MIRAE ASSET Sharekhan

Varun Beverages Ltd

Margin beat drives Q2

Viewpoint

Result Update

Consumer Goods	Sharekhan code: VBL

Reco/View: Positive	↔	CMP: **Rs. 512**	Upside potential: **26%**	↓

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		↔	

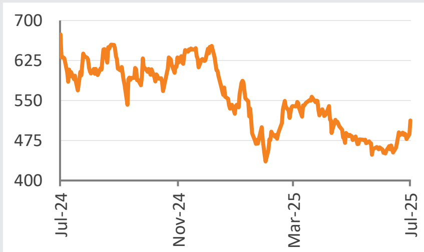
Company details

Market cap:	Rs. 1,73,222 cr
52-week high/low:	Rs. 683 / 419
NSE volume: (No of shares)	87.8 lakh
BSE code:	540180
NSE code:	VBL
Free float: (No of shares)	135.9 cr

Shareholding (%)

Promoters	59.8
FII	22.2
DII	10.5
Others	7.4

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	-3.2	-5.4	-24.0
Relative to Sensex	14.7	-4.5	-11.7	-23.9

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Varun Beverages Limited's (VBL's) Q2CY25 performance beat estimates due to better-than-expected OPM at 28.5% (versus an expected 25.7%). PAT grew 5% led by operating efficiencies and lower finance cost.
- Consolidated volumes declined 3% y-o-y, mainly due to a 7% decline in India owing to unseasonal rains, while international volumes rose by 15% y-o-y.
- India business' margin guidance was retained at ~21%, while international business margins are set to improve going ahead led by backward integration and a change in channel mix.
- Stock trades at 53x/43x/36x its CY25E/CY26E/CY27E EPS, respectively. We stay Positive and expect an upside of 26% over the next 12 months.

VBL's consolidated revenue fell by 2.5% y-o-y to Rs. 7,017 crore, due to a 3% y-o-y decline in volumes to 390 million cases and muted 0.5% growth in net realisation to Rs. 179.9 per case. Revenue came in slightly lower than our and average street expectation of Rs. 7,165 crore and Rs. 7,113 crore, respectively. Volumes were impacted primarily by a 7.1% y-o-y decline in India owing to abnormally high unseasonal rainfall through out the quarter, while international volumes grew by 15.1% y-o-y. Gross margins remained steady at 54.5%, while OPM rose by 82 bps y-o-y to 28.5%, much higher than ours and the average street's expectation of 25.7%. Despite an increase in operational costs due to commissioning of four greenfield plants in India, operational efficiencies and strong currency in international territories aided OPM expansion. Operating profit stood flat y-o-y at Rs. 1,999 crore. Depreciation increased 26.3% y-o-y as new plants were commissioned in India and DRC, and also due to brownfield expansion in other international markets. PAT grew 5.0% y-o-y to Rs. 1,326 crore driven by operational efficiencies and lower finance cost (down by 72% y-o-y), beating our as well as the street's average expectation of Rs. 1,156 crore and Rs.1,169 crore, respectively. The board has approved second interim dividend of Rs. 0.50 per share for CY25.

Key positives

- International volumes grew by 15.1% y-o-y.
- OPM rose by 82 bps y-o-y to 28.5%, beating our and average street expectation of 25.7%.

Key negatives

- Domestic volumes fell by 7% y-o-y hit by unseasonal rains in the peak summer months.

Management Commentary

- Management has highlighted that rains have hit demand in July to some extent.
- In the international business, demand has started to stabilise in Zimbabwe and is expected to improve going ahead. Other markets such as Morocco, South Arica are doing well.
- In Q2, backward integration, favourable currency movements and lower sugar prices in the international market has helped to improve profitability in the international business.
- India business' margin guidance was retained at ~21% and international margins are expected to improve significantly going ahead led by backward integration and a change in channel mix.
- During H1CY25, the net capitalised capex amounted to ~Rs. 2,500 crore which includes 1) ~Rs. 1,450 crore for setting up of four greenfield production facilities in India, 2) ~Rs. 120 crore for brownfield expansion in Sricity (India), 3) ~Rs. 450 crore in international territories and 4) Balance ~Rs. 480 crore for visi-coolers, glass bottles, pallets, vehicles, etc. At H1CY25-end the CWIP of ~Rs. 600 crore is primarily towards balance capex in the phase II of above new greenfield plants in India and snacks manufacturing plant in Zimbabwe.
- Management has indicated that the company continues to actively look for acquisitions and expansion in existing markets in international business.

Revision in earnings estimates – We have cut our estimates for CY25 and CY26 by 3-4% to factor in weak volume growth in H1. We have introduced CY27 numbers through this note.

Our Call

View – Stay Positive; expect 26% upside: VBL's Q2CY25 numbers came in better than expected as margins beat estimates. Stable growth in domestic market, better distribution reach, expansion of the snacks portfolio outside India, increased penetration in African territories, and commissioning of multiple greenfield and brownfield facilities across geographies will help VBL to post double-digit revenue and PAT growth in the coming years (we expect an 15%/22% revenue/PAT CAGR over CY24-27E). The stock trades at 53x/43x/36x its CY25E/CY26E/CY27E EPS, respectively. We stay Positive and expect an upside of 26% over the next 12 months (rolling over to June-26 earnings).

