

Varun Beverages Ltd

Analyst Recommendation: **BUY**

BSE Code: 540180

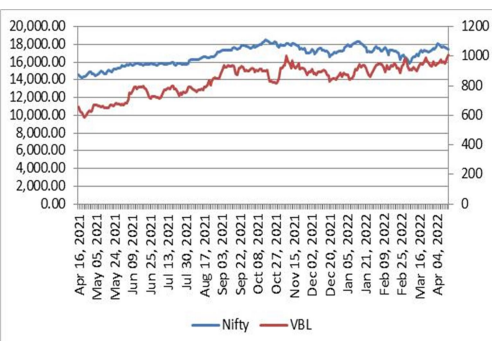
NSE: VBL

Bloomberg Code: VBL:IN

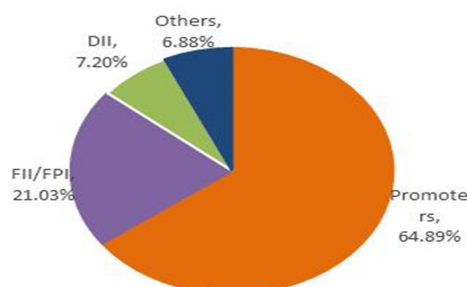
CMP: Rs 1011
2 Year Target: Rs 1200

| | |
|---------------------------|-----------|
| Face Value | 10.00 |
| Market Cap (Rs cr) | 43,782 |
| 52 week high/low | 1,051/582 |
| Beta | 0.74 |
| Shares O/S (Cr) | 43.30 |
| Book Value per Share (Rs) | 94.2 |
| Sensex | 58,339 |
| Nifty | 17,475.65 |

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Mar 2022.



Investor's Rationale

➤ Marketing push/product innovation to boost growth:

Despite Covid-led challenges, VBL placed ~25,000/40,000 visi-coolers in CY20/CY21. Alongside, VBL has refreshed Pepsi with more fizz, expanded its portfolio in the large lemon-based carbonate segment (~40% of carbonate industry) through Mountain Dew Ice and entered the dairy segment through Creambell shakes. New innovations are well supported by a strong marketing push ahead of the CY22 season, which we believe should lead to strong 26% revenue growth in CY22.

➤ Prepared to combat inflation with PET light-weighting/stocking:

By reducing plastic usage, VBL has achieved light-weighting of pre-forms and closures of PET bottles by 6-15% across SKUs, compared to CY15-19 period (exhibit 2). PET resins/others form 25-30% of overall RM costs, while concentrate and sugar make up the rest, in our view. In addition, prebuying of PET chips in Q4CY21 (inventory days at 60 vs. 45-50 historically) and price hikes in select SKUs, place VBL in a better position to combat crude price inflation.

➤ Expects 40% reduction in debt; RPTs in line with past trends:

An increase in CWIP due to new facilities in Bihar/J&K and stocking of PET helped VBL keep net debt flat at Rs30bn in CY21. However, VBL expects to pare down debt by ~40% in CY22. Organic capex stood at Rs3.5bn, primarily toward brownfield expansion in India, Morocco and Zimbabwe.

➤ Valuation

We initiate coverage on VBL with a BUY rating and price target of Rs 1200 (37.2x CY23E EPS)

| | CY20 | CY21 | CY22E | CY23E |
|---------------------|---------|---------|----------|----------|
| Revenue (Rs.Cr) | 6,450.0 | 8,823.2 | 11,125.1 | 12,603.9 |
| EBITDA (Rs. cr) | 1,201.9 | 1,654.6 | 2,234.5 | 2,642.8 |
| Adj. profit (Rs.Cr) | 322.3 | 694.1 | 1,074.8 | 1,394.8 |
| Adj. EPS (Rs.) | 7.4 | 16.0 | 24.8 | 32.2 |
| P/E (x) | 127.5 | 59.2 | 38.2 | 29.5 |
| Dividend Yield | 0.20% | 0.30% | 0.50% | 0.60% |
| EV/EBITDA (x) | 36.9 | 26.8 | 19.2 | 15.9 |
| ROE (%) | 9.4% | 18.3% | 23.8% | 25.2% |
| ROCE | 9.8% | 15.6% | 21.4% | 25.9% |

Constant Generation of Free Cash Flow

- The company had been on an acquisition spree for last few years, which impacted its Free Cash Flow (FCF). However, with already 90% volumes of the PepsiCo's India beverage under VBL, the growth for VBL in the future would be largely led by organic route in India. Improvement in capacity utilisation, margin expansion and consolidation of operations will lead to improvement in FCF going forward.
- It has repaid debt to the extent of Rs. ~2200 Cr over past 2 years and with strong FCF generation, we expect a sharp reduction in debt over next 2-3 years. Reduced capex intensity and focus on debt reduction, better margins and improved asset turnover would lead to steady improvement of ratios

