

Varun Beverages

NOT RATED

Efficiency driven growth on the cards

Summary

We interacted with the management of Varun Beverages (VBL). Post-acquisition of South and West regions from Pepsico during May'2019, VBL is looking forward to grow by winning market share from competition by improving product availability. Competitive advantages like; backward-integration and faster decision making due to consolidated operations (vs fragmented operations for Coca Cola; c. 50% owned by Hindustan Coca Cola while rest 50% being operated by 13+ players) is likely to help VBL gain market share and improve operating profit margins going forward. Growth in non-carbonated-beverage category is likely to be faster driven by shift in consumer preference towards health-based drinks. Improvement in electrification (of rural-India) and transportation infrastructure is likely to help beverage industry to improve penetration levels. VBL is currently trading at an attractive valuation of 27x CY22E EPS (23% discount to FMCG Industry), as per consensus.

Key highlights of the meeting

■ Better distribution to drive market share gain in CSD

In carbonated soft drinks (CSD, 70% volume share in revenue) VBL expects to grow at healthy double digit rate driven by improvement in product availability through distribution expansion. In recently acquired territories (South and West India) from Pepsi Co, VBL expects to grow at higher rate driven by better execution. Management expects to add 80K retail outlets p.a. and install 40K visi-coolers in semi-urban and rural regions. Faster decision making (due to superior control over operations vs competition), backward integration should help VBL to grow by winning market share from competition.

■ Non-carbonated beverage (NCB) portfolio to grow at faster rate

VBL is aiming to drive growth in NCB portfolio (juices, energy drinks, milk based beverages etc) by scaling-up distribution. In Tropicana, VBL expects to reach 5 lakh outlets in next 3 years (vs 2 lakh outlet currently). Dairy based beverages to be launched in CY21.

■ International business to maintain growth momentum

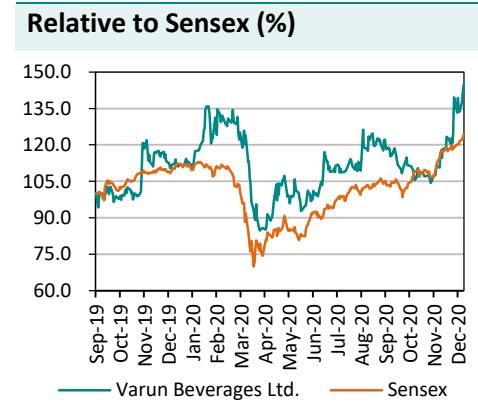
International business grew at 22% CAGR during CY15-19 in terms of volume (vs 20% in Indian market). Management expects international business to maintain positive growth momentum going forward. Also, VBL is open for in-organic growth opportunities especially in South East Asia.

TP CMP	-		
	Rs907		
	Potential upside / downside		
	-		
	Previous Rating		
	NOT RATED		
EPS (Rs)	CY20	CY21E	CY22E
IDBI Capital	-	-	-
Consensus	10.9	25.4	33.6
% difference	-	-	-

Shareholding Pattern (%)	
Promoters	66.4
FII	20.8
DII	5.6
Public	7.2

Price Performance (%)			
	-1m	-3m	-12m
Absolute	30.9	25.6	28.7
Rel to Sensex	22.6	4.9	14.9

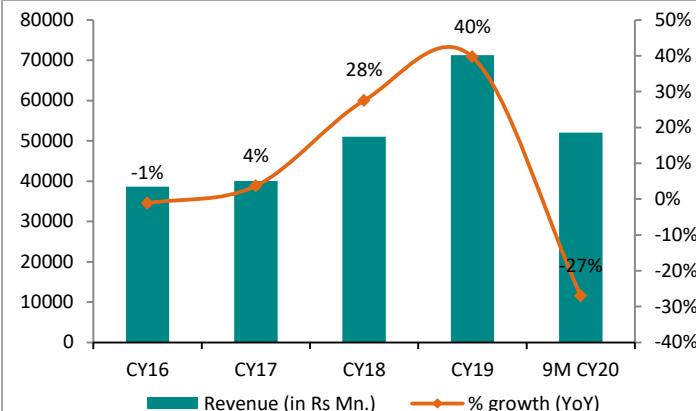
Key Stock Data	
Bloomberg / Reuters	VBL IN / VARB.BO
Sector	Non-alcoholic Beverages
Shares o/s (mn)	289
Market cap. (Rs mn)	261,740
Market cap. (US\$ mn)	3,558
3-m daily average value (Rs mn)	169.8
52-week high / low	Rs924 / 485
Nifty / Sensex	46,104 / 13,529



