KEYNOTE

Varun Beverages Limited

4th Dec 2022

Ample Fizz Available to Grow while Maintaining Profitability

Incorporated in 1995, Varun Beverages Limited (VBL) is PepsiCo's second-largest franchisee (outside the US). The Company produces and distributes a wide range of Carbonated Soft Drinks (CSDs), as well as a large selection of Non-Carbonated Beverages (NCB), including packaged water sold under trademarks owned by PepsiCo. The Company has established a robust business model to emerge as a key beverage player in India. VBL has a franchise rights of various PepsiCo products across 27 States and 7 Union Territories in India, along with territories of Sri Lanka, Nepal, Morocco, Zambia, and Zimbabwe. Currently, VBL owns franchisee rights of PepsiCo to manufacture and distribute products till 2039.

Fizz available to grow organically

Currently, out of ~3 Mn retail outlets where VBL is present (out of the addressable market of ~10-11 Mn), ~60% don't have a visi-cooler because of the non-availability of electricity or a competitor has already set up one of its visi-cooler. The Company has a target to add 40,000-50,000 visi-coolers* every year. Adding visi-coolers will help VBL gain customer attention, which will elevate volume growth. This creates a headroom for VBL to grow its volume organically.

Strengthening position in new territories

The Company is increasing its penetration in the newly acquired territories on the back of a robust distribution network, diversifying its product portfolio with an increasing focus on rural & semi-rural areas. VBL continues to be on a strong footing and is diligently working toward strengthening its position as a key player in the beverage industry.

Entering into manufacturing, selling & distribution of food products

VBL got into a co-agreement to manufacture Kurkure Puffcorn, and in Q3 CY22, they commenced trial production in their Uttar-Pradesh plant for PepsiCo India Holdings Private Limited. Apart from this, in the testimony of a strong relationship with PepsiCo, VBL entered into an agreement to distribute & sell Lays, Doritos, and Cheetos in the territory of Morocco from January 2023. If VBL can decode the manufacturing & distribution of the food business like the beverage business, it will have a long runway for growth.

View & Valuation

We initiate our coverage on Varun Beverages limited with a BUY rating and a target of Rs. 1,540 (58x CY23 EPS). Compared to FMCG companies, VBL is a capital-intensive business leading to lower return ratios. Due to this, we are valuing it at a 10% discount to an average FMCG company (Average 5-year PE multiple: 64.7).

Note: Visi-coolers are machines that can maintain temperature between 1 to 10 degrees

BUY

CMP Rs. 1,318

TARGET Rs. 1,540 (+16.8%)

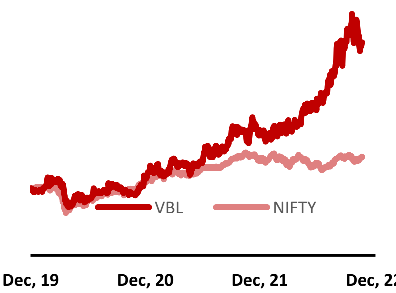
Company Data

MCAP (Rs. Mn)	8,53,939
O/S Shares (Mn)	433
52w High/Low	1,376 / 545
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	2008

Shareholding Pattern %

	Sep 22	Jun 22	Mar 22
Promoters	63.90	63.90	64.89
FIIs	25.01	23.93	21.03
DIIs	4.45	5.31	7.21
Non-Institutional	6.62	6.86	6.87

VBL vs Nifty



Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	CY21	CY22E	CY23E
Revenue	88	136	152
EBITDA	17	27	31
Net Profit	8	14	17
Total Assets	96	107	119
ROCE (%)	8%	14%	15%
ROE (%)	18%	30%	27%

Source: Company, Keynote Capitals Ltd.

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Industry Overview

India's soft drink market was estimated to be ~Rs. 1.28 Trn in 2018, comprising carbonated drinks, bottled water, juice, nectars & still drinks (JNSD), concentrates, sports & energy drinks, and ready-to-drink tea & coffee. The former three represent almost ~97% of the total volume and ~95% by value in India.

Majority of the volume is contributed by packaged & bulk water (~71%) and carbonated drinks (~19%). However, in value terms, carbonated drinks are the major contributor (~44%), followed by packaged & bulk water (~32%) and JNSD (19%).

Category	Volume Mix%	Value Mix%
Packaged & Bulk Water*	71%	32%
Carbonated Drinks	19%	44%
Juice, Nectars & Still Drinks (JNSD)	7%	19%
Fruit Powders	2%	1%
Squash/Syrups	1%	1%
Sports/Energy Drinks	1%	2%
Iced/Ready-to-drink Tea & Coffee	0%	0%
Total market size	**33,559 Mn**	**Rs. 1,283 Bn**

**includes flavoured and enhanced water*
Source: Company's QIP, Keynote Capitals Ltd.

Trends in the industry product

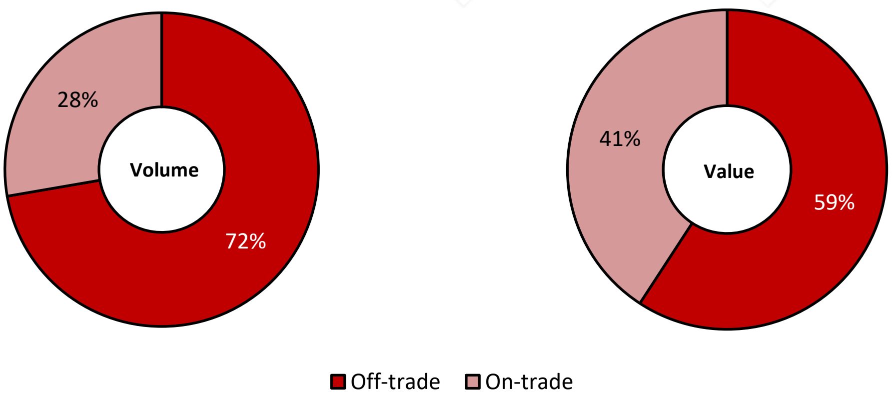
Category	Constituents	Expected growth rate (2019-2024)	Factors affecting the category
Carbonated Drinks	Sweetened, non-alcoholic beverages	6%	- The category has lost growth momentum due to rising health consciousness. To mitigate this, the manufacturers have launched beverages with natural ingredients - To mitigate the negative effects of the sin tax introduced by the government in 2017 (resulting in a 40% tax), the manufacturers started selling smaller and more affordable packages along with an aggressive marketing campaign
Packaged Water	Flavoured and enhanced packaged or bulk water	13.2%	- Fastest-growing category owing to increasing awareness and rising consumer health consciousness - Accelerated demand in urban areas, as many corporates prefer bulk bottled water over purifiers
JNSD	100% real fruit juice (Juice), diluted fruit juice (Nectars), non-carbonated drinks (Still drinks)	~10.5%	- Replacing carbonated drinks as they are perceived as healthier due to the involvement of organic products with rich and variety of flavours - Health and weight-conscious consumers seek sugar-free low-calorie non-alcoholic beverages. Thus, several manufacturers are expected to innovate their portfolio with new flavours or healthier drinks
Sports & energy drinks	Performance / energy-enhancing products	9.3%	- Increasing demand due to growing consumer inclination towards fitness and sports, gym culture, and a general rise in awareness of sports drinks

Source: Company's QIP, Keynote Capitals Ltd.

