

Varun Beverages

Estimate change	↑
TP change	↑
Rating change	↔

Motilal Oswal values your support in the Asiamoney Brokers Poll 2021 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



Bloomberg	VBL IN
Equity Shares (m)	433
M.Cap.(INRb)/(USDb)	341.7 / 4.6
52-Week Range (INR)	919 / 430
1, 6, 12 Rel. Per (%)	9/29/27
12M Avg Val (INR M)	346

Financials & Valuations (INR b)

Y/E Dec	2020	2021E	2022E
Sales	64.5	80.7	100.2
EBITDA	12.0	15.7	21.2
PAT	3.3	6.2	10.4
EBITDA (%)	18.6	19.5	21.2
EPS (INR)	7.5	14.2	23.9
EPS Gr. (%)	-30.7	89.4	68.3
BV/Sh. (INR)	81.4	93.9	115.9
Ratios			
Net D/E	0.9	0.6	0.3
RoE (%)	9.5	16.2	22.8
RoCE (%)	10.4	12.0	18.3
Payout (%)	21.9	12.0	7.9
Valuations			
P/E (x)	105.1	55.5	33.0
EV/EBITDA (x)	31.0	23.3	16.8
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.1	2.6	3.6

Shareholding pattern (%)

	Mar-21	Dec-20	Mar-20
Promoter	66.4	66.4	68.0
DII	5.9	5.9	6.3
FII	20.3	20.5	19.8
Others	7.4	7.3	5.8

Note: FII includes depository receipts

CMP: INR789

TP: INR920 (+17%)

Buy

Sharp volume growth on strong recovery and lower base

Earnings above estimates

- Varun Beverages (VBL) reported strong volume/revenue growth on the back of demand recovery across product segments and a lower base. It reported a stable operating performance, albeit gross margin contraction, owing to sustainable cost optimization measures implemented last year.
- 2QCY21 revenue/EBITDA/PAT came in above our estimates. We increase our earnings estimates for CY21/CY22 by 29%/8%, on the back of (a) better realization on an improving product mix, (b) an increase in volumes on strong demand recovery, and (c) increasing traction in newly launched products. We maintain our Buy rating, with TP of INR920.

Sharp volume recovery, marginally offset by second wave

- Revenue increased 49% YoY to INR24.5b (est.: INR21.3b), primarily led by (a) robust volume growth across segments, coupled with the lower base of the previous year, and (b) a 3.2% YoY increase in realization per case. Overall volumes increased 45% YoY to 152m cases. Gross margins contracted 130bp to 53.5% (est.: 52.5%) on a change in the product mix and a marginal increase in raw material prices.
- EBITDA/unit-case rose 4% YoY to INR37.6/unit-case on a better product mix v/s the same period last year. The EBITDA margin expanded 30bp YoY to 23.3% (est.: 21.5%), and EBITDA stood at INR5.7b (up 51% YoY). Adj. PAT increased 2.2x YoY to INR3b (est.: INR1.9b).
- Subsidiary (consolidated less standalone) sales/EBITDA grew 2x/70% YoY to INR4.9b/INR1b in 2QCY21. Adj. PAT surged 3.7x YoY to INR701m.
- CSD volumes increased 33% YoY to 118m unit-cases. Performance was driven by strong growth in Apr'21 (v/s the low base of the previous year) and steady recovery in Jun'21 (despite the second COVID wave and related lockdowns).
- NCB volumes grew 38% YoY to 11m unit-cases, driven by the recently launched 'Sting' beverage as well as Tropicana juices.
- Water volumes surged 2.9x YoY to 23m unit-cases on the back of higher growth in the International segment. Water volume share jumped 750bp to 15.1%.

Highlights from management commentary

- Realizations:** VBL did not take any price hikes during the year. Improvement in the product mix (higher volumes recorded in juices, 'Sting', and 'Mountain Dew-Ice') has led to an increase in realization. International realization per unit case stood at INR180, whereas domestic realization was recorded at INR156/unit-case.
- Working capital:** Working capital days increased marginally to ~24 days (as of Jun'21) from 20 days (as of Jun'20), primarily owing to the higher stock of pet resin / preform inventory – to capitalize on lower pricing at the start of the year.

