

Soaring Temperature to Aid Volume Growth

Company Background

VBL is the second largest franchisee of PepsiCo in the world (outside the USA). Products manufactured by VBL include Carbonated Soft Drinks - Pepsi, Mountain Dew, Seven Up, Mirinda; Non-Carbonated Beverages - Tropicana Slice, Tropicana Frutz; and Bottled water - Aquafina. The company accounts for ~90% of PepsiCo's beverage sales volume in India and present in 27 States and 7 UT. It is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Rationale

- Strong summer season to boost sales:** Several agencies, including the Ministry of Earth Science – Skymet, expect summer temperatures to be very high this year. Early Data suggests a strong probability of El Nino, leading to a potentially warmer summer this year. This, in turn, will result in higher demand for beverages in the forthcoming quarter itself. Moreover, VBL's strong presence in North and East, coupled with strong traction from newly acquired territories (South and West) led by operation normalcy and market share gains place VBL on a stronger footing.
- Distribution led market share gains:** VBL acquired South and West territories in CY19, however due to COIVD-19 disruption, it lost significant market share on account integration challenges it faced during that phase, however as the operations are normalized and new GTM strategy is placed (increase number of reach per route by ~40%), VBL is well-placed to increase its lost market share. In CY23, it plans to increase the overall reach to 3.5 mn outlets from ~3mn in CY22 and plans to add 40,000-50,000 visi coolers annually going forward.
- Energising on Sting Energy Drink:** Sting contributed ~10% of CY22 sales, while its distribution reach stands at ~2 mn outlets vs. company's overall ~3 mn outlets. The management highlighted, Sting's overall realization is higher by 65% vs. average realization which we believe will give further fillip to the overall margins going forward as it expands Sting's portfolio.
- Other businesses: Dairy business** – Currently, the company is restricted to only north markets due to capacity constraints. However, it has plan national rollout in CY24 post tripling of the capacity by end of CY23. **Morocco:** The company begins distribution of Lays, Doritos, and Cheetos on 1st January 2023 in Morocco. VBL currently is importing the products, however, as the business stabilises VBL plans to manufacture these products locally in Morocco. Other than the manufacturing of snacks portfolio, Pepsico does not intend to provide distribution rights of snacks in India to VBL.

Latest Quarterly Performance (Q4CY22)

VBL delivered robust all-round performance in Q4CY22, led by strong volume, and realization growth across regions and markets as the company continued its distribution expansion, strong traction from newly acquired territories (south and west) and scaling up of Sting energy drink. Despite raw material inflation, gross margins improved on account of early stocking of key raw materials, selective price hikes, rationalization of discounts, and improved realization led by higher salience of the high-margin Sting portfolio. EBITDA margins improved on strong operating leverage benefits.

Outlook

We believe VBL is well placed under current market situation as early onset of summer season is expected to drive overall beverage sales across regions. Further, initial report on possible El-nino (deficit rainfall) could delay the rural recovery which would led the entire FMCG pack (ex-ITC) under wait-and-watch mode. Hence, in this current volatile market situation we expect VBL along with ITC (firing on all cylinder) provides better earning visibility than other FMCG peers in the near term.

VBL has been in our Top Picks portfolio since long and we continue to remain positive on the stock on a mid to long term basis. We estimate revenue/EBITDA/PAT CAGR of 17%/21%/25% over CY22-24E based on the above mentioned rationales. **We maintain our BUY rating on the stock with the revised TP of Rs 1,500/share (40x CY24EPS) vs earlier TP of Rs 1,450/share (38x CY24 EPS) implying an upside of 15% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	CY21	CY22	CY23E	CY24E
Net Sales	8,642	13,173	15,662	18,089
EBITDA	1,655	2,788	3,526	4,093
Net Profit	694	1,550	2,028	2,429
EPS (Rs)	16.0	23.9	31.2	37.4
PER (x)	75.5	54.5	41.6	34.8
EV/EBITDA (x)	35.2	31.0	24.2	20.4
P/BV (x)	13.8	15.4	11.5	8.8
ROE (%)	18.3	28.4	27.7	25.3

Source: Bloomberg consensus estimates

(CMP as of 23 rd Feb 2023)	
CMP (Rs)	1,300
Upside	15%
High/Low (Rs)	1,432/ 557
Market cap (Cr)	84,546
Avg. daily vol. (6m) Shrs.	21,14,502
No. of shares (Cr)	65

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	63.9	63.9	63.9
FII	23.93	25.01	26.46
MFs / UTI	4.38	3.5	2.93
Banks / Fls	0	0.03	0.03
Others	7.79	7.56	6.68

