29,881</b>
Current liabilities	4,153	4,524	4,118	4,394
Provisions	213	189	189	189
Total current liabilities	4,366	4,714	4,308	4,584
Non-current liabilities	3,737	1,690	1,690	1,690
Total liabilities	8,103	6,404	5,998	6,274
Paid-up capital	650	676	676	676
Reserves & surplus	6,287	15,934	18,805	22,804
Shareholders' equity	7,085	16,740	19,611	23,611
<b>Total equity &amp; liabilities</b>	<b>15,187</b>	<b>23,144</b>	<b>25,609</b>	<b>29,885</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24	CY25E	CY26E
Pre-tax profit	2,740	3,435	4,800	6,270
Depreciation	681	947	1,046	1,128
Chg in working capital	(349)	(1,167)	(712)	(666)
Total tax paid	(631)	(674)	(1,116)	(1,458)
<b>Cash flow from operating activities</b>	<b>2,441</b>	<b>2,542</b>	<b>4,018</b>	<b>5,274</b>
Capital expenditure	(3,491)	(5,216)	(1,800)	(1,500)
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(3,495)</b>	<b>(5,219)</b>	<b>(1,800)</b>	<b>(1,500)</b>
Free cash flow	(1,054)	(2,677)	2,218	3,774
Equity raised/(repaid)	0	27	-	-
Dividend (incl. tax)	(227)	(227)	(812)	(812)
<b>Cash flow from financing activities</b>	<b>1,270</b>	<b>(2,567)</b>	<b>(812)</b>	<b>(812)</b>
Net chg in cash	216	(5,245)	1,406	2,961
Opening cash balance	285	460	2,450	3,856
Closing cash balance	460	2,450	3,856	6,817

Source: Company, Axis Securities

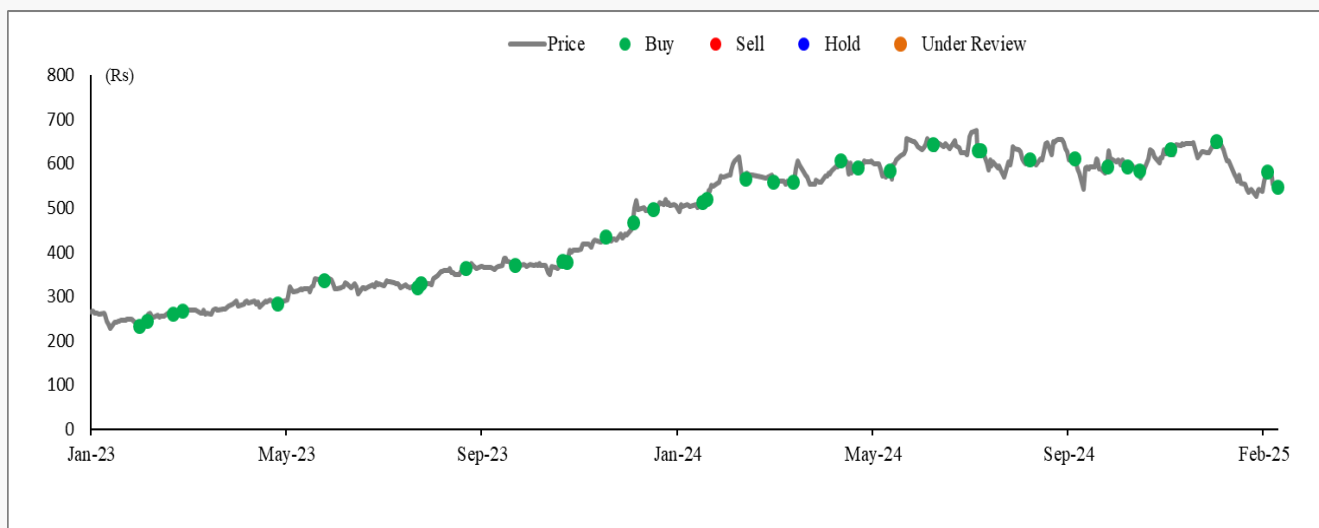
**Ratio Analysis**

(%)