Valuation and view

- We expect robust demand going forward, driven by a) the resumption of services, with the impact of the lockdown gradually subsiding; b) a pickup in volumes in the southern and western regions; c) strong demand traction in newly launched products; d) the growing penetration of refrigeration in rural/semi-rural areas; and e) the growing discretionary spending among the populace.
- 2QCY21 revenue/EBITDA/PAT came in above our estimates. We increase our earnings estimates for CY21/CY22 by 29%/8% – on the back of (a) better realization on an improving product mix, (b) an increase in volumes on strong demand recovery, and (c) growing traction in newly launched products.
- We expect a revenue/EBITDA/PAT CAGR of 25%/33%/79% over CY20–22E. We value the stock at 35x Sep'23E EPS. Our TP of INR920 implies a 17% upside. Maintain Buy.

Consolidated - Quarterly Earnings Model

Y/E December									(INR m)			
	CY20				CY21				CY20	CY21	Var.	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Gross Sales	16,764	16,402	18,026	13,309	22,409	24,498	19,861	13,942	64,501	80,710	21,347	15
YoY Change (%)	23.3	-41.6	3.6	9.1	33.7	49.4	10.2	4.8	-9.5	25.1	30.2	
Total Expenditure	14,053	12,625	14,218	11,587	18,593	18,790	15,629	11,996	52,483	65,008	16,756	
EBITDA	2,712	3,777	3,808	1,722	3,816	5,708	4,231	1,947	12,019	15,702	4,591	24
Margins (%)	16.2	23.0	21.1	12.9	17.0	23.3	21.3	14.0	18.6	19.5	21.5	
Depreciation	1,351	1,243	1,346	1,347	1,347	1,288	1,350	1,400	5,287	5,385	1,410	
Interest	870	742	580	620	579	468	450	430	2,811	1,927	550	
Other Income	253	27	35	56	57	244	37	58	370	396	28	
PBT before EO expense	743	1,819	1,917	-189	1,947	4,197	2,468	175	4,290	8,787	2,659	
Extra-Ord. expense	665	0	0	0	0	0	0	0	665	0	0	
PBT	78	1,819	1,917	-189	1,947	4,197	2,468	175	3,625	8,787	2,659	
Tax	-523	389	302	-116	579	1,009	592	42	52	2,222	638	
Rate (%)	-670.1	21.4	15.8	61.6	29.8	24.0	24.0	24.0	1.4	25.3	24	
Minority Interest & Profit/Loss of Asso. Cos.	51	22	84	125	75	106	89	137	283	407	23	
Reported PAT	549	1,408	1,530	-197	1,293	3,082	1,787	-4	3,290	6,157	1,998	
Adj. PAT	510	1,408	1,530	-197	1,293	3,082	1,787	-4	3,251	6,157	1,998	54
YoY Change (%)	25.5	-65.4	89.6	-66.7	153.5	118.9	16.8	-97.9	-30.7	89.4	41.9	
Margins (%)	3.0	8.6	8.5	-1.5	5.8	12.6	9.0	0.0	5.0	7.6	9.4	

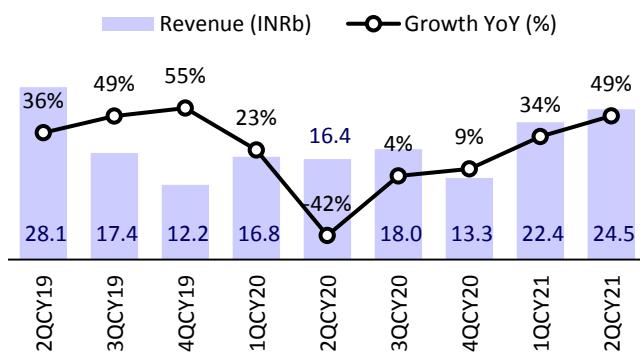
Exhibit 1: Key performance indicators

Y/E December	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21
Segment Volume Gr. (%)									
CSD	36%	46%	68%	19%	-39%	3%	6%	39%	33%
NCB	50%	75%	67%	33%	-47%	-14%	-20%	38%	38%
Water	84%	107%	108%	50%	-77%	-23%	12%	13%	188%
CSD									
Cost Break-up									
RM Cost (% of sales)	47%	43%	45%	41%	45%	44%	40%	44%	46%
Employee Cost (% of sales)	7%	13%	18%	14%	12%	13%	17%	11%	10%
Other Cost (% of sales)	18%	25%	28%	29%	20%	22%	30%	28%	20%
Gross Margins (%)	53%	57%	55%	59%	55%	56%	60%	56%	54%
EBITDA Margins (%)	28%	19%	9%	16%	23%	21%	13%	17%	23%
EBIT Margins (%)	24%	11%	-2%	8%	15%	14%	3%	11%	18%

