

# Varun Beverages Limited

## All Round Business Performance

7<sup>th</sup> Feb 2023

Varun Beverages Limited (VBL) has reported a strong topline growth of ~28/49% and volume growth of ~18/41% YoY on a quarterly and annual basis, respectively. It also improved its EBITDA margins by 192 bps & 240 bps YoY on a quarterly and annual basis, respectively. There are multiple levers for this growth 1) change in product mix: in CY22, energy drink commanded 9.6% of the total volume sold in India compared to 5% in CY21, 2) increase in distribution reach to 3 Mn outlets and, 3) increase in penetration in the western and southern region of India. The Company has planned a Capex of Rs. 15 Bn for CY23 to fuel its future growth.

### Strong volume growth with a better realization

In Q4 CY22, VBL did a volume growth of ~18% with an increase in realization per case by ~8% on a YoY basis, and energy drink contributed ~16% of the total volume sold in India. The energy drink sector is gaining popularity in emerging markets, and as VBL's energy drink sales continue to grow, the company is expected to see further improvement in its realization with strong volume growth.

### Expanding distribution network

Total addressable distribution reach in India is 11 Mn outlets. The Company has been expanding its outlet reach over the years, growing from ~1 Mn outlets in CY17 to over 3 Mn in CY22. The management has stated that their focus for CY23 is to add another 0.3-0.5 Mn outlets. To improve visibility, VBL plans to install visi-coolers in at least 20% of the added capacity for CY23.

### Capacity Expansion

In CY22, the Company has spent ~Rs. 12.5 Bn on adding greenfield as well as brownfield capacities and management has guided that net Capex for CY23 is Rs. 15 Bn. This additional capacity will help to propel future growth for VBL.

### View & Valuation

Based on the increase in operating capacity and change in product mix, we believe that in CY23, VBL would be able to grow in volume and value terms by 12% and 2% respectively. Based on our revised estimates, we maintain a BUY rating on Varun Beverages with a target of Rs. 1,461 (55x CY23 earnings).

## BUY

CMP Rs. 1,306

TARGET Rs. 1,461 (+11.8%)

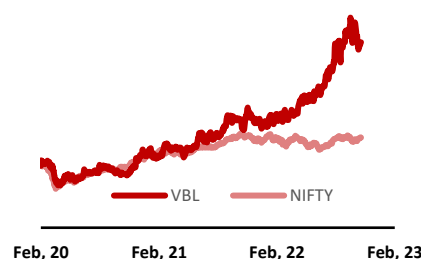
### Company Data

MCAP (Rs. Mn)	848,281
O/S Shares (Mn)	650
52w High/Low	1432/557
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	2,241

### Shareholding Pattern %

	Dec 22	Sept 22	Jun 22
Promoters	63.9	63.9	63.9
FIIIs	26.5	25.0	23.9
DIIIs	3.4	4.5	5.3
Non-Institutional	6.2	6.6	6.9

### VBL vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	CY22	CY23E	CY24E
Revenue	131.7	150.5	168.9
EBITDA	27.9	32.4	35.1
Net Profit	15.0	17.3	18.9
Total Assets	116.1	134.5	149.7
ROCE (%)	22%	20%	19%
ROE (%)	32%	29%	25%

Source: Company, Keynote Capitals Ltd.

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## Varun Beverages Limited | Quarterly Update

