MIRAE ASSET Sharekhan

Viewpoint

Result Update

Varun Beverages Ltd

Good quarter; multiple growth levers in place

Consumer Goods	Sharekhan code: VBL	
Reco/View: Positive ↔	CMP: **Rs. 488**	Upside potential: **28%** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↓	
RQ		↔	
RV		↔	

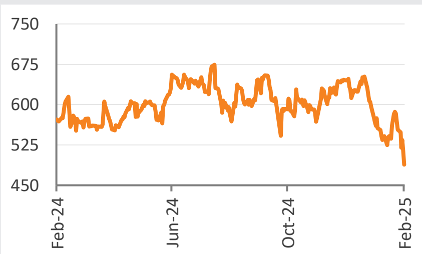
Company details

Market cap:	Rs. 1,65,068 cr
52-week high/low:	Rs. 683 / 485
NSE volume: (No of shares)	57.4 lakh
BSE code:	540180
NSE code:	VBL
Free float: (No of shares)	134.6 cr

Shareholding (%)

Promoters	60.2
FII	25.6
DII	7.0
Others	7.2

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-13.7	-15.1	-16.5	-14.6
Relative to Sensex	-13.0	-13.0	-12.5	-20.4

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Varun Beverages Limited (VBL) reported 38% y-o-y volume-led revenue growth in Q4CY25., while OPM stood flat y-o-y at 15.7% due to BevCo consolidation. PAT grew by 36% y-o-y.
- CY24 organic volume growth in India came in at 11.4%. Management maintained guidance of double-digit growth in the coming years.
- Projected capex for CY25 season is Rs. 3,100 crore. VBL has expanded production capacity in India by 45% during CY22-24 and is on track to increase it by another 25% in CY25E.
- Stock has corrected by ~25% from its recent high and trades at 49x/40x its CY25E/CY26E EPS, respectively. We stay Positive and expect an upside of 28% over the next 12 months.

VBL's Q4CY24 performance is not exactly comparable on a y-o-y basis due to the consolidation of BevCo, company acquired in South Africa.

Consolidated revenues grew 38.3% y-o-y to Rs. 3,689 crore (versus Rs. 3,585 crore estimated) driven by a strong 38% y-o-y volume growth to 215 million cases. Organic volume growth came in at 5.3% y-o-y to 164 million cases, while South Africa and DRC together reported volumes of ~51 million cases. Carbonated soft drinks (CSDs)/water volumes grew 49.1%/16.7% y-o-y to 158 million/49 million unit cases, respectively, while juice volumes remained flat y-o-y at 8 million unit cases. Realization stood flat y-o-y at Rs. 172/case. EBITDA margins were flat y-o-y at 15.7% (in line with expectation). Operating profit grew by 38.7% y-o-y to Rs. 580 crore, while PAT grew 36.1% y-o-y to Rs. 196 crore (against Rs. 160 crore expected) led by higher revenue growth and stable margins y-o-y, partly offset by higher depreciation (up 57% y-o-y) and increased finance costs (up 48% y-o-y). The board has announced dividend of Rs. 0.5/share for CY24. In CY24, consolidated revenue/PAT grew by 24.7%/26.2% y-o-y to Rs. 20,008 crore/Rs. 2,595 crore, respectively, while OPM rose by 105 bps y-o-y to 23.5%.

Key positives

- CSD volumes grew 49% y-o-y to 158 million pieces.
- In Q4CY24, VBL has become net debt free through prepayment of debt by using the proceeds from the QIP issue.

Key negatives

- Realization stood flat y-o-y at Rs. 172/case as BevCo has lower realisations.
- Interest costs increased 48% y-o-y.

Management Commentary

- Management maintained guidance of double-digit volume growth in India driven by distribution expansion and product launches. South Africa can grow at +30% CAGR over CY24-27, but for now, management is just guiding double-digit growth. VBL is expecting snacks revenue of $25-30 million in CY25.
- Tanzania is performing well as Pepsi is already market leader. VBL will focus on capacity enhancement and go to market in that territory. In Ghana, the market has to be developed.
- Management has guided for 21% margins in India business and expects international margins to improve significantly going ahead led by backward integration and change in channel mix from modern trade to general trade and in South Africa.
- Projected capex for CY25 season is Rs. 3,100 crore (Rs. 1,650 crore already incurred in CY24) including Rs, 2,000 crore for setting up greenfield facilities in India (Prayagraj, Damtal, Buxar and Meghalaya) and the balance for snacks manufacturing in international territories, brownfield expansion in India (Sricity), rPET facilities in India and expansion in DRC.
- VBL is currently present in 4 million outlets out of the 12 million FMCG outlets in India. It plans to add 10-12% outlets annually.
- Proceeds from recently-concluded Rs. 7,500 crore QIP were used for repayment of debt to become a net cash company and for acquisitions.