Source: Company, MOFSL

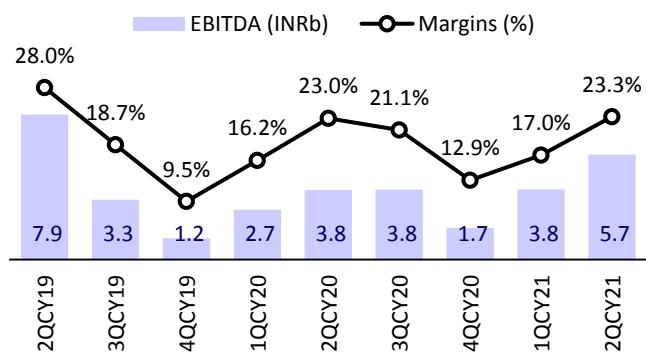
Key exhibits

Exhibit 2: Consolidated revenue trend



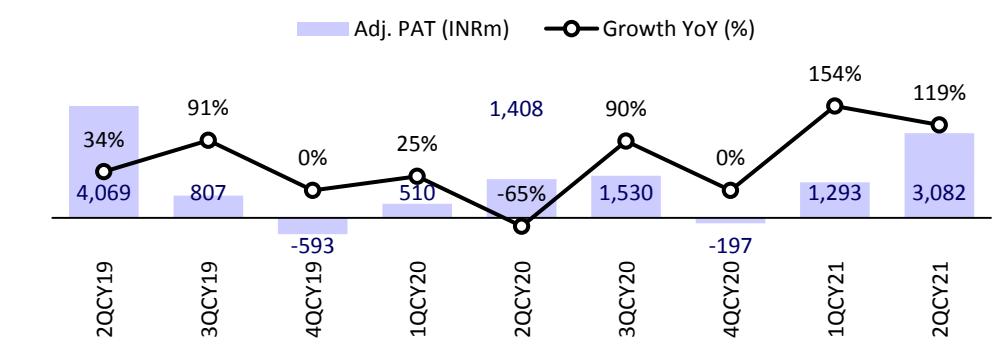
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