Distribution channel

In terms of distribution channels, the soft drinks market can be classified into off-trade and on-trade sales channels. Off-trade sales occur at retail outlets such as grocery stores, hypermarkets, and supermarkets. On-trade sales, on the other hand, occur at food service outlets like restaurants, bars, and clubs. E-commerce (sub-channel of Off-trade) is gaining significance owing to growing penetration of internet, which in turn is driving online purchases. The average selling price of the on-trade channel is comparatively higher than the off-trade channel. On-premise is largest and fastest growing channel of distribution due to rapid increase in food outlets driven by increasing income and rapid urbanization.

Distribution channel volume and value mix respectively (2020)



Source: Company's QIP, Euromonitor report estimates, Keynote Capitals Ltd.

Industry competitiveness

Category	Manufacturers	Product
Carbonates	Coca-Cola	Sprite, Thumps Up, Coca-Cola, Limca, Fanta
	PepsiCo	Pepsi, 7-Up, Mountain Dew, Mirinda, Evervess
Bottled Water	Parle Bisleri/Parle Agro	Bisleri, Bailley
	Coca-Cola	Kinley, Smartwater
	PepsiCo	Aquafina
Juice	Coca-Cola	Maaza, Minute Maid, Rani
	PepsiCo	Slice, Tropicana
	Parle Agro	Frooti, Appy
	Dabur India	Real
	ITC	B Natural
Sports/Energy Drink	Rauch Fruchtsäfte	Red Bull
	Monster Beverage Corp	Monster, Burn
	Hector Beverages	Tzinga
	PepsiCo	Sting, Gatorade
	Prima Drinks	Beast
	Mypro Sport Nutrition	Hellrock

Source: Company, Keynote Capitals Ltd
Note: Tata Consumer Products are in talks with Parle to acquire Bisleri.

The players in the industry compete based on their well-penetrated distribution network, branding, and marketing, range of product offerings, product innovations, pricing, and cost inputs. In addition to that, the manufacturers compete with several regional players mainly on price and distribution networks. However, substantial investment in production facilities, distribution infrastructure, and systems required to operate a nationwide beverage production creates a significant entry barrier to potential competitors.

Emerging industry trends

Convenience and Health – Changing urban lifestyles have impacted consumers' eating and drinking habits. With these consumers being busy, the necessity for food/drink intake in shorter periods has come to force, making them seek products that can offer maximum nutrition in less time while enabling consumption on the go.

Innovation – Increasing products have made consumers more experimental and less loyal, compelling manufacturers to innovate offerings, mainly in the JNSD category and carbonated beverages. In the latter case, manufacturers are battling higher taxes, focusing on fruit mix products to innovate and avoid taxes.

National & International companies facing challenges in regional areas – Regional companies have a considerable presence in the regional market due to more penetration in local regions, offering smaller pack sizes at affordable prices thereby posing significant challenges for national and international competitors to expand their reach in those regions.

Healthy Lifestyles – To lead a healthy lifestyle, consumers focus on health claims such as 'high in nutrients' and 'low in sugar.' Many enhanced and flavoured waters have been launched infused with natural flavours and free from artificial additives. Due to the sugar content leading to higher incidences of lifestyle diseases such as diabetes, carbonated beverages are likely to lose out on this trend. Manufacturers are also increasingly introducing RTD tea and coffee drinks with low-calorie content appealing to health-conscious consumers.

Natural Ingredients – Health-attentive consumers seek clean labels and organic products which are less processed and made of natural ingredients unlike carbonated drinks which are unhealthy. Many enhanced and flavoured waters are being launched infused with natural flavours and free from artificial additives, making them popular among consumers. Manufacturers are increasingly launching juices and claiming to have zero-processed organic ingredients, which appeal to consumers seeking natural products.

Smaller packaging – Manufacturers are reducing package sizes for portable products for on-the-go consumption to appeal to the working crowd seeking flexibility with consumption times and location.

Company Background

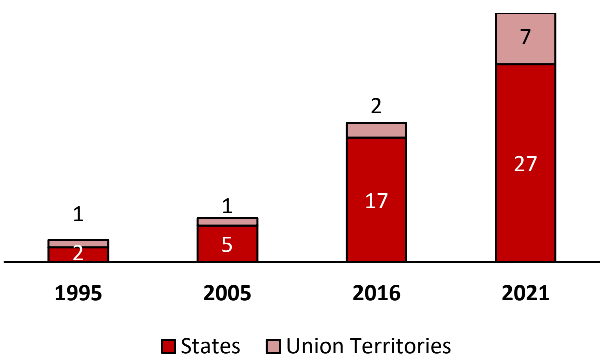
Recently, VBL was included in MSCI index

For over three decades, Varun Beverages Limited (VBL) has established a robust business model to emerge as a key beverage player in India as PepsiCo's second-largest franchisee (outside the US). The Company produces and distributes a wide range of Carbonated Soft Drinks (CSDs), as well as a large selection of Non-Carbonated Beverages (NCB), including packaged water sold under trademarks owned by PepsiCo.

VBL has a franchise right of various PepsiCo products across 27 States and 7 Union Territories in India, along with territories of Sri Lanka, Nepal, Morocco, Zambia, and Zimbabwe. Currently, VBL owns franchisee rights of PepsiCo to manufacture and distribute products till 2039.

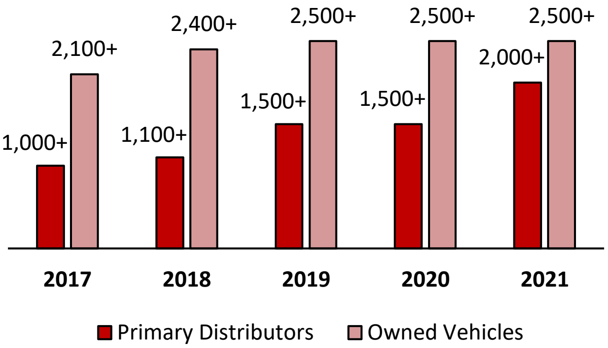
VBL has also implemented several strategic initiatives aimed at enhancing its operational excellence, such as raw material sourcing and backward integration of manufacturing processes. VBL has established facilities for the production of preforms, crowns, corrugated boxes, corrugated pads, plastic crates, and shrink-wrap films (packaging material used for bottling beverages). Backward integration helps to increase margins by ~3-5% compared to a non-integrated bottler.

VBL's Territory Expansion in India



Source: Company, Keynote Capitals Ltd.

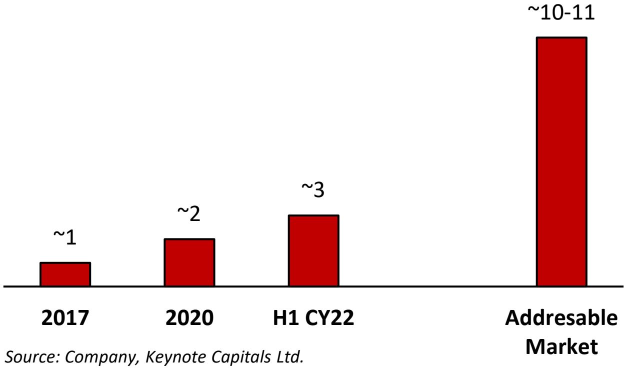
Primary Distributors Reach & Owned Vehicles



Source: Company, Keynote Capitals Ltd.