## Q4 CY22 Result Update

## Result Highlights (Rs. Mn)

Particulars	Q4 CY22	Q4 CY21	Change % (Y-o-Y)	Q3 CY22	Change % (Q-o-Q)	CY22	CY21	Change % (Y-o-Y)
Revenue from Operation	22,142	17,343	28%	31,766	-30%	1,31,731	88,232	49%
Gross Profit	12,464	9,605	30%	17,053	-27%	69,120	47,886	44%
<b>Gross Profit %</b>	<b>56.3%</b>	<b>55.4%</b>	<b>91 bps</b>	<b>53.7%</b>	<b>261 bps</b>	<b>52.5%</b>	<b>54.3%</b>	<b>-180 bps</b>
Employee Cost	3,199	2,598	23%	3,112	3%	12,166	10,077	21%
Other Expenses	6,190	4,931	26%	6,951	-11%	29,072	21,262	37%
EBITDA	3,075	2,076	48%	6,990	-56%	27,881	16,546	69%
<b>EBITDA %</b>	<b>13.9%</b>	<b>12.0%</b>	<b>192 bps</b>	<b>22.0%</b>	<b>-812 bps</b>	<b>21.2%</b>	<b>18.8%</b>	<b>240 bps</b>
Depreciation	1,797	1,293	39%	1,531	17%	6,172	5,313	16%
EBIT	1,278	783	63%	5,458	-77%	21,709	11,234	93%
<b>EBIT %</b>	<b>5.8%</b>	<b>4.5%</b>	<b>126 bps</b>	<b>17.2%</b>	<b>-1,141 bps</b>	<b>16.5%</b>	<b>12.7%</b>	<b>370 bps</b>
Finance Cost	475	373	27%	453	5%	1,861	1,847	1%
Other Income	92	9	983%	106	-13%	388	679	-43%
PBT	896	419	114%	5,112	-82%	20,236	10,066	101%
Tax Expenses	81	93	-13%	1,157	-93%	4,735	2,606	82%
Profit from Associates	0	0		0		0	0	
Minority Interest	68	161	-58%	144	-53%	527	520	1%
PAT attributable to shareholders	748	165	353%	3,810	-80%	14,974	6,941	116%
<b>EPS</b>	<b>1.15</b>	<b>0.25</b>		<b>5.87</b>		<b>23.05</b>	<b>10.69</b>	

Source: Company, Keynote Capitals Ltd.

## Unit Economics (Rs/Case)

Particulars	Q4 CY22	Q4 CY21	Change % (Y-o-Y)	Q3 CY22	Change % (Q-o-Q)	CY22	CY21	Change % (Y-o-Y)
Volume Sold (Mn Cases)	132	112	18%	190	-31%	802	569	41%
Revenue from Operation	167.7	154.9	8%	167.2	0%	164.3	155.1	6%
Gross Profit	94.4	85.8	10%	89.8	5%	86.2	84.2	2%
Employee Cost	24.2	23.2	4%	16.4	48%	15.2	17.7	-14%
Other Expenses	46.9	44.0	6%	36.6	28%	36.2	37.4	-3%
EBITDA	23.3	18.5	26%	36.8	-37%	34.8	29.1	20%
EBIT	9.7	7.0	39%	28.7	-66%	27.1	19.7	37%
PBT	6.8	3.7	82%	26.9	-75%	25.2	17.7	43%
Tax Expenses	0.6	0.8	-26%	6.1	-90%	5.9	4.6	29%
PAT attributable to shareholders	5.7	1.5	285%	20.1	-72%	18.7	12.2	53%

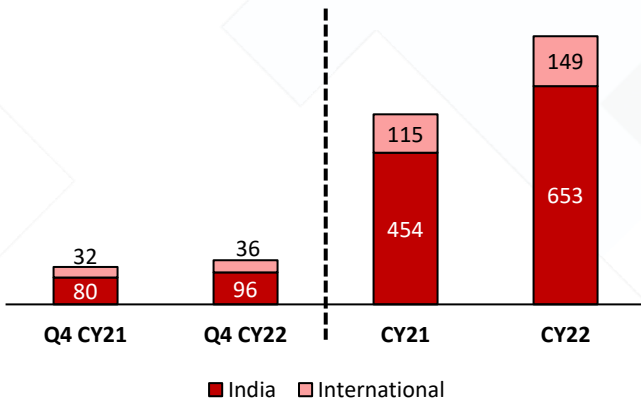
Source: Company, Keynote Capitals Ltd.

