

Varun Beverages Limited

2nd May 2023

Beat on all estimates

In Q1 CY23, Varun Beverages Limited (VBL) has reported a strong topline growth of ~38% and volume growth of ~24% on a YoY basis. The Company has improved its Gross margins and EBITDA margins by 89 bps & 172 bps on a YoY basis. The Company has planned a Capex of Rs. 15 Bn for CY23 to fuel its future growth. For the next leg of growth, VBL will focus on value-added dairy products, energy drinks and juices. The Company is commissioning one greenfield and six brownfield plants to ramp up its operational capacity. Given the growth outlook and guidance, we maintain our stance on VBL with a BUY rating and a target price of Rs. 1,626, valuing it at 55x CY23 earnings.

Strong volume growth with a better realization led to margin improvement

In Q1 CY23, VBL achieved a YoY volume growth of ~24%, accompanied by an increase in realization per case by ~11%. The Company's gross margin improved due to a shift in product mix and marginal saving in raw material costs. Furthermore, VBL's EBITDA margins improved due to operational leverage resulting from its strong revenue growth.

Next Leg for growth

The company is shifting its strategic focus towards the production and distribution of value-added dairy products, energy drinks, and juices as the key drivers for its next phase of growth. Based on management's guidance, these products generate EBITDA margins that are comparable to those of Carbonated Soft Drinks (CSDs).

Capacity Expansion

The Company is commissioning one new greenfield expansion project in Kota, Rajasthan, and six brownfield expansions. Furthermore, another greenfield expansion project in Jabalpur, Madhya Pradesh is anticipated to become operational in the near future. The Company has also initiated the construction of a new production facility in the Democratic Republic of Congo, which is expected to be operational by the end of this year. Management has guided a CAPEX of Rs. 15 Bn for CY23.

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 by 12% and 5% respectively. Based on our revised estimates, we maintain a BUY rating on Varun Beverages with a target of Rs. 1,626 (55x CY23 earnings).

BUY

CMP Rs. 1,417

TARGET Rs. 1,626 (+14.7%)

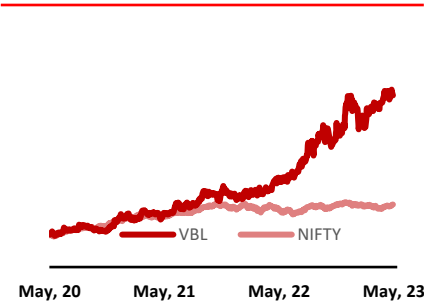
Company Data

MCAP (Rs. Mn)	920,424
O/S Shares (Mn)	650
52w High/Low	1480/675
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	1,787

Shareholding Pattern %

	Mar 23	Dec 22	Sept 22
Promoters	63.9	63.9	63.9
FIIIs	26	26.5	25.0
DIIIs	3.7	3.4	4.5
Non-Institutional	6.4	6.2	6.6

VBL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	CY22	CY23E	CY24E
Revenue	131.7	154.9	180.5
EBITDA	27.9	34.5	38.4
Net Profit	15.0	19.2	21.6
Total Assets	116.1	135.8	154.1
ROCE (%)	23%	23%	24%
ROE (%)	33%	32%	27%

Source: Company, Keynote Capitals Ltd.

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Varun Beverages Limited | Quarterly Update

Q1 CY23 Result Update

Result Highlights (Rs. Mn)