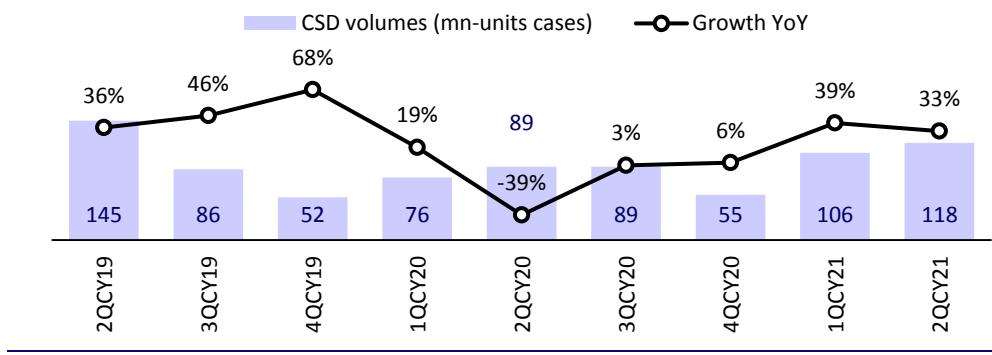
Source: Company, MOFSL

Exhibit 4: Consolidated adj. PAT trend



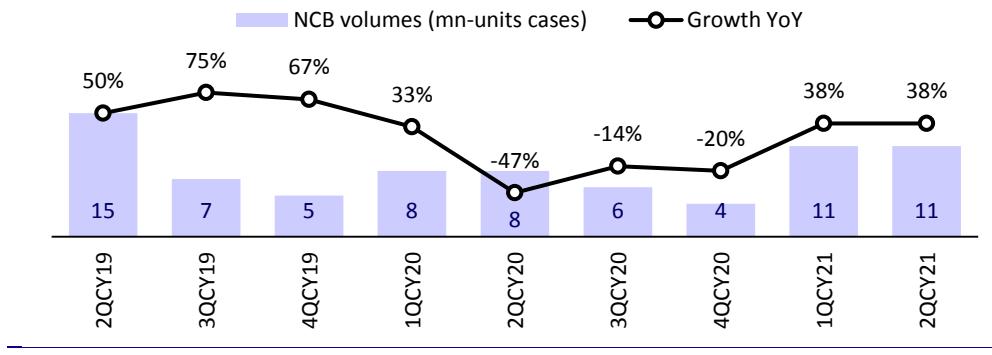
Source: Company, MOFSL

Exhibit 5: Out-of-home consumption drives CSD sales volumes



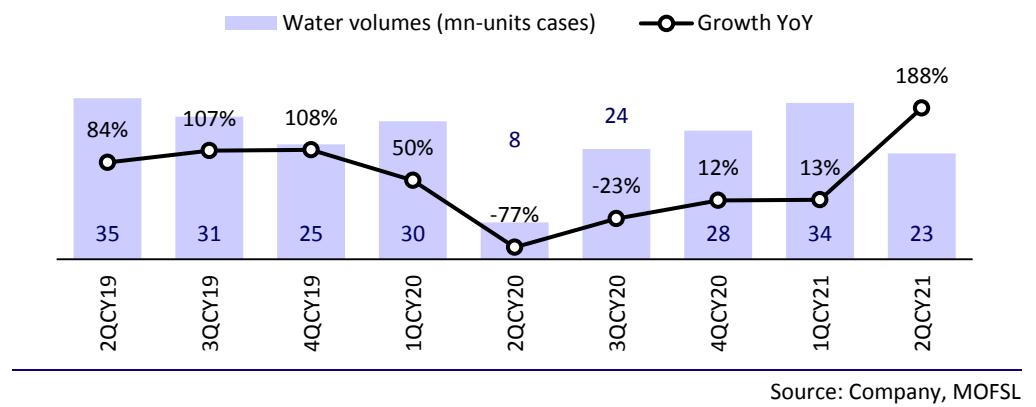
Source: Company, MOFSL

Exhibit 6: New launches support NCB volume growth



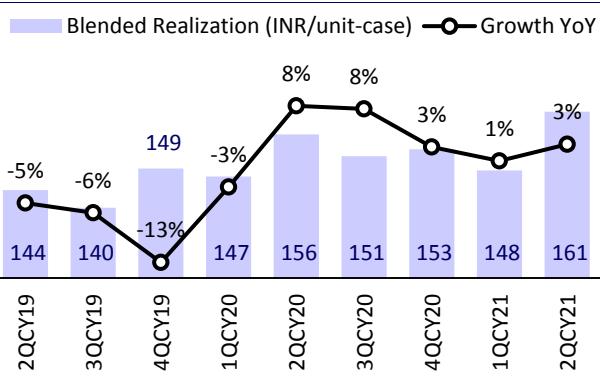
Source: Company, MOFSL

Exhibit 7: International geographies continue to drive water volumes



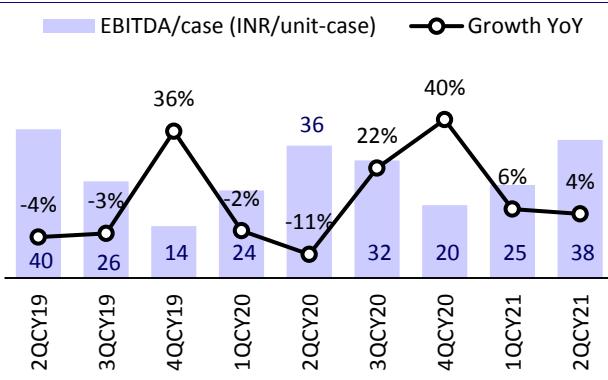
Source: Company, MOFSL

Exhibit 8: Blended realization trend



Source: Company, MOFSL

Exhibit 9: EBITDA/case trend



Source: Company, MOFSL



2QCY21 conference call highlights

- **Robust volume growth:** Total sales volume increased 45% YoY to 152m cases in 2QCY21, strong growth in Apr'21 (v/s the low base of the same month in the previous year) and steady recovery in Jun'21 (despite the second COVID wave and related lockdowns, which led to de-growth in May'21).
- **Volumes:** India recorded volumes at 127m cases in 2QCY21, whereas International volumes stood at 25.3m cases. In India, the northern and eastern regions account for two-thirds of overall volumes, whereas the remaining volumes come from the southern and western regions.
- **Performance:** VBL reported a strong performance despite the soft opening in 2QCY21. Apr'21 and Jun'21 performances were good, whereas May'21 performance was moderate due to lockdown and associated restrictions.
- **Realizations:** VBL did not take any price hikes during the year. Improvement in the product mix (higher volumes recorded in juices, 'Sting', and 'Mountain Dew-Ice') has led to an increase in realization. International realization per unit case stood at INR180, whereas domestic realization was recorded at INR156/unit-case.
- **Gross margins:** An increase in freight costs (supplying RMs to various plants) contributed to the increase in RM cost.
- **Working capital:** Working capital days increased marginally to ~24 days (as of Jun'21) from 20 days (as of Jun'20), primarily owing to the higher stock of pet resin / preform inventory – to capitalize on lower pricing at the start of the year.
- **Southwest region:** Post the acquisition of new territories, the company has not seen one full year of uninterrupted/normal operations. CY20 operations were

affected by the onset of COVID-19, whereas 1Q and 2QCY21 performances were affected by the second wave.

- **Margins:** With the gradual resumption of operations to pre-COVID levels, margins are expected to return to CY19 levels.