## Unit Economics

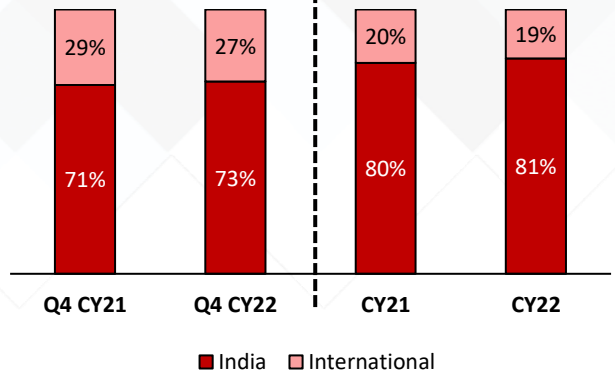
- Selective price hike, change in product mix, rationalization of discounts, increase of smaller SKU's in product mix are the reasons for increase in revenue per case by ~8% on YoY basis.
- Due to increase in price of raw material, the Company saw a shrink in gross margins by 180bps in CY22.
- Smaller packaged beverages yields higher gross margins

### Quarterly Business Progression

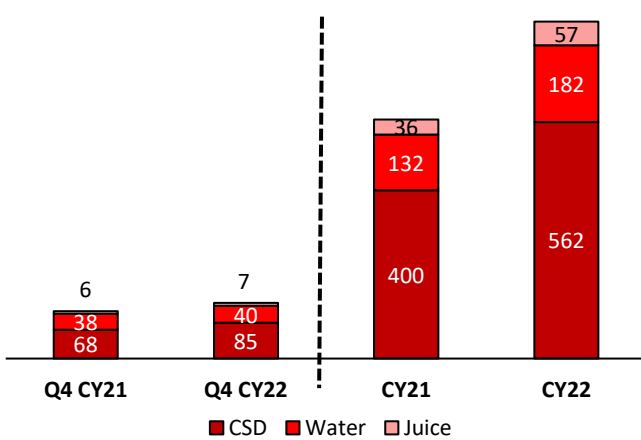
Volume Sold (in Mn cases) [Geography-wise]



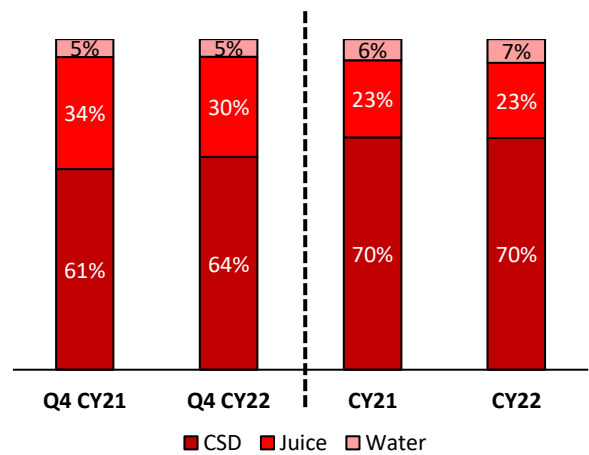
Volume Mix % [Geography-wise]



Volume Sold (in Mn cases) [Product-wise]



Volume Mix % [Product-wise]



Source: Company, Keynote Capitals Ltd.

## Conference Call Highlights

### General Highlights

- Till now, inventory built up used to take place in Q1 CY22, but due to Holi festival being 15 days earlier in CY23 and increase of revenue mix from western and southern region of India, the Company has started stocking inventory from December, 2022 itself.
- Currently, VBL has a distribution outlet reach of 3 Mn. Management guided to add 0.3-0.5 Mn distribution outlets in CY23 and install Visi-coolers in 20% of newly added outlets.
- In emerging markets, energy drink is becoming 15% of the total volumes sold.

*We believe that one reason could be due to decrease in purchasing price for customer.*

### Management Guidance

- Management restrain to give clear growth guidance for CY23 but they will focus on doing double digit growth.
- Management guided to have stable ~21-22% EBITDA margins for CY23.

### Product Mix

- Based on CY22, domestically, energy drink (Sting) contributed 9.6% of total volume sold. The management expects strong performance to sustain in its energy drink product as its reach to newer outlets increases.
- In Q4 CY22, energy drink contributed 16% of volume sold domestically.
- Re-launch of value-added dairy products (Cream Bell) have been well-received by the consumers.