Revision in earnings estimates – We have reduced our estimates for CY25 and CY26 to factor in lower margins due to adverse mix from consolidation of low-margin South Africa business and higher marketing spends due to increased competitive intensity.

Our Call

Valuation – View – Stay Positive; expect 28% upside: VBL posted strong numbers in CY24 with double-digit revenue and PAT growth and margin expansion. Stable growth in the domestic market, better distribution reach (10-12% annual outlet addition), expansion of snacks portfolio outside India, increased penetration in newly acquired territories in Africa and commissioning of multiple greenfield and brownfield facilities across geographies will help the company to post double-digit revenue and PAT growth in the coming years (We expect 18%/27% revenue/PAT CAGR over CY24-26e). The stock has corrected by ~25% since recent highs and trades at 49x/40x its CY25E/CY26E earnings, respectively. We stay Positive and expect an upside of 28% over the next 12 months.

Key Risks

Any incremental tax on carbonated beverage products, heightened competition from new entrants or raw material inflation will act as a key risk to our earnings estimates.

Valuation (Consolidated)

Rs cr

Particulars	CY22	CY23	CY24	CY25E	CY26E
Revenues	13,173	16,043	20,008	24,100	28,058
OPM (%)	21.2	22.5	23.5	22.9	23.7
Adjusted PAT	1,497	2,056	2,595	3,360	4,162
Adjusted diluted EPS (Rs.)	4.6	6.3	7.7	9.9	12.3
P/E (x)	-	76.8	63.3	48.9	39.5
P/B (x)	30.9	22.8	9.9	8.4	7.0
EV/EBIDTA (x)	57.3	44.3	34.2	29.3	23.9
RoNW (%)	33.8	34.9	22.4	18.8	19.6
RoCE (%)	24.2	25.5	22.6	21.4	23.8

Source: Company; Mirae Asset Sharekhan estimates

CY24 performance

- Consolidated volumes grew by 23.2% to 1,124 million cases, with organic volume growth in India at 11.4% and for International territories at 6.3% (lower organic growth due to transition to zero-sugar portfolio post sugar tax in Zimbabwe).
- Consolidated revenues grew by 24.7% to Rs. 20,008 crore in-line with the volume growth, while net realisation per case was muted at 1.3% to Rs. 177.9.
- Gross margins rose by 165 bps y-o-y to 55.5% mainly due to strategic procurement and the storage of PET chips to leverage price benefits and efforts to reduce sugar content and increase backward integration.
- Operating profit grew by 30.5% to Rs. 4,711 crore. OPM expanded by 105 bps y-o-y to 15.5% driven by gross margin expansion and operating efficiencies. OPM expansion is despite consolidation of low margin South Africa business (~80% mix of own brands) and fixed cost associated with new capex.
- Depreciation increased by 39.1% y-o-y and finance cost grew by 68% y-o-y (substantially till the QIP proceeds credit date i.e. 21 November 2024) due to the acquisition of BevCo and the establishment of four new production facilities in India and DRC.
- PAT grew by 26.2% y-o-y to Rs. 2,595 crore driven by volume growth and improved margins.