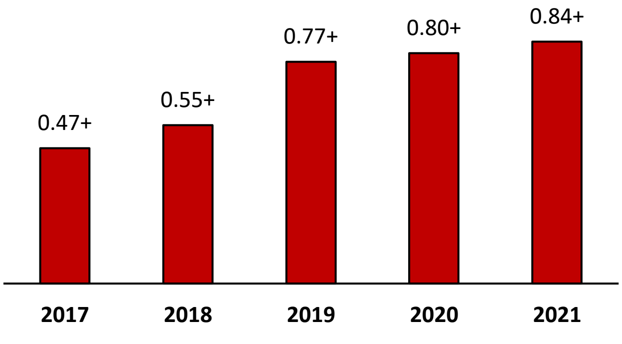
VBL's focus is to continuously increase its visibility through installing its owned visi-coolers in retail outlets. Management has guided to install ~50,000 visi-coolers annually.

Outlets Reach & Addressable Market (in Mn)



Source: Company, Keynote Capitals Ltd.

Installed Visi-Coolers at Outlets (in Mn)



Source: Company, Keynote Capitals Ltd.

VBL's Organizational Structure

VBL has 7 subsidiaries and 1 step-down subsidiary. In CY21, subsidiaries accounted for ~25% of the total revenue generated by the company. Apart from VBL RDC, Lunarmech Technologies and Ole Springs Bottlers Private Limited (OSPL), all the subsidiaries owns right to manufacture and distribute PepsiCo's products in their respective regions.

OSPL: OSPL is extensively engaged in importing packaging materials like bottles and flasks. It acts like a backward integration for a bottling company.

VBL RDC: In CY21, the Company incorporated a new subsidiary in the Democratic Republic of Congo (DRC). It is currently focused on importing finished products from Morocco and Zambia and distributing them in DRC. VBL will only set up a manufacturing facility locally post testing and establishing the market.

Lunarmech Technologies: Lunarmech is the business of manufacturers, processors, buyers, sellers, importers, exporters, or otherwise dealing in all kinds of pet bottle caps and crown caps. It is an India-based subsidiary.

Particulars	VBL Nepal	VBL Morocco SA	VBL Zambia	VBL Zimbabwe*	VBL RDC	VBL Lanka	Lunarmech Technologies Pvt Ltd
Country	Nepal	Morocco	Zambia	Zimbabwe	Democratic Republic of Congo	Sri Lanka	India
Holding (%)	100%	100%	90%	85%	~100%	100%	~55%
Manufacturing Facilities	2	1	1	1	0	1	0
Revenue (in Rs. Mn)	4,915	4,440	2,900	10,534	0	1,959	1,550
PAT (in Rs. Mn)	-268	19	485	2,273	0	117	277

Source: Company, Keynote Capitals Ltd.
**Note: VBL Zimbabwe accounts for 8-10% of total revenue*

Evolution of VBL

VBL's expertise in sustainably scaling its existing and new territories made it easier for PepsiCo to aptly transfer most of its India's business to them (VBL did 85%+ of total volume sold by PepsiCo in India in CY21 compared to 45%+ in CY17). Over the years, VBL has expanded its operations in India organically and inorganically. Through the in-organic route, they have acquired additional and previously franchised territories from PepsiCo.

VBL on an acquisition spree of Indian Territories

CY17 → CY18 → CY19

Source: Company, Keynote Capitals Ltd.

Acquisitions Post-IPO

Acquisition	Effective Date	Territory/production facility
SMV Beverages Private Limited	September 26, 2017	State of Odisha including a production facility
SMV Beverages, a unit of SMV Agencies Private Limited	September 27, 2017	Parts of the state of Madhya Pradesh including a production facility
SMV Beverages Private Limited	January 11, 2018	State of Chhattisgarh
Lumbini Beverages Private Limited	January 17, 2018	State of Bihar
SMV Beverages Private Limited	January 18, 2018	Production facility in Odisha
SMV Agencies Private Limited	March 23, 2018	State of Jharkhand including a production facility
Steel City Beverages Private Limited	April 5, 2018	Production facility in Jharkhand
SMV Beverages Private Limited and Nectar Beverages Private Limited	February 14, 2019	13 districts in Karnataka, 14 districts in Maharashtra and three districts in Madhya Pradesh
Pal PepsiCo India Holdings Private Limited	May 1, 2019	South and west regions including seven states (Gujarat, parts of Maharashtra, parts of Karnataka, Telangana (except district of Khammam), parts of Andhra Pradesh, Kerala and Tamil Nadu) and five Union Territories (Daman & Diu, Dadra & Nagar Haveli, Andaman & Nicobar Islands, Lakshadweep and Puducherry (except Yanam) (referred to as “2019 New India Sub-Territories”) as well as nine production facilities (out of which six production facilities were transferred on May 1, 2019 and the remaining three production facilities were transferred subsequently).

Source: Varun Beverages QIP, Keynote Capitals Ltd.

Business Model

There are 3 important raw materials for making beverages: concentrate, sugar, and packaging material. VBL sources concentrate from PepsiCo and have a strong relationship with sugar mills in Uttar Pradesh & Maharashtra, from where it sources sugar.

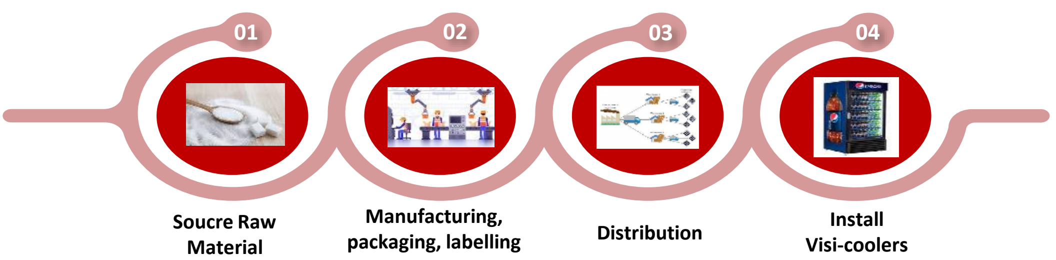
Concentrate prices are determined by PepsiCo

Currently, the Company has 37 manufacturing facilities (including 6 in international geographies). VBL also has a robust back-end infrastructure for manufacturing preforms, crowns, shrink-films, corrugated boxes, and plastic crates (packaging material). This helps them to reduce their dependence on third-party vendors and harness operating leverage.

In India, there are ~10-11Mn retail outlets, out of which VBL has a distribution reach to ~3 Mn outlets (including quick service restaurants and traditional retail shops). Management’s focus is to penetrate deeper into Tier–II and III cities. Due to the nature of packaging, refrigeration requirements, and limited shelf life, beverages requires a robust distribution network.

Generally beverages have a shelf life of 6-12 months

The most significant lever for increasing distribution reach is the penetration of visi-coolers in retail outlets. It plays an integral role in the brand’s plan for success as it ensures a wide variety of products are properly displayed. Currently, the Company has installed ~0.84 Mn visi-coolers at outlets. Management plans to add ~50,000 every year.

