3 January 2021

Initiating Coverage | Sector: Others

Varun Beverages

Safe and Bottled

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Contents: Safe and bottled!

Varun Beverages

BSE Sensex	S&P CNX
47,354	13,873

CMP: INR909 **TP: INR1,100 (+21%)** **Buy**

Stock Info

Bloomberg	VBL IN
Equity Shares (m)	289
M.Cap.(INRb)/(USDb)	259 / 3.6
52-Week Range (INR)	999 / 485
1, 6, 12 Rel. Per (%)	-5/-3/15
12M Avg Val (INR M)	182
Free float (%)	32.0

Financials & Valuations (INR b)

Y/E Dec	CY20E	CY21E	CY22E
Sales	63.7	87.7	101.3
EBITDA	11.9	17.7	21.8
PAT	4.7	3.8	6.9
EBITDA (%)	18.6	20.2	21.5
EPS (INR)	13.2	23.8	36.2
EPS Gr. (%)	-18.8	80.4	52.2
BV/Sh. (INR)	123.5	144.3	177.4
Ratios			
Net D/E	0.8	0.5	0.3
RoE (%)	11.0	17.8	22.5
RoCE (%)	10.1	13.6	18.5
Payout (%)	24.9	12.4	8.8
Valuations			
P/E (x)	68.9	38.2	25.1
EV/EBITDA (x)	24.6	16.2	12.7
Div Yield (%)	0.3	0.3	0.3
FCF Yield (%)	2.7	3.5	4.6

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	68.4	66.4	66.4
DII	6.4	6.4	6.0
FII	19.2	20.5	20.8
Others	6.0	6.7	6.9

FII Includes depository receipts

Varun Beverages (VBL) is engaged in the manufacture, sale, bottling, and distribution of PepsiCo's beverages in pre-defined territories in India (27 states and seven Union Territories). Its India operations contributed ~82% to CY19 revenue. The company is also present in Sri Lanka, Nepal, Morocco, Zambia, and Zimbabwe.

Safe and bottled!

Pure monopoly in PepsiCo's India business

- **VBL is PepsiCo's second-largest bottler outside the US and handles over 80% of the cola giant's India business. While its link with PepsiCo provides it with long-term growth sustainability, robust distribution and supply-chain network should improve its market share in newly acquired territories and push volume growth.**
- **The company is diversifying its product portfolio with the commencement of the new *Tropicana* plant in Pathankot. This should help reduce concentration risk and improve margin as realizations in non-carbonated beverages (NCB) are 10% higher than in carbonated soft drinks (CSD). Inorganic expansion in the Water segment and increasing share of the international business should help it diversify further.**
- **Increasing electrification per household in rural and semi-rural areas, growing refrigeration penetration, and rising per capita income, is expected to drive overall consumption of beverages. VBL is poised to gain market share from the consolidation in new territories.**
- **Capacity utilization during peak months (May-June) is barely 60%. This surplus capacity provides enough headroom to meet increasing demand without additional capex. Higher sweating of assets should further improve its operating profit.**
- **We estimate 12%/31% revenue/PAT CAGR over CY19-22E, driven by newly acquired territories and stable operating margin. We value the stock at 30x CY22E EPS of INR36.2 to arrive at our target price of INR1,100. We initiate coverage with a Buy rating.**

Pure monopoly in PepsiCo's India business

VBL single-handedly accounted for ~80% of PepsiCo India's business in CY19 (v/s 45% in CY17) on the back of various expansions and acquisitions in the last few years. Penetration level in the newly acquired territories is comparatively lower compared to existing territories. Replication of existing distribution network model, coupled with supply-chain, should increase penetration in these new territories and help gain incremental market share. The newer geographies (South and West) would also provide consistent volume sustainability in the medium to long term. The company's newly set-up *Tropicana* plant in Pathankot should further boost push volumes as it has acquired the rights to sell and distribute *Tropicana* fruit juices from PepsiCo India.

Improving mix and international presence

Over CY12-19, though the volume share of CSD declined to 71% from 84%, VBL delivered 17% volume CAGR. Blended realization has increased to INR145 from INR138 over CY13-19. Post commencement of operations at its new plant in Pathankot (with a higher focus on the Juice segment), VBL's revenue share from NCB should improve, thereby reducing revenue concentration from CSD alone. Several inorganic international expansions by the company over CY12-19 has resulted in the share of the Water segment rising to 23% from 9%. The same is expected to grow further. International operations, which now account for 18% of total volumes (up 400bp over the last six years), is bound to grow further.

Rising electrification to support CSD sales

Increasing electrification in India is expected to increase refrigeration penetration to 48% in CY26E from 30% in CY19. This in turn should drive VBL's sales as most of its products need to be chilled before serving. Also, a) increasing number of hours of undisrupted electricity supply, b) higher dispatches of visi-coolers to distributors and retailers would improve consumption at the point of sale, and c) greater electrification in semi-urban/rural areas (currently contribute ~50% to revenue) are factors that could push sales. Its association of over 28 years with PepsiCo would continue further as the franchisee agreement has been extended from Oct'22 to Apr'39. While PepsiCo's market share as of CY19 was ~35% (consistent so far), it is expected to rise led by increased penetration in newer geographies.

Higher sweating of assets to support growth

Annual capacity utilization of VBL is way lower than its peak season utilization rate of 60% (post consolidation in new territories). With excess surplus capacity in place, the company has enough headroom to grow volumes without needing additional capex. With operations increasing, economies of scale should kick in. It has better negotiating power with its suppliers, especially for key raw materials like sugar and PET polymer granules. After the initial setback in CY20 due to the COVID-19 pandemic, it should maintain its margin.

Initiate coverage with a Buy rating

We expect strong demand traction over the next few years due to: a) VBL being a monopoly play in PepsiCo India's business, b) rising penetration on the back of a robust distribution network, c) diversifying product portfolio, d) greater refrigerator penetration in rural/and semi-rural areas per household and higher power availability hours, and e) increasing discretionary spending per capita. Over CY19-22E, we expect the company to deliver consolidated revenue/EBITDA/PAT CAGR of 12%/15%/31% to INR101b/INR22b/INR10b and generate strong CFO/FCF of INR53.8b/INR34b. Overall debt is expected to reduce to INR15.7b from INR34b, over the same period. VBL's global peers trade at an average P/E of 32x CY20E. Based on future growth potential and the return ratio profile, we value the stock at 30x (in-line with its three year average P/E of 32x) CY22E EPS of INR36.2 to arrive at our target price of INR1,100. We initiate coverage with a **Buy** rating.

Company overview

About Varun Beverages

- VBL manufactures, sells, bottles and distributes products under the trademarks and brands owned by PepsiCo in India, Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe through its extensive manufacturing facilities and well-entrenched distribution network. Its product portfolio includes carbonated soft drinks, non-carbonated juice-based drinks, energy drinks and packaged bottled water.
- The company has been granted franchise rights for various PepsiCo products for the territories of India, Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe.
- VBL has presence across India through its 37 state-of-the-art production facilities, along with over 90 depots, 2,500 owned vehicles and more than 1,500 primary distributors and 775,000 visi-coolers.
- VBL enjoys monopoly in India in terms of selling PepsiCo products (accounts for 80%+ sales volume) in the country.
- It operates in mainly three product classes, viz., carbonated soft drinks (CSD - 71% of sales volume), non-carbonated beverages (NCB - 7% of sales volume) and packaged drinking water (PDW - 23% of sales volume). New product launches initiated by VBL include flavored milk (multiple options).

Exhibit 1: Volume composition of VBL

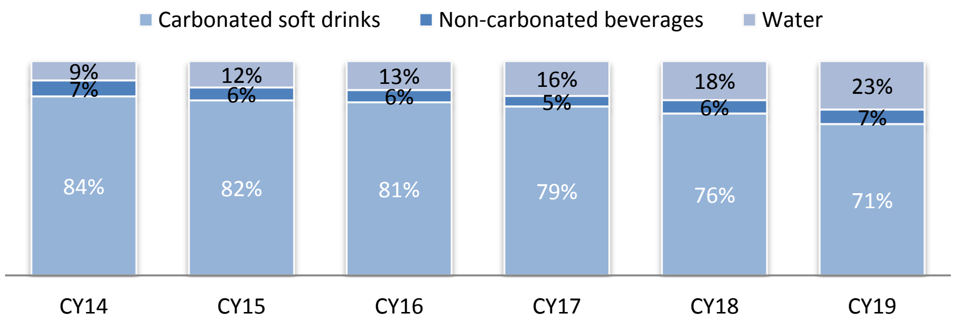
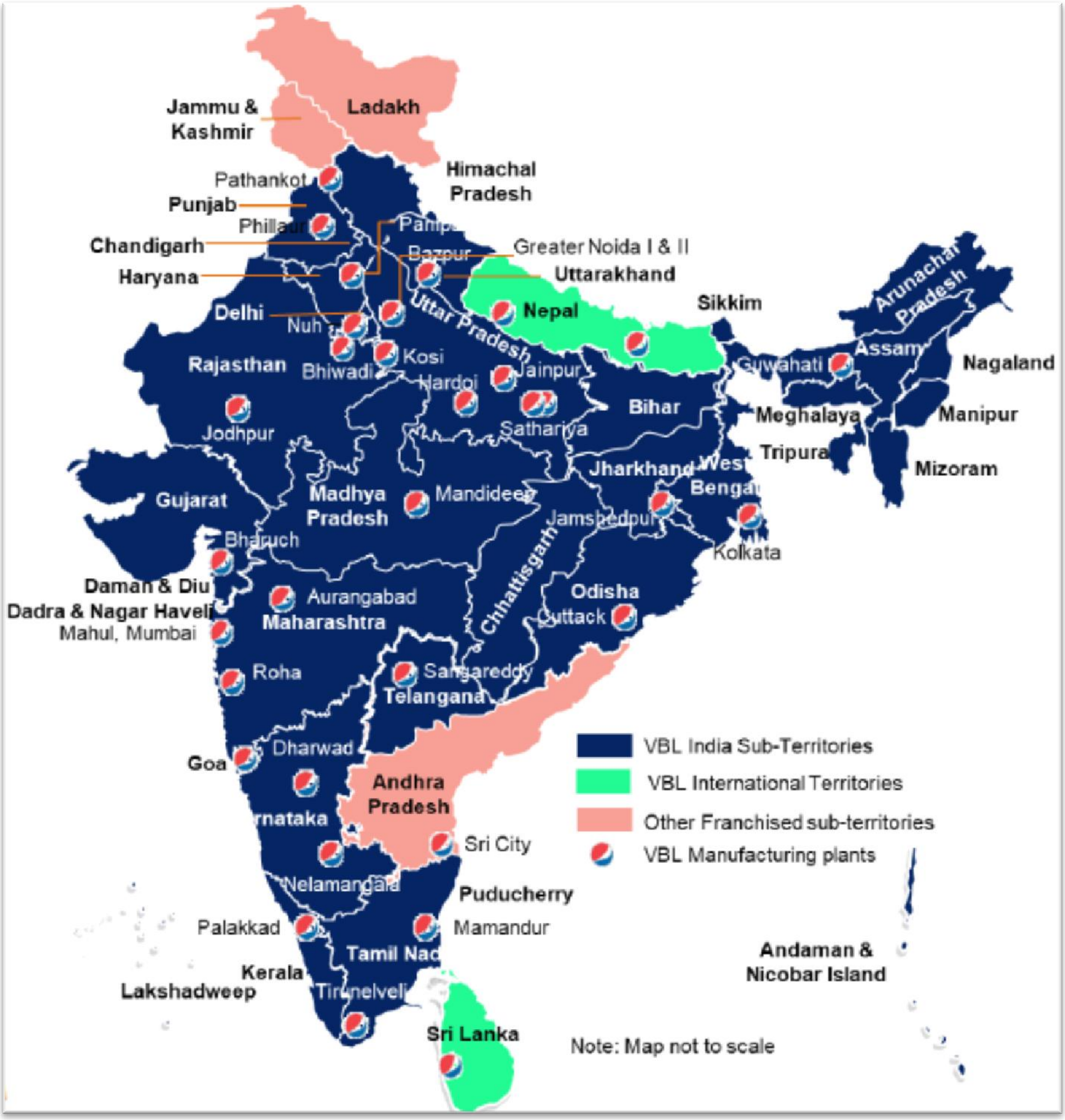


Exhibit 2: VBL in a nutshell

Volume Mix	CY16	CY17	CY18	CY19
CSD	81%	79%	76%	71%
NCB	6%	5%	6%	7%
Water	13%	16%	18%	23%
Geography mix				
India	81%	80%	81%	82%
International	19%	20%	19%	18%
Product-wise revenue mix				
CSD	86%	85%	83%	81%
NCB	7%	8%	9%	10%
Water	7%	8%	8%	9%
Manufacturing units	21	23	26*	38
Market share of VBL in PepsiCo's volume in India	45%	45%	51%	80%
PepsiCo's market share in India	33%	34%	34%	35%
Visi-coolers owned and installed	4,58,000	4,74,500	5,55,000	7,75,000
Distribution vehicles owned	2,024	2,100	2,400	2,500
Primary distributors	1,186	1,000	1,100	1,500
Employees worldwide	**6,000**	**6,675**	**8,200**	**11,000**
India	4,400	4,896	5,662	8,500
International subsidiaries	1,600	1,779	2,550	2,500
No. of Depots	71	72	80	90