Results (Consolidated) Rs cr

Particulars	Q4CY24	Q4CY23	Y-o-Y (%)	Q3CY24	Q-o-Q (%)
Total Revenue	**3,688.8**	**2,667.7**	**38.3**	**4,804.7**	**-23.2**
Raw Material cost	1,620.2	1,156.9	40.0	2,136.4	-24.2
Employee cost	479.0	371.3	29.0	513.0	-6.6
Other expenditure	1,009.6	721.2	40.0	1,004.1	0.5
Total Expenditure	**3,108.8**	**2,249.4**	**38.2**	**3,653.6**	**-14.9**
Operating Profit	**580.0**	**418.3**	**38.7**	**1,151.1**	**-49.6**
Other Income	44.6	9.1	-	24.3	84.1
Depreciation	260.8	166.0	57.1	256.6	1.6
Interest charges	109.0	73.7	48.0	118.5	-8.0
PBT	254.8	187.8	35.7	800.2	-68.2
Tax	58.5	44.2	32.3	171.3	-65.9
Adjusted PAT	**196.3**	**143.6**	**36.8**	**628.9**	**-68.8**
Share of profit from associates	-0.7	0.2	-	-0.1	-
Reported PAT	**195.6**	**143.8**	**36.1**	**628.8**	**-68.9**
Adjusted EPS (Rs.)	**2.9**	**2.2**	**31.4**	**9.7**	**-70.0**
			BPS		**BPS**
GPM (%)	56.1	56.6	-56	55.5	54
OPM (%)	15.7	15.7	4	24.0	-824
NPM (%)	5.3	5.4	-6	13.1	-777
Tax rate (%)	23.0	23.5	-59	21.4	155

Source: Company; Mirae Asset Sharekhan Research

Sales volume (million cases)

Particulars	Q4CY24	Q4CY23	Y-o-Y (%)	Q3CY24	Q-o-Q (%)
Carbonated soft drink (CSD)	158	106	49.1	200	-21.0
Non-carbonated beverages (Juice)	8	8	0.0	11	-29.2
Packaged drinking water	49	42	16.7	56	-12.5
Total	**215**	**156**	**37.8**	**267**	**-19.6**

Source: Company; Mirae Asset Sharekhan Research

Category-wise sales mix

Particulars	Q4CY24	Q4CY23	Y-o-Y (BPS)	Q3CY24	Q-o-Q (BPS)
Carbonated soft drink (CSD)	73%	68%	554	75%	-133
Non-carbonated beverages (Juice)	4%	5%	-141	4%	-51
Packaged drinking water	23%	27%	-413	21%	184

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Volume growth recovery to be gradual

Demand environment continued to be muted in Q3 with rural growth outpacing urban growth for another quarter. Monsoon season was above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Revenue growth in the near term would be driven by mix of volume and price-led growth as most companies have taken price increases to mitigate the impact of higher input costs. Global uncertainties will lead to volatility in raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce competition intensity from small/regional players in the quarters ahead.

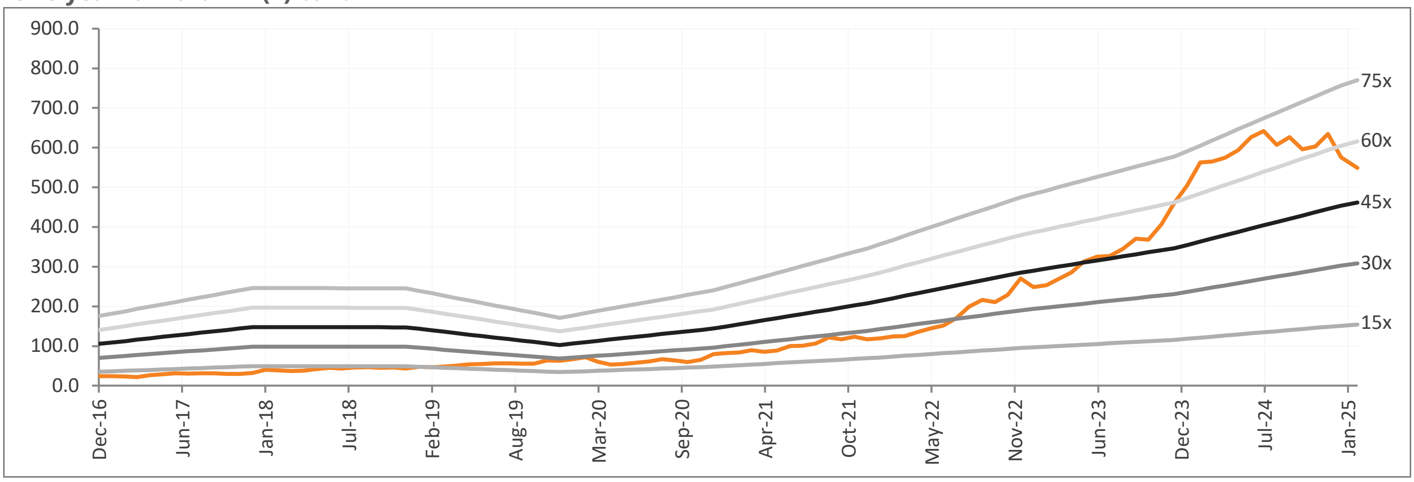
■ Company Outlook – Strong growth momentum to sustain

VBL is focusing on expanding its product and geographical presence in the coming years, which will be supported by capacity expansion across categories and markets. Owing to consistent growth in the core business along with strong support from new growth engines, revenue is expected to post a CAGR of 18% over CY24-CY26E. This along with higher realisation and improved efficiencies will lead to a 27% CAGR in PAT over the same period. Thus, strong growth is expected in cash flows, which will be utilised for future capex plans and reward shareholders with a higher dividend payout in the coming years. Amount of Rs. 7,500 crore raised through QIP was utilised for debt reduction.