- **Sting:** The 'Sting' product has seen strong demand traction and is gradually improving the overall mix. VBL has already crossed the 10m-unit mark in this segment. Sting is expected to post strong volume growth over the next 6–12 months.
- **Zimbabwe:** USD15m is outstanding with the Reserve Bank of Zimbabwe. Every quarter, USD2–3m is expected to be repaid until the final payment is complete.
- **Dairy products:** VBL has resumed the sale of dairy products and currently focuses only on the northern region. The current capacity is sufficient to meet increasing demand. Products are expected to be launched in the southern region over the next few quarters.
- **International business:** Nepal and Sri Lanka operations were affected by COVID-19 and related lockdowns. The impact on Morocco and Zimbabwe was low comparatively.
- **Demand dynamics:** In-home consumption volumes are steady and doing well. In CY20, the majority of demand was driven by the rural areas, whereas in CY21, the urban region has showcased strong growth.

Other highlights

- No new stores would be added during the year.
- **Capex:** Capex is expected to be in the range of depreciation for the next few years. In 1HCY21, VBL's capex stood at ~INR1,900m, including forex adjustments – this was primarily utilized for expansions in India, Morocco, and Zimbabwe.
- **Mount Dew-Ice:** This reported a strong uptick in sales and is quickly gaining traction.
- **Current liabilities:** The increase in current liabilities is majorly due to the current portion of its long-term debt, which is payable during the year.

Valuation and view

- We expect robust demand going forward, driven by a) the resumption of services, with the impact of the lockdown gradually subsiding; b) a pickup in volumes in the southern and western regions; c) strong demand traction in newly launched products; d) the growing penetration of refrigeration in rural/semi-rural areas; and e) the growing discretionary spending among the populace.
- 2QCY21 revenue/EBITDA/PAT came in above our estimates. We increase our earnings estimates for CY21/CY22 by 29%/8% – on the back of (a) better realization on an improving product mix, (b) an increase in volumes on strong demand recovery, and (c) growing traction in newly launched products.
- We expect a revenue/EBITDA/PAT CAGR of 25%/33%/79% over CY20–22E. We value the stock at 35x Sep'23E EPS. Our TP of INR920 implies a 17% upside.

Maintain Buy.

Exhibit 10: Change in estimates

Earnings change	Old	New		Change	
(INRm)	CY21E	CY22E	CY21E	CY22E	CY21E
Revenue	77,828	97,010	80,710	1,00,188	4%
EBITDA	14,264	20,526	15,702	21,198	10%
Adj. PAT	4,782	9,583	6,157	10,359	29%
					8%