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	CY23	CY24	CY25E	CY26E	CY27E
Revenues	16,043	20,008	22,887	26,614	30,553
OPM (%)	22.5	23.5	23.8	24.6	24.9
Adjusted PAT	2,056	2,595	3,247	4,004	4,759
Adjusted diluted EPS (Rs.)	6.3	7.7	9.6	11.8	14.1
P/E (x)	80.9	66.8	53.3	43.3	36.4
P/B (x)	24.0	10.4	8.8	7.4	6.2
EV/EBIDTA (x)	46.6	36.1	31.2	25.5	21.7
RoNW (%)	34.9	22.4	18.2	18.9	18.9
RoCE (%)	25.5	22.6	20.7	23.0	23.7

Source: Company; Mirae Asset Sharekhan estimates

Key business updates

- VBL commissioned new production facilities at
  - Prayagraj, UP - 4 CSD lines, 1 NCB line and 1 water line on 22nd April, 2025
  - Damtal, HP - 2 CSD lines, and 1 NCB line on 24th March, 2025
  - Buxar, Bihar - 2 CSD lines, 2 NCB lines, and 1 water line on 1st May, 2025
  - Mendipathar, Meghalaya - 2 CSD lines, and 2 NCB lines on 29th May, 2025
- VBL has enhanced capacity in South Africa by setting up a can line in Durban in VBL's existing production facilities. The company is awaiting approval from Competition Commission of South Africa for land parcel purchase adjoining to its production facility in Boksburg to further enhance capacity and backward integration.
- During Q2CY25, Varun Beverages Morocco SA (subsidiary of VBL) has started commercial production of PepsiCo's snacks product – Cheetos in Morocco.
- VBL has acquired 50% stake in Everest Industrial Lanka (Private) Limited (EIL), a company in Sri Lanka, which is engaged in the business of production, manufacturing, distribution and selling of commercial visi-coolers and related accessories.
- VBL remained net debt free in Q2CY25 with free cash of Rs. 515 crore.

Results (Consolidated) Rs cr

Particulars	Q2CY25	Q2CY24	Y-o-Y (%)	Q1CY25	Q-o-Q (%)
Total Revenue	**7,017.4**	**7,196.9**	**-2.5**	**5,566.9**	**26.1**
Raw Material cost	3,191.1	3,260.6	-2.1	2,529.1	26.2
Employee cost	549.7	499.3	10.1	511.5	7.5
Other expenditure	1,277.8	1,445.8	-11.6	1,262.4	1.2
Total Expenditure	**5,018.6**	**5,205.6**	**-3.6**	**4,303.0**	**16.6**
Operating Profit	**1,998.8**	**1,991.2**	**0.4**	**1,264.0**	**58.1**
Other Income	77.2	44.0	75.3	28.1	175.0
Depreciation	306.2	242.5	26.3	272.5	12.3
Interest charges	36.5	129.2	-71.7	41.1	-11.1
PBT	1,733.2	1,663.6	4.2	978.4	77.2
Tax	406.6	401.2	1.3	246.5	65.0
Adjusted PAT	**1,326.7**	**1,262.4**	**5.1**	**731.9**	**81.3**
Share of profit from associates	-1.2	-0.5	121.8	-0.6	106.1
Reported PAT	**1,325.5**	**1,261.8**	**5.0**	**731.4**	**81.2**
Adjusted EPS (Rs.)	**19.6**	**19.4**	**1.0**	**10.8**	**81.3**
			BPS		**BPS**
GPM (%)	54.5	54.7	-17	54.6	-4
OPM (%)	28.5	27.7	82	22.7	578
NPM (%)	18.9	17.5	137	13.1	576
Tax rate (%)	23.5	24.1	-66	25.2	-173

Source: Company; Mirae Asset Sharekhan Research

Sales volume (million cases)

Particulars	Q2CY25	Q2CY24	Y-o-Y (%)	Q1CY25	Q-o-Q (%)
Carbonated soft drink (CSD)	291	307	-5.2	234	24.1
Non-carbonated beverages (NCB)	28	32	-12.5	22	27.3
Packaged drinking water	71	63	12.7	56	26.8
Total	**390**	**402**	**-3.0**	**312**	**24.8**

Source: Company; Mirae Asset Sharekhan Research

Category-wise sales mix

Particulars	Q2CY25	Q2CY24	Y-o-Y (%)	Q1CY25	Q-o-Q (%)
Carbonated soft drink (CSD)	75%	76%	-175	75%	-42
Non-carbonated beverages (NCB)	7%	8%	-78	7%	14
Packaged drinking water	18%	16%	253	18%	28

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Volumes and margins to recover gradually

Consumer goods companies are expected to see yet another muted quarter. We expect gradual uptick in volume growth on low base in the coming quarters driven by expectations of good monsoon, income tax benefits, interest rate cuts, and a gradual improvement in the macroeconomic environment. We believe large improvement in the volume growth could be seen in H2FY26 amid stable demand. We expect margins to remain lower in the coming quarters and if input prices stabilise in the coming months, we might see margins rise from H2FY26.

