

Varun Beverages Limited

30th April 2025

Volumes continue to grow

In Q1 CY25, Varun Beverages Limited (VBL) reported substantial topline growth of ~29% and volume growth of ~30% on a YoY basis. The decline in realization at consolidated levels was due to lower realization in own brands in the South African market. The Company saw a decline in its Gross and EBITDA margins by 171 bps and 20 bps on a YoY basis, respectively, due to a change in product mix towards CSD and low margin products of South Africa. The Company is confident of growing sales in double digits for CY25E, backed by recent greenfield capacity expansion in Himachal Pradesh and Uttar Pradesh. In addition to this, two more facilities are going to commence production by the end of May 2025.

Update on capacity expansion

The Company has commenced operations at newly established greenfield production facilities in Kangra (Himachal Pradesh) and Prayagraj (Uttar Pradesh), resulting in a substantial capacity expansion aligned with peak seasonal demand. Implementation of two additional greenfield plants, slated for the 2025 season in Bihar (expected to commence at the start of May 2025) and Meghalaya (expected to commence by the end of May 2025), remains on schedule, with commercial production expected to begin shortly. In parallel, backward integration initiatives have been executed at Prayagraj and DRC, reinforcing the company’s operational backbone and enhancing supply chain efficiency through greater control over critical inputs and processes

Focus on growth and margin improvement in South Africa

South Africa has historically reported lower net realizations, primarily due to a higher proportion of own brands in the sales mix. Management is actively working to expand the PepsiCo portfolio in the region, which is expected to drive improvements in both realizations and margins going forward. EBITDA margins in South Africa have increased from ~10% previously to ~14% currently, supported by a greater contribution from PepsiCo products and a reduction in loss-making SKUs. Notably, PepsiCo’s contribution to revenue has risen from ~15% to ~20% in South Africa, outpacing the growth of homegrown brands. The management has reiterated that South Africa represents a large market with significant growth potential, and the rapid growth of PepsiCo’s portfolio is expected to remain a key driver of profitability enhancement.

View & Valuation

Based on the increase in operating capacity and change in product mix, we believe VBL would see substantial growth in its volume. Based on our revised estimates we change our stance from NEUTRAL to BUY rating on Varun Beverages with a target of Rs. 678 (60x CY25 earnings).

BUY

CMP Rs. 522

TARGET Rs. 578 (10.5%)

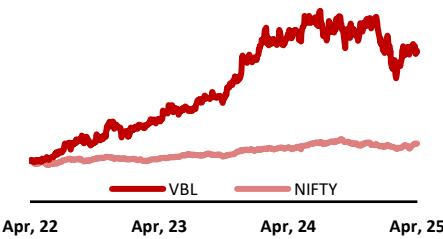
Company Data

Bloomberg Code	VBL IN
MCAP (Rs. Mn)	17,66,518
O/S Shares (Mn)	3381
52w High/Low	683/419
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	4,764

Shareholding Pattern %

	Mar 25	Dec 24	Sep 24
Promoters	60.2	60.2	62.7
FIIIs	23.0	25.3	24.2
DIIIs	9.2	7.0	5.0
Non-Institutional	7.6	7.5	8.1

VBL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	CY24	CY25E	CY26E
Revenue	200.1	250.6	306.7
EBITDA	47.4	56.9	69.0
Net Profit	26.0	32.5	41.0
Total Assets	231.2	243.4	284.3
ROCE (%)	21%	17%	19%
ROE (%)	22%	18%	19%

Source: Company, Keynote Capitals Ltd.

Karan Galaiya, Research Analyst
Karan@keynotecapitals.net

Q1 CY25 Result Update
Result Highlights (Rs. Mn)

