

Company update and TP
change

Beverages

Target price: Rs1,015

Earnings revision

(%)	CY20E	CY21E
Sales	-	↑ 12.9
EBITDA	-	↑ 11.5
PAT	-	↑ 21.9

Target price revision

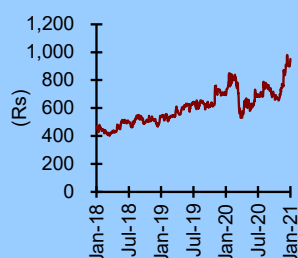
Rs1,015 from Rs970

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	68.0	66.4	66.4
Institutional investors	26.1	26.9	26.7
MFs and others	5.8	5.9	5.9
Banks/FIs	0.1	0.1	0.0
FIs	20.2	20.9	20.8
Others	5.9	6.7	6.9

Source: BSE

Price chart



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Varun Beverages

ADD
Maintain
Rs951

Beneficiary of rising in-home consumption

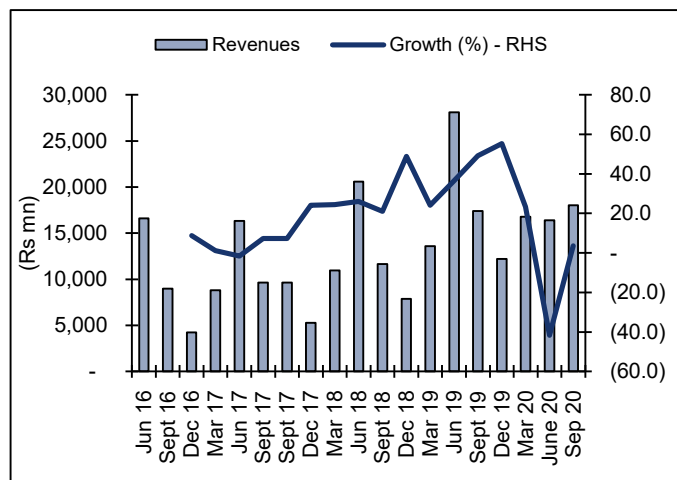
Post our latest interaction with the management and channel checks, we note (1) in-home consumption remains strong even after lifting of lockdown and travel restrictions. Increase in in-home consumption is a structural growth opportunity for Varun and the company is focussing on 1.25ltr SKU to capture it, (2) there were no changes in prices of beverages as there is negligible inflation in input prices and (3) the disruption in North India due to farmers protest and early onset of winter season has impacted consumption of beverages in Dec'20 (a transitory impact). We model Varun to report revenue and PAT CAGRs of 11.5% and 22.9%, respectively, over CY19-CY22E and maintain ADD with DCF based revised target price of Rs1,015 (34x CY22E; earlier TP: Rs970).

- **Recovery momentum remains intact:** We believe Varun has sustained its volume growth momentum even in Q4CY20 due to (1) gradual reopening up of the economy. Only 10-15% of trade channels (airports, railway stations etc.) are closed now, (2) gradual improvement in in-home consumption and (3) market share gain from road-side juices/beverages.
- **Disruption in North India:** Early onset of winter season and supply chain disruptions due to farmers protest had some impact on volumes in Dec'20. We believe this is transitory impact. However, we note there was healthy volume growth momentum in Oct-Nov'20.
- **No price hikes and no launches:** We note there were no pricing actions in Q4CY20 as there is negligible inflation in major raw material prices (packaging material and sugar). The company has not introduced any new product during the quarter. However new SKU (1.25ltr) continues to grow well.
- **Investment in visicoolers to continue:** Investment in visicoolers in CY21 is expected to be similar to CY20. Visicoolers have a life of ~12 years, and every year sales team of Varun analyses the performance of stores and replaces/ repairs visicoolers according to the performance. While we believe the maintenance capex may increase after some years (due to replacement of visicoolers), it is likely to increase materially only after CY25.
- **Maintain ADD:** We model Varun to report revenue and PAT CAGRs of 11.5% and 22.9%, respectively, over CY19-CY22E. Varun continues to benefit from its relationship with PepsiCo, pan-India distribution, backward integration, and increased in-home consumption. Maintain ADD with a revised target price of Rs1,015 (34x CY22E; earlier TP: Rs970).