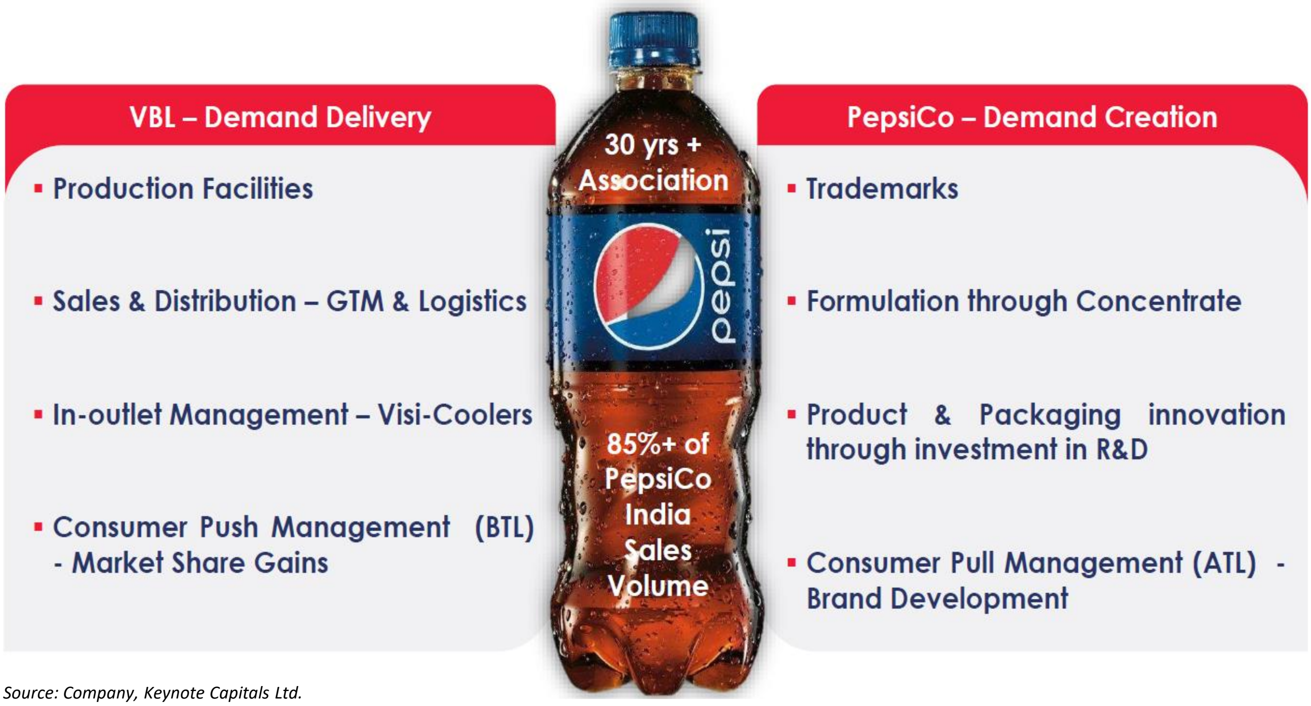


Source: Company, Keynote Capitals Ltd.

Association Between VBL & PepsiCo

As per the agreement with PepsiCo, the responsibilities of both players are clearly pre-determined. VBL focuses on end-to-end execution, including Below The Line (BTL) marketing, whereas PepsiCo offers brand, concentrates, packaging R&D, and Above The Line (ATL) marketing support.

ATL marketing includes: Radio, TV, Newspaper, Magazines and BTL marketing includes: Vertical banners, Email marketing, Telemarketing, etc.



Source: Company, Keynote Capitals Ltd.

Product portfolio

VBL owns the manufacturing rights of CSDs & NCB of PepsiCo. Along with beverages, in Q1 CY22, VBL got into a Co-Agreement to manufacture Kurkure Puffcorn. In Q3 CY22, they commenced trial production in its Uttar-Pradesh plant for PepsiCo India Holdings Private Limited. Apart from this, in the testimony of a strong relationship with PepsiCo, VBL entered into an agreement to distribute & sell Lays, Doritos, and Cheetos in the territory of Morocco from January 2023.

Source: Varun Beverages IP, Keynote Capitals Ltd.
**Note: CreamBell's trademark has been licensed to be used by VBL for ambient temperature value-added dairy-based beverages. CreamBell is owned by the Promoter of VBL*

Owns Manufacturing rights

Owns Distribution & Selling rights

Source: Company, Keynote Capitals Ltd.

	India	Nepal	Sri Lanka	Morocco	Zambia	Zimbabwe	Democratic Republic of Congo
Entered in Year	1991	1997	2010	2011	2016	2018	2021
Products Presence							
Pepsi	*	*	*	*	*	*	*
Mirinda	*	*	*	*	*	*	*
7 UP	*	*	*	*	*	*	*
Mountain Dew	*	*	*	*	*	*	*
Slice	*	*					
Aquafina	*	*	*	*	*	*	*
Tropicana	*						
Sting	*		*			*	
Kurkure – Puffcorn*	*						
Cheetos*				*			
Lays*				*			
Doritos*				*			

Source: Company, Keynote Capitals Ltd.
VBL only owns manufacturing rights of Kurkure and distribution & selling rights of Lays, Doritos and Cheetos:

Manufacturing Plants

Bottling is a pivotal step between high-volume beverage production and distribution in smaller units to consumers. A successful bottling company requires investing in multiple plants close to the consumption, delivery fleet, and refrigeration (Visi-coolers). The soft drinks industry entails relatively complex distribution because of the nature of the packaging, refrigeration requirements and limited shelf life. Currently, the company has 37 manufacturing facilities (including 6 in international territories). This helps them to stay in closer proximity to dealers and manage their distribution efficiently.

Source: Company, Keynote Capitals Ltd.

Capacity Expansion

VBL will spend ~ Rs. 12-13 Bn (50:50 on greenfield and brownfield) on capacity expansion. It is expected to be completed by H1 CY23. In CY21, the Board of Directors approved setting up the following new manufacturing facilities in India:

- A new plant for manufacturing CSDs and NCDs in Bihar to improve its market presence and gain a foothold in the territory.
- A new plant for manufacturing plastic preforms and plastic closures in Jammu & Kashmir to further strengthen its backward integration.

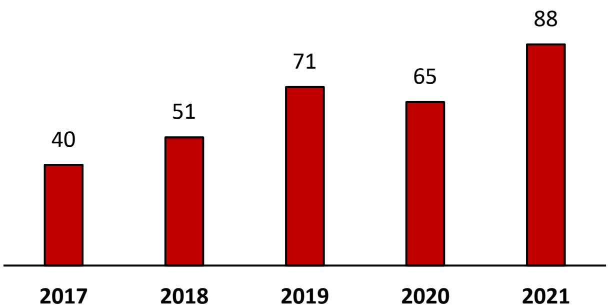
KEYNOTE

Financial Outlook

VBL grew its sales at a CAGR of ~22% and volume cases at a CAGR of ~19.5% (in the last 4 years). More than 75% of sales and 80% of volume cases sold come from the domestic market. Based on our realization estimates, VBL has ~25-30% higher sales realization in international markets than domestic ones. Due to the increase in the volume sold of energy drinks (Sting), the Company witnessed an improvement in sales realization. In 9M CY22, energy drinks have started contributing ~8% of total sales. The company would further improve its sales realizations with an increase in volume mix from energy drinks.