Particulars	Q1 CY25	Q1 CY24	Change % (Y-o-Y)	Q4 CY24	Change % (Q-o-Q)	CY24
Revenue from Operation	55,669	43,173	29%	36,888	51%	2,00,077
Gross Profit	30,379	24,298	25%	20,686	47%	1,11,029
Gross Profit %	54.6%	56.3%	-171 Bps	56.1%	-151 Bps	55.5%
Employee Cost	5,115	3,937	30%	4,790	7%	18,850
Other Expenses	12,624	10,473	21%	10,096	25%	45,068
EBITDA	12,640	9,888	28%	5,800	118%	47,111
EBITDA %	22.7%	22.9%	-20 Bps	15.7%	698 Bps	23.5%
Depreciation	2,725	1,875	45%	2,608	4%	9,474
EBIT	9,915	8,012	24%	3,192	211%	37,637
EBIT %	17.8%	18.6%	-75 Bps	8.7%	916 Bps	18.8%
Finance Cost	411	937	-56%	1,090	-62%	4,504
Other Income	281	84	236%	446	-37%	1,213
PBT	9,784	7,159	37%	2,548	284%	34,346
Tax Expenses	2,465	1,678	47%	585	321%	7,988
Profit from Associates	-6	-2		-7		-15
Minority Interest	49	107	-55%	105	-54%	397
PAT attributable to shareholders	7,265	5,373	35%	1,851	292%	25,946
EPS	2.15	1.65		0.56		7.94

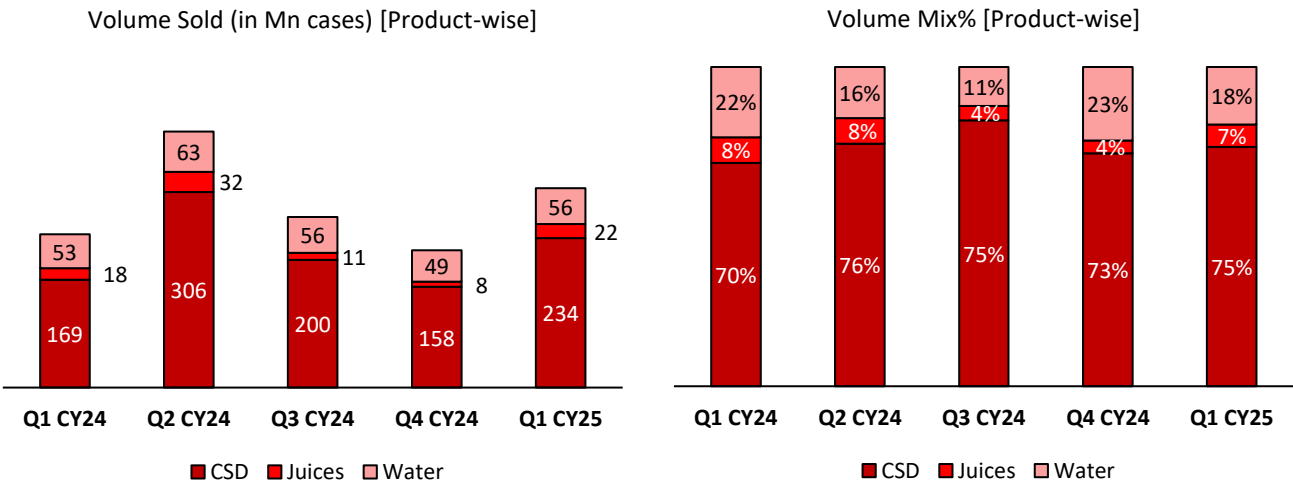
Source: Company, Keynote Capitals Ltd.

Unit Economics (Rs/Case)

Particulars	Q1 CY25	Q1 CY24	Change % (Y-o-Y)	Q4 CY24	Change % (Q-o-Q)	CY24
Volume Sold (Mn Cases)	312	240	30%	215	45%	1124
Revenue from Operation	178.2	179.7	-1%	171.6	4%	178.0
Gross Profit	97.2	101.2	-4%	96.2	1%	98.8
Employee Cost	16.4	16.4	0%	22.3	-27%	16.8
Other Expenses	40.4	43.6	-7%	47.0	-14%	40.1
EBITDA	40.5	41.2	-2%	27.0	50%	41.9
EBIT	31.7	33.4	-5%	14.8	114%	33.5
PBT	31.3	29.8	5%	11.9	164%	30.6
Tax Expenses	7.9	7.0	13%	2.7	190%	7.1
PAT attributable to shareholders	23.3	22.4	4%	8.6	170%	23.1

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression



Source: Company, Keynote Capitals Ltd.