Market Cap	Rs275bn/US\$3.8bn
Reuters/Bloomberg	VARB.BO / VBL IN
Shares Outstanding (mn)	288.7
52-week Range (Rs)	981/529
Free Float (%)	33.6
FII (%)	20.8
Daily Volume (US\$'000)	3,438
Absolute Return 3m (%)	36.0
Absolute Return 12m (%)	35.9
Sensex Return 3m (%)	24.8
Sensex Return 12m (%)	17.6

Year to December	CY19	CY20E	CY21E	CY22E
Revenue (Rs mn)	71,296	62,945	88,648	98,698
Adj. Net Profit (Rs mn)	5,285	2,793	6,631	8,712
Dil. Rec. EPS (Rs)	16.2	9.7	23.0	30.2
% Chg YoY	52.0	(40.5)	137.5	31.4
P/E (x)	58.6	98.3	41.4	31.5
CEPS (Rs)	33.1	28.9	43.2	51.0
EV/EBITDA (x)	20.8	25.3	18.0	15.9
Dividend Yield (%)	0.3	0.3	0.3	0.4
RoCE (%)	15.8	9.2	16.3	19.4
RoE (%)	18.4	7.6	16.3	18.4

Chart 1: Revenue and growth rates (YoY)



Source: Company data, I-Sec research

Chart 2: EBITDA and PAT margins

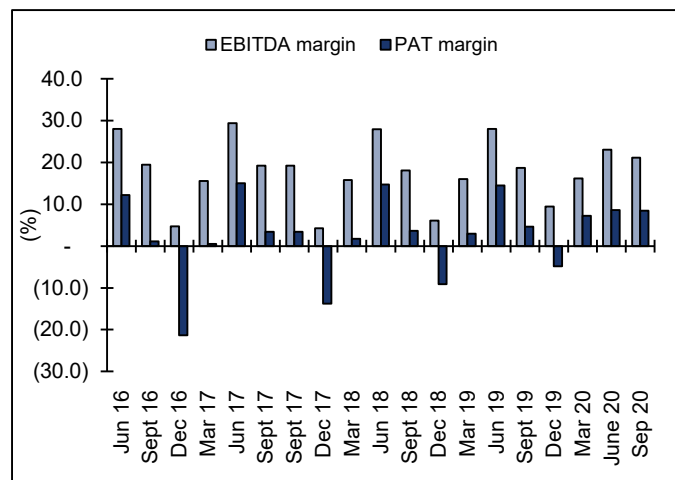


Table 1: Volume details

Particulars	Dec 18	Mar 19	Jun 19	Sept 19	Dec 19	Mar 20	June 20	Sep 20
Sales volume (mn cases)								
CSD	31	64	145	86	52	76	89	89
Juice	3	6	16	7	5	8	8	6
Water	12	20	35	31	25	30	8	24
Total	46	90	196	124	82	114	105	119
As % of Total								
CSD	67.4%	71.1%	74.0%	69.4%	63.4%	66.7%	84.8%	74.8%
Juice	6.5%	6.7%	8.2%	5.6%	6.1%	7.0%	7.6%	5.0%
Water	26.1%	22.2%	17.9%	25.0%	30.5%	26.3%	7.6%	20.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth (%)								
CSD	29.2%	6.7%	35.5%	45.8%	67.7%	18.8%	-38.6%	3.5%
Juice	200.0%	20.0%	60.0%	75.0%	66.7%	33.3%	-50.0%	-14.3%
Water	50.0%	33.3%	84.2%	106.7%	108.3%	50.0%	-77.1%	-22.6%
Total	39.4%	12.5%	44.1%	59.0%	78.3%	26.7%	-46.4%	-4.0%
Realization per case (Rs)								
Realization per case (Rs)	171	151	143	140	149	147	156	151
EBITDA per case (Rs)	10	24	40	26	14	24	36	32
Realization growth (%)								
Realization growth (%)	6.8%	10.4%	-5.3%	-6.1%	-12.9%	-2.6%	8.9%	8.0%
EBITDA per case growth (%)	51.6%	12.4%	-4.9%	-3.0%	35.8%	-2.0%	-10.5%	21.8%

Source: Company data, I-Sec research

Valuation

We have valued Varun Beverages (Varun) as per the DCF methodology. Our DCF valuation indicates a value of Rs1,015 per share. The implied P/E multiple at our target price and CY22E EPS works out to 34x. We maintain ADD rating on the stock.