Source: Company, MOFSL

Exhibit 3: Pan-India presence of VBL



Source: Company, MOFSL

Near monopoly in PepsiCo's India business

Second largest bottler of PepsiCo outside the US

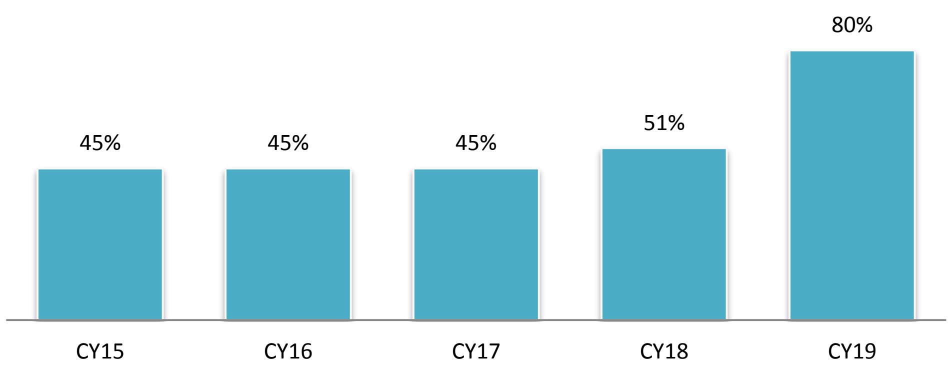
- **Majority of PepsiCo India's business is handled by VBL alone; the company accounts for over 80% sales of PepsiCo India's business, and hence enjoys monopoly.**
- **VBL has a diversified presence through manufacturing units, depots, and distributors, which has created robust distribution and supply-chain network.**
- **VBL's recent growth is supported by various inorganic acquisitions and aggressive expansions; these efforts should become fruitful in the medium-to-near term.**
- **The company's newly set-up Tropicana plant at Pathankot with emphasis on NCB sales would also reduce revenue concentration risk (share of CSDs is higher) for VBL.**

Market leader with near monopoly in PepsiCo India's business

VBL is engaged in the bottling, selling and distribution of various PepsiCo India's products (*Pepsi, Mountain Dew, Pepsi Black, Mirinda, 7up, Tropicana Slice, Tropicana, Sting, Evervess, Gatorade, Duke's, 7up Nimbooz* and *7up Nimbooz Masala Soda).* VBL is PepsiCo's second largest franchisee (outside the US) for CSDs and NCBs that are sold under the trademarks of PepsiCo India.

On the back of operational efficiency and various organic and inorganic expansions, the company has continuously expanded the number of franchised territories under its belt. **VBL single-handedly accounts for ~80%+ (as at CY19) sales of PepsiCo products in India, up from 45% in CY16.** This has led to VBL gaining near-monopoly position in handling the bottling, sales and distribution of PepsiCo's products. The company aims to consolidate its presence in sub-territories and extend integrated operations across regions and newly acquired territories. Further, we believe that VBL needs another 2-3 years to develop its distribution network in new territories to bring it on par with its existing core territories. While the ramp-up of operations in new regions is expected to boost overall market share of VBL, diversified expansion in the South/West regions should also reduce the seasonality factor.

Exhibit 4: Increase in franchisee rights of VBL over the years



Source: Company, MOFSL

Exhibit 5: VBL's diversified product portfolio

Source: Company, MOFSL

Diversified geographical presence – state of the art distribution network

VBL has presence across Indian states (barring Andhra Pradesh and Jammu & Kashmir), along with presence in five other developing nations in South-Asia and Africa. The company has 37 state-of-the-art production facilities, along with 90+ depots, 2,500 owned vehicles, 1,500+ primary distributors and 775,000 visi-coolers.

Exhibit 6: Manufacturing plants located across India

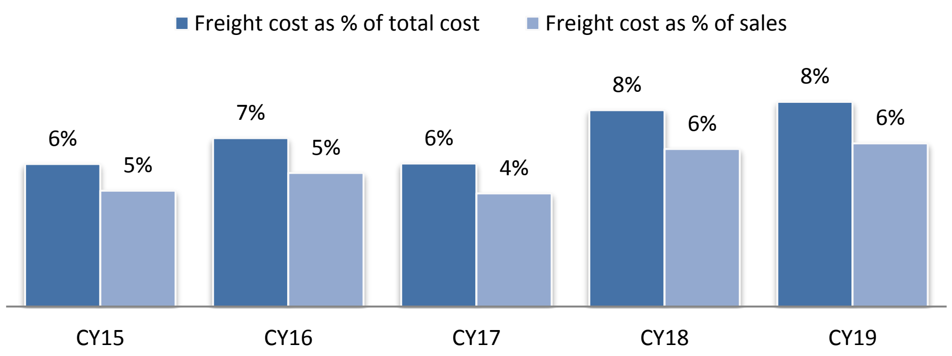
Manufacturing Plants in India	
Phillaur, Punjab	Cuttack, Odisha
Greater Noida I, Uttar Pradesh	Kolkata, West Bengal
Greater Noida II, Uttar Pradesh	Guwahati Unit I and II, Assam
Jainpur, Punjab	Goa
Jodhpur, Rajasthan	Pathankot, Punjab
Bhiwadi, Rajasthan	Tirunelveli, Tamil Nadu
Nuh, Haryana	Dharwad, Karnataka
Panipat, Haryana	Bharuch, Gujarat
Bazpur, Uttarakhand	Roha, Maharashtra
Sathariya, Uttar Pradesh	Aurangabad, Maharashtra
Sathariya II, Uttar Pradesh	Mahul, Maharashtra
Kosi, Bihar	Nelamangala, Karnataka
Hardoi, Uttar Pradesh	Palakkad, Kerala
Mandideep, Madhya Pradesh	Mamandur, Tamil Nadu
Jamshedpur, Jharkhand	Sangareddy, Telangana
Bargarh, Odisha	Sri City, Andhra Pradesh
Manufacturing Plants Overseas	
Nepal I	
Nepal II	
Sri Lanka	
Morocco	
Zambia	
Zimbabwe	

Source: Company, MOFSL

Diversified presence across geographies has led to a robust distribution and supply chain network for the company. Due to VBL's units being located across Indian states, the company enjoys reduced overall freight costs while ensuring on-time delivery of goods. Also, the company's strategy of acquiring territories over the past few years has led to a state-of-the-art distribution network spanning the entire country (except the states of Andhra Pradesh and Jammu & Kashmir where the franchisee rights are yet to be acquired).

Currently, VBL faces higher freight cost in regions where it does not have manufacturing presence as goods have to be transported from the nearest plant. Average 5-year freight cost as % of total cost/sales stands at 7%/5% for the company. Thus, setting up of new plants in newer geographies is expected to reduce the overall freight cost for VBL.

Exhibit 7: Increasing freight cost signifying increased movement of goods

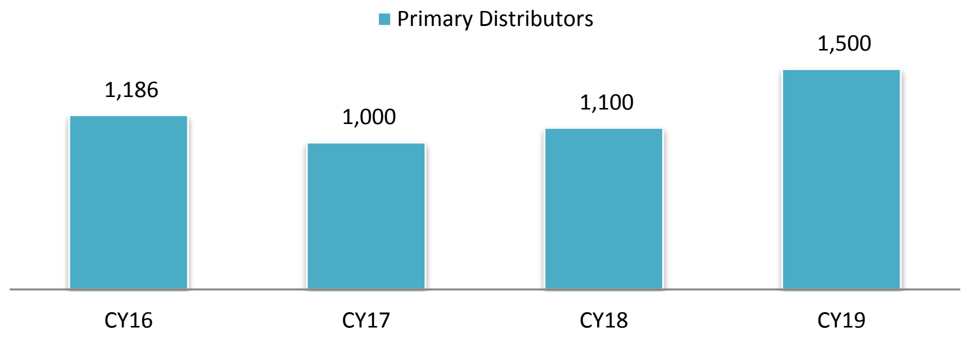


Source: Company, MOFSL

VBL's distribution model

- 100% of VBL's sales are recorded through its network of 1,500 distribution partners located across the country. Approximately 8-10 distributors contribute INR700-800m to VBL's revenue.
- In some metros, the company follows a hybrid model wherein the cost of storage, rent, employee salaries, etc. is partially borne by VBL, as investment costs in metro cities is generally too high to be borne by a distributor alone.
- Sales executives of VBL are provided with a hand-held device called 'Samna', which is used to punch orders while visiting retail outlets. Consequently, this data is relayed to distributors, which helps them to precisely load the exact quantity to be delivered. About 80% of VBL's sales are done through 'Samna'.
- In some interior locations, VBL uses the hub-and-spoke model to operate. This state-of-the-art distribution model is being used by VBL since the last six years and has proved extremely beneficial in increasing VBL's presence in far-flung remote areas.

Exhibit 8: VBL's primary distributors across India



Source: Company, MOFSL

Recent inorganic expansions to pave way for future growth

Recent acquisitions in the South/West regions to drive volumes

- During CY18-19, VBL concluded two major acquisitions. One was the acquisition of franchisee rights from the SMV Group in Feb'19 to sell and distribute PepsiCo products in 13 districts of Karnataka, 14 districts of Maharashtra and three districts of Madhya Pradesh. The other was the acquisition of franchise rights in the South and West regions from PepsiCo in May'19 for bottling, sales and distribution in seven states and five Union Territories in India.
- Currently, VBL has franchisee rights in all Indian states (barring Andhra Pradesh and J&K). This has led to a sharp increase in its market share to 51%/80% in CY18/CY19 as compared to 45% in CY17. Volumes have also seen robust growth to 340m/491m unit cases in CY18/CY19 v/s 278m unit cases in CY17.
- Increased number of licensed territories has allowed VBL to improve its distribution network and reach a wider consumer base. Further, enhancement in performance of the distribution channel in new territories (v/s existing ones) would take 2-3 years. This should provide visibility for volume improvement over the same period. We believe that increasing parity in operational efficiency between core territories and newly acquired ones would drive volume growth for VBL over the next few years. Further, VBL plans to focus on improving efficiencies across all its territories with no intention of carrying out any inorganic expansions for a year or so.

Exhibit 9: Major acquisitions of territories in the last two years

CY18	CY19
❖ **State of Odisha and MP along with 2 manufacturing units**	❖ 14 districts of Maharashtra, 13 districts of Karnataka and 3 districts of MP
❖ **State of Bihar**	❖ Entered into an agreement with PepsiCo to acquire franchisee rights in south and west regions from PepsiCo in seven states – Gujarat, part of Maharashtra, parts of Karnataka, parts of Telangana, parts of AP, Kerala and TN and five UTs, Daman & Diu, Dadra and Nagar Haveli, Andaman and Nicobar Islands, Lakshadweep and Pondicherry.
❖ **Signed BTA (business transfer agreement) for acquisition of franchisee rights in the state of Jharkhand, along with manufacturing unit in Jamshedpur**	

Source: Company, MOFSL

Tropicana plant in Pathankot – a step toward reducing concentration risk

VBL has the rights to sell and distribute *Tropicana* fruit juices under the PepsiCo brand name. Also, to increase its product diversification, VBL has acquired the rights to produce *Tropicana* in-house. In CY19, VBL added new capacity at Pathankot in Punjab, capable of producing complete range of PepsiCo products under one roof. We believe this new facility would reduce revenue concentration risk for VBL from CSDs and at the same time help shift focus toward NCBs, dairy products and water.

Improving mix in line with long-term strategy

Increasing share of NCBs/bottled water volumes to lower concentration risk

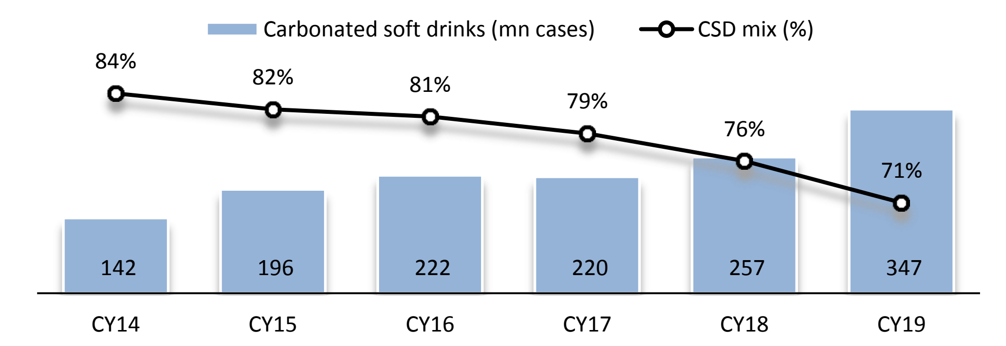
- **VBL is focusing on diversifying its product portfolio, which is in line with its long-term strategy. Increasing coverage should drive organic volume growth of the CSD business.**
- **Commencement of operations at its new plant should help improve margins of NCBs.**
- **The company's water segment volumes were driven by inorganic expansions. Increased awareness is expected to lead the next phase of growth.**
- **VBL's international presence offers huge potential to grow and reduce geographical revenue concentration.**

Volume share of CSDs drop to 71% in CY19 v/s 84% in CY12

Historically, CSDs have delivered CAGR of 17% over CY12-19 to 347m units, thanks to organic as well as inorganic expansions (Organic volume growth stood at 13%/34% for Indian/foreign operations in CY19). VBL resorted to aggressive acquisition of territories to gain market share and improve volume growth of CSDs in India. While volume share of CSDs declined from 84% to 71% over CY12-19, corresponding volumes have registered CAGR of 17% for the same period.