Q1 CY25 Conference Call Takeaways

General highlights

- The share of low-sugar and no-sugar products rose to ~59% of consolidated sales volumes in Q1 CY25, reflecting a continued shift in consumer preferences and the Company's focus on healthier beverage options.
- Depreciation expenses increased by 45.3% on a YoY basis, primarily due to the commissioning of new plants at Supa, Gorakhpur, and Khordha in the previous year, which were not part of the base quarter..
- Following the repayment of debt using QIP proceeds, finance costs in India have become negligible. The remaining interest expense is largely attributable to South African operations, which also includes lease rentals of Rs. 86 Mn under Ind AS 116, as the manufacturing facilities in South Africa are leased.
- The Company has launched a new energy drink, Sting Gold. Management indicated that it will take a couple of quarters to assess the product's market performance.
- Competitive intensity is supporting faster industry growth, with companies expanding the reach of visi-coolers. The Company has a reach of 4 Mn+ retail outlets out of 12 Mn in India, highlighting substantial room for further distribution expansion.
- The Company maintains its leadership position in the energy and hydration drinks segment in India.
- Pepsi's exclusive arrangement with Domino's concluded in April 2025.

Management guidance

- The Company anticipates double-digit growth for CY25, reflecting management's confidence in sustained demand momentum and ongoing strategic initiatives.
- Management does not foresee any significant raw material cost pressures, as stable oil prices are directly supporting lower packaging costs.
- A Jeera-based beverage is expected to launch by the end of Q2 CY25, further expanding the Company's product portfolio and addressing evolving consumer preferences.

Snack food segment

- The Company initiated the distribution and sale of PepsiCo's snack products in Zimbabwe and Zambia. These markets present a significant growth opportunity within the packaged foods category, supporting focus on portfolio expansion across high-potential regions. The distribution started post 1 Feb, 2025

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	CY23	CY24	CY25E	CY26E	CY27E
Net Sales	1,60,426	2,00,077	2,50,570	3,06,698	3,75,398
Growth %		25%	25%	22%	22%
Raw Material Expenses	74,049	89,047	1,16,014	1,42,615	1,74,560
Employee Expenses	14,466	18,850	22,551	27,603	33,786
Other Expenses	35,581	44,744	55,125	67,474	82,588
EBITDA	36,330	47,435	56,879	69,007	84,465
Growth %		31%	20%	21%	22%
Margin%	23%	24%	23%	23%	23%
Depreciation	6,809	9,474	13,686	14,736	15,786
EBIT	29,521	37,962	43,193	54,271	68,678
Growth %		29%	14%	26%	27%
Margin%	18%	19%	17%	18%	18%
Interest Paid	2,916	4,829	904	954	954
Other Income & exceptional	794	1,213	400	450	500
PBT	27,398	34,346	42,689	53,767	68,224
Tax	6,375	7,988	9,947	12,528	15,896
PAT	21,023	26,358	32,743	41,239	52,328
Others (Minorities, Associates)	-459	-397	-238	-250	-262
Net Profit	20,564	25,961	32,505	40,989	52,066
Growth %		26%	25%	26%	27%
EPS	6.33	7.67	9.61	12.12	15.40

Balance Sheet

Y/E Mar, Rs. Mn	CY23	CY24	CY25E	CY26E	CY27E
Cash, Cash equivalents & Bank	4,599	24,501	27,582	58,172	98,559
Current Investments	0	0	0	0	0
Debtors	3,594	8,458	8,770	10,734	13,139
Inventory	21,505	27,912	35,384	43,497	53,241
Other Current Assets	12,659	17,768	17,768	17,768	17,768
Total Current Assets	42,356	78,640	89,505	1,30,173	1,82,707
Net Block & CWIP	1,03,314	1,45,641	1,46,954	1,47,218	1,46,432
Long Term Investments	211	595	595	595	595
Other Non-current Assets	5,991	6,367	6,367	6,367	6,367
Total Assets	1,51,872	2,31,243	2,43,422	2,84,353	3,36,101
Creditors	7,582	15,604	16,053	19,595	23,959
Provision	1,215	1,395	1,395	1,395	1,395
Short Term Borrowings	10,032	12,866	2,866	2,866	2,866
Other Current Liabilities	22,702	15,379	15,379	15,379	15,379
Total Current Liabilities	41,532	45,244	35,693	39,235	43,599
Long Term Debt	31,889	8,407	407	407	407
Deferred Tax Liabilities	3,430	4,683	4,683	4,683	4,683
Other Long Term Liabilities	4,174	5,513	5,513	5,513	5,513
Total Non Current Liabilities	39,493	18,602	10,602	10,602	10,602
Paid-up Capital	6,496	6,763	6,763	6,763	6,763
Reserves & Surplus	62,869	1,59,335	1,88,827	2,25,967	2,73,089
Shareholders' Equity	69,365	1,66,098	1,95,590	2,32,730	2,79,852
Non Controlling Interest	1,482	1,298	1,536	1,786	2,048
Total Equity & Liabilities	1,51,872	2,31,243	2,43,422	2,84,353	3,36,101