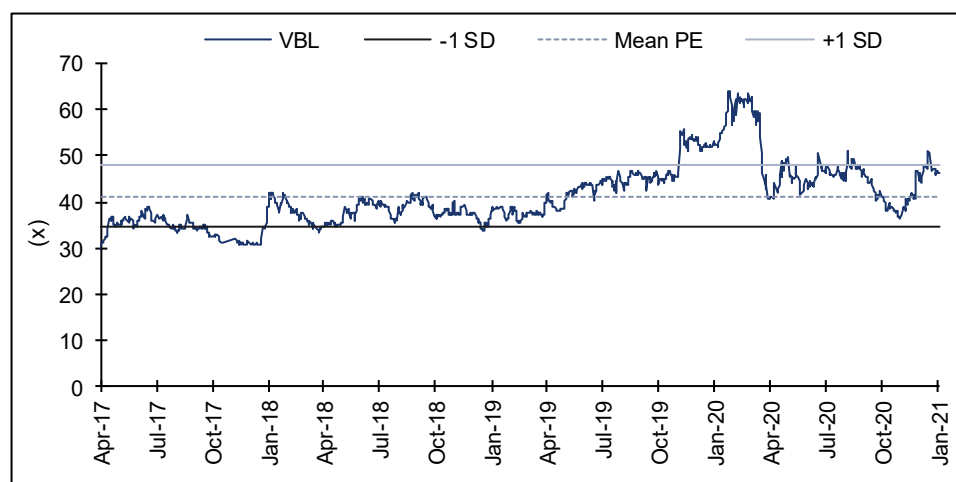
Table 2: DCF valuation

Particulars	Amt (Rs)
Cost of equity (%)	11.7%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (Rsmn)	130,709
Discounted terminal value (Rsmn)	162,332
Total equity value (Rsmn)	293,040
Value per share (Rs)	1,015

Source: Company, I-Sec research

Mean P/E and standard deviations

Chart 3: Mean P/E and standard deviations



Source: Company, I-Sec research

Key risks

Steep rise in competitive pressures and input prices: Steep rise in competitive pressures and any material increase in production capacities by peers in a short timeframe can hurt Varun's earnings.

Delays in launch/failure of new products: Any delay in launch of new products and/or failure of new products may impact Varun's financials. If the company's geographical expansion plans fail or get delayed, earnings growth may be impacted.

Slowdown in urban and rural economies: Slowdown in rural as well as urban economies may impact the company's earnings.

Financial summary

Table 3: Profit & loss statement
(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
Net Sales	71,296	62,945	88,648	98,698
Operating Expenses	56,673	50,901	71,722	79,591
EBITDA	14,623	12,043	16,926	19,107
% margins	20.5	19.1	19.1	19.4
Depreciation & Amortisation	4,886	5,533	5,830	5,998
Gross Interest	3,243	2,996	2,433	1,803
Other Income	425	266	238	388
Recurring PBT	6,919	3,780	8,901	11,693
Less: Taxes	2,241	983	2,270	2,982
Less: Minority Interest	-	-	-	-
Net Income (Reported)	4,690	2,793	6,631	8,712
Extraordinaries (Net)	596	-	-	-
Recurring Net Income	5,285	2,793	6,631	8,712

