

Varun Beverages Limited

All Round Business Performance

7th 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%)

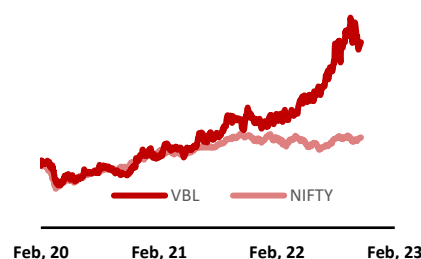
Company Data

| | |
|-------------------------|----------|
| 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% |
| Gross Profit % | 56.3% | 55.4% | 91 bps | 53.7% | 261 bps | 52.5% | 54.3% | -180 bps |
| 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% |
| EBITDA % | 13.9% | 12.0% | 192 bps | 22.0% | -812 bps | 21.2% | 18.8% | 240 bps |
| 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% |
| EBIT % | 5.8% | 4.5% | 126 bps | 17.2% | -1,141 bps | 16.5% | 12.7% | 370 bps |
| 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% |
| EPS | 1.15 | 0.25 | | 5.87 | | 23.05 | 10.69 | |

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% |

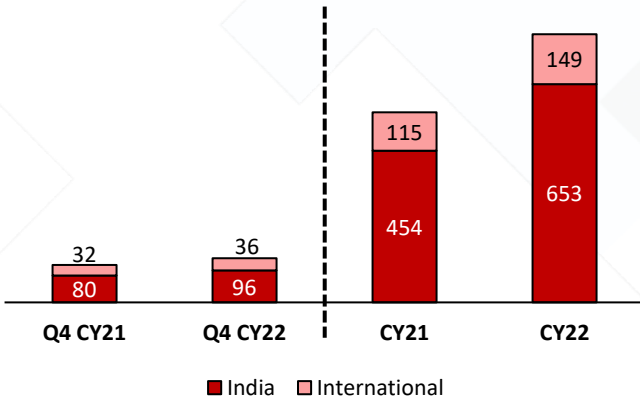
Source: Company, Keynote Capitals Ltd.

Unit Economics

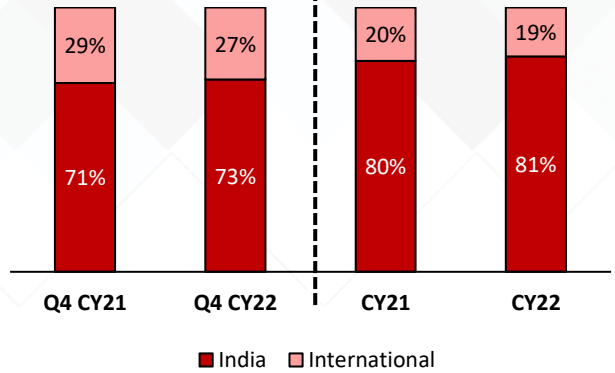
- Selective price hike, change in product mix, rationalization of discounts, increase of smaller SKU's in product mix are the reasons for increase in revenue per case by ~8% on YoY basis.
- Due to increase in price of raw material, the Company saw a shrink in gross margins by 180bps in CY22.
- Smaller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

Quarterly Business Progression

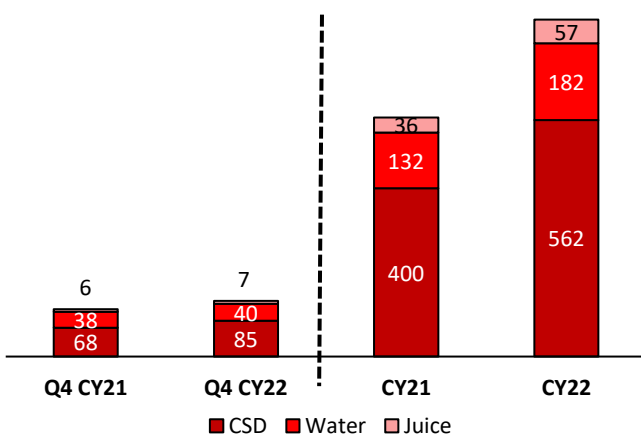
Volume Sold (in Mn cases) [Geography-wise]