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Total Income from Operations	33,941	38,612	40,035	51,053	71,296	64,501	80,710	1,00,188
Change (%)	35.7	13.8	3.7	27.5	39.7	-9.5	25.1	24.1
RM Cost	17,165	17,379	18,101	22,441	32,194	27,639	35,687	45,585
Employees Cost	3,238	4,210	4,628	5,830	8,108	8,897	9,697	10,461
Other Expenses	7,168	9,063	8,947	12,716	16,517	15,946	19,624	22,943
Total Expenditure	27,571	30,652	31,676	40,987	56,819	52,483	65,008	78,989
% of Sales	81.2	79.4	79.1	80.3	79.7	81.4	80.5	78.8
EBITDA	6,371	7,960	8,359	10,066	14,477	12,019	15,702	21,198
Margin (%)	18.8	20.6	20.9	19.7	20.3	18.6	19.5	21.2
Depreciation	3,174	3,222	3,466	3,851	4,886	5,287	5,385	5,757
EBIT	3,197	4,738	4,893	6,215	9,590	6,732	10,317	15,441
Int. and Finance Charges	1,688	4,325	2,122	2,126	3,096	2,811	1,927	1,645
Other Income	143	357	125	218	425	370	396	451
PBT bef. EO Exp.	1,652	770	2,896	4,308	6,919	4,290	8,787	14,247
EO Items	0	0	0	0	0	-665	0	0
PBT after EO Exp.	1,652	770	2,896	4,308	6,919	3,625	8,787	14,247
Total Tax	789	313	769	1,339	2,241	52	2,222	3,419
Tax Rate (%)	47.7	40.7	26.6	31.1	32.4	1.4	25.3	24.0
Share of profit from associates	13	24	14	30	44	0	0	0
Minority Interest	0	57	39	70	32	283	407	469
Prior period items	255	0	0	0	0	0	0	0
Reported PAT	1,130	424	2,102	2,928	4,690	3,290	6,157	10,359
Adjusted PAT	1,130	424	2,102	2,928	4,690	3,251	6,157	10,359
Change (%)	-520.2	-62.5	395.9	39.3	60.1	-30.7	89.4	68.3
Margin (%)	3.3	1.1	5.2	5.7	6.6	5.0	7.6	10.3

Consolidated - Balance Sheet								(INR m)
Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Equity Share Capital	1,338	1,823	1,826	1,826	2,887	2,887	4,330	4,330
Total Reserves	905	15,113	15,866	18,158	30,397	32,353	36,330	45,867
Net Worth	6,743	16,936	17,692	19,985	33,284	35,240	40,661	50,197
Minority Interest	0	-129	-14	78	307	648	648	648
Total Loans	20,773	22,154	23,560	27,649	34,172	32,059	25,559	15,559
Deferred Tax Liabilities	1,429	1,218	1,422	1,588	2,697	2,149	2,149	2,149
Capital Employed	28,945	40,179	42,659	49,299	70,459	70,096	69,017	68,553
Gross Block	46,325	51,589	56,326	61,697	87,203	90,086	93,954	97,954
Less: Accum. Deprn.	11,369	14,434	16,540	17,847	22,655	26,242	31,627	37,384
Net Fixed Assets	34,956	37,155	39,786	43,850	64,548	63,844	62,327	60,570
Goodwill on Consolidation	0	0	19	19	242	242	242	242
Capital WIP	379	956	1,454	3,524	638	668	800	800
Total Investments	33	69	82	112	0	0	0	0
Current Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	8,945	10,133	11,494	12,808	18,327	19,719	22,646	27,191
Inventory	4,247	4,899	4,389	5,784	8,815	9,288	10,686	12,985
Account Receivables	979	1,313	1,503	1,280	1,726	2,418	2,653	3,294
Cash and Bank Balance	581	657	945	935	1,711	1,901	1,658	1,418
Loans and Advances	3,138	3,263	4,658	4,809	6,076	6,113	7,649	9,495
Curr. Liability & Prov.	15,367	8,134	10,177	11,015	13,297	14,378	16,999	20,250
Account Payables	1,846	2,746	1,909	3,168	4,777	5,114	5,699	6,925
Other Current Liabilities	12,707	4,627	7,392	6,435	6,517	6,893	8,878	10,520
Provisions	815	761	875	1,412	2,003	2,371	2,421	2,805
Net Current Assets	-6,422	1,999	1,317	1,793	5,031	5,342	5,648	6,941
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	28,945	40,179	42,659	49,299	70,459	70,096	69,017	68,553