VBL plans to replicate distribution model of its existing territories in newly acquired territories. Thus, we believe volumes in new territories would improve and drive overall CSD volumes. With consolidation of its new territories, the consumer base of VBL has increased. The company now has ~1.35b customers under its coverage, through a network of 1,500 distributors and ~2m retail outlets. Also, its diversified presence across India (post acquisition of the South/West market) should reduce the impact of seasonality on its business as different geographies have different consumption patterns. Increasing purchasing power, continuous brand endorsements by celebrities and multiple variant offerings are some of the other factors expected to drive CSD volumes in the coming days.

Exhibit 10: Diversification leading to reduced share of CSDs



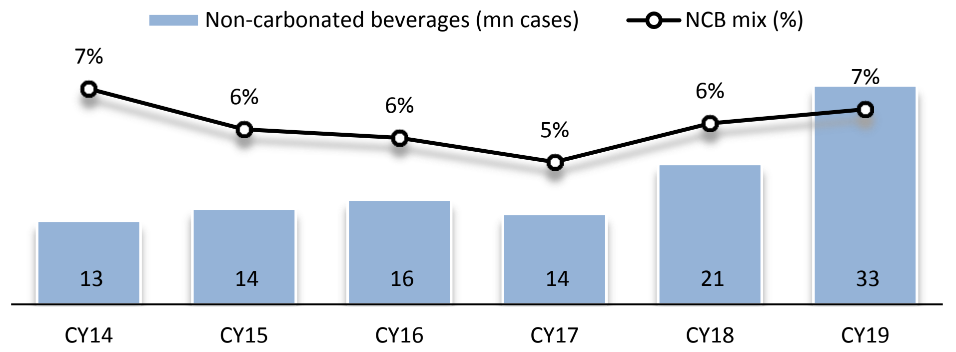
Source: Company, MOFSL

NCBs – margins expected to improve with new plant

NCBs have recorded robust volume CAGR of 18% over CY12-19, although average volume share stood at ~6% for the same period. Manufacturing margins in the NCB business is expected to improve, as juices – which were previously outsourced – would now be manufactured in-house at VBL's new Pathankot plant.

VBL is focused on NCBs to reduce its dependence on CSDs and improve its product portfolio by reducing revenue concentration from a single product class. Dabur's *Real* (56% market share), Coke's *Maaza* and Parle Agro's *Frooti* remain VBL's major pan-India competitors in this segment. However, with recent expansion in newer territories, VBL's customer base has increased, providing the company an opportunity to improve its NCB volumes. Further, increased awareness of the health benefits of juices and other NCBs in Metros and Tier-1 cities is a good indicator of their growth potential going forward.

Exhibit 11: NCB volume share gradually increasing in the last 3 years



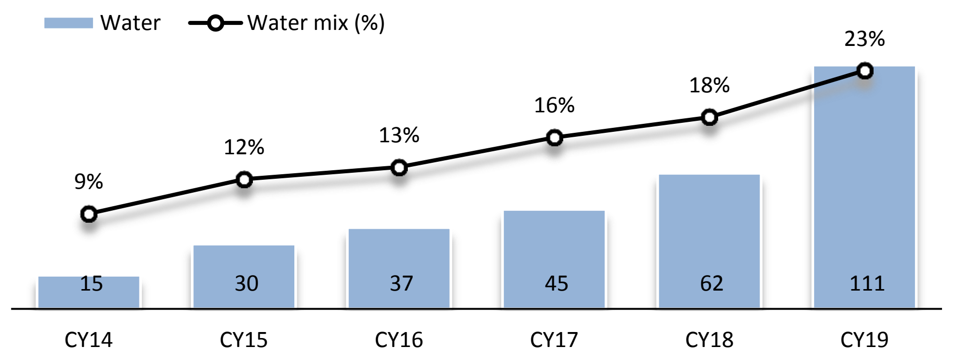
Source: Company, MOFSL

Water – volume share jumps 2.5x over CY12-19

Packaged drinking water (PDW) is another segment where VBL has recorded robust volume CAGR of 37% over CY12-19 to 111m units on the back of organic as well as inorganic expansion. Improving footprint in Africa region has led to higher growth in the water segment.

The PDW market has substantial potential to grow due to increasing health consciousness and higher awareness among the populace regarding quality of water and spread of water-borne diseases. Further, increasing domestic tourism should also boost sale of PDW as travellers usually prefer packaged water (v/s tap water) due to health and safety concerns. According to industry sources, the PDW industry is expected to deliver volume/value CAGR of 9%/13.2% over CY19-24E, from current level of 15b litres and size of INR385b.

Exhibit 12: Water segment share sees sharp increase



Source: Company, MOFSL

New initiatives – flavored milk

To further diversify its product portfolio, VBL has ventured into a new product category – dairy-based drinks. With increased awareness and shift toward healthy consumption habits, flavored milk and other non-carbonated milk related energy drinks are gradually gaining traction. VBL has been licensed to use the brand name *Creambell* for ambient temperature value-added dairy-based beverages. According to the current arrangement, VBL pays INR1.2m annually to *Creambell* as fees, irrespective of the volumes sold. Also, a nominal payment is made to PepsiCo for including these new dairy-based drinks into its existing bucket of products.

Exhibit 13: Dairy-based drinks

Source: Company, MOFSL

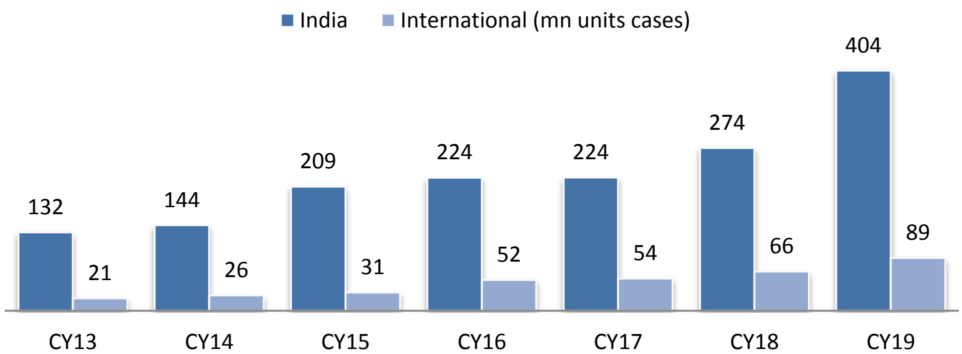
International presence to reduce dependence on India biz

Global diversification – new green-field expansion in Zimbabwe and Morocco

Besides India, VBL is also present in five more countries, namely – Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe. The company has also been granted PepsiCo product franchises for these territories. Contribution of these geographies to VBL's revenues has increased from 14% in CY13 to 18% in CY19, which is in line with the company's strategy to focus on under-penetrated markets.

VBL dominates the domestic market in handling PepsiCo's India business with 80%+ market share. In order to continue on its growth trajectory and reduce revenue concentration risk from one region, VBL has started operations in five other countries through its six manufacturing facilities. The company has established a strong foothold in these five countries, which come under developing nations and provide huge growth potential. Also, PepsiCo has identified four bottlers in Asia including VBL. Thus, the company is well placed to exploit new opportunities coming into the Asian market and grow its international business, which in turn would diversify its revenue profile.

Exhibit 14: India v/s International



Source: Company, MOFSL

More room for growth in soft-drink segment

Increasing electrification to lead higher dispatches of visi-coolers

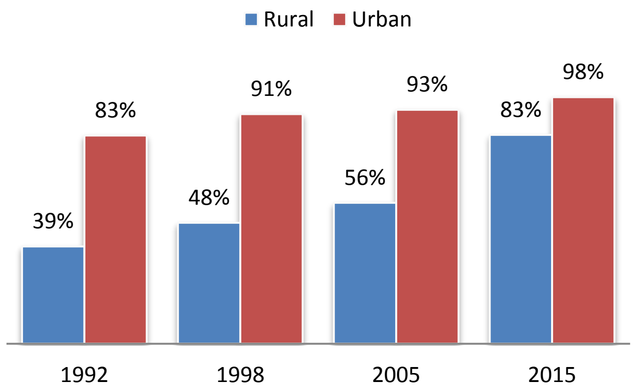
- **Increasing electrification in India should drive refrigeration penetration in the country, which in turn should translate into higher beverage sales.**
- **Overall consumption per capita of CSDs is poised to increase in line with growing discretionary income, and thus, volumes should benefit.**
- **VBL's long standing relationship with PepsiCo is expected to continue as the company has delivered operational efficiency and maintained quality control.**
- **According to industry reports, PepsiCo has been able to maintain steady market share of ~35% as compared to its peer Coca-Cola**

Increasing electrification to increase overall market

Consumption of CSDs is directly linked to electricity penetration in the country, as CSDs and NCBs are consumed chilled. Growing electrification in India, particularly in rural and semi-rural areas, is expected to increase refrigeration in households. This in turn should pave the way for CSD/NCB players to garner additional volume growth and provide them with newer markets.

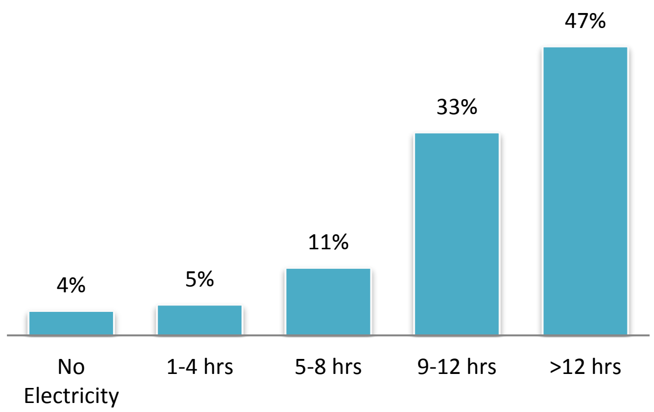
According to the National Health Survey, percentage of households with electricity has increased from ~51% in 1992 to 88% in 2015. Further, industry reports suggest that India would witness 100% electrification of households by CY20-21 due to aggressive steps and initiatives taken by the government. Also currently, the number of households with more than 12 hours of electricity supply per day stands at ~47% (majority of which are in metros and Tier-1/2 cities). With increase in continuous electricity supply to households, demand for CSDs/NCBs is expected to support volume growth. We believe increased electrification would lead to rampant growth in CSD/NCB volumes and benefit VBL in the long run.

Exhibit 15: Percentage of households with electricity…



Source: NFHS, Company, MOFSL

Exhibit 16: ...and corresponding access to electricity (in hours)

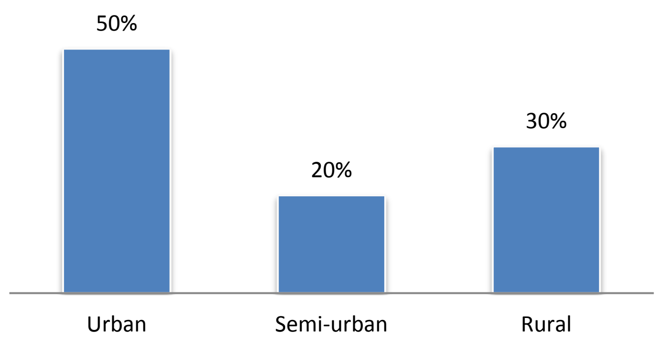


Source: NFHS, Company, MOFSL

Increase in refrigeration per household

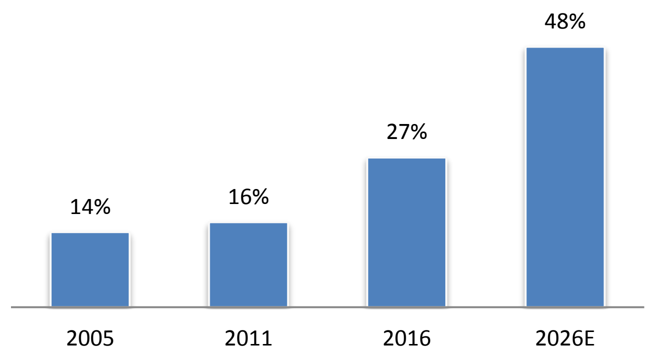
- India's refrigeration penetration per household has increased significantly from 20% to 30% over the last 10 years. Further, 50% of VBL's volume comes from urban cities followed by 30%/20% from semi-urban/rural areas.
- Going forward, increased electrification should lead to higher refrigeration penetration in the country, which would drive higher sales of CSD/NCB products. This in turn would gradually increase the share of semi-urban/rural regions' contribution to overall volumes.
- Also, according to industry sources, 50% of the total beverage consumption falls under the out-of-home category with the household segment accounting for the balance 50%. Thus, rural markets with increasing penetration of refrigeration and higher electricity supply per household (continuous electricity supply in no. of hour's terms), should see higher consumption growth of CSDs/NCBs at the household level.