Source: Company data, I-Sec research

Table 4: Balance sheet
(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
Assets				
Total Current Assets	16,719	15,417	21,521	26,770
of which cash & cash eqv.	1,711	1,366	3,239	6,646
Total Current Liabilities & Provisions	11,431	10,134	14,272	15,890
Net Current Assets	5,288	5,283	7,248	10,880
Investments	1,608	1,608	1,608	1,608
Net Fixed Assets	64,548	61,654	58,324	55,076
Capital Work-in-Progress	638	-	-	-
Total Assets	72,325	68,788	67,423	67,806
Liabilities				
Borrowings	36,037	30,537	23,537	16,537
Deferred Tax Liability	2,697	2,697	2,697	2,697
Minority Interest	307	307	307	307
Equity Share Capital	2,887	2,887	2,887	2,887
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	30,397	32,360	37,995	45,379
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	33,284	35,247	40,882	48,265
Total Liabilities	72,325	68,788	67,423	67,806

Source: Company data, I-Sec research

Table 5: Quarterly trend
(Rs mn, year ending December 31)

	Dec 19	Mar 20	June 20	Sep 20
Net sales	12,202	16,764	16,402	18,026
% growth (YoY)	55.3	23.3	(41.6)	3.6
EBITDA	1,157	2,712	3,777	3,808
Margin (%)	9.5	16.2	23.0	21.1
Other income	360	253	27	35
Extraordinaries (Net)	674	(887)	(454)	70
Adjusted Net profit	81	328	954	1,601

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending December 31)

	CY19	CY20E	CY21E	CY22E
Operating Cashflow	10,932	8,325	12,461	14,709
Working Capital Changes	(851)	(340)	(92)	(224)
Capital Commitments	(7,080)	(2,000)	(2,500)	(2,750)
Free Cashflow	(13,334)	5,985	9,869	11,735
Cashflow from Investing Activities	176	-	-	-
Issue of Share Capital	8,837	-	-	-
Inc (Dec) in Borrowings	6,053	(5,500)	(7,000)	(7,000)
Dividend paid	(782)	(830)	(996)	(1,328)
Change in Deferred Tax Liability	1,109	-	-	-
Chg. in Cash & Bank balance	950	(345)	1,873	3,407

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending December 31)

	CY19	CY20E	CY21E	CY22E
Per Share Data (Rs)				
EPS	16.2	9.7	23.0	30.2
Cash EPS	33.2	28.8	43.2	51.0
Dividend per share (DPS)	2.5	2.5	3.0	4.0
Book Value per share (BV)	124.6	131.4	151.0	176.5
Growth (%)				
Net Sales	39.7	(11.7)	40.8	11.3
EBITDA	45.3	(17.6)	40.5	12.9
PAT	60.1	(40.5)	137.5	31.4
DPS	50.0	-	20.0	33.3
Valuation Ratios (x)				
P/E	58.6	98.3	41.4	31.5
P/CEPS	28.7	33.0	22.0	18.7
P/BV	7.6	7.2	6.3	5.4
EV / EBITDA	20.8	25.3	18.0	15.9
EV / Sales	4.3	4.8	3.4	3.1
Operating Ratios				
Raw Material / Sales (%)	45.2	45.5	45.7	45.4
Employee cost / Sales (%)	11.4	12.5	12.5	12.5
SG&A / Sales (%)	1.7	1.7	1.7	1.7
Other Income / PBT (%)	6.1	7.0	2.7	3.3
Effective Tax Rate (%)	32.4	26.0	25.5	25.5
Working Capital (days)	18.3	22.7	16.5	15.7
Inventory Turnover (days)	45.1	44.7	45.1	45.1
Receivables (days)	8.8	9.1	9.1	9.1
Payables (days)	57.0	57.3	57.3	57.3
Net D/E (x)	1.0	0.8	0.5	0.2
Profitability Ratios (%)				
Net Income Margins	6.6	4.4	7.5	8.8
RoACE	15.8	9.2	16.3	19.4
RoAE	18.4	7.6	16.3	18.4
Dividend Payout	15.4	25.8	13.1	13.3
Dividend Yield	0.3	0.3	0.3	0.4
EBITDA Margins	20.5	19.1	19.1	19.4

Source: Company data, I-Sec research

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