VBL: One of the largest PepsiCo franchisee

- VBL has been associated with PepsiCo since the 1991 and has over three decades consolidated its business association with PepsiCo, increasing the number of licensed territories and sub-territories covered by the company, producing and distributing a wider range of PepsiCo beverages, introducing various SKUs in the portfolio and expanding the distribution network. The fact that the relationship has been well nurtured is evident from gradual consolidation of VBL's presence across contiguous geographies.
- VBL has increased its share of PepsiCo's India beverages volume sales (based on its sales to end customers) from 26.5% in CY11 to 44.1% in CY15 and to 85%+ now. Being granted franchises for various PepsiCo products across 27 States and 7 Union Territories, it covers 90% of India now. Although, India is VBL's largest market, it has also been granted the franchise for various PepsiCo products for the high-growth potential territories of Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe.

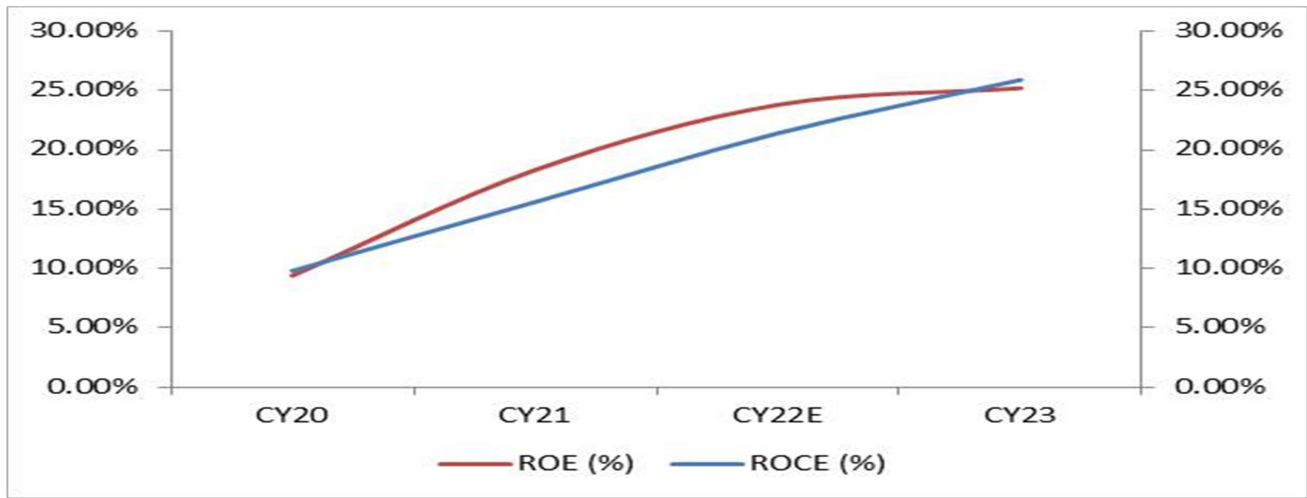
VBL is a much more than mere bottler...

- A bottler merely manufactures the product and supplies it back to the brand owner for a small conversion fee. VBL is much more than a pure bottler – in fact, the company is present almost across the entire value chain. VBL straddles across the entire value chain... VBL's presence across the entire value chain more than signifies that it is not just a bottler but makes significant contribution across the value chain.
- As per its agreement with PepsiCo, responsibilities of both players are clearly spelt out. VBL with its end-to-end execution capabilities, is responsible for manufacturing, distribution and warehousing, customer management and in-market execution, to managing cash flows and future growth.
- PepsiCo offers brands, concentrates and marketing support to VBL, which then takes complete control over the manufacturing and supply chain processes, driving market share gains, enhancing cost efficiencies and managing capital allocation strategies.