Exhibit 17: Majority of VBL's volume comes from urban areas



Source: Company, MOFSL

Exhibit 18: Growing refrigeration penetration to support VBL's growth

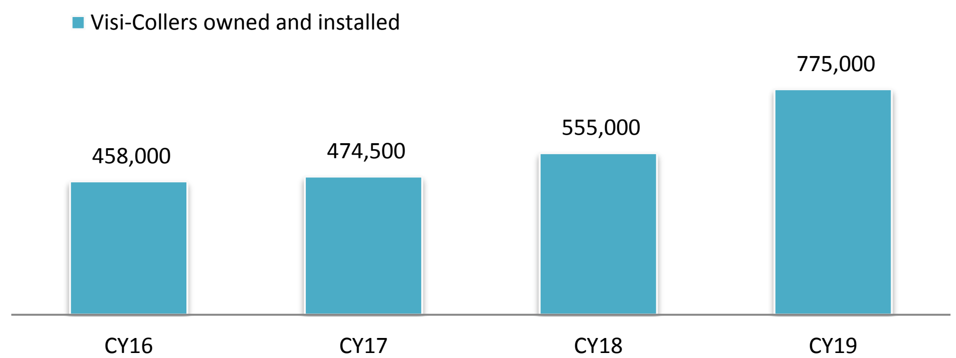


Source: Company, MOFSL

Increasing visi-coolers to drive growth at retail level

VBL has been continuously distributing visi-coolers to its distributors and retailers to provide them with chilling facilities at their outlets. As of CY19, VBL had 775,000 visi-coolers owned and installed across territories. The company aims to add ~40,000 visi-coolers every year. Installing coolers helps the company gain market share in territories where refrigeration penetration per household is low. Also, this helps VBL with brand building and improving long-term relationships with distributors and retailers.

Exhibit 19: Consistent increase in visi-coolers to drive retail demand

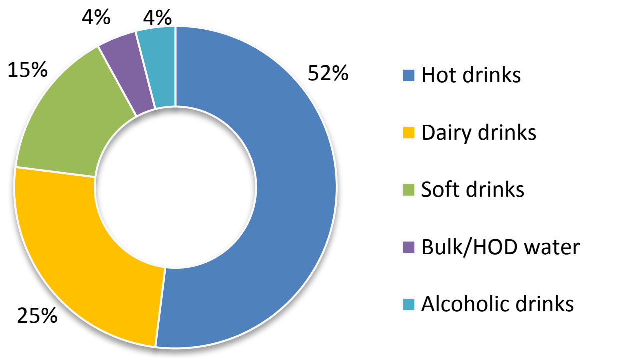


Source: Company, MOFSL

Increasing per capita consumption to help drive volumes

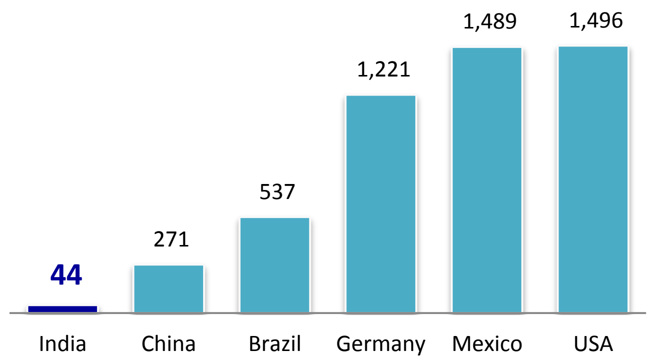
- According to a Euromonitor Report and industry sources, India's per capita consumption of soft drinks is lower compared to the US, Germany, Brazil and Mexico. As at 2016, per capita consumption of soft drinks was only 44 bottles in India v/s 1,496 bottles in the US.
- We believe that improving purchasing power, higher disposable income and increasing availability of electricity in Tier-3/4 cities as well as in rural areas is a great opportunity for VBL, as consumption per capita is expected to double to 88 bottles by 2021E. Also with its recent acquisition spree, VBL is expected to increase its coverage in newer territories and gain market share.

Exhibit 20: Break-up of 175b liters beverage industry



Source: DRHP, Company, MOFSL

Exhibit 21: CSD consumption per capita (in bottles)



Source: DRHP, Company, MOFSL

Strong relationship with PepsiCo to help sustain growth

VBL is the second-largest franchisee in the world (outside the US) for CSDs/NCBs sold under the trademarks owned by PepsiCo. VBL forged an alliance with PepsiCo almost 28 years ago in 1991. Its long-standing relationship with the cola giant has stood the test of time due to continuously delivering operational efficiency and maintaining precise quality control standards. VBL's aggressive expansion strategy has led to PepsiCo licensing additional franchises to the company, including sub-territories in India that were earlier directly operated by PepsiCo or by third-party bottlers. Testimony to this is VBL's 'bottling appointment and trademark license agreement', which has been extended (Oct'22 to Apr'39). Also, VBL is the only franchisee to have such a long-term contract with PepsiCo.

Further, VBL pays PepsiCo 14% revenue share, from which ~6% is utilized by the latter for 'above the line' (ATL) sales promotion and advertisements. We believe VBL's strong partnership with PepsiCo would continue to thrive due to the former's operational efficiency and the latter's multiple marketing and advertisement activities.

Exhibit 22: Revised bottling agreement

Particular	Existing	Revised
Franchisee rights (up to)	2 October 2022	30 April 2039

Source: Company, MOFSL

Exhibit 23: Segregated operations between VBL and PepsiCo

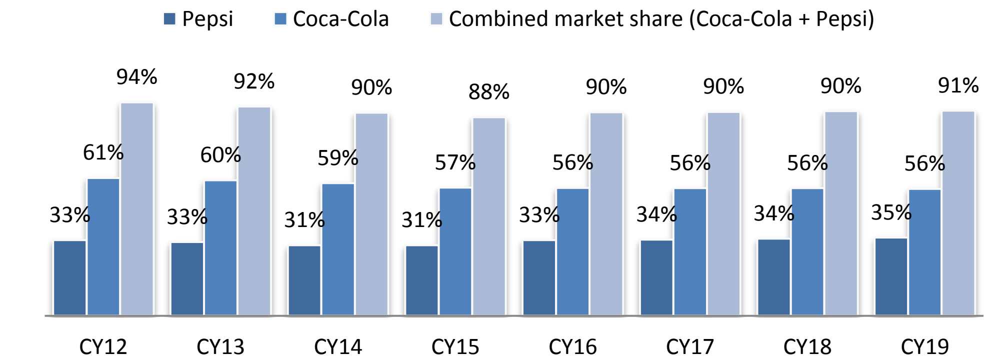
Source: Company, MOFSL

PepsiCo maintaining steady market share v/s Coca-Cola

Since the 1970s, PepsiCo and Coca-Cola are engaged in a fierce competition to gain leadership position in the soft drinks business. India with population of over 1.3b is a major battlefield for these two cola giants. According to industry sources, PepsiCo is the second largest company in the Indian soft drinks industry behind Coca-Cola. Coca-Cola and PepsiCo together account for ~90% of total CSD demand in India. While Coca-Cola's market share has dropped to ~56% in CY19 from ~61% in CY12, PepsiCo's market share has remained stable ~35% over the same period.

On behalf of PepsiCo, VBL would acquire and replicate the existing distribution network (as against previous franchisee operators) in the new territories, which in turn would lead to higher market penetration.

Exhibit 24: PepsiCo maintaining steady market share



Source: Industry data, Company, MOFSL

Newly acquired territories to drive growth

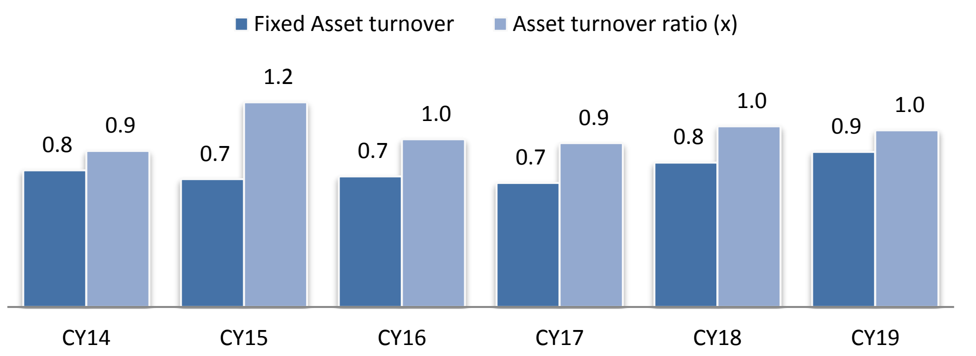
Utilization in peak month ~60%

- **Surplus capacity provides enough head-room for volumes to grow.**
- **With operations at newly acquired territories improving, operating leverage is expected to kick in.**

Higher sweating of assets to drive operating profit

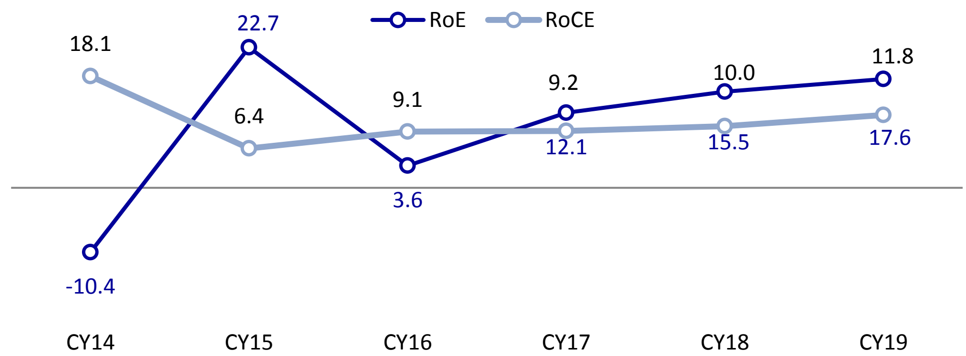
- Previously, VBL's utilization and expansion plans were largely dependent on its peak quarter (April to June). Post consolidation of its recent acquisitions, VBL's capacity utilization declined to 60% in its peak month (i.e. May). Annual capacity utilization of the company is way lower than the peak season utilization rate of 60%. Further, with recent acquisitions in the southern and western markets, the seasonality factor has reduced, as demand is now expected to be less concentrated in any one particular month, due to consumption cycles being different across regions.
- In some international units, VBL has been able to maintain peak asset turnover ratio of 4x. Also at some units, the utilization rate in peak months has gone up to 100%. The company has indicated that it has no plans to undertake any major capex or inorganic expansion for the next 2 years. The focus instead would be on higher sweating of assets, maintaining high asset turnover ratio and improving overall capacity utilization rate.

Exhibit 25: Steady asset turnover ratio



Source: Company, MOFSL

Exhibit 26: Return ratio gradually improving



Source: Company, MOFSL

Operating leverage to kick in with volume increase

VBL has huge capacity in place due to consolidation of territories in India/abroad and various organic expansions. Majority of these capacities operate at low utilization levels. Also, new territories have low penetration level compared to other regions handled by VBL.

With penetration increasing in newer geographies on the back of robust distribution and retail network, volumes and market share is expected to improve. With increase in operations, economies of scale are expected to kick in. Further, VBL has better negotiating power with its suppliers, especially for key raw materials like sugar, PET bottles, etc.

Done with inorganic and QIP expansion, time to reap benefits

In CY19, VBL raised ~INR9b via a fresh issue of equity. The entire QIP proceeds were utilized for debt repayment, which led to a reduction in net debt-to-equity to 1x in CY19 from 1.3x in CY18. The same is further expected to reduce to 0.3x by CY22E. With majority consolidation now completed, VBL has no plans for any inorganic or organic expansion. The management plans to focus on improving its cash flow (without any major acquisitions) and reduce debt over the next three years. The capital raised would considerably strengthen VBL's balance sheet and provide room for sustained future growth.

Beverage Industry

Rising per capita income to support growth of beverage industry

- **Soft drink industry expected to record volume CAGR of ~7%.**
- **Increasing awareness of healthy consumption habits to boost NCB's performance.**
- **Increasing awareness with respect to spread of water borne diseases to push sales of packaged drinking water in India.**

Soft drink industry in India

The Indian soft drink industry is pegged at 33,559m liters in volume terms and INR1,283b in value terms. It delivered 9.7%/11.9% CAGR in volume/value terms over CY13-18. Majority of volume share is contributed by packaged drinking water (PDW) at 48%, followed by bulk/HOD water at 23% and CSDs at 19%. However, in value terms, the sector is majorly dominated by CSDs, which contribute 44%, followed by PDW at 30% and bulk/HOD water at 1%.