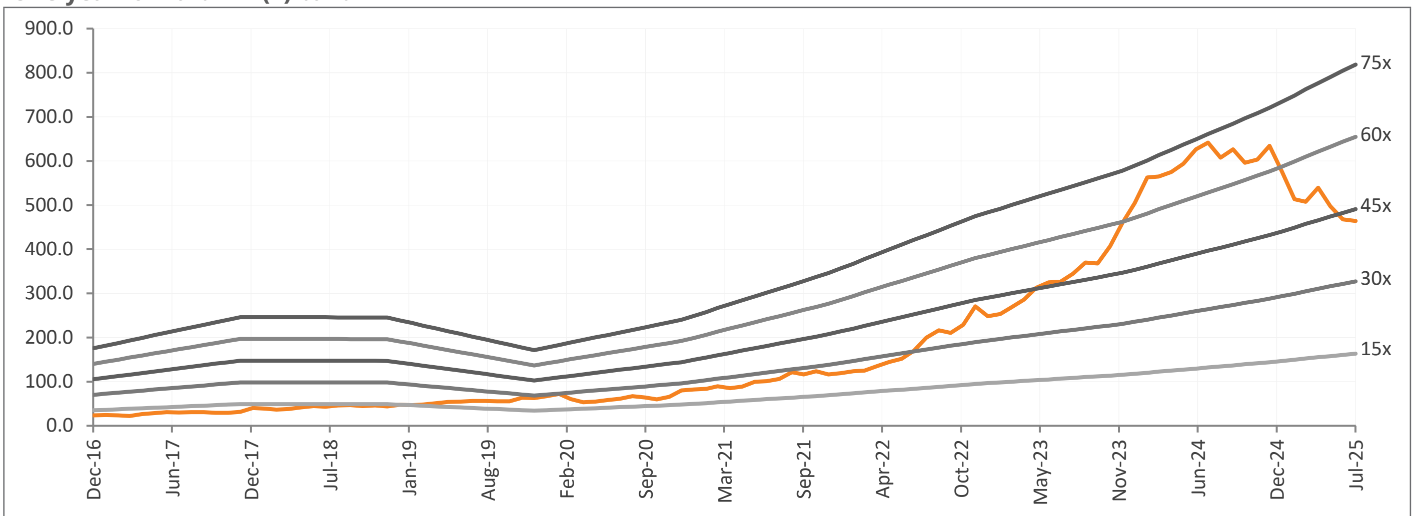
■ Company Outlook – Strong growth momentum to sustain

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 15% over CY24-CY27E. This along with higher realisation and improved efficiencies will lead to a 22% 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 26% upside

VBL's Q2CY25 numbers came in better than expected as margins beat estimates. Stable growth in domestic market, better distribution reach, expansion of the snacks portfolio outside India, increased penetration in African territories, and commissioning of multiple greenfield and brownfield facilities across geographies will help VBL to post double-digit revenue and PAT growth in the coming years (we expect an 15%/22% revenue/PAT CAGR over CY24-27E). The stock trades at 53x/43x/36x its CY25E/CY26E/CY27E EPS, respectively. We stay Positive and expect an upside of 26% over the next 12 months (rolling over to June-26 earnings).

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	CY24	CY25E	CY26E	CY24	CY25E	CY26E	CY24	CY25E	CY26E
Dabur India*	52.8	47.0	41.8	39.9	35.8	32.0	19.5	20.7	22.0
Nestle India*	69.6	64.1	56.5	45.3	41.6	37.0	90.3	85.3	105.0
Varun Beverages	66.8	53.3	43.3	36.1	31.2	25.5	22.6	20.7	23.0

*Source: Company; Mirae Asset Sharekhan Research; *Dabur and Nestle are a financial year ending companies*

About company

VBL is a key player in the beverage industry and is the second-largest franchisee 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. For VBL, India is the primary zone having franchises across 26 states and six union territories, while international markets are evolving zones with VBL having franchisee rights in nine countries (Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, South Africa, Lesotho, Eswatini, and DRC) and distribution rights in four countries (Namibia, Botswana, Mozambique and Madagascar).

Investment theme

VBL is the largest beverage company in India having a strategic association with PepsiCo accounting for over 90% (from 47% in CY17) 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 15% (12-14% volume growth) during CY24-CY27E and earnings are expected to deliver a CAGR of 22% 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	2.11
2	Vanguard Group Inc.	1.74
3	Blackrock Inc.	1.51
4	Republic of Singapore	1.44
5	Capital Group Cos Inc.	1.24
6	NPS Trust A/c Uti Retirement Solutions Ltd	1.02
7	Nippon Life India AMC	0.86
8	Mirae Asset Financial Group	0.64
9	Tata Asset Management Pvt. Ltd.	0.61
10	Schroders PLC	0.59

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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