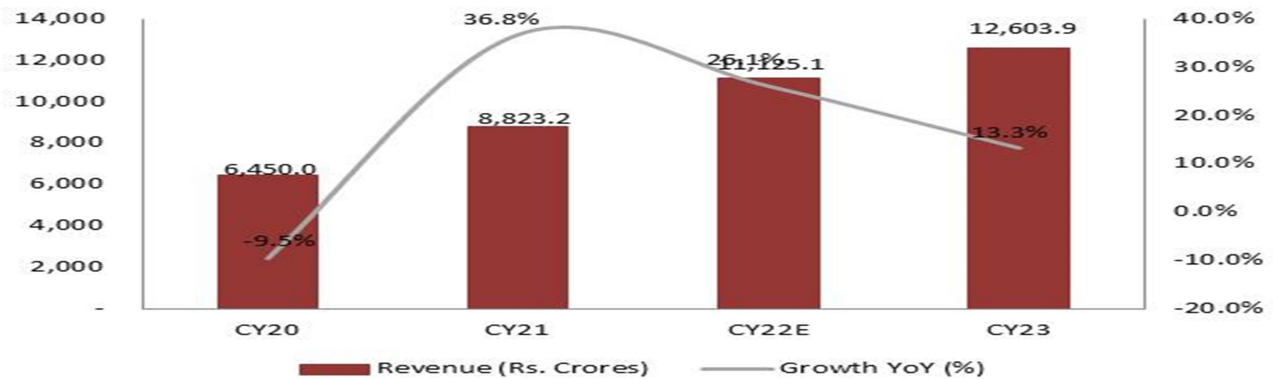
Robust infrastructure in place

- VBL has also made significant investments towards establishing a robust back-end infrastructure, be it manufacturing of preforms, crowns, caps, shrink-wrap films, corrugated boxes and plastic crates. This ensures that VBL's reliance on third party vendors is limited. It also helps the company harness operating leverage benefits, thereby lending fillip to margins.
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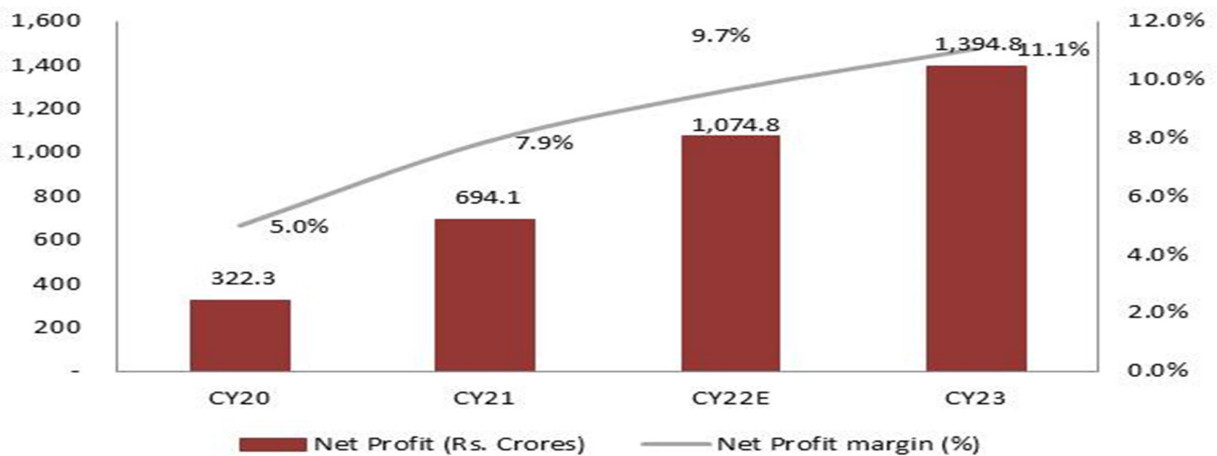
Return ratios to show strong growth in future



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

We initiate coverage on VBL with a BUY rating and price target of Rs 1200 (37.2x CY23E EPS)

Varun Beverages Ltd- Company Overview

Varun Beverages Ltd has been associated with PepsiCo since the 1990s and is a key player in beverage industry and one of the largest franchisee of PepsiCo in the world. The company produces and distributes a wide range of carbonated soft drinks, non-carbonated drinks and packaged water sold under trademarks owned by PepsiCo.

PepsiCo brands produced and sold by the company include Pepsi, Seven-up, Mirinda Orange, Mountain Dew, Tropicana Juices and many more

Varun beverages is a part of the RJ group, which is the largest franchisee for **Pizza Hut, KFC, Cream Bell and Costa Coffee** in India. With this distinguished track record and expertise in the QSR