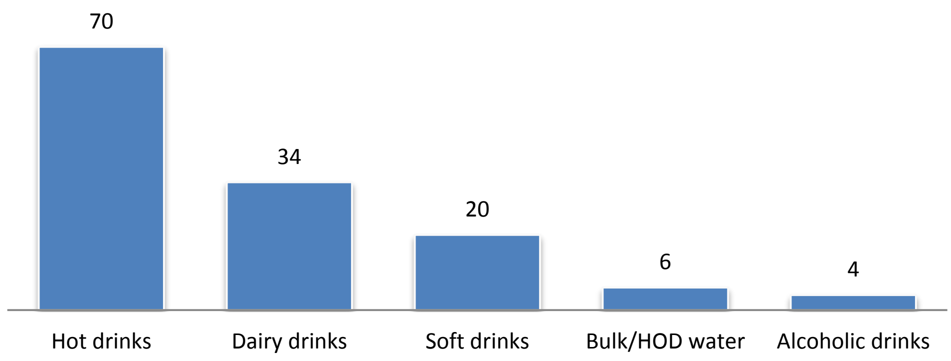
Exhibit 27: Market share and volume break-up of Indian soft drink industry

	Soft drink volume (m liters)	% share	Soft drink value (INR m)	% share
Packaged drinking water	15,960	48%	385,659	30%
Bulk/HOD water	7,700	23%	17,012	1%
Carbonates	**6,216**	**19%**	**567,171**	**44%**
Still drinks	2,011	6%	189,783	15%
Fruit powders	596	2%	15,324	1%
Squash/syrups	282	0.8%	15,085	1.2%
Nectars	260	0.8%	35,090	2.7%
Sport drinks	205	0.6%	18,506	1.4%
Juice	123	0.4%	18,811	1.5%
Enhanced water	113	0.3%	2,559	0.2%
Energy drinks	31	0.1%	12,438	1.0%
Flavored water	29	0.1%	1,670	0.1%
Iced RTD/tea drinks	24	0.1%	2,411	0.2%
Iced RTD/coffee drinks	9	0.0%	1,938	0.2%
Total	**33,559**		**1,283,457**	

Source: DRHP, Company, MOFSL

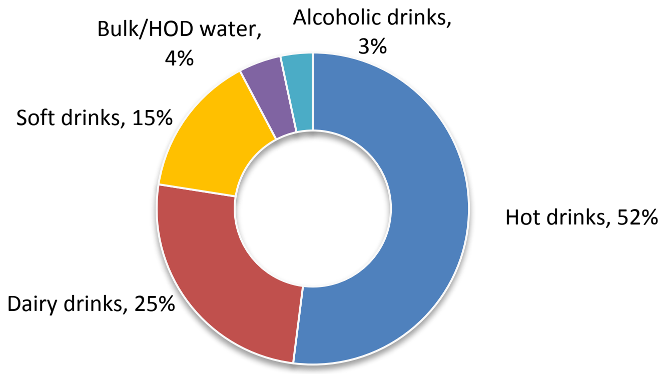
Consumption of soft drinks in India is much lower than that in developed nations (at 44 bottles per capita in India v/s 1,496 bottles per capita in the US) due to lower per capita income/household electrification. However, this is expected to change with increasing disposable income and growing electrification in the country on the back of several government initiatives. According to a GlobalData report, the soft drinks industry is expected to continue its growth trajectory with volume/value CAGR of 6.9%/9.4% over CY19-24E. Volume/value growth is expected to be driven by the PDW segment at 9%/13.2%, followed by CSDs at 2.6%/6% over CY19-24E.

Exhibit 28: Domestic consumption of various beverages (per capita per liter)



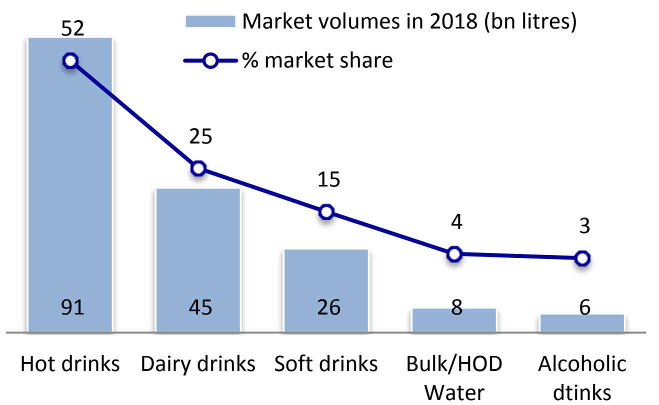
Source: DRHP, Company, MOFSL

Exhibit 29: Volume contribution of different drinks



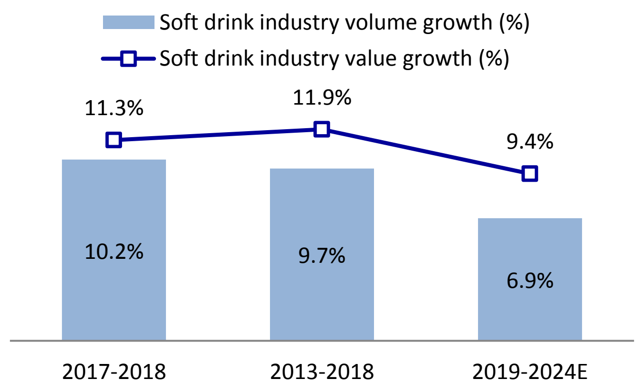
Source: DRHP, Company, MOFSL

Exhibit 30: Market share of different beverages



Source: DRHP, Company, MOFSL

Exhibit 31: Robust volume/value growth for soft drink industry



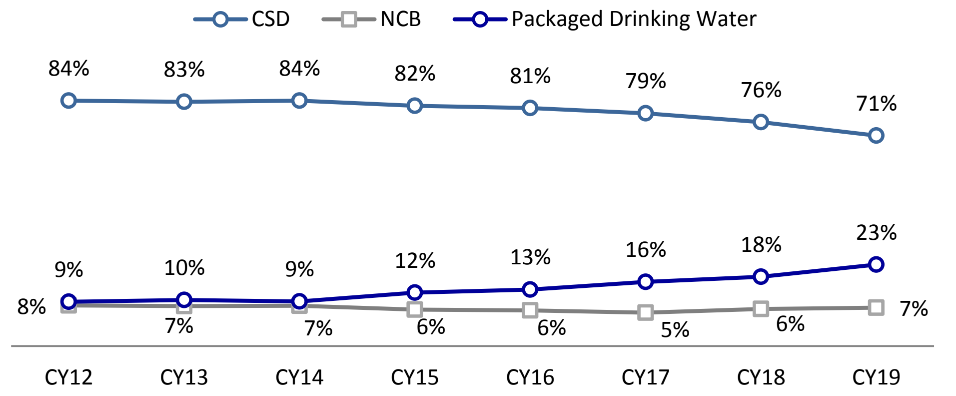
Source: DRHP, Company, MOFSL

NCBs and Water segment to lead next growth phase

PepsiCo enjoys health market share (20.2%/19.8% in volume/value terms) in the Indian juice market. The NCB segment is expected to be the biggest beneficiary of the changing preference toward healthy habits. Increased awareness among the populace with respect to the dangers of high consumption of sugary drinks (CSDs) has led to a slight shift toward NCBs, and thus, the category is expected to witness stronger growth vis-à-vis CSDs.

According to a Euromonitor report, the PDW industry should deliver CAGR of 9% over CY19-24E. Declining water quality in rural/semi-urban areas, continuous introduction of new flavours along with increasing presence across various retail formats should further support growth of PDW in India.

Exhibit 32: VBL is increasing volume share of NCB and PDW



Source: Company, MOFSL

SWOT analysis

Expect EBITDA CAGR of 15% to INR21.8b over CY19-22E

New territories to lead next growth phase

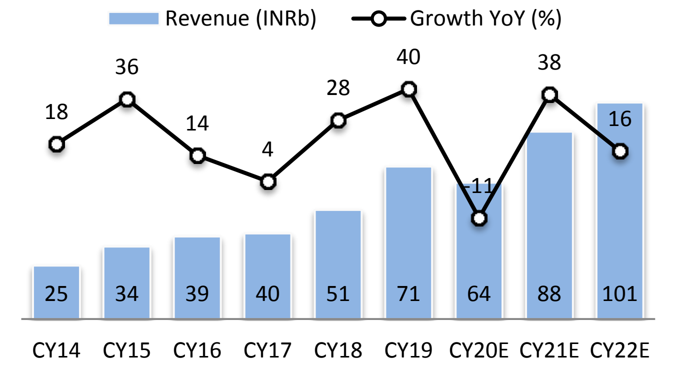
Consolidation of new territories to dive revenue

Historically, VBL has delivered revenue CAGR of 22% (over CY12-19), largely driven by various inorganic acquisitions and expansions. Also, major changes in the volume mix were seen during the same period with reduction in the revenue concentration for the CSD segment.

We expect the company to deliver revenue CAGR of 12% over CY19-22E, mainly due to (a) sharp increase in volumes post consolidation of newly acquired territories, (b) improvement in market share and higher penetration on VBL's robust distribution network, (c) improving product mix, with shift toward higher margin products like NCBs, (d) robust volume growth on increase in consumption, and (e) increasing revenue share from international operations.

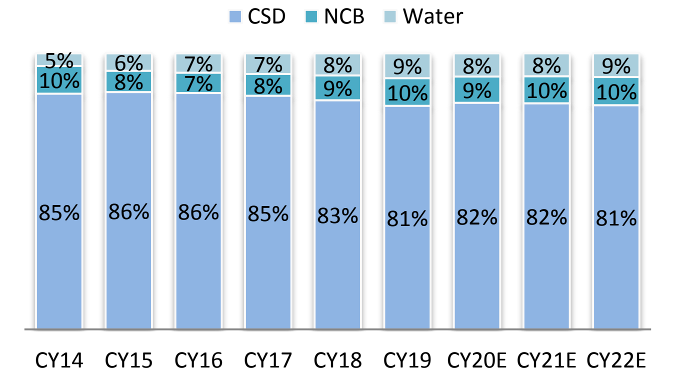
Volumes in CY20 were affected due to the impact of the COVID-19 led lockdown (mainly in 2Q). We expect the company to record overall volume de-growth of 14% in CY20 at 424m cases. Post lifting of lockdown restrictions, we expect a sharp recovery in VBL's volumes. With the business returning to normalcy in CY21, we expect revenue to rise further.

Exhibit 33: Expect 12% revenue CAGR over CY19-22E



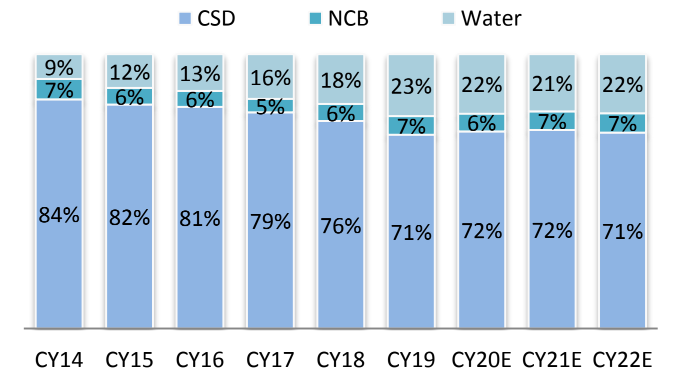
Source: Company, MOFSL

Exhibit 34: CSD dominating revenue mix



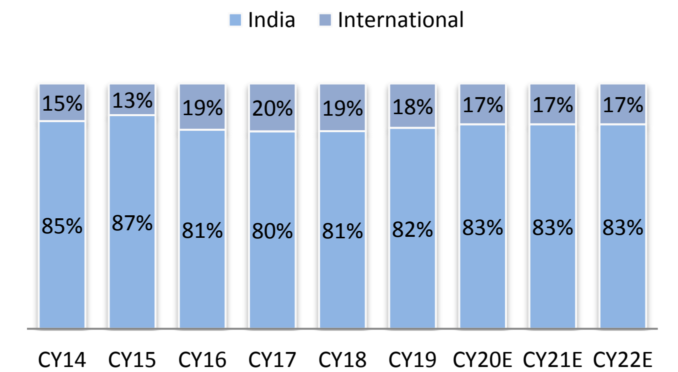
Source: Estimates, Company, MOFSL

Exhibit 35: Volume mix over CY14-22E



Source: Company, MOFSL

Exhibit 36: Majority of revenue contributed by India

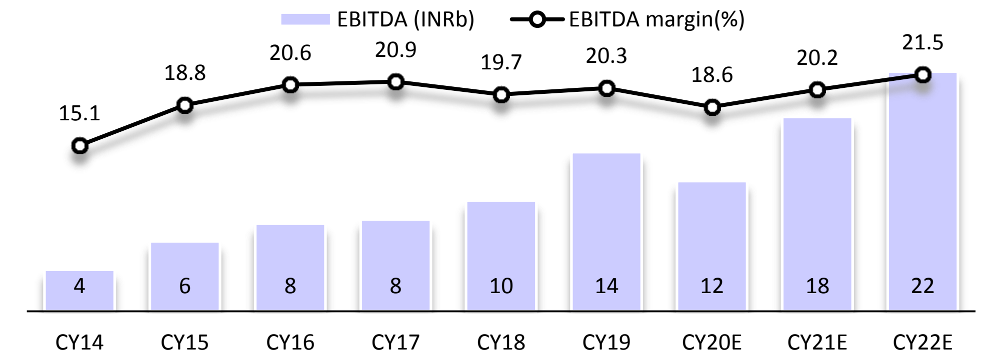


Source: Company, MOFSL

Margins expected to remain steady

VBL's margin had expanded by 760bp over CY12-19 to 20.3%, led by (a) improving mix, and (b) operational efficiency (leading to PepsiCo extending its franchise agreement with VBL). However, CY20 volumes were impacted due to the pan-India lockdown with margins declining owing to the absence of operating leverage. The temporary impact of COVID-19 has affected economies of scale but reduction in resin and sugar prices and improvement in the product mix should mitigate some margin risk for CY20. Margin would improve by 120bp to 21.5% over CY19-22E due to operating leverage.