Particulars	CY23 Q1	CY22 Q1	Change % (Y-o-Y)	CY22 Q4	Change % (Q-o-Q)	CY22
Revenue from Operation	38,930	28,275	38%	22,142	76%	1,31,731
Gross Profit	20,413	14,572	40%	12,464	64%	69,120
Gross Profit %	52.4%	51.5%	89 bps	56.3%	-386 bps	52.5%
Employee Cost	3,391	2,751	23%	3,199	6%	12,166
Other Expenses	9,041	6,512	39%	6,190	46%	29,072
EBITDA	7,981	5,309	50%	3,075	160%	27,881
EBITDA %	20.5%	18.8%	172 bps	13.9%	661 bps	21.2%
Depreciation	1,722	1,313	31%	1,797	-4%	6,172
EBIT	6,259	3,996	57%	1,278	390%	21,709
EBIT %	16.1%	14.1%	126 bps	5.8%	1,141 bps	16.5%
Finance Cost	626	469	33%	475	32%	1,861
Other Income	101	85	19%	92	9%	388
PBT	5,734	3,612	59%	896	540%	20,236
Tax Expenses	1,348	901	50%	81	1569%	4,735
Profit from Associates	0	0		0		0
Minority Interest	95	169	-44%	68	40%	527
PAT attributable to shareholders	4,291	2,542	69%	748	474%	14,974
EPS	6.61	3.91		1.15		23.05

Source: Company, Keynote Capitals Ltd.

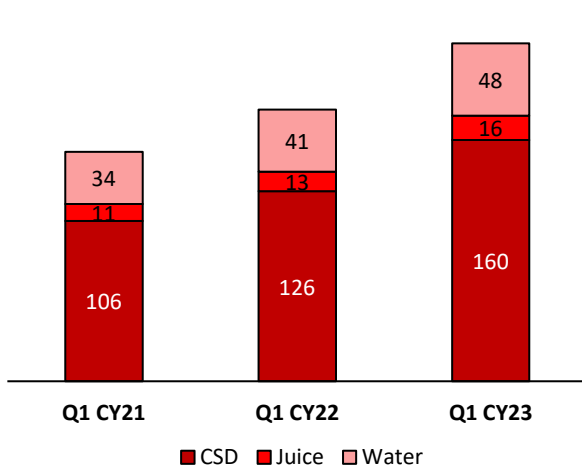
Unit Economics (Rs/Case)

Particulars	CY23 Q1	CY22 Q1	Change % (Y-o-Y)	CY22 Q4	Change % (Q-o-Q)	CY22
Volume Sold (Mn Cases)	224	180	24%	132	70%	802
Revenue from Operation	173.8	157.1	11%	167.7	4%	164.3
Gross Profit	91.1	81.0	13%	94.4	-3%	86.2
Employee Cost	15.1	15.3	-1%	24.2	-38%	15.2
Other Expenses	40.4	36.2	12%	46.9	-14%	36.2
EBITDA	35.6	29.5	21%	23.3	53%	34.8
EBIT	27.9	22.2	26%	9.7	188%	27.1
PBT	25.6	20.1	28%	6.8	277%	25.2
Tax Expenses	6.0	5.0	20%	0.6	883%	5.9
PAT attributable to shareholders	19.2	14.1	36%	5.7	238%	18.7

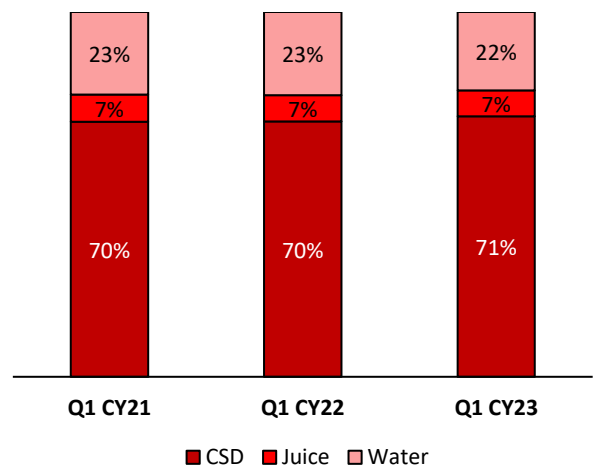
Source: Company, Keynote Capitals Ltd.

Business Progression

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



Volume Mix % [Product-wise]



Source: Company, Keynote Capitals Ltd.