■ Valuation – Stay Positive; expect 28% upside

VBL posted strong numbers in CY24 with double-digit revenue and PAT growth and margin expansion. Stable growth in the domestic market, better distribution reach (10-12% annual outlet addition), expansion of snacks portfolio outside India, increased penetration in newly acquired territories in Africa and commissioning of multiple greenfield and brownfield facilities across geographies will help the company to post double-digit revenue and PAT growth in the coming years (We expect 18%/27% revenue/PAT CAGR over CY24-26e). The stock has corrected by ~25% since recent highs and trades at 49x/40x its CY25E/CY26E earnings, respectively. We stay Positive and expect an upside of 28% over the next 12 months.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	CY23	CY24E	CY25E	CY23	CY24E	CY25E	CY23	CY24E	CY25E
Dabur India*	50.8	50.4	42.8	38.8	38.3	33.5	21.5	20.5	22.4
Nestle India*	-	67.2	60.2	-	44.9	39.8	-	104.2	113.6
Varun Beverages	77.1	63.6	49.1	44.5	34.4	29.5	25.5	22.6	21.4

*Source: Company; Mirae Asset Sharekhan Research; *financial year ending companies*

About company

VBL is a key player in the beverage industry and is one of the largest franchisees of PepsiCo in the world (outside the U.S.). The company produces and distributes a wide range of carbonated soft drinks (CSDs), as well as a large selection of non-carbonated beverages (NCBs), including packaged drinking water. PepsiCo's CSD brands produced and sold by VBL include Pepsi, Pepsi Black, Mountain Dew, Sting, Seven-Up, Mirinda Orange, Seven-Up, Nimbooz Masala Soda, and Evervess. PepsiCo's NCB brands produced and sold by VBL include Tropicana Slice, Tropicana Juices (100% and Delight), Seven-Up Nimbooz, Gatorade as well as packaged drinking water under the brand Aquafina. VBL has been granted franchises for various PepsiCo's products across 27 states and 7 union territories in India. VBL has also been granted the franchise for various PepsiCo products for the territories of Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Investment theme

VBL is the largest beverage company in India having a strategic association with PepsiCo accounting for over 0% (from 47% in CY2017) of its beverage sales in India. With a strong alliance with PepsiCo, the company secured a large share in the domestic market and expanded its reach in key African markets such as Morocco, Zimbabwe, Zambia, and South Asian markets such as Sri Lanka. Strong expansion in the newly acquired territories in the southern and western parts of India, higher growth in emerging categories such as energy drinks, and sustained growth in the international market would help VBL's revenue to post a CAGR of 18% (14-15% volume growth) during CY24-CY26E and earnings are expected to deliver a CAGR of 27% over the same period.

Key Risks

- Slowdown in the demand environment: Any slowdown in demand or adverse change in carbonated drinks policy or a sharp increase in taxes would affect sales of key products, resulting in moderation of sales volume growth.
- Increased input prices: Any significant increase in the prices of some key raw materials would affect profitability and earnings growth.

Additional Data

Key management personnel

Name	Designation
Ravi Kant Jaipuria	Promoter & Chairman
Varun Jaipuria	Promoter, Executive Vice-Chairman and Whole-time Director
Rajesh Chawla	Chief Financial Officer
Ravi Batra	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Norges Bank	2.27
2	Capital Group Cos Inc.	2.04
3	Republic of Singapore	1.41
4	Blackrock Inc.	1.38
5	Nippon Life India Asset Management Ltd.	1.24
6	Jennison Associates LLC	0.61
7	Axis Asset Management Co. Ltd.	0.55
8	Tata Asset Management Co. Ltd.	0.51
9	Canara Robeco Asset Management Co. Ltd.	0.49
10	SBI Pension Funds Pvt Ltd.	0.44

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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