Year	CY2016	CY2017	CY2018	CY2019	(Rs mn)
Revenue	38,612	40,036	51,053	71,296	
EBITDA	7,859	8,258	10,066	14,477	
EBITDA (%)	20.4	20.6	19.7	20.3	
Adj. PAT	423	2,101	2,929	4,690	
EPS (Rs)	2.9	11.5	10.7	16.8	
EPS Growth (%)	(65.9)	299.3	(7.1)	57.4	
PE (x)	315.2	78.9	84.9	53.9	
Dividend Yield (%)	-	0.3	0.2	0.3	
EV/EBITDA (x)	19.0	22.4	27.0	19.3	
RoE (%)	5.0	12.1	15.5	17.6	
RoCE (%)	27.0	12.7	14.3	17.0	

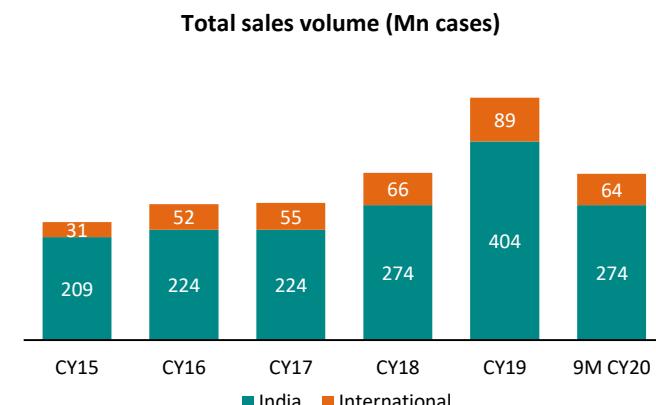
Source: Company; IDBI Capital Research

Exhibit 1: Revenue grew at 23% CAGR over CY16-19



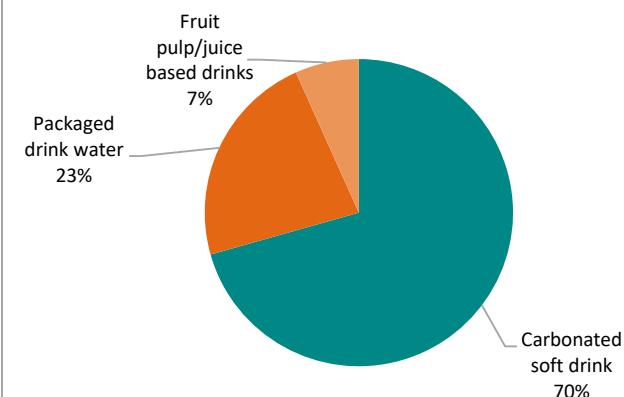
Source: Company; IDBI Capital Research

Exhibit 2: ...driven by strong volume led growth of 21% CAGR over CY16-19



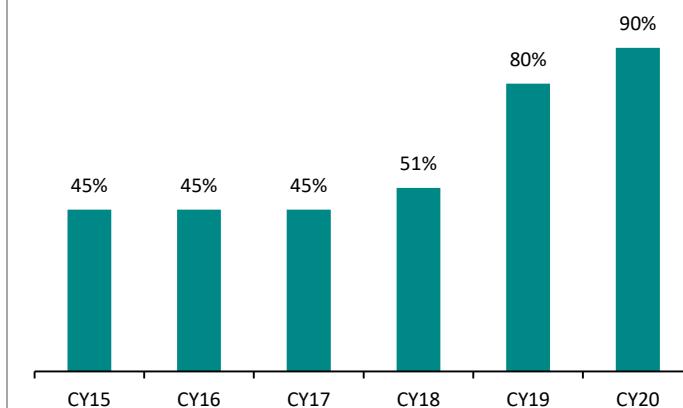
Source: Company; IDBI Capital Research

Exhibit 3: Volume wise break-up (CY19)