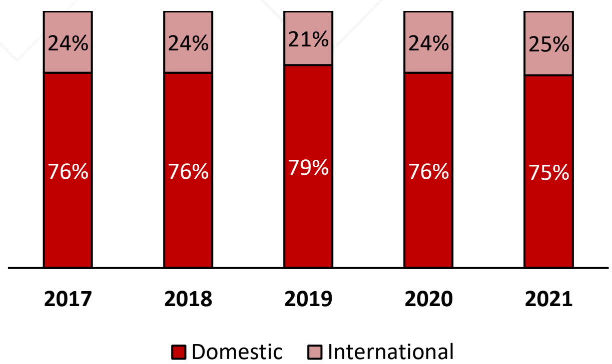
Note: 1 case = 5.678 litres = 24 bottles of 237Ml

Sales (Rs. Bn)



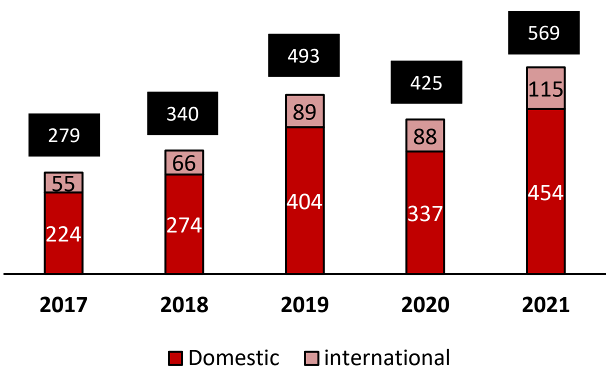
Source: Company, Keynote Capitals Ltd.

Revenue Mix



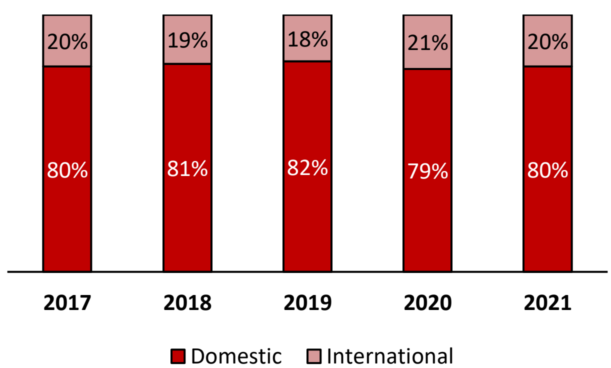
Source: Company, Keynote Capitals Ltd.

Volume Cases Sold (in Mn)



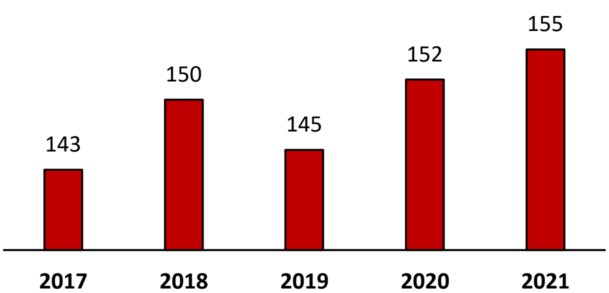
Source: Company, Keynote Capitals Ltd.

Volume Mix – Domestic / International



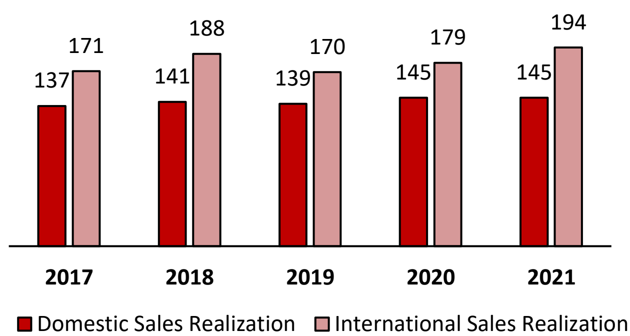
Source: Company, Keynote Capitals Ltd.

Overall Sales Realization per Case (Rs.)



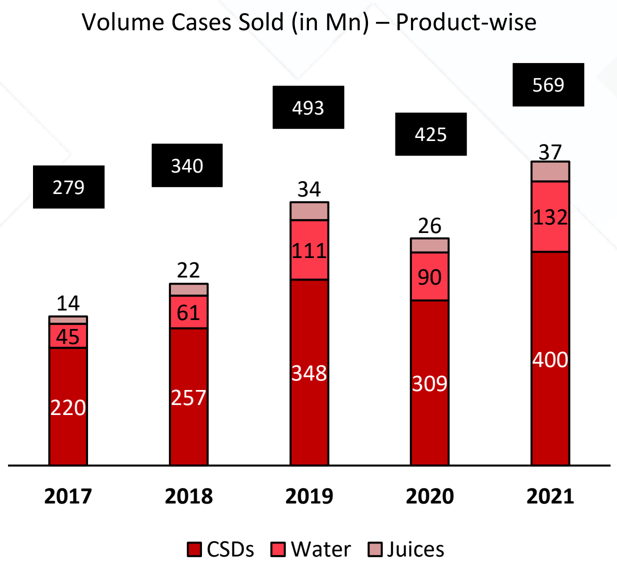
Source: Company, Keynote Capitals Ltd. Estimates

Sales Realization per Case (Rs.) – Domestic / International

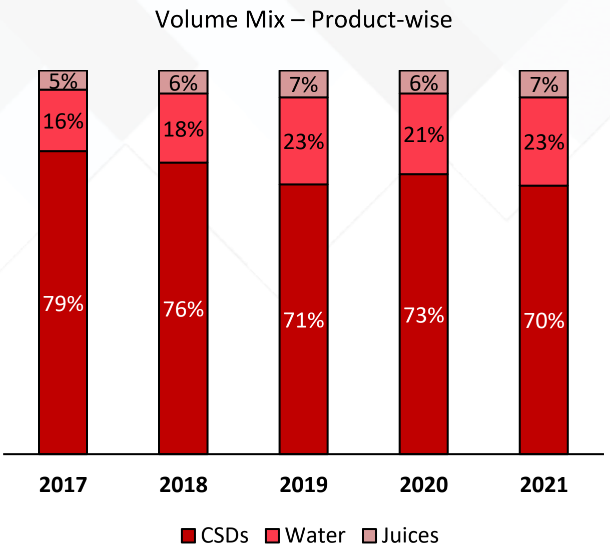


Source: Company, Keynote Capitals Ltd. Estimates

The Company saw a volume CAGR of ~16% in CSD, ~31% in water, and ~28% in juices. VBL is diversifying from its CSD business. The volume mix of CSDs has reduced from 79% to 70% (in the last 5 years). This will help the Company to counter its dependence on CSDs product portfolio.



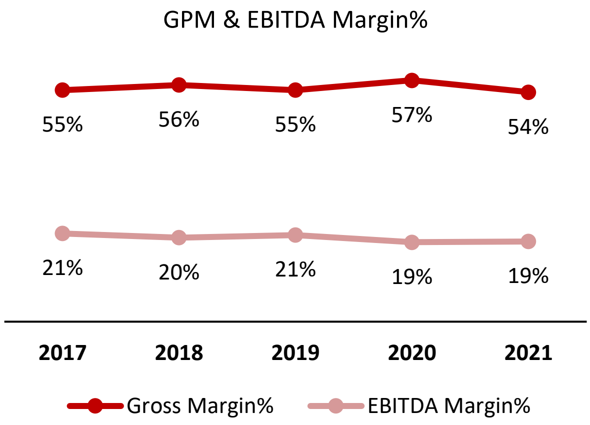
Source: Company, Keynote Capitals Ltd.