Financials and valuations

Ratios

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Basic (INR)								
EPS	2.6	1.0	4.9	6.8	10.8	7.5	14.2	23.9
Cash EPS	9.9	8.4	12.9	15.7	22.1	19.7	26.7	37.2
BV/Share	15.6	39.1	40.9	46.2	76.9	81.4	93.9	115.9
DPS	0.0	0.0	1.1	1.1	1.6	1.7	1.7	1.9
Payout (%)	0.0	0.0	26.1	17.5	16.7	21.9	12.0	7.9
Valuation (x)								
P/E	302.3	806.5	162.6	116.7	72.9	105.1	55.5	33.0
Cash P/E	79.4	93.7	61.4	50.4	35.7	40.0	29.6	21.2
P/BV	50.7	20.2	19.3	17.1	10.3	9.7	8.4	6.8
EV/Sales	10.7	9.4	9.1	7.2	5.3	5.8	4.5	3.6
EV/EBITDA	56.8	45.6	43.6	36.6	25.9	31.0	23.3	16.8
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	6.7	1.1	2.4	4.4	13.3	16.6	20.6	28.3
Return Ratios (%)								
RoE	22.7	3.6	12.1	15.5	17.6	9.5	16.2	22.8
RoCE	6.4	9.1	9.2	10.0	11.8	10.4	12.0	18.3
RoIC	7.3	9.1	9.1	10.1	11.5	9.8	11.5	17.7
Working Capital Ratios								
Fixed Asset Turnover (x)	0.7	0.7	0.7	0.8	0.8	0.7	0.9	1.0
Asset Turnover (x)	1.2	1.0	0.9	1.0	1.0	0.9	1.2	1.5
Inventory (Days)	46	46	40	41	45	53	48	47
Debtor (Days)	11	12	14	9	9	14	12	12
Creditor (Days)	20	26	17	23	24	29	26	25
Leverage Ratio (x)								
Current Ratio	0.6	1.2	1.1	1.2	1.4	1.4	1.3	1.3
Interest Cover Ratio	1.9	1.1	2.3	2.9	3.1	2.4	5.4	9.4
Net Debt/Equity	3.0	1.3	1.3	1.3	1.0	0.9	0.6	0.3

Consolidated - Cash Flow Statement

Y/E December	CY15	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	(INR m)
OP/(Loss) before Tax	1,906	770	2,896	4,308	6,919	3,625	8,787	14,247	
Depreciation	2,982	3,222	3,466	3,851	4,826	5,287	5,385	5,757	
Interest & Finance Charges	1,424	4,166	1,972	1,986	2,948	2,441	1,531	1,194	
Direct Taxes Paid	-483	-581	-571	-733	-1,201	-52	-2,222	-3,419	
(Inc)/Dec in WC	-419	637	-1,965	-501	-827	-1,181	-549	-1,533	
CF from Operations	5,411	8,214	5,798	8,911	12,665	10,120	12,932	16,246	
Others	137	44	400	1,087	411	0	0	0	
CF from Operating incl EO	5,548	8,258	6,198	9,998	13,076	10,120	12,932	16,246	
(Inc)/Dec in FA	-2,645	-7,803	-5,165	-8,088	-7,331	-2,913	-4,000	-4,000	
Free Cash Flow	2,903	455	1,033	1,910	5,745	7,207	8,932	12,246	
(Pur)/Sale of Investments	-377	0	0	0	0	0	0	0	
Others	71	-2,681	-2,332	-647	-15,862	-1,798	396	451	
CF from Investments	-2,951	-10,484	-7,496	-8,734	-23,192	-4,711	-3,604	-3,549	
Issue of Shares	3,200	8,814	3,041	7	9,002	0	0	0	
Inc/(Dec) in Debt	-6,652	-4,494	-572	4,566	6,487	-2,113	-6,500	-10,000	
Interest Paid	-1,408	-2,186	-1,557	-1,886	-3,011	-2,811	-1,927	-1,645	
Dividend Paid	0	0	-456	-456	-690	-722	-736	-823	
Others	2,500	168	1,130	-3,505	-895	426	-407	-469	
CF from Fin. Activity	-2,360	2,302	1,586	-1,273	10,893	-5,219	-9,571	-12,936	
Inc/Dec of Cash	237	76	288	-10	776	190	-243	-239	
Opening Balance	344	581	657	945	935	1,711	1,901	1,658	
Closing Balance	581	657	945	935	1,711	1,901	1,658	1,418	

NOTES

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

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