### New Launches

- VBL has commercialized production of Kurkure Puffcorn in its Kosi plant (Uttar Pradesh) for PepsiCo India Holdings Private Limited. Management guided that currently, PepsiCo is not looking for distribution of food product in India.
- VBL got into an agreement to distribute & sell Lays, Doritos & Cheetos in Morocco. Currently, VBL has just replaced another player and they will only be importing food products and distribute it in Morocco.
- National roll out of dairy products will take place in CY24, as management guided to triple their capacity in manufacturing dairy products by the end of CY23.

### CAPEX

- In CY22, the Company spent Rs. 6.3 Bn for greenfield expansion in Bihar & Jammu and brownfield expansion Sandila facility (Uttar Pradesh). The Company also spent Rs. 2.5 Bn for brownfield capacity expansion in Zimbabwe and Morocco. Apart from this, for future capacity expansion, the Company spend Rs 3.7 bn for land purchase.
- Net Capex estimated for CY23 is Rs. 15Bn (including CWIP).

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	CY20	CY21	CY22	CY23E	CY24E
<b>Net Sales</b>	<b>64,501</b>	<b>88,232</b>	<b>1,31,731</b>	<b>1,50,532</b>	<b>1,68,897</b>
Growth %		37%	49%	14%	12%
Raw Material Expenses	27,639	40,347	62,611	71,503	79,382
Employee Expenses	8,897	10,077	12,166	13,548	15,201
Other Expenses	15,820	21,040	29,072	33,117	39,184
<b>EBITDA</b>	<b>12,145</b>	<b>16,769</b>	<b>27,881</b>	<b>32,364</b>	<b>35,131</b>
Growth %		38%	66%	16%	9%
Margin%	19%	19%	21%	22%	21%
Depreciation	5,287	5,313	6,172	7,146	7,896
<b>EBIT</b>	<b>6,858</b>	<b>11,457</b>	<b>21,709</b>	<b>25,219</b>	<b>27,235</b>
Growth %		67%	89%	16%	8%
Margin%	11%	13%	16%	17%	16%
Interest Paid	2,937	2,073	1,861	1,872	1,716
Other Income & exceptional	-296	683	388	400	400
<b>PBT</b>	<b>3,625</b>	<b>10,066</b>	<b>20,236</b>	<b>23,746</b>	<b>25,918</b>
Tax	52	2,606	4,735	5,937	6,480
<b>PAT</b>	<b>3,573</b>	<b>7,461</b>	<b>15,501</b>	<b>17,810</b>	<b>19,439</b>
Others (Minorities, Associates)	-283	-520	-527	-553	-581
<b>Net Profit</b>	<b>3,290</b>	<b>6,941</b>	<b>14,974</b>	<b>17,256</b>	<b>18,858</b>
Growth %		111%	116%	15%	9%
Shares (Mn)	288.7	433.0	649.6	649.6	649.6
<b>EPS</b>	<b>5.06</b>	<b>10.69</b>	<b>23.05</b>	<b>26.56</b>	<b>29.03</b>

### Balance Sheet

Y/E Mar, Rs. Mn	CY20	CY21	CY22	CY23E	CY24E
Cash, Cash equivalents & Bank	1,901	5,822	6,830	7,343	16,540
Debtors	2,418	2,212	2,993	4,516	5,067
Inventory	9,288	14,481	19,939	25,026	27,784
Other Current Assets	4,390	2,946	4,278	4,278	4,278
Total Current Assets	17,997	25,461	34,040	41,163	53,668
Net Block & CWIP	64,754	68,074	75,389	88,355	90,459
Other Non-current Assets	1,723	2,283	6,753	4,981	5,562
<b>Total Assets</b>	<b>84,474</b>	<b>95,818</b>	<b>1,16,181</b>	<b>1,34,499</b>	<b>1,49,689</b>
Creditors	5,114	7,117	8,243	13,786	14,785
Provision	371	497	292	292	292
Short Term Borrowings	7,139	15,286	19,678	19,678	19,678
Other Current Liabilities	11,726	7,302	11,475	11,475	11,475
Total Current Liabilities	24,350	30,202	39,688	45,231	46,230
Long Term Debt	19,796	18,133	17,270	14,270	11,270
Deferred Tax Liabilities	2,149	3,111	3,368	3,368	3,368
Other Long Term Liabilities	2,291	2,405	3,700	3,700	3,700
Total Non Current Liabilities	24,236	23,649	24,339	21,339	18,339
Paid-up Capital	2,887	4,330	6,496	6,496	6,496
Reserves & Surplus	32,353	36,469	44,528	59,749	76,360
Shareholders' Equity	35,240	40,799	51,024	66,245	82,855
Non Controlling Interest	648	1,168	1,131	1,684	2,265
<b>Total Equity &amp; Liabilities</b>	<b>84,474</b>	<b>95,818</b>	<b>1,16,181</b>	<b>1,34,499</b>	<b>1,49,689</b>