Exhibit 37: Expect 15% EBITDA CAGR over CY19-22E

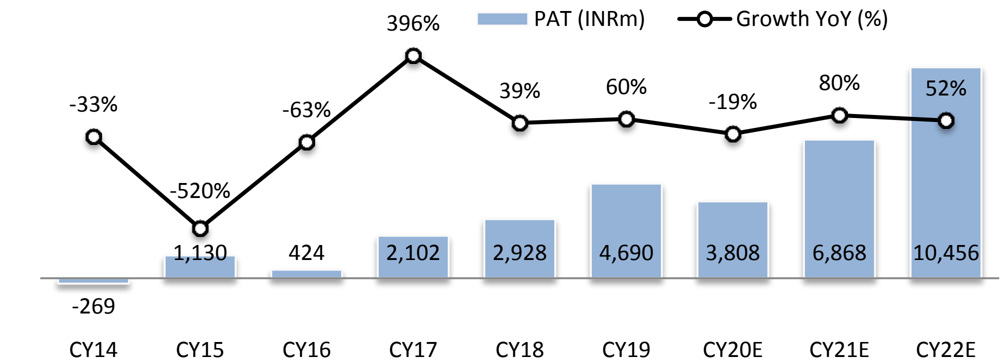


Source: Company, MOFSL

Bottom-line to deliver 31% CAGR over CY19-22E

VBL has recorded 36% PAT CAGR over the last 10 years. We expect this strong growth trajectory to continue due to improved volumes and operating leverage. We expect it to deliver 31% PAT CAGR over CY19-22E on the back of increasing operating profit and lower interest cost.

Exhibit 38: Expect 31% PAT CAGR over CY19-22E



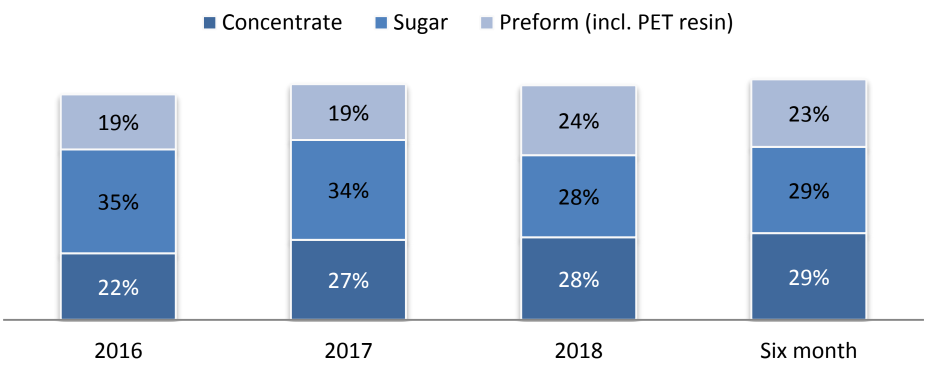
Source: Company, MOFSL

Raw material – lower susceptibility to change in sugar prices

Concentrate and sugar constitute a significant chunk of VBL's raw material (in the range of 57-60%). PepsiCo is entitled to set terms and conditions with regards to the purchase of concentrate from VBL. VBL has lower susceptibility to changes in concentrate prices as the company is easily able to pass on the price increase to distributors. Also, VBL procures sugar directly from sugar mills and wholesale distributors. Although sharp movement in sugar prices does affect margins (as VBL does not enter into long-term contracts), lately VBL has seen a relative decline in sugar consumption for its portfolio. This could be attributed to an increase in consumption of PDW and other non-sugar-based drinks and decrease in consumption of sugar-based CSDs.

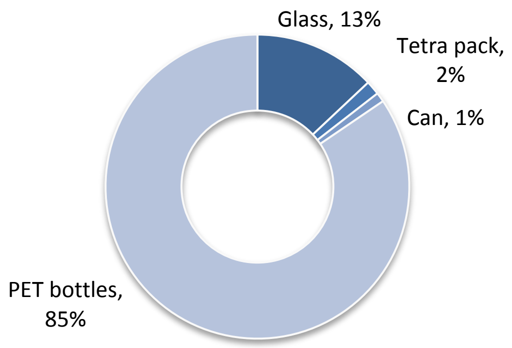
Furthermore, VBL's working capital (WC) days has declined from 36 days to 30 days over CY15-19. Credit period offered by VBL to distributors is roughly 15-20 days. Over CY19-22E, we expect VBL to maintain WC days in the range of 30-33 days.

Exhibit 39: Break-up of key RM prices



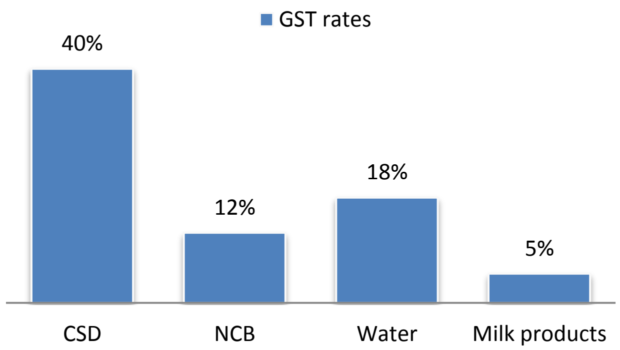
Source: Company, MOFSL

Exhibit 40: Packaging cost dominated by non-reusable PET bottles



Source: Company, MOFSL

Exhibit 41: Highest GST rate for carbonated drinks

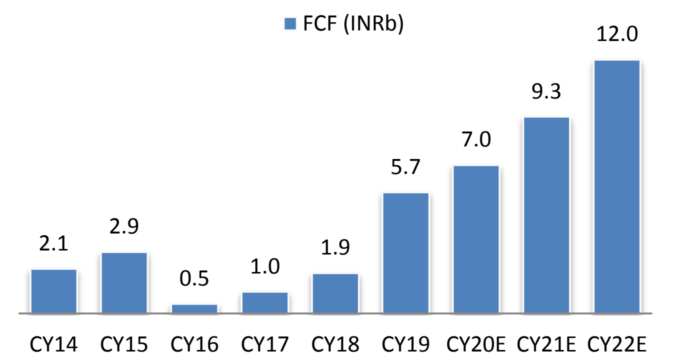


Source: Company, MOFSL

Strong cash generation to help reduce debt

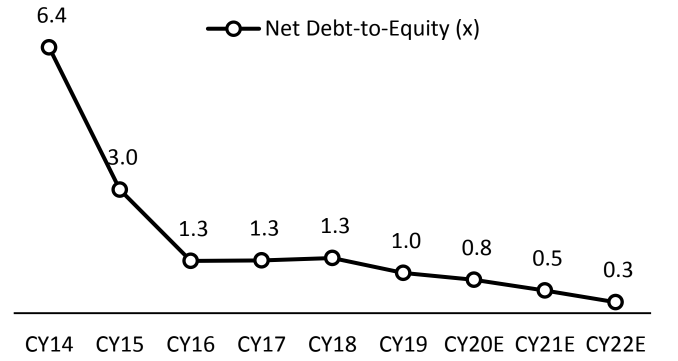
VBL has maintained positive free cash flow for the last six years, with an average annual run-rate of INR2.3b over CY15-19. With no major capex and expansion plan in the near term, VBL is focused on further improving its cash flows and reducing debt. We believe the company would generate FCF of INR34b over CY19-22E. We further believe overall debt of VBL should reduce from INR34b to INR15.7b over CY19-22E.

Exhibit 42: Strong generation of free cash flow…



Source: Company, MOFSL

Exhibit 43: …to reduce debt burden

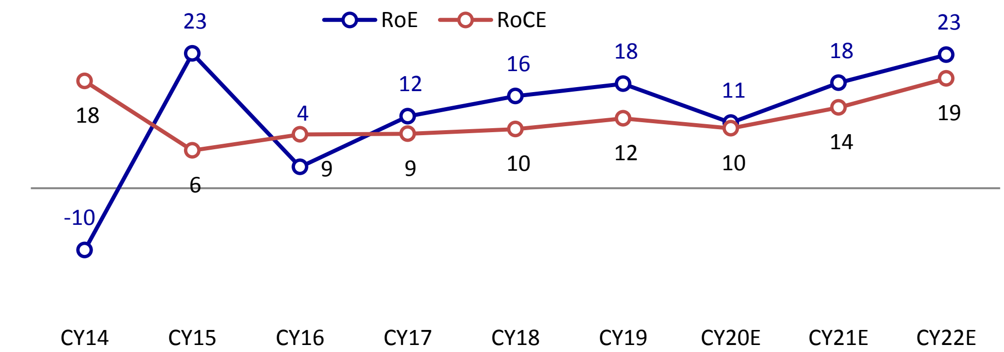


Source: Company, MOFSL

Steady improvement in return ratios

Post IPO, VBL has reported sharp improvement in return ratios on the back of increased profitability, aggressive expansions (including inorganic acquisitions) and healthy cash flow generation. Over CY19-22E, we expect RoCE/RoE to improve by 670bp/490bp on the back of higher volume growth, reduction in debt and steady margins in the medium-to-near term.

Exhibit 44: Sharp improvement in return ratios (%)



Source: Company, MOFSL

Valuation and view

Initiating with Buy rating

- **VBL handles majority of PepsiCo's India business and has strong distribution network. Both these factors should help VBL gain incremental market share.**
- **Improving product mix and introduction of new products should reduce concentration risk and help diversify its product portfolio.**
- **Rising electrification and increase in power availability (number of hours per day) is expected to indirectly boost beverage sales.**
- **Replication of existing model in newly acquired territories should lead to market share gains and support volume growth.**
- **We estimate 12%/31% revenue/PAT CAGR over CY19-22E. We value the stock on price-to-earnings basis, assigning 30x CY22E EPS. We initiate Buy with a target price of INR1,100 per share.**

Near monopoly in PepsiCo's India business

VBL handles ~80%+ of PepsiCo's India business, which provides it with volume sustainability in the medium-to-long term. Further, its vast distribution network is expected to increase penetration in newly acquired territories, support volume growth and help gain market share.

Changing mix to reduce concentration

Previously, VBL was heavily inclined toward manufacturing of CSDs. However, with changing consumer preferences and to reduce concentration of a single product, VBL has shifted focus toward manufacturing of NCBs and PDW. While this has helped the company to diversify revenue and improve margin, we believe it would also help to maintain steady margins in the medium-to-near term.

Increasing electrification to support VBL's growth

Several government initiatives to increase overall household electrification in India is indirectly expected to boost VBL's volumes. We believe increased power availability (number of hours per day) in households would lead to higher refrigeration penetration, which in turn would boost PepsiCo's volumes as these products are consumed chilled.

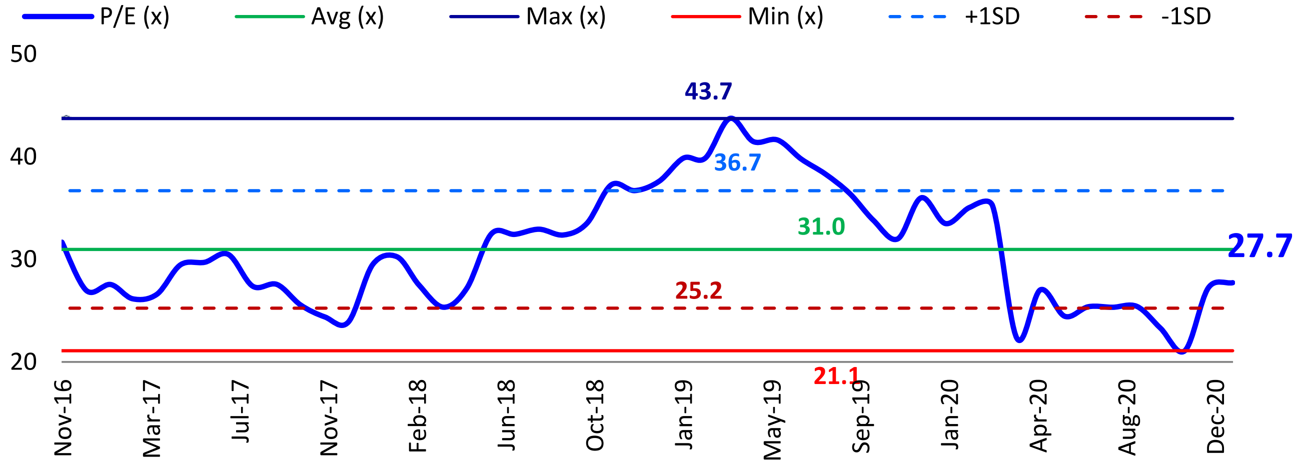
Operational efficiency to kick in with consolidation of new territories

VBL completed acquisitions of several new territories in the last few years. Operational efficiency in these new regions is expected to come on par with VBL's existing facilities, which would improve penetration level and lead to an increase in market share. With no major acquisitions in the near term, we believe the company's prime focus is on improving volumes and penetration level.