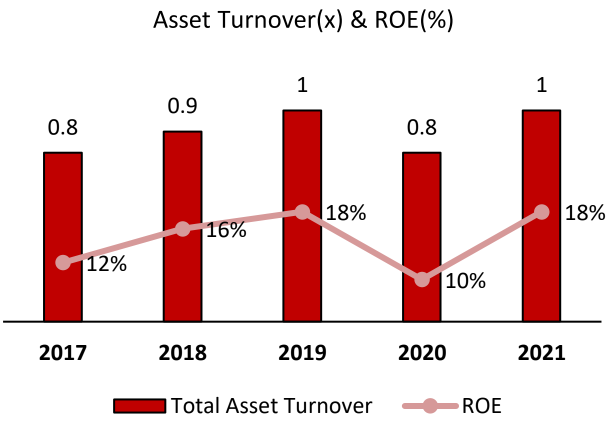
Source: Company, Keynote Capitals Ltd.

Though the product mix at VBL is evolving, it is expected to have stable Gross Margins and EBITDA Margins as gross margins in higher realization products are similar to other products.

Bottling is a capital-intensive business, due to which VBL sees a stable total asset turnover of ~1x. Still, the Company can sustain an ROE of greater than 15%, due to backward integration in manufacturing and packaging.



Source: Company, Keynote Capitals Ltd.



Source: Company, Keynote Capitals Ltd.

Per Case Analysis

Though VBL is gradually improving its Gross Profit per case, EBITDA per case remains stable at ~30. The primary reason behind this is an increase in freight and transportation expenses due to an increase in geographical reach in India. This leaves room for operating leverage to kick in the future, leading to better EBITDA per case.

Particulars (in Rs. unless mentioned)	**2017**	**2018**	**2019**	**2020**	**2021**
Volume Cases sold (in Mn)	*279*	*340*	*493*	*425*	*569*
Net Sales	**143**	**150**	**145**	**152**	**155**
COGS	65	66	65	65	71
Gross Profit	**79**	**84**	**79**	**87**	**84**
Power & Fuel Cost	6	6	6	6	6
Employee Cost	17	17	16	21	18
Operating & Manufacturing Expenses	16	18	17	21	19
General and Administration Expenses	5	5	5	5	5
Selling and Distribution Expenses	4	5	3	4	6
Miscellaneous Expenses	1	3	3	1	1
EBITDA	**30**	**30**	**30**	**29**	**29**
EBIT (Ex Other Income)	**10**	**12**	**13**	**9**	**16**
EBT (Ex Other Income & Exceptional)	**7**	**8**	**9**	**9**	**12**
Total Net Profit (Ex Other Income & Exceptional)	**7**	**8**	**9**	**8**	**11**

Source: Company, Keynote Capitals Ltd.

Particulars (in Rs. unless mentioned)	**2017**	**2018**	**2019**	**2020**	**2021**
Freight & transportation (% Sales)	4%	6%	6%	7%	7%
Freight & transportation (Per Case)	6	9	9	11	11

Source: Company, Keynote Capitals Ltd.

KEYNOTE

Peer Analysis

Like VBL contributes 85%+ volumes sales of PepsiCo in India, Coca Cola Company has given rights to multiple companies in India in which Hindustan Coca-Cola Beverages (HCCB) Private Limited is the largest player in India.

Coca-Cola & Pepsi have a combined market share of 65%+ in the Indian beverage industry

List of Coca Cola Bottling companies in India

Company	Registered office
Bengal Beverages	West bengal
Diamond Beverages	Kolkata
Enrichagro	Haryana
HCCB	Haryana
Kandhari Beverages	Chandigarh
Ludhiana Beverages	Punjab
Moon Beverages	Delhi
SLMG Beverages	UP
Sri Sarvaya Sugars limited	Chennai
Superior Drinks	Maharashtra
Udaipur Beverages	Madhya Pradesh
Wave Beverages	Punjab

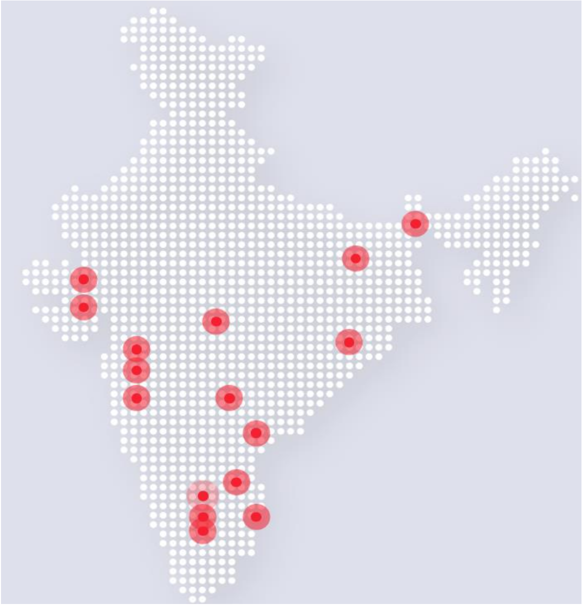
Source: The Coca Cola Company, Keynote Capitals Ltd.

Distribution Reach and Manufacturing Facilities

Particulars	HCCB	VBL
Manufacturing Facilities in India	16	31
Outlet Reach (in Mn)	2.5	~3
Distributors	3,500+	2,000+

Source: HCCB, VBL, Keynote Capitals Ltd.

HCCB Manufacturing Facilities

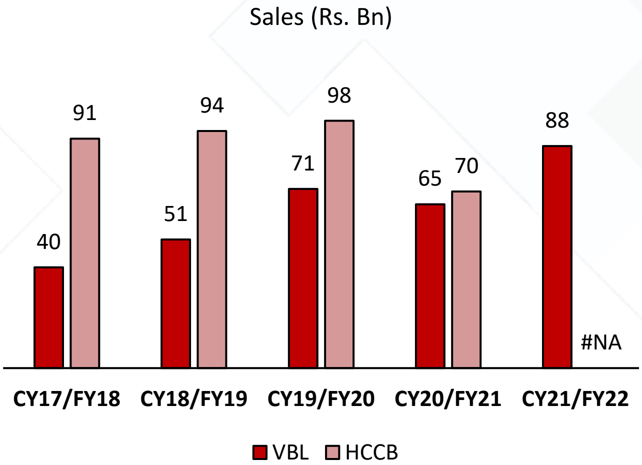


Source: HCCB, Keynote Capitals Ltd.

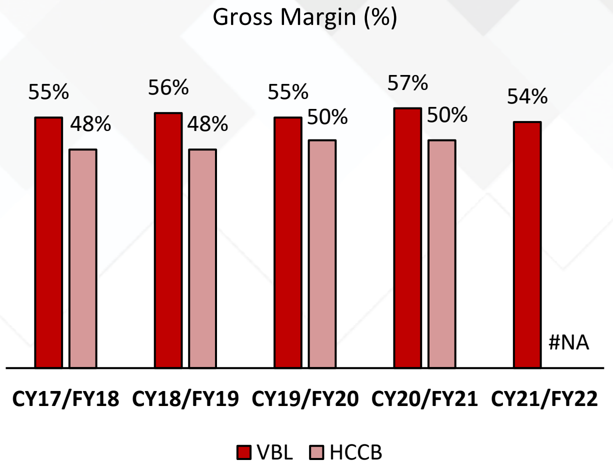
VBL Manufacturing Facilities

Source: VBL, Keynote Capitals Ltd.