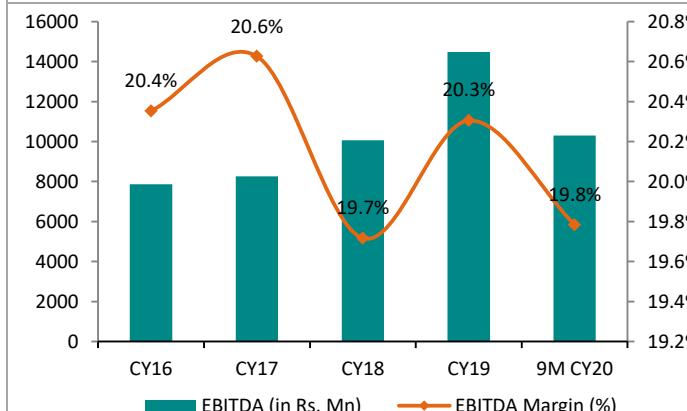
Source: Company; IDBI Capital Research

Exhibit 4: VBL accounts for 90% of PepsiCo volumes



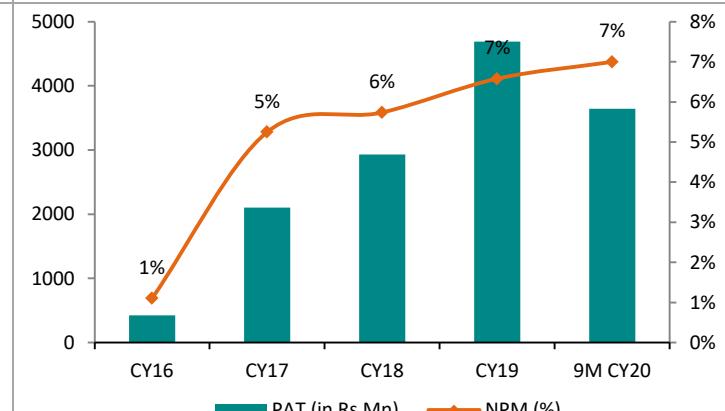
Source: Company; IDBI Capital Research

Exhibit 5: EBITDA and EBITDA Margin (%)



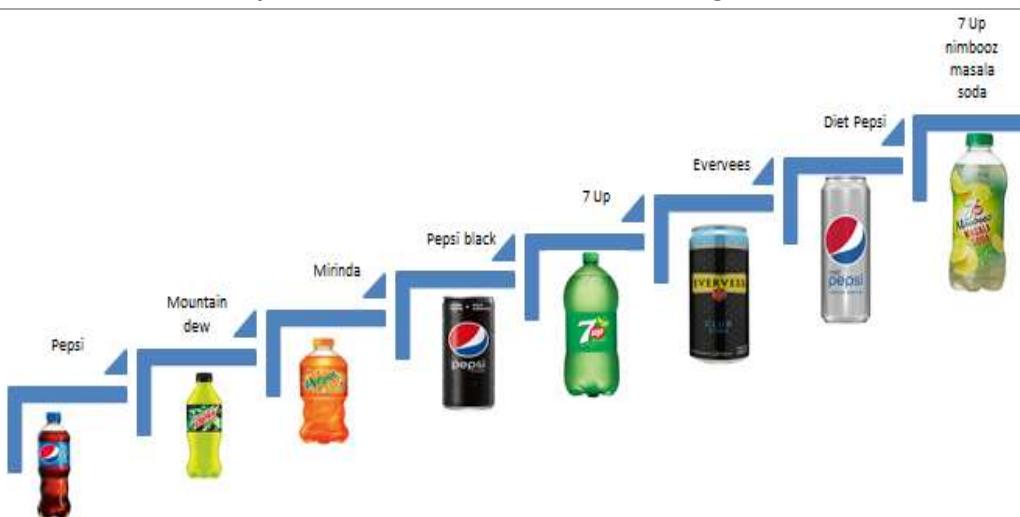
Source: Company; IDBI Capital Research

Exhibit 6: PAT and PAT Margin (%)