Balance sheet (Consolidated)

| (Rs crore) | CY20 | CY21 | CY22E | CY23E |
|--------------------------|--------------|--------------|--------------|--------------|
| Liabilities | | | | |
| Paid up capital | 289 | 433 | 433 | 433 |
| Reserves and Surplus | 3235 | 3647 | 4527 | 5862 |
| Net worth | 3524 | 4080 | 4960 | 6295 |
| Total Loans | 3,422 | 3,551 | 2,616 | 1,618 |
| Deffered Tax Liability | 226 | 311 | 342 | 377 |
| Minority Interest | 65 | 117 | 117 | 117 |
| Total Liabilities | 7,236 | 8,059 | 8,035 | 8,406 |
| Assets | | | | |
| Net Tangible Assets | 6,409 | 6,311 | 6,427 | 6,501 |
| | - | - | - | - |
| Investments | - | - | - | - |
| Current Assets | 1,982.90 | 2,774.50 | 3,395.60 | 3,723.80 |
| Current Liabilities | 1,222 | 1,523 | 1,787 | 2,018 |
| Net Current Assets | 761 | 1252 | 1609 | 1706 |
| Total Assets | 7236 | 8059 | 8035 | 8406 |

Profit & Loss Account (Consolidated)

| (Rs crore) | CY20 | CY21 | CY22E | CY23E |
|------------------------------------|--------------|--------------|---------------|---------------|
| Total operating Income | 6,450 | 8,823 | 11,125 | 12,604 |
| Raw Material Exp | 2763.9 | 4034.7 | 4327.9 | 4682.8 |
| Employee Exp | 890 | 1,008 | 1,283 | 1,411 |
| Other Exp | 1,595 | 2,126 | 3,280 | 3,868 |
| EBITDA | 1,202 | 1,655 | 2,235 | 2,643 |
| Depreciation | 529 | 531 | 584 | 626 |
| EBIT | 673 | 1,123 | 1,650 | 2,017 |
| Interest cost | 281 | 185 | 199 | 129 |
| Other Income & Extraordinary Items | 37 | 68 | 75 | 85 |
| Profit before tax | 429 | 1,007 | 1,527 | 1,973 |
| Tax | 78 | 261 | 389 | 503 |
| Profit after tax | 351 | 746 | 1,137 | 1,470 |
| Minority Interests | | | | |
| P/L from Associates | | | | |
| Other | 28 | 52 | 63 | 75 |
| Adjusted PAT | 322 | 694 | 1,075 | 1,395 |



Equity Research

Key Ratios & Valuations (Consolidated)

| Y.E March (Rs crore) | CY20 | CY21 | CY22E | CY23E |
|--|-------------|-------------|--------------|--------------|
| PBT (Excluding Other Inc) | 436 | 1007 | 1526 | 1973 |
| Other Non Cash Item | 0 | 0 | 0 | 0 |
| Change in Working Capital | -39 | -344 | 57 | -89 |
| Other Items | 675 | 541 | 425 | 286 |
| Cash flow from operating activities | 1071 | 1203 | 2008 | 2170 |
| Capital Expenditure | -461 | -863 | -203 | -700 |
| Other | 0 | 0 | 0 | 0 |
| Cash flow from investing activities | -461 | -863 | -203 | -700 |
| Issue of Equity | -27 | 22 | | |
| Loan Fund | -216 | 125 | -1000 | -1000 |
| Others | -348 | -340 | -391 | -462 |
| Cash flow from financing activities | -591 | -193 | -1391 | -1462 |
| Net chg in cash | 19 | 147 | 414 | 8 |
| Opening Cash | 171 | 190 | 455 | 615 |
| Closing Cash | 190 | 455 | 615 | 961 |

Key Ratios & Valuations (Consolidated)

| Y.E March (Rs crore) | CY20 | CY21 | CY22E | CY23E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (Rs.) | | | | |
| EPS | 7.40 | 16.00 | 24.80 | 32.20 |
| DPS | 1.70 | 2.50 | 4.50 | 6.00 |
| Margin (%) | | | | |
| EBITDA | 18.6% | 18.8% | 20.1% | 21.0% |
| NPM | 5.0% | 7.9% | 9.7% | 11.1% |
| Return Ratios (%) | | | | |
| RoE | 9.4% | 18.3% | 23.8% | 25.2% |
| ROCE | 9.8% | 15.6% | 21.4% | 25.9% |
| Valuation(x) | | | | |
| P/E | 127.5 | 59.2 | 38.2 | 29.5 |
| EV/EBITDA | 36.9 | 26.8 | 19.2 | 15.9 |
| Dividend Yield | 0.20% | 0.30% | 0.50% | 0.60% |
| Per share data (Rs.) | | | | |
| EPS | 7.4 | 16.0 | 24.8 | 32.2 |



Equity Research

| Large Cap. | Return | Mid/Small Cap. | Return |
|---------------|------------------------|--------------------|--------------------------|
| Buy | More than equal to 10% | Buy | More than equal to 15% |
| Hold | Between 10% & -5% | Accumulate* | Upside between 10% & 15% |
| Reduce | Less than -5% | Hold | Between 0% & 10% |
| | | Reduce/sell | Less than 0% |

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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