Source: Company, Keynote Capitals Ltd.

### Cash Flow

Y/E Mar, Rs. Mn	CY20	CY21	CY22	CY23E	CY24E
Pre-tax profit	3,625	10,066	20,236	23,746	25,918
Adjustments	8,378	6,178	7,249	8,618	9,212
Change in Working Capital	-1,108	-2,687	-5,852	-1,066	-2,310
Total Tax Paid	-775	-1,242	-3,733	-5,937	-6,480
<b>Cash flow from operating Activities</b>	<b>10,120</b>	<b>12,314</b>	<b>17,900</b>	<b>25,362</b>	<b>26,341</b>
Net Capital Expenditure	-5,356	-8,154	-17,499	-15,000	-10,000
Change in investments	0	1	221	0	0
Other investing activities	645	-1,953	234	400	400
<b>Cash flow from investing activities</b>	<b>-4,711</b>	<b>-10,106</b>	<b>-17,045</b>	<b>-14,600</b>	<b>-9,600</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-2,130	1,286	3,162	-3,000	-3,000
Dividend (incl. tax)	-722	-1,083	-1,624	-2,588	-2,829
Other financing activities	-2,885	-1,980	-1,717	-1,872	-1,716
<b>Cash flow from financing activities</b>	<b>-5,737</b>	<b>-1,777</b>	<b>-179</b>	<b>-7,461</b>	<b>-7,545</b>
<b>Net Change in cash</b>	<b>-328</b>	<b>431</b>	<b>676</b>	<b>3,301</b>	<b>9,196</b>

### Valuation Ratios

	CY20	CY21	CY22	CY23E	CY24E
<b>Per Share Data</b>					
EPS	5	11	23	27	29
Growth %		111%	116%	15%	9%
Book Value Per Share	122	94	80	105	131
<b>Return Ratios</b>					
Return on Assets (%)	4%	8%	14%	14%	13%
Return on Equity (%)	10%	18%	32%	29%	25%
Return on Capital Employed (%)	9%	15%	22%	20%	19%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.8	1.0	1.2	1.2	1.2
Sales / Gross Block (x)	0.7	1.0	1.3	1.3	1.3
Working Capital / Sales (%)	-9%	-6%	-4%	-3%	1%
Receivable Days	12	10	7	9	10
Inventory Days	120	108	100	115	121
Payable Days	64	49	41	52	63
Working Capital Days	67	68	66	71	68
<b>Liquidity Ratios</b>					
Current Ratio (x)	0.7	0.8	0.9	0.9	1.2
Interest Coverage Ratio (x)	2.5	5.9	11.9	13.7	16.1
Total Debt to Equity	0.9	0.8	0.7	0.5	0.4
Net Debt to Equity	0.9	0.7	0.6	0.4	0.2
<b>Valuation</b>					
PE (x)	88.0	58.7	53.0	46.0	42.1
Earnings Yield (%)	1%	2%	2%	2%	2%
Price to Sales (x)	4.5	4.6	6.0	5.3	4.7
Price to Book (x)	8.2	10.0	15.6	12.0	9.6
EV/EBITDA (x)	26.3	26.1	29.5	25.5	23.5
EV/Sales (x)	5.0	5.0	6.3	5.5	4.9

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 <sup>th</sup> December 2022	BUY	1,318	+16.8%
7 <sup>th</sup> February 2022	BUY	1,306	+11.8%

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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