Value VBL on price-to-earnings of 30x on CY22E EPS

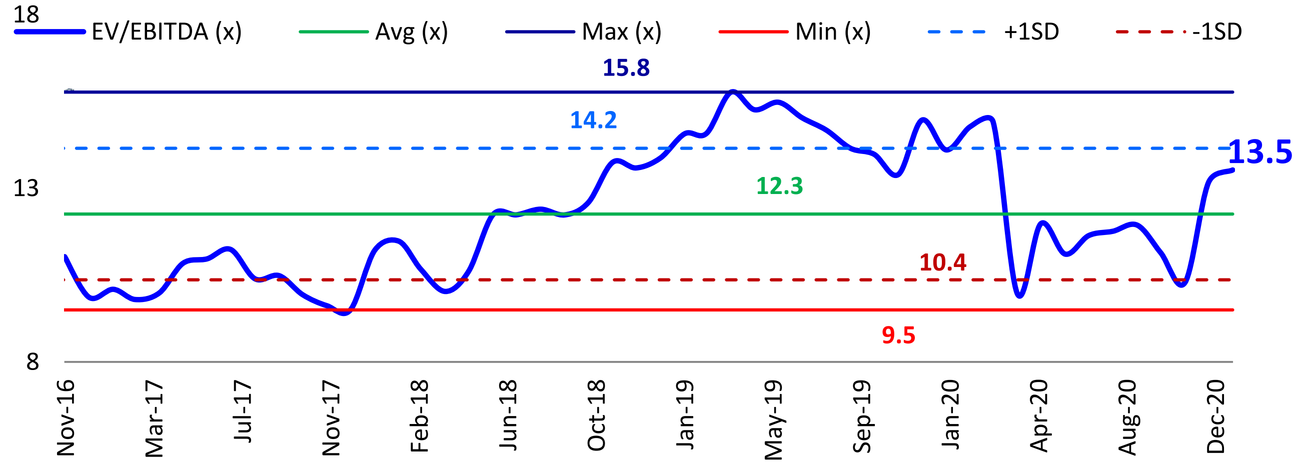
We expect 12%/15% consolidated revenue/EBITDA CAGR over CY19-22E to INR101b/INR21.8b. EBITDA margin is expected to expand by ~120bp to 21.5%. It should generate CFO/FCF of INR53.8b/INR34b over the same period. Overall debt is expected to reduce to INR15.7b from INR34b over CY19-22E. Based on future growth potential and the return ratio profile, we value VBL at 30x (in-line with its three-year average P/E of 32x) CY22E EPS of INR36.2 to arrive at a target price of INR1,100. There is room for multiple improvement due to: a) ramp-up of operations at its new facilities, b) kicking-in of synergy benefits (from the acquisition of new territories), and c) growing revenue share from the higher margin NCB segment, resulting in an improvement in return ratios. We initiate coverage with a **Buy** rating.

Exhibit 45: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 46: One-year forward EV/EBITDA (x)



Source: Company, MOFSL

Exhibit 47: VBL – comparison with peers

	M-cap	EV/EBITDA (x)		P/E (x)		RoE (%)		Revenue CAGR	EBITDA CAGR	PAT CAGR
Company	**(INR b)**	**CY21E**	**CY22E**	**CY21E**	**CY22E**	**CY21E**	**CY22E**	**CY19-22E**	**CY19-22E**	**CY19-22E**
Coca-Cola Femsa SAB de CV	192	6.4	6.1	14.8	13.6	10	11	0%	3%	4%
Arca Continental SAB de CV	169	6.8	6.4	14.8	13.8	8	9	3%	6%	8%
Coca-Cola Icecek AS	17	6.0	5.4	11.2	9.9	18	18	5%	7%	11%
Varun Beverages	**262**	**15.8**	**13.7**	**35.3**	**26.7**	**18**	**21**	**10%**	**11%**	**26%**

Source: Bloomberg, Company, MOFSL

Bulls and Bears

Bull case

- ☑ In the bull case, we assume volume CAGR of 16% over CY19-22E. We assume revenue CAGR of 15% (12% in base case), EBITDA CAGR of 17% (15% in base case) and PAT CAGR of 36% (31% in base case) over CY19-22E.
- ☑ For CSDs, we have factored in volume CAGR of 16% over CY19-22E v/s base case assumption of 13%. We believe consolidation of new territories and rural electrification would drive CSD volumes.
- ☑ For NCBs, we have factored in volume CAGR of 17% over CY19-22E v/s base case of 15%. We believe commencement of the new factory at Pathankot would support volume growth and increase the share of NCBs.
- ☑ For the water segment, we have factored in volume CAGR of 15% over CY19-22E v/s base case assumption of 11%. International geographies are expected to perform better.
- ☑ Assuming a target multiple of 33x against 30x in the base case, we get a bull case target price of INR1,345 (upside of 48%) as against base case target price of INR1,100 (upside of 21%), based on CY22E EPS.

Bear case

- ☑ In the bear case, we assume volume CAGR of 10% over CY19-22E. We assume revenue CAGR of 10% (12% in base case), EBITDA CAGR of 12% (15% in base case) and PAT CAGR of 26% (31% in base case) over CY19-22E.
- ☑ For CSDs, we have factored in volume CAGR of 11% over CY19-22E v/s base case of 13%. We believe the COVID-19 impact would adversely affect CY20 volumes. Further, momentum of government initiatives toward rural electrification is expected to be slow.
- ☑ For NCB's, we have factored in volume CAGR of 12% over CY19-22E v/s base case of 15%. We believe there is lower acceptance for juices, and thus, volumes are weak even after commencement of the new plant.
- ☑ For the water segment, we have factored in volume CAGR of 7% over CY19-22E v/s base case assumption of 11%. We expect lower pick-up in volumes in foreign geographies.
- ☑ Assuming a target multiple of 27x against 30x in the base case, we get a bear case target price of INR874 (downside of 4%) as against the base case target price of INR1,100 (upside of 21%), based on CY22E EPS.

Exhibit 48: VBL – comparison with peers

	Bear			Base			Bull		
	CY20	CY21	CY22	CY20	CY21	CY22	CY20	CY21	CY22
Revenue (INR)	**62,773**	**81,828**	**94,563**	**63,749**	**87,657**	**1,01,272**	**63,916**	**91,024**	**1,09,184**
Growth YoY (%)	-12	30	16	-11	38	16	-10	42	20
EBITDA (INR m)	11,671	16,496	20,361	11,853	17,671	21,805	11,884	18,350	23,509
EBITDA margin (%)	19	20	22	19	20	22	19	20	22
Adj. PAT (INR m)	3,866	6,338	9,590	3,808	6,868	10,456	3,839	7,377	11,762
Growth YoY (%)	-18	64	51	-19	80	52	-18	92	59
EPS (INR)	13.2	21.5	32.4	13.2	23.8	36.2	13.3	25.6	40.7
Multiple (x)			27			30			33
TP (INR)			874			1,100			1,345
Return			-4%			21%			48%

Source: Company, MOFSL

Key risks

Shift toward healthy consumption habits to impact growth of CSDs

Increasing awareness among the populace with respect to high sugar content in CSDs is gradually leading to a reduction in its consumption, and thus, affecting volumes. Changing preferences for healthier options would also affect CSD sales in the long run.

Any change in contractual agreement with PepsiCo to impact overall biz

VBL's entire business is solely dependent on its relationship with PepsiCo. While the franchisee agreement was recently extended to 2039, any future changes in the contractual agreement would have major repercussions on VBL's business dynamics.

Any unforeseen scenario in peak season to impact earnings

The April-June quarter is the peak season for VBL, wherein majority of volumes are recorded. This is due to the seasonality nature of its business as consumption happens largely in May (summer season), which leads to an uneven annual revenue distribution. Thus, an unforeseen event in the peak season would affect VBL's profitability (for e.g. due to the COVID-19 led lockdowns, 2QCY20 was adversely impacted). However, with recent acquisitions, the seasonality factor should reduce in the medium term.

Revenue concentration risk

Majority of VBL's revenue (~71%) is recorded from sale of CSDs, followed by PWD and NCBs. To reduce revenue concentration in a particular segment, management plans to focus more on NCBs and PWD. Further, India's contribution to the total geographical revenue mix is also very high (~82% of revenue is recorded through Indian operations). We believe that VBL is working on reducing revenue concentration risk by changing the product-mix and focusing on global operations as well. Thus, we expect concentration to subside in the medium-to-near term.

Further scope for domestic acquisitions lower

Currently, over 80% of PepsiCo's India business is handled by VBL alone. Barring Andhra Pradesh and Jammu & Kashmir, VBL operates in all Indian states. Thus, there is meager room for inorganic growth within India. VBL would have to focus on organic volume growth through increased penetration and market acquisition from competitors.

Management overview

Mr. Ravi Jaipuria, Chairman

He has completed higher secondary education from Delhi Public School, New Delhi. He has over three decades of experience in conceptualizing, executing, developing and expanding food, beverages and dairy business in South Asia and Africa. He is the only Indian promoter to have received PepsiCo's award for 'International Bottler of the Year', awarded in 1997. He was also awarded the 'Distinguished Entrepreneurship Award' at the PHD Chamber Annual Awards for Excellence, 2018.

Mr. Varun Jaipuria, Whole-time Director

He attended Millfield School, Somerset, England and holds a Bachelor's degree in International Business from Regent's University, London. He has 11 years of experience in the soft drinks industry and has also completed a program for Leadership Development at the Harvard Business School. He has been with the company since 2009 and has been responsible for development of new business initiatives, which includes implementation of sales automation tools.

Mr. Kapil Agarwal, Whole-time Director and CEO

He holds a Bachelor's degree in Commerce from Lucknow University and has a Post-Graduate Diploma in Business Management from IMT, Ghaziabad. He has been associated with the company since inception and currently heads operations and management. He has 28 years of experience with the group in sales and marketing.

Mr. Raj Gandhi, Whole-time Director and Group CFO

He holds a Bachelor's degree in Commerce from Delhi University and is a member of the ICAI. He has 27 years of experience with the group out of a total experience of 39 years and has been instrumental in strategizing diversification, expansion, mergers and acquisitions, capex funding and institutional relationships.

Mr. Rajinder Jeet Singh Bagga, Whole-time Director

He holds a Master's degree in Mechanical Engineering from IIT, Kanpur. He has been associated with the company since 1996 and is currently heading technical operations since 2003. He has an experience of 23 years with the company in managing technical operations and execution of projects. Prior to this, he was associated with Eveready Industries India Limited for approximately 10 years and was last working in the capacity of their Production Manager.

Mr. Vikas Bhatia, CFO

Mr. Bhatia is a Commerce graduate and a qualified FCA and ICWA with a diversified FMCG career spanning 30 years, including 16 years of international assignments with large MNCs. Before joining VBL, he was working with Carlsberg Group for six years. Prior to this, Mr. Bhatia has worked with MNCs such as Whirlpool, P&G, Gillette, PwC, etc. in India and overseas. He joined VBL in Jan'19.

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E Dec	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Total Income from Operations	**25,010**	**33,941**	**38,612**	**40,035**	**51,053**	**71,296**	**63,749**	**87,657**	**1,01,272**
Change (%)	18.2	35.7	13.8	3.7	27.5	39.7	-10.6	37.5	15.5
RM Cost	13,766	17,165	17,379	18,101	22,441	32,194	27,807	39,541	45,997
Employees Cost	2,168	3,238	4,210	4,628	5,830	8,108	8,593	10,071	10,574
Other Expenses	5,303	7,168	9,063	8,947	12,716	16,517	15,496	20,374	22,895
Total Expenditure	**21,237**	**27,571**	**30,652**	**31,676**	**40,987**	**56,819**	**51,896**	**69,986**	**79,466**
% of Sales	84.9	81.2	79.4	79.1	80.3	79.7	81.4	79.8	78.5
EBITDA	**3,774**	**6,371**	**7,960**	**8,359**	**10,066**	**14,477**	**11,853**	**17,671**	**21,805**
Margin (%)	15.1	18.8	20.6	20.9	19.7	20.3	18.6	20.2	21.5
Depreciation	2,142	3,174	3,222	3,466	3,851	4,886	5,331	5,722	5,871
EBIT	**1,631**	**3,197**	**4,738**	**4,893**	**6,215**	**9,590**	**6,522**	**11,949**	**15,934**
Int. and Finance Charges	1,906	1,688	4,325	2,122	2,126	3,096	2,862	2,715	2,198
Other Income	167	143	357	125	218	425	451	474	540
PBT bef. EO Exp.	**-107**	**1,652**	**770**	**2,896**	**4,308**	**6,919**	**4,110**	**9,707**	**14,277**
EO Items	0	0	0	0	0	0	-665	0	0
PBT after EO Exp.	**-107**	**1,652**	**770**	**2,896**	**4,308**	**6,919**	**3,445**	**9,707**	**14,277**
Total Tax	176	789	313	769	1,339	2,241	95	2,621	3,592
Tax Rate (%)	-163.6	47.7	40.7	26.6	31.1	32.4	2.8	27.0	25.2
Share of profit from associates	19	13	24	14	30	44	0	0	0
Minority Interest	0	0	57	39	70	32	208	218	229
Prior period items	-5	255	0	0	0	0	0	0	0
Reported PAT	**-269**	**1,130**	**424**	**2,102**	**2,928**	**4,690**	**3,142**	**6,868**	**10,456**
Adjusted PAT	**-269**	**1,130**	**424**	**2,102**	**2,928**	**4,690**	**3,808**	**6,868**	**10,456**
Change (%)	-33.4	-520.2	-62.5	395.9	39.3	60.1	-18.8	80.4	52.2
Margin (%)	-1.1	3.3	1.1	5.2	5.7	6.6	6.0	7.8	10.3