Conference Call Highlights

General Highlights

- Board has considered a split in existing share of equity from a face value of Rs. 10 to Rs. 5. This proposal is presently subject to the approval of the company's equity shareholders through a postal ballot.
- Depreciation increased by 31% and finance cost increased by 33% in Q1 CY23 on account of capitalization of assets and setting up of new production facilities.
- In Q1 CY23, Gross margin improved by 89 bps on YoY basis due to change in product mix and marginal saving in raw material costs and EBITDA improved by 172 bps due to operational leverage on the back of strong revenue growth.
- As of Q1 CY23, Company has a net debt of Rs. 40 Bn. The management has indicated that this level of debt is necessary to support exceptional growth. Additionally, they have emphasized the objective of maintaining an EBITDA for the year equivalent to the outstanding debt.
- The prices of PET have remained largely consistent in comparison to the previous few quarters.

Management Guidance

- Management restrain to give clear growth guidance for CY23 but they will focus on doing double digit growth.

Product Mix

- Dairy products, energy drink and juices have approximately similar EBITDA margins compared to CSDs.
- In the energy drink, the Company is focusing on increasing distribution reach to lead growth. Management says that growth for sting will not taper off as they are yet to reach a lot of outlets. In addition to this, they will be growing Gatorade too as now Gatorade (200ML) is available at Rs. 20 and Gatorade (500ML) is available at Rs. 50,. Currently, Gatorade is available in few top outlets only.
- GST on CSD is 40% whereas on dairy products its 12% only.

CAPEX

- Net Capex estimated for CY23 is Rs. 15Bn (including CWIP).
- VBL is commissioning 1 greenfield expansion at Kota, Rajasthan & 6 brownfield expansion.
- The additional greenfield expansion in Jabalpur, MP is expected to be operational soon.
- Company has also started construction of a new production facility in DRC which is expected to be operational by the end of year.

Varun Beverages Limited | Quarterly Update

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	88,232	1,31,731	1,54,960	1,80,497	2,04,503
Growth %	49%	18%	16%	13%	
Raw Material Expenses	40,347	62,612	73,141	85,195	96,526
Employee Expenses	10,077	12,166	13,172	15,342	17,383
Other Expenses	21,040	28,893	34,091	41,514	47,036
EBITDA	16,769	28,061	34,556	38,446	43,559
Growth %	67%	23%	11%	13%	
Margin%	19%	21%	22%	21%	21%
Depreciation	5,313	6,172	6,715	7,465	8,065
EBIT	11,457	21,889	27,841	30,981	35,494
Growth %	91%	27%	11%	15%	
Margin%	13%	17%	18%	17%	17%
Interest Paid	2,073	2,041	1,895	1,739	1,583
Other Income & exceptional	683	388	400	400	400
PBT	10,066	20,236	26,346	29,642	34,311
Tax	2,606	4,735	6,586	7,410	8,578
PAT	7,461	15,501	19,759	22,231	25,733
Others (Minorities, Associates)	-520	-527	-553	-581	-610
Net Profit	6,941	14,974	19,206	21,651	25,123
Growth %		116%	28%	13%	16%
Shares (Mn)	433.0	649.6	649.6	649.6	649.6
EPS	10.69	23.05	29.57	33.33	38.68