VBL has ~3-5% higher gross margins than HCCB due to backward integration. Additionally, VBL's operating margins showcase superiority over HCCB due to lesser general & miscellaneous expenses.



Source: Companies, Keynote Capitals Ltd.



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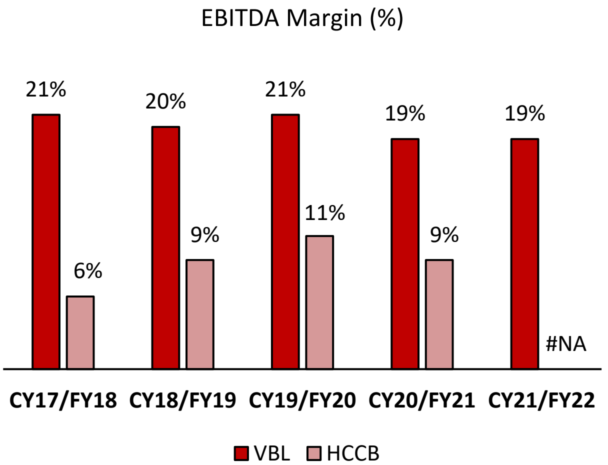

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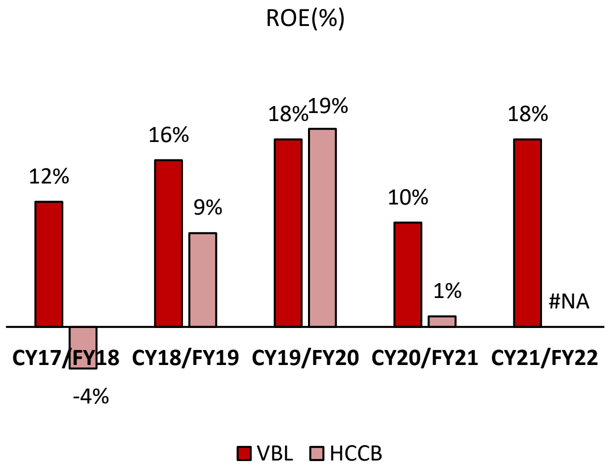

Source: Companies, Keynote Capitals Ltd.

Particulars	VBL				HCCB			
	CY18	CY19	CY20	CY21	FY19	FY20	FY21	FY22
Sales	100%	100%	100%	100%	100%	100%	100%	
Gross Profit	**55%**	**55%**	**57%**	**54%**	**48%**	**50%**	**50%**	
Power & Fuel Cost	4%	4%	4%	4%	3%	3%	3%	
Employee Cost	12%	11%	14%	11%	12%	12%	14%	#NA
Operating & Distribution expenses	14%	14%	16%	16%	15%	15%	14%	
General Expenses	**4%**	**3%**	**3%**	**3%**	**6%**	**5%**	**5%**	
Misc. Expenses	**1%**	**2%**	**1%**	**1%**	**3%**	**3%**	**5%**	
EBITDA	21%	21%	19%	19%	9%	11%	9%	

Source: Companies, Keynote Capitals Ltd.

Board of Directors & Top-Level Management Team

A mix of the Jaipuria family and professional management lead the Company. Each of them has been associated with the Company for at least 10+ years, with the majority of them associated for more than 20 years.

Name	Position Held at VBL	Years with VBL	Total Relevant Experience	Qualification
Ravi Kant Jaipuria	Chairman	27+ Years	45+ Years	Higher Secondary Education from DPS
Varun Jaipuria	Whole Time Director	13+Years	13+ Years	Leadership programme from Harvard & Graduated from Regent's University London
Kapil Agarwal	CEO	27+ Years	29+ Years	Post-graduation from IMT, Ghaziabad
Rajinder Jeet Singh Bagga	Whole Time Director	26+ Years	26+ Years	Masters Degree in Mechanical Engineering from IIT, Kanpur
Raj Pal Gandhi	Whole Time Director	27+ Years	40+ Years	CA, Graduated from University of Delhi

Source: Company, Keynote Capitals Ltd.

Top Shareholders (%)

Particulars	Dec-19	Dec-20	Dec-21	Sept-22
Government Pension Fund Global	2%	2.9%	2.9%	3%
Nippon Life India - Trustee	2.2%	2.5%	2.9%	1.2%
Sundaram Mutual Fund	1.9%	1.5%	1.1%	-
Smallcap World Fund	3.2%	-	-	1%
Stichting Depositary Apg Emerging Markets Equity Pool	1.8%	2.2%	2%	1.5%
Nordea Equity Fund	1.1%	1.9%	1.7%	-
Capital World Growth and Income Fund	-	-	-	1.6%
Tata Mutual Fund	1.5%	-	-	-

Source: Company, Keynote Capitals Ltd.

Opportunities

Fizz available to grow organically

Currently, out of ~3 Mn retail outlets where VBL is present (out of the addressable market of ~10-11 Mn), ~60% don't have a visi-cooler because of the non-availability of electricity or a competitor has already set up one of its visi-cooler. The company has a target to add 40,000-50,000 visi-coolers every year. Adding visi-coolers will help VBL gain customers attention, which will elevate volume growth. This creates a headroom for VBL to grow its volume organically.

Strengthening position in new territories

VBL continues to improve its presence, product mix, and utilization levels. The Company is increasing its penetration in the newly acquired territories on the back of a robust distribution network, diversifying its product portfolio with an increasing focus on rural & semi-rural areas. VBL continues to be on a strong footing and is diligently working toward strengthening its position as a key player in the beverage industry. Currently VBL's contribution to PepsiCo's India sales Volume is 85%+ (in 2017, it was ~45%)

Entering into manufacturing, selling & distribution of food products

VBL got into a co-agreement to manufacture Kurkure Puffcorn, and in Q3 CY22, they commenced trial production in their Uttar-Pradesh plant for PepsiCo India Holdings Private Limited. Apart from this, in the testimony of a strong relationship with PepsiCo, VBL entered into an agreement to distribute & sell Lays, Doritos, and Cheetos in the territory of Morocco from January 2023. If VBL can decode the manufacturing & distribution of the food business like the beverage business, it will have a long runway for growth.

Decreasing dependency on Carbonated Soft Drinks (CSD)

Historically, VBL's sales are heavily dependent on CSD. However, VBL is shifting its focus towards increasing the manufacturing of non-carbonated drinks and packaged water bottles based on changes in consumer preferences. This will help the company to diversify its revenue and maintain steady margins.

Risks

Little room for further inorganic growth in domestically

Currently, VBL handles more than 85% of PepsiCo's India business. The Company operates in all the Indian states except Jammu & Kashmir & Andhra Pradesh. Thus, there is little room for inorganic growth within India. VBL can only focus on organic volume growth through increased penetration and winning market share from competitors in the beverage industry.

Change in contractual agreement with PepsiCo

VBL's entire business is entirely dependent on its relationship with PepsiCo; while the franchise agreement was extended till 2039, any future changes in the contractual arrangement could have major repercussions on VBL's business dynamics.

Changes in lifestyle

An emerging trend of a healthy lifestyle can impact consumption of CSD drinks, which accounts for 70%+ volume sold by VBL. Multiple new ventures have been launched based of flavoured water, infused with natural flavours and free from artificial additives. This can gradually lead to a reduction in the consumption of CSD drinks in the long run.