Cash Flow

Y/E Mar, Rs. Mn	CY23	CY24	CY25E	CY26E	CY27E
Pre-tax profit	27,398	34,346	42,689	53,767	68,224
Adjustments	9,924	13,435	14,428	15,490	16,503
Change in Working Capital	-6,735	-6,694	-7,335	-6,536	-7,783
Total Tax Paid	-6,679	-7,276	-9,947	-12,528	-15,896
Cash flow from operating Activities	23,908	33,811	39,836	50,193	61,048
Net Capital Expenditure	-31,939	-37,404	-15,000	-15,000	-15,000
Change in investments	-312	-2,377	0	0	0
Other investing activities	-647	-3,388	400	450	500
Cash flow from investing activities	-32,899	-43,168	-14,600	-14,550	-14,500
Equity raised / (repaid)	47.92	75118.8	0	0	0
Debt raised / (repaid)	15,064	-35,516	-18,000	0	0
Dividend (incl. tax)	-2,273	-3,248	-3,250	-4,099	-5,207
Other financing activities	-2,989	-6,819	-904	-954	-954
Cash flow from financing activities	9,849	29,535	-22,154	-5,053	-6,161
Net Change in cash	858	20,179	3,082	30,590	40,387

Valuation Ratios

	CY23	CY24	CY25E	CY26E	CY27E
Per Share Data					
EPS	6	8	10	12	15
Growth %		21%	25%	26%	27%
Book Value Per Share	53	49	58	69	83
Return Ratios					
Return on Assets (%)	15%	14%	14%	16%	17%
Return on Equity (%)	34%	22%	18%	19%	20%
Return on Capital Employed (%)	23%	21%	17%	19%	20%
Turnover Ratios					
Asset Turnover (x)	1.2	1.0	1.1	1.2	1.2
Sales / Gross Block (x)	1.4	1.3	1.3	1.5	1.7
Working Capital / Sales (%)	-2%	9%	17%	24%	31%
Receivable Days	7	11	13	12	12
Inventory Days	102	101	100	101	101
Payable Days	38	44	47	43	43
Working Capital Days	71	68	65	69	70
Liquidity Ratios					
Current Ratio (x)	1.0	1.7	2.5	3.3	4.2
Interest Coverage Ratio (x)	10.4	8.1	48.2	57.3	72.5
Total Debt to Equity	0.7	0.1	0.0	0.0	0.0
Net Debt to Equity	0.7	0.0	-0.1	-0.2	-0.3
Valuation					
PE (x)	78.2	83.2	54.3	43.1	33.9
Earnings Yield (%)	1%	1%	2%	2%	3%
Price to Sales (x)	10.0	10.8	7.0	5.8	4.7
Price to Book (x)	23.2	13.0	9.0	7.6	6.3
EV/EBITDA (x)	45.5	45.5	31.7	26.1	21.3
EV/Sales (x)	10.3	10.8	7.2	5.9	4.8

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 th December 2022	BUY	264	+16.8%
7 th February 2022	BUY	261	+11.8%
2 nd May 2023	BUY	283	+14.7%
3 rd August 2023	BUY	330	+17%
7 th November 2023	BUY	397	+11.7%
5 th February 2024	REDUCE	521	-3.6%
13 th May 2024	NEUTRAL	591	+1.2%
1 st August 2024	NEUTRAL	630	+9.6%
22 nd October 2024	NEUTRAL	594	+5.6%
30 th April 2025	BUY	522	+10.5%

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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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

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