Y/E Mar	CY23	CY24	CY25E	CY26E
EPS (INR)	15.8	8.0	11.3	14.8
Growth, %	(32.7)	(50.2)	39.8	30.6
Book NAV/share (INR)	53.8	51.1	60.0	72.3
FDEPS (INR)	16.3	8.1	11.3	14.8
CEPS (INR)	21.6	11.0	14.6	18.3
CFPS (INR)	17.2	8.7	11.9	15.8
DPS (INR)	1.8	0.7	2.5	2.5
<b>Return ratios</b>				
Return on assets (%)	17.7	16.1	15.7	17.6
Return on equity (%)	30.3	15.9	18.9	20.5
Return on capital employed (%)	25.4	20.8	19.0	20.8
<b>Turnover ratios</b>				
Asset turnover (x)	1.6	1.4	1.4	1.6
Receivable days	8.2	15.4	10.0	10.0
Inventory days	48.9	50.9	48.9	48.9
Payable days	22.3	37.2	22.7	22.7
Working capital days	(8.6)	16.6	24.3	27.6
<b>Liquidity ratios</b>				
Current ratio (x)	1.0	1.7	2.3	3.1
Quick ratio (x)	0.5	1.1	1.5	2.1
Interest cover (x)	10.9	8.4	35.5	91.5
Total debt/Equity (%)	0.7	0.1	0.1	0.1
Net debt/Equity (%)	0.4	(0.2)	(0.2)	(0.4)
<b>Valuation</b>				
PER (x)	33.6	67.5	48.3	37.0
PEG (x) - y-o-y growth	(1.0)	(1.3)	1.2	1.2
Price/Book (x)	10.2	10.7	9.1	7.6
EV/Net sales (x)	4.7	8.9	7.2	5.7
EV/EBITDA (x)	20.9	37.8	30.2	23.8
EV/EBIT (x)	25.8	47.3	36.8	28.1

Source: Company, Axis Securities

## Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research		Date	Reco	TP	Research
01-Jan-23	BUY	290	Top Picks		05-Feb-24	BUY	572	Result Update
01-Feb-23	BUY	290	Top Picks		01-Mar-24	BUY	620	Result Update
06-Feb-23	BUY	290	Result Update		19-Mar-24	BUY	620	AAA
23-Feb-23	BUY	300	Result Update		01-Apr-24	BUY	620	Top Picks
01-Mar-23	BUY	300	Top Picks		02-May-24	BUY	660	Top Picks
01-Apr-23	BUY	300	Top Picks		13-May-24	BUY	700	Result Update
01-May-23	BUY	320	Top Picks		03-Jun-24	BUY	700	Top Picks
02-May-23	BUY	320	Result Update		01-Jul-24	BUY	732	Top Picks
01-Jun-23	BUY	372	Top Picks		31-Jul-24	BUY	720	Result Update
01-Jul-23	BUY	372	Top Picks		01-Aug-24	BUY	720	Top Picks
01-Aug-23	BUY	372	Top Picks		02-Sep-24	BUY	720	Top Picks
03-Aug-23	BUY	372	Result Update		01-Oct-24	BUY	717	Top Picks
01-Sep-23	BUY	400	Top Picks		22-Oct-24	BUY	700	Result Update
03-Oct-23	BUY	420	Top Picks		04-Nov-24	BUY	700	Top Picks
03-Nov-23	BUY	420	Top Picks		14-Nov-24	BUY	700	Company Update
06-Nov-23	BUY	420	Result Update		02-Dec-24	BUY	700	Top Picks
01-Dec-23	BUY	480	Top Picks		01-Jan-25	BUY	700	Top Picks
19-Dec-23	BUY	580	Company Update		03-Feb-25	BUY	700	Top Picks
01-Jan-24	BUY	580	Top Picks		11-Feb-25	BUY	710	Result Update
02-Feb-24	BUY	580	Top Picks					

Source: Axis Securities Research

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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
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