Income Statement

Y/E Mar, Rs. Mn	CY20	CY21	CY22E	CY23E	CY24E
Net Sales	**64,501**	**88,232**	**1,35,622**	**1,52,168**	**1,70,732**
Growth %		37%	54%	12%	12%
Raw Material Expenses	27,639	40,347	65,099	72,280	80,244
Employee Expenses	8,897	10,077	12,206	13,695	15,366
Other Expenses	15,820	21,040	31,464	35,303	39,610
EBITDA	**12,145**	**16,769**	**26,853**	**30,890**	**35,512**
Growth %		38%	60%	15%	15%
Margin%	19%	19%	20%	20%	21%
Depreciation	5,287	5,313	6,021	6,696	7,296
EBIT	**6,858**	**11,457**	**20,832**	**24,194**	**28,216**
Growth %		67%	82%	16%	17%
Margin%	11%	13%	15%	16%	17%
Interest Paid	2,937	2,073	1,897	1,657	1,477
Other Income & exceptional	-296	683	400	400	400
PBT	**3,625**	**10,066**	**19,335**	**22,937**	**27,139**
Tax	52	2,606	4,834	5,734	6,785
PAT	**3,573**	**7,461**	**14,501**	**17,203**	**20,355**
Others (Minorities, Associates)	283	520	0	0	0
Net Profit	**3,855**	**7,981**	**14,501**	**17,203**	**20,355**
Growth %		107%	82%	19%	18%
Margin%	6%	9%	11%	11%	12%
Shares (Mn)	288.7	433.0	650.0	650.0	650.0
EPS	**5.06**	**10.69**	**22.31**	**26.47**	**31.31**

Balance Sheet

Y/E Mar, Rs. Mn	CY20	CY21	CY22E	CY23E	CY24E
Cash, Cash equivalents & Bank	1,901	3,366	1,587	8,007	17,885
Current Investments	0	0	0	0	0
Debtors	2,418	2,212	4,069	4,565	5,122
Inventory	9,288	14,481	18,879	20,961	23,271
Short Term Loans & Advances	2,464	2,889	2,889	2,889	2,889
Other Current Assets	1,926	2,513	2,513	2,513	2,513
Total Current Assets	17,997	25,461	29,935	38,935	51,679
Net Block & CWIP	64,754	68,074	74,553	77,857	80,561
Long Term Investments	0	0	0	0	0
Other Non-current Assets	1,723	2,260	2,260	2,260	2,260
Total Assets	**84,474**	**95,795**	**1,06,748**	**1,19,052**	**1,34,500**
Creditors	5,114	7,118	9,729	10,411	11,558
Provision	371	637	637	637	637
Short Term Borrowings	7,139	6,285	6,285	6,285	6,285
Other Current Liabilities	11,726	16,163	16,163	16,163	16,163
Total Current Liabilities	24,350	30,202	32,814	33,496	34,642
Long Term Debt	19,796	18,133	13,133	10,133	7,133
Deferred Tax Liabilities	2,149	3,087	3,087	3,087	3,087
Other Long Term Liabilities	2,291	2,405	2,405	2,405	2,405
Total Non Current Liabilities	24,236	23,625	18,625	15,625	12,625
Paid-up Capital	2,887	4,330	6,500	6,500	6,500
Reserves & Surplus	32,353	36,469	47,640	62,263	79,564
Shareholders' Equity	35,240	40,799	54,140	68,763	86,064
Non Controlling Interest	648	1,168	1,168	1,168	1,168
Total Equity & Liabilities	**84,474**	**95,795**	**1,06,748**	**1,19,052**	**1,34,500**

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	CY20	CY21	CY22E	CY23E	CY24E
Pre-tax profit	4,573	10,586	19,335	22,937	27,139
Adjustments	8,378	6,178	7,518	7,953	8,373
Change in Working Capital	-1,108	-2,687	-3,642	-1,898	-1,720
Total Tax Paid	-775	-1,242	-4,834	-5,734	-6,785
Cash flow from operating Activities	**11,068**	**12,834**	**18,377**	**23,258**	**27,008**
Net Capital Expenditure	-5,356	-8,154	-12,500	-10,000	-10,000
Change in investments	0	1	0	0	0
Other investing activities	645	-1,953	400	400	400
Cash flow from investing activities	**-4,711**	**-10,106**	**-12,100**	**-9,600**	**-9,600**
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-2,130	1,286	-5,000	-3,000	-3,000
Dividend (incl. tax)	-722	-1,083	-1,160	-2,580	-3,053
Other financing activities	-2,885	-1,980	-1,897	-1,657	-1,477
Cash flow from financing activities	**-5,737**	**-1,777**	**-8,057**	**-7,237**	**-7,530**
Net Change in cash	620	951	-1,780	6,421	9,878

Valuation Ratios

	CY20	CY21	CY22E	CY23E	CY24E
Per Share Data					
EPS	5	11	22	26	31
Growth %		111%	109%	19%	18%
Book Value Per Share	122	94	85	108	134
Return Ratios					
Return on Assets (%)	4%	8%	14%	15%	16%
Return on Equity (%)	10%	18%	30%	27%	26%
Return on Capital Employed (%)	9%	15%	22%	23%	23%
Turnover Ratios					
Asset Turnover (x)	0.8	1.0	1.3	1.3	1.3
Sales / Gross Block (x)	0.7	1.0	1.4	1.4	1.4
Working Capital / Sales (%)	-9%	-6%	-3%	1%	7%
Receivable Days	12	10	8	10	10
Inventory Days	120	108	94	101	101
Payable Days	64	49	44	49	49
Working Capital Days	67	68	58	62	62
Liquidity Ratios					
Current Ratio (x)	0.7	0.8	0.9	1.2	1.5
Interest Coverage Ratio (x)	2.5	5.9	11.2	14.8	19.4
Total Debt to Equity	0.9	0.8	0.4	0.2	0.2
Net Debt to Equity	0.9	0.7	0.3	0.1	-0.1
Valuation					
PE (x)	88.0	58.7	56.0	47.2	39.9
Earnings Yield (%)	1%	2%	2%	2%	3%
Price to Sales (x)	4.5	4.6	6.0	5.3	4.8
Price to Book (x)	8.2	10.0	15.0	11.8	9.4
EV/EBITDA (x)	26.3	26.1	31.4	27.3	23.7
EV/Sales (x)	5.0	5.0	6.2	5.5	4.9

Valuations

Particulars	Estimates
Estimate Period	**CY23E**
Revenue (Rs. Mn)	152,168
PAT (Rs. Mn)	17,203
PE	58
Market Capitalization	997,774
Fair Value per Share	**1,540**

Source: Company, Keynote Capitals Ltd.

We have assumed Volume growth of ~44%/10% in CY22E/CY23E, with realization growth of ~7%/2% in CY22E/CY23E. This will lead to revenue growth of ~54%/12% in CY22E/CY23E. Along with this, VBL has showcased a stable historical EBITDA Margin of ~20%. Based on our assumptions, we arrived at an EPS of 26.47 for CY23E.

Compared to FMCG companies, VBL is a capital-intensive business leading to lower return ratios. Due to this, we are valuing it at a 10% discount to average FMCG companies (Average 5-year PE multiple: 64.7). We have assigned a PE multiple of 58x on EPS.

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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