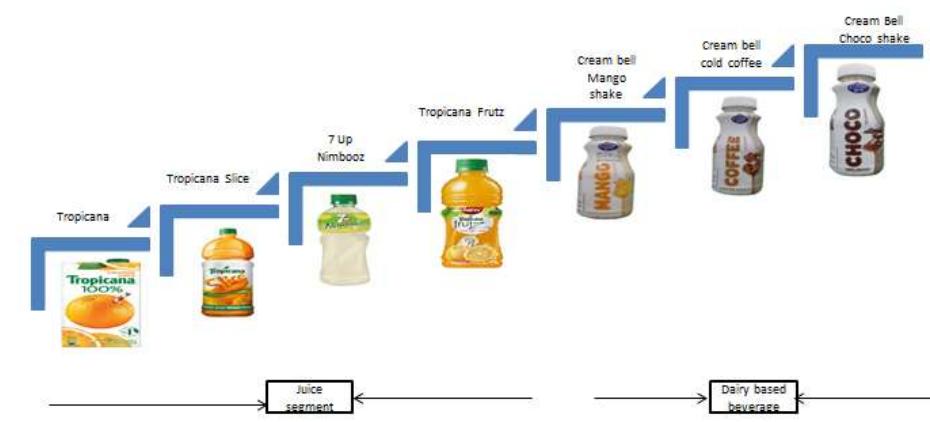
Source: Company; IDBI Capital Research

Exhibit 7: VBL Product portfolio in Carbonated soft drinks segment



Source: Company; IDBI Capital Research

Exhibit 8: VBL Product portfolio in Juice & dairy segment



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)				
Year-end: March	CY16	CY17	CY18	CY19
Net sales	38,612	40,036	51,053	71,296
<i>growth (%)</i>	13.7	3.7	27.5	39.7
Operating expenses	(30,753)	(31,778)	(40,987)	(56,819)
EBITDA	7,859	8,258	10,066	14,477
<i>growth (%)</i>	23.4	5.1	21.9	43.8
Depreciation	(3,121)	(3,467)	(3,851)	(4,886)
EBIT	4,738	4,791	6,215	9,590
Interest paid	(4,325)	(2,122)	(2,126)	(3,097)
Other income	357	226	218	425
Pre-tax profit	769	2,896	4,308	6,919
Tax	(313)	(769)	(1,339)	(2,241)
<i>Effective tax rate (%)</i>	40.7	26.6	31.1	32.4
Minority Interest	(33.0)	(26.0)	(39.8)	11.6
Net profit	423	2,101	2,929	4,690
Adjusted net profit	423	2,101	2,929	4,690
<i>growth (%)</i>	396.0	39.4	60.1	
<i>Shares o/s (mn nos)</i>	147	183	274	279

Cash Flow Statement (Rs mn)				
Year-end: March	CY16	CY17	CY18	CY19
Pre-tax profit	770	2,896	4,308	6,919
Depreciation	3,222	3,466	3,851	4,886
Tax paid	(581)	(571)	(733)	(1,201)
Chg in working capital	1,018	(966)	635	174
Other operating activities	3,828	1,373	1,937	2,274
Cash flow from operations (a)	8,258	6,198	9,998	13,052
Capital expenditure	(7,924)	(5,330)	(8,586)	(7,536)
Chg in investments	(2,639)	(2,176)	(203)	(15,703)
Other investing activities	85	53	56	46
Cash flow from investing (b)	(10,478)	(7,453)	(8,734)	(23,192)
Equity raised/(repaid)	7,014	42	7	9,002
Debt raised/(repaid)	(2,320)	7,270	4,566	6,487
Dividend (incl. tax)	-	(456)	(456)	(690)
Other financing activities	(2,392)	(5,269)	(4,961)	(3,701)
Cash flow from financing (c)	2,302	1,586	(844)	11,097
Net chg in cash (a+b+c)	82	331	420	957

Balance Sheet					(Rs mn)
Year-end: March	CY16	CY17	CY18	CY19	
Net fixed assets	38,111	41,646	47,374	65,186	
Investments	69	82	132	242	
Other non-curr assets	1,607	1,808	1,401	1,737	
Current assets	8,526	9,301	11,407	16,719	
Inventories	4,899	4,389	5,784	8,815	
Sundry Debtors	1,313	1,502	1,280	1,726	
Cash and Bank	657	945	935	1,711	
Loans and advances	-	-	-	-	
Total assets	48,313	52,836	60,314	83,884	
Shareholders' funds					
Share capital	16,936	17,694	19,985	33,284	
Reserves & surplus	1,823	1,826	1,826	2,887	
Total Debt	16,295	20,447	23,577	28,225	
Secured loans	16,295	20,447	23,577	28,225	
Unsecured loan	-	-	-	-	
Other liabilities	2,047	2,354	3,042	4,537	
Curr Liab & prov	13,164	12,355	13,632	17,531	
Current liabilities	13,029	12,187	13,472	17,232	
Provisions	135	168	160	300	
Total liabilities	31,506	35,156	40,251	50,293	
Total equity & liabilities	48,313	52,836	60,314	83,884	
Book Value (Rs)	115	97	69	115	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	CY16	CY17	CY18	CY19
Adj EPS (Rs)	2.9	11.5	10.7	16.8
Adj EPS growth (%)		299.3	(7.1)	57.4
EBITDA margin (%)	20.4	20.6	19.7	20.3
Pre-tax margin (%)	2.0	7.2	8.4	9.7
ROE (%)	5.0	12.1	15.5	17.6
ROCE (%)	27.0	12.7	14.3	17.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	0.8	0.9	1.0
Leverage factor (x)	2.9	2.9	3.0	2.7
Net margin (%)	1.1	5.2	5.7	6.6
Net Debt/Equity (x)	0.9	1.1	1.1	0.8
Working Capital & Liquidity ratio				
Inventory days	46	40	41	45
Receivable days	12	14	9	9
Payable days	33	22	28	31

Valuations

Year-end: March	FY15	FY16	FY17	FY18
PER (x)	315.2	78.9	84.9	53.9
Price/Book value (x)	7.9	9.4	12.4	7.6
PCE (x)	37.7	29.8	36.7	26.4
EV/Net sales (x)	3.9	4.6	5.3	3.9
EV/EBITDA (x)	19.0	22.4	27.0	19.3
Dividend Yield (%)	0.0	0.3	0.2	0.3



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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