Consolidated - Balance Sheet (INR m)

Y/E Dec	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Equity Share Capital	1,338	1,338	1,823	1,826	1,826	2,887	2,887	2,887	2,887
Preference Capital	2,000	4,500	0	0	0	0	0	0	0
Total Reserves	-131	905	15,113	15,866	18,158	30,397	32,758	38,775	48,315
Net Worth	**3,207**	**6,743**	**16,936**	**17,692**	**19,985**	**33,284**	**35,645**	**41,662**	**51,202**
Minority Interest	0	0	-129	-14	78	307	307	307	307
Total Loans	24,033	20,773	22,154	23,560	27,649	34,172	31,172	24,672	15,672
Deferred Tax Liabilities	750	1,429	1,218	1,422	1,588	2,697	2,697	2,697	2,697
Capital Employed	**27,990**	**28,945**	**40,179**	**42,659**	**49,299**	**70,459**	**69,820**	**69,337**	**69,877**
Gross Block	31,943	46,325	51,589	56,326	61,697	80,239	83,678	87,578	92,378
Less: Accum. Deprn.	8,870	11,369	14,434	16,540	17,847	15,691	21,022	26,745	32,616
Net Fixed Assets	**23,074**	**34,956**	**37,155**	**39,786**	**43,850**	**64,548**	**62,655**	**60,833**	**59,762**
Goodwill on Consolidation	0	0	0	19	19	242	242	242	242
Capital WIP	248	379	956	1,454	3,524	638	700	800	1,000
Total Investments	**3,040**	**33**	**69**	**82**	**112**	**0**	**0**	**0**	**0**
Current Investments	3,020	0	0	0	0	0	0	0	0
Curr. Assets, Loans and Adv.	**6,088**	**8,945**	**10,133**	**11,494**	**12,808**	**18,327**	**17,537**	**22,213**	**25,572**
Inventory	2,893	4,247	4,899	4,389	5,784	8,815	8,247	10,546	12,192
Account Receivables	973	979	1,313	1,503	1,280	1,726	1,543	2,402	2,775
Cash and Bank Balance	344	581	657	945	935	1,711	2,315	1,795	1,975
Loans and Advances	1,878	3,138	3,263	4,658	4,809	6,076	5,433	7,470	8,630
Curr. Liability and Prov.	**4,459**	**15,367**	**8,134**	**10,177**	**11,015**	**13,297**	**11,315**	**14,751**	**16,699**
Account Payables	1,833	1,846	2,746	1,909	3,168	4,777	3,697	4,985	5,661
Other Current Liabilities	2,213	12,707	4,627	7,392	6,435	6,517	5,827	8,012	9,013
Provisions	413	815	761	875	1,412	2,003	1,791	1,753	2,025
Net Current Assets	**1,629**	**-6,422**	**1,999**	**1,317**	**1,793**	**5,031**	**6,222**	**7,462**	**8,873**
Appl. of Funds	**27,990**	**28,945**	**40,179**	**42,659**	**49,299**	**70,459**	**69,820**	**69,337**	**69,877**

Financials and valuations

Ratios

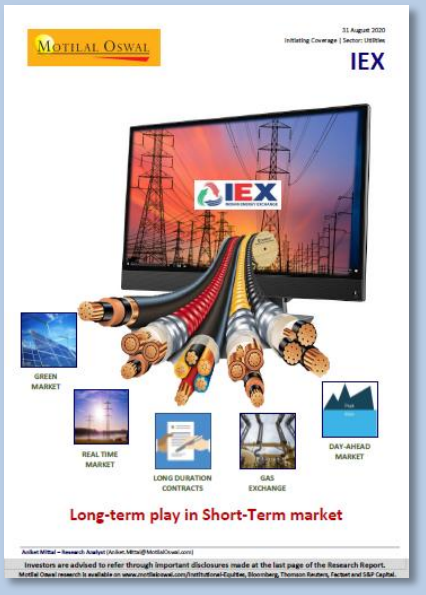
Y/E Dec	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Basic (INR)									
EPS	**-0.9**	**3.9**	**1.5**	**7.3**	**10.1**	**16.2**	**13.2**	**23.8**	**36.2**
Cash EPS	6.5	14.9	12.6	19.3	23.5	33.2	31.7	43.6	56.6
BV/Share	11.1	23.4	58.7	61.3	69.2	115.3	123.5	144.3	177.4
DPS	0.0	0.0	0.0	1.6	1.6	2.4	2.4	2.6	2.8
Payout (%)	0.0	0.0	0.0	26.1	17.5	16.7	24.9	12.4	8.8
Valuation (x)									
P/E		232.1	619.3	124.9	89.6	56.0	68.9	38.2	25.1
Cash P/E		61.0	72.0	47.1	38.7	27.4	28.7	20.8	16.1
P/BV		38.9	15.5	14.8	13.1	7.9	7.4	6.3	5.1
EV/Sales		8.3	7.3	7.1	5.7	4.1	4.6	3.3	2.7
EV/EBITDA		44.4	35.7	34.1	28.7	20.4	24.6	16.2	12.7
Dividend Yield (%)	0.0	0.0	0.0	0.2	0.2	0.3	0.3	0.3	0.3
FCF per share	7.3	10.1	1.6	3.6	6.6	19.8	24.3	32.2	41.5
Return Ratios (%)									
RoE	-10.4	22.7	3.6	12.1	15.5	17.6	11.0	17.8	22.5
RoCE	18.1	6.4	9.1	9.2	10.0	11.8	10.1	13.6	18.5
RoIC	18.1	7.3	9.1	9.1	10.1	11.5	9.4	13.1	17.8
Working Capital Ratios									
Fixed Asset Turnover (x)	0.8	0.7	0.7	0.7	0.8	0.9	0.8	1.0	1.1
Asset Turnover (x)	0.9	1.2	1.0	0.9	1.0	1.0	0.9	1.3	1.4
Inventory (Days)	42	46	46	40	41	45	47	44	44
Debtor (Days)	14	11	12	14	9	9	9	10	10
Creditor (Days)	27	20	26	17	23	24	21	21	20
Leverage Ratio (x)									
Current Ratio	1.4	0.6	1.2	1.1	1.2	1.4	1.5	1.5	1.5
Interest Coverage Ratio	0.9	1.9	1.1	2.3	2.9	3.1	2.3	4.4	7.2
Net Debt/Equity	6.4	3.0	1.3	1.3	1.3	1.0	0.8	0.5	0.3

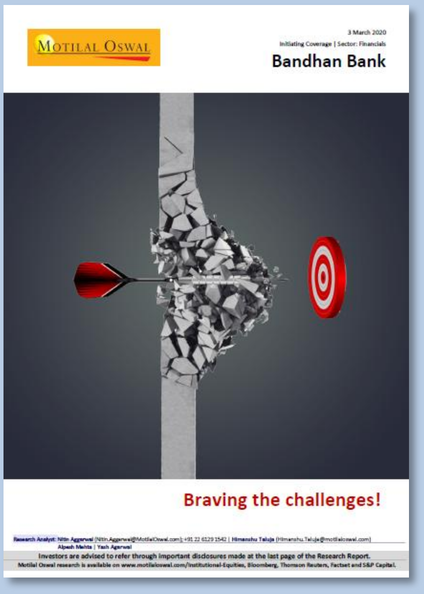
Consol. Cash Flow Statement **(INR m)**

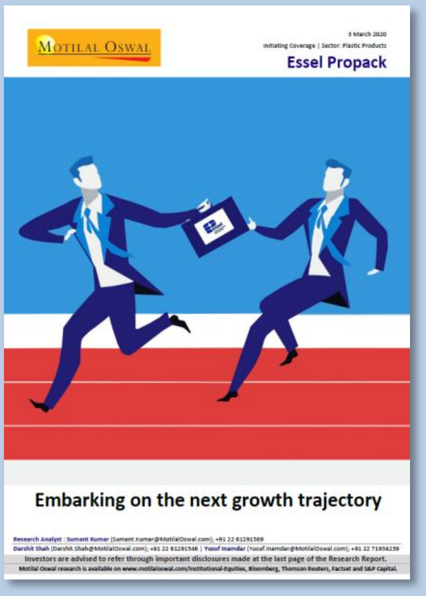
Y/E Dec	CY14	CY15	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
OP/(Loss) before Tax	38	1,906	770	2,896	4,308	6,919	3,445	9,707	14,277
Depreciation	2,101	2,982	3,222	3,466	3,851	4,826	5,331	5,722	5,871
Interest and Finance Charges	1,746	1,424	4,166	1,972	1,986	2,948	2,411	2,242	1,658
Direct Taxes Paid	-108	-483	-581	-571	-733	-1,201	-95	-2,621	-3,592
(Inc.)/Dec. in WC	445	-419	637	-1,965	-501	-851	-587	-1,759	-1,231
CF from Operations	**4,221**	**5,411**	**8,214**	**5,798**	**8,911**	**12,641**	**10,505**	**13,291**	**16,982**
Others	87	137	44	400	1,087	411	0	0	0
CF from Operating incl. EO	**4,309**	**5,548**	**8,258**	**6,198**	**9,998**	**13,052**	**10,505**	**13,291**	**16,982**
(Inc.)/Dec. in FA	-2,197	-2,645	-7,803	-5,165	-8,088	-7,331	-3,500	-4,000	-5,000
Free Cash Flow	**2,112**	**2,903**	**455**	**1,033**	**1,910**	**5,721**	**7,005**	**9,291**	**11,982**
(Pur.)/Sale of Investments	-2,940	-377	0	0	0	0	0	0	0
Others	86	71	-2,681	-2,332	-647	-15,862	451	474	540
CF from Investments	**-5,051**	**-2,951**	**-10,484**	**-7,496**	**-8,734**	**-23,192**	**-3,049**	**-3,526**	**-4,460**
Issue of Shares	2,400	3,200	8,814	3,041	7	9,002	0	0	0
Inc./(Dec.) in Debt	837	-6,652	-4,494	-572	4,566	6,487	-3,000	-6,500	-9,000
Interest Paid	-1,859	-1,408	-2,186	-1,557	-1,886	-3,011	-2,862	-2,715	-2,198
Dividend Paid	0	0	0	-456	-456	-690	-782	-850	-916
Others	-800	2,500	168	1,130	-3,505	-871	-208	-218	-229
CF from Fin. Activity	**577**	**-2,360**	**2,302**	**1,586**	**-1,273**	**10,916**	**-6,852**	**-10,284**	**-12,343**
Inc./Dec. of Cash	**-165**	**237**	**76**	**288**	**-10**	**776**	**604**	**-520**	**180**
Opening Balance	509	344	581	657	945	935	1,711	2,315	1,795
Closing Balance	**344**	**581**	**657**	**945**	**935**	**1,711**	**2,315**	**1,795**	**1,975**

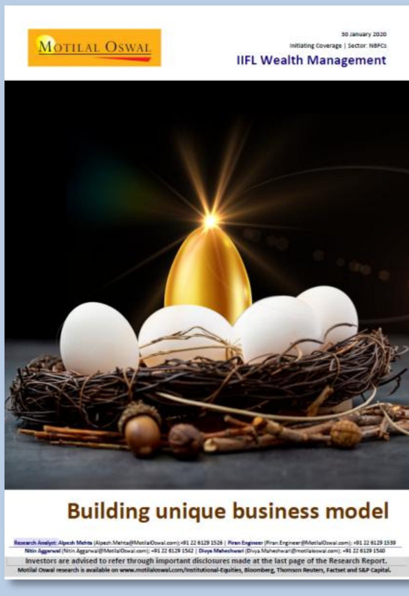
REPORT GALLERY

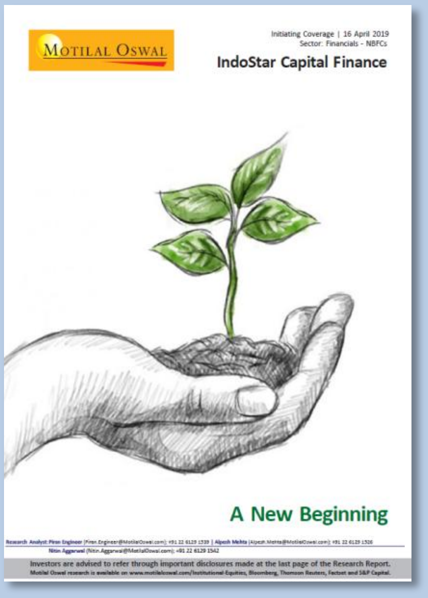
RECENT INITIATING COVERAGE REPORTS











Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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