Balance Sheet

Y/E Mar, Rs. Mn	CY21	CY22	CY23E	CY24E	CY25E
Cash, Cash equivalents & Bank	3,366	2,853	6,366	17,214	32,051
Current Investments	0	0	0	0	0
Debtors	2,212	2,993	4,649	5,415	6,135
Inventory	14,481	19,939	25,599	29,818	33,784
Other Current Assets	5,402	8,255	8,255	8,255	8,255
Total Current Assets	25,461	34,040	44,869	60,703	80,226
Net Block & CWIP	68,074	75,388	84,144	86,679	88,615
Long Term Investments	0	0	0	0	0
Other Non-current Assets	2,260	6,754	6,754	6,754	6,754
Total Assets	95,795	1,16,182	1,35,767	1,54,136	1,75,594
Creditors	7,118	8,243	13,396	15,200	17,084
Provision	637	1,048	1,048	1,048	1,048
Short Term Borrowings	6,285	6,277	6,277	6,277	6,277
Other Current Liabilities	16,163	24,120	24,120	24,120	24,120
Total Current Liabilities	30,202	39,688	44,841	46,645	48,528
Long Term Debt	18,133	17,270	14,270	11,270	8,270
Deferred Tax Liabilities	3,087	3,368	3,368	3,368	3,368
Other Long Term Liabilities	2,405	3,701	3,701	3,701	3,701
Total Non Current Liabilities	23,625	24,340	21,340	18,340	15,340
Paid-up Capital	4,330	6,496	6,496	6,496	6,496
Reserves & Surplus	36,469	44,528	61,407	80,391	1,02,355
Shareholders' Equity	40,799	51,024	67,902	86,886	1,08,851
Non Controlling Interest	1,168	1,131	1,684	2,265	2,875
Total Equity & Liabilities	95,795	1,16,182	1,35,768	1,54,136	1,75,594

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	CY21	CY22	CY23E	CY24E	CY25E
Pre-tax profit	10,066	20,236	26,346	29,642	34,311
Adjustments	6,178	7,249	8,763	9,385	9,858
Change in Working Capital	-2,687	-5,852	-2,162	-3,181	-2,803
Total Tax Paid	-1,242	-3,733	-6,586	-7,410	-8,578
Cash flow from operating Activities	12,314	17,900	26,360	28,435	32,789
Net Capital Expenditure	-8,154	-17,499	-15,000	-10,000	-10,000
Change in investments	1	4	0	0	0
Other investing activities	-1,953	449	400	400	400
Cash flow from investing activities	-10,106	-17,046	-14,600	-9,600	-9,600
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	1,286	3,396	-3,000	-3,000	-3,000
Dividend (incl. tax)	-1,083	-1,624	-2,881	-3,248	-3,769
Other financing activities	-1,980	-1,951	-1,895	-1,739	-1,583
Cash flow from financing activities	-1,777	-179	-7,776	-7,987	-8,352
Net Change in cash	431	675	3,984	10,849	14,837

Valuation Ratios

	CY21	CY22	CY23E	CY24E	CY25E
Per Share Data					
EPS	11	23	30	33	39
Growth %		116%	28%	13%	16%
Book Value Per Share	94	79	107	137	172
Return Ratios					
Return on Assets (%)	8%	14%	15%	15%	15%
Return on Equity (%)	18%	33%	32%	27%	25%
Return on Capital Employed (%)	15%	23%	23%	24%	23%
Turnover Ratios					
Asset Turnover (x)	1.0	1.2	1.2	1.2	1.2
Sales / Gross Block (x)	1.0	1.3	1.4	1.5	1.5
Working Capital / Sales (%)	-6%	-4%	-2%	4%	11%
Receivable Days	10	7	9	10	10
Inventory Days	108	100	114	119	120
Payable Days	49	41	50	58	59
Working Capital Days	68	66	73	71	72
Liquidity Ratios					
Current Ratio (x)	0.8	0.9	1.0	1.3	1.7
Interest Coverage Ratio (x)	5.9	10.9	14.9	18.0	22.7
Total Debt to Equity	0.8	0.7	0.3	0.2	0.1
Net Debt to Equity	0.7	0.7	0.2	0.0	-0.2
Valuation					
PE (x)	58.7	27.2	46.9	41.6	35.9
Earnings Yield (%)	2%	4%	2%	2%	3%
Price to Sales (x)	4.6	3.1	5.8	5.0	4.4
Price to Book (x)	10.0	17.7	13.3	10.4	8.3
EV/EBITDA (x)	26.1	33.3	27.1	24.3	21.5
EV/Sales (x)	5.0	7.1	6.0	5.2	4.6

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%
2 nd May 2023	BUY	1,417	+14.7%

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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