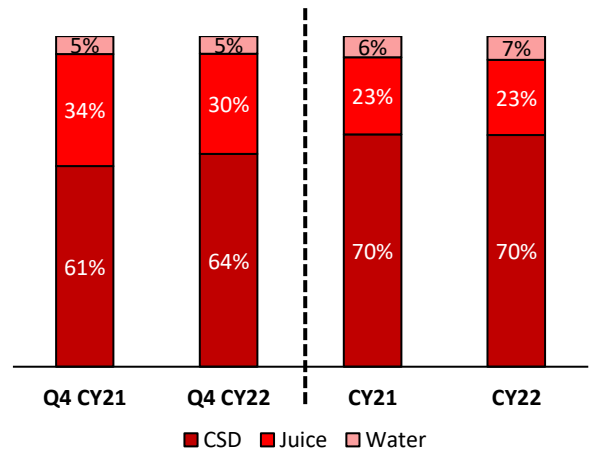
Volume Mix % [Geography-wise]



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 |
|---------------------------------|---------------|---------------|-----------------|-----------------|-----------------|
| Net Sales | 64,501 | 88,232 | 1,31,731 | 1,50,532 | 1,68,897 |
| 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 |
| EBITDA | 12,145 | 16,769 | 27,881 | 32,364 | 35,131 |
| Growth % | | 38% | 66% | 16% | 9% |
| Margin% | 19% | 19% | 21% | 22% | 21% |
| Depreciation | 5,287 | 5,313 | 6,172 | 7,146 | 7,896 |
| EBIT | 6,858 | 11,457 | 21,709 | 25,219 | 27,235 |
| 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 |
| PBT | 3,625 | 10,066 | 20,236 | 23,746 | 25,918 |
| Tax | 52 | 2,606 | 4,735 | 5,937 | 6,480 |
| PAT | 3,573 | 7,461 | 15,501 | 17,810 | 19,439 |
| Others (Minorities, Associates) | -283 | -520 | -527 | -553 | -581 |
| Net Profit | 3,290 | 6,941 | 14,974 | 17,256 | 18,858 |
| Growth % | | 111% | 116% | 15% | 9% |
| Shares (Mn) | 288.7 | 433.0 | 649.6 | 649.6 | 649.6 |
| EPS | 5.06 | 10.69 | 23.05 | 26.56 | 29.03 |

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 |
| Total Assets | 84,474 | 95,818 | 1,16,181 | 1,34,499 | 1,49,689 |
| 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 |
| Total Equity & Liabilities | 84,474 | 95,818 | 1,16,181 | 1,34,499 | 1,49,689 |

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 |
| Cash flow from operating Activities | 10,120 | 12,314 | 17,900 | 25,362 | 26,341 |
| 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 |
| Cash flow from investing activities | -4,711 | -10,106 | -17,045 | -14,600 | -9,600 |
| 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 |
| Cash flow from financing activities | -5,737 | -1,777 | -179 | -7,461 | -7,545 |
| Net Change in cash | -328 | 431 | 676 | 3,301 | 9,196 |

Valuation Ratios

| | CY20 | CY21 | CY22 | CY23E | CY24E |
|--------------------------------|------|------|------|-------|-------|
| Per Share Data | | | | | |
| EPS | 5 | 11 | 23 | 27 | 29 |
| Growth % | | 111% | 116% | 15% | 9% |
| Book Value Per Share | 122 | 94 | 80 | 105 | 131 |
| Return Ratios | | | | | |
| 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% |
| Turnover Ratios | | | | | |
| 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 |
| Liquidity Ratios | | | | | |
| 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 |
| Valuation | | | | | |
| 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 th December 2022 | BUY | 1,318 | +16.8% |
| 7 th 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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