Financial & Valuation

Y/E Mar (Rs Cr)	CY22	CY23E	CY24E
Net Sales	13,173	15,662	18,089
EBITDA	2,788	3,514	4,078
Net Profit	1,550	2,073	2,472
EPS (Rs)	23.9	31.9	38.1
PER (x)	49.4	36.9	31.0
EV/EBITDA (x)	27.9	21.8	18.2
P/BV (x)	14.0	10.4	7.9
ROE (%)	28.4	28.1	25.5

Consensus growth estimates (%)

Y/E Mar	CY23E	CY24E
Sales	0%	0%
EBITDA	0%	0%
PAT	-2%	-2%

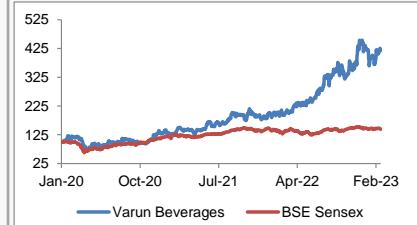
ESG disclosure Score**

Environmental Disclosure	10.06
Social Disclosure Score	22.55
Governance Disclosure Score	76.10
Total ESG Disclosure Score	36.28

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Bloomberg, AxisSecurities.

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Financials (Consolidated)

Profit & Loss				
	(Rs Cr)			
Y/E Mar, Rs. cr	CY21	CY22A	CY23E	CY24E
Net sales	8,642	13,173	15,662	18,089
Growth, %	35.9	52.4	18.9	15.5
Other operating income	181	0	219	241
Total income	8,823	13,173	15,881	18,330
Raw material expenses	-4,035	-6,261	-7,313	-8,227
Employee expenses	-1,008	-1,217	-1,472	-1,693
Other Operating expenses	-2,126	-2,907	-3,569	-4,317
EBITDA (Core)	1,655	2,788	3,526	4,093
Growth, %	37.7	68.5	26.5	16.1
Margin, %	19.1	21.2	22.5	22.6
Depreciation	-531	-617	-726	-764
EBIT	1,123	2,171	2,800	3,329
Growth, %	66.9	93.2	29.0	18.9
Margin, %	13.0	16.5	17.9	18.4
Other Income	68	39	43	47
Non-recurring Items	0	0	0	0
Pre-tax profit	1,007	2,024	2,647	3,170
Tax provided	-261	-474	-619	-742
Net Profit	746	1,550	2,028	2,429
Growth, %	76.0	107.8	30.8	19.8
Unadj. shares (Cr)	43	65	65	65

Source: Company, Axis Securities

Balance Sheet				
	(Rs Cr)			
Y/E Mar, Rs. Cr	CY21	CY22	CY23E	CY24E
Cash & bank	337	540	1,402	3,564
Debtors	221	337	354	415
Inventory	1,448	2,207	2,624	3,031
Loans & advances	9	9	9	9
Other current assets	531	531	531	531
Total current assets	2,546	3,624	4,921	7,551
Investments	0	0	0	0
Gross fixed assets	9,310	10,610	12,110	12,710
Less: Depreciation	-2,999	-3,631	-4,357	-5,121
Add: Capital WIP	497	497	497	497
Net fixed assets	6,807	7,476	8,249	8,085
Non-current assets	184	184	184	184
Total assets	9,582	11,328	13,399	15,865
Current liabilities	3,020	3,393	3,598	3,798
Provisions	209	209	209	209
Total current liabilities	3,229	3,602	3,807	4,007
Non-current liabilities	2,156	2,142	2,142	2,142
Total liabilities	5,385	5,744	5,949	6,149
Paid-up capital	433	650	650	650
Reserves & surplus	3,647	4,818	6,683	8,949
Shareholders' equity	4,197	5,584	7,450	9,716
Total equity & liabilities	9,582	11,328	13,399	15,865

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	CY21	CY22E	CY23E	CY24E
Pre-tax profit	1,007	2,024	2,647	3,170
Depreciation	531	617	726	764
Chg in working capital	-57	-476	-229	-268
Total tax paid	-167	-474	-619	-742
Cash flow from operating activities	1,314	1,691	2,525	2,924
Capital expenditure	-863	-1,285	-1,500	-600
Chg in marketable securities	21	221	0	0
Cash flow from investing activities	-843	-1,064	-1,500	-600
Free cash flow	472	627	1,025	2,324
Equity raised/(repaid)	144	217	0	0
Dividend (incl. tax)	-108	-162	-162	-162
Cash flow from financing activities	-78	54	-162	-162
Net chg in cash	393	681	863	2,162
Opening cash balance	190	337	540	1,402
Closing cash balance	337	540	1,402	3,564

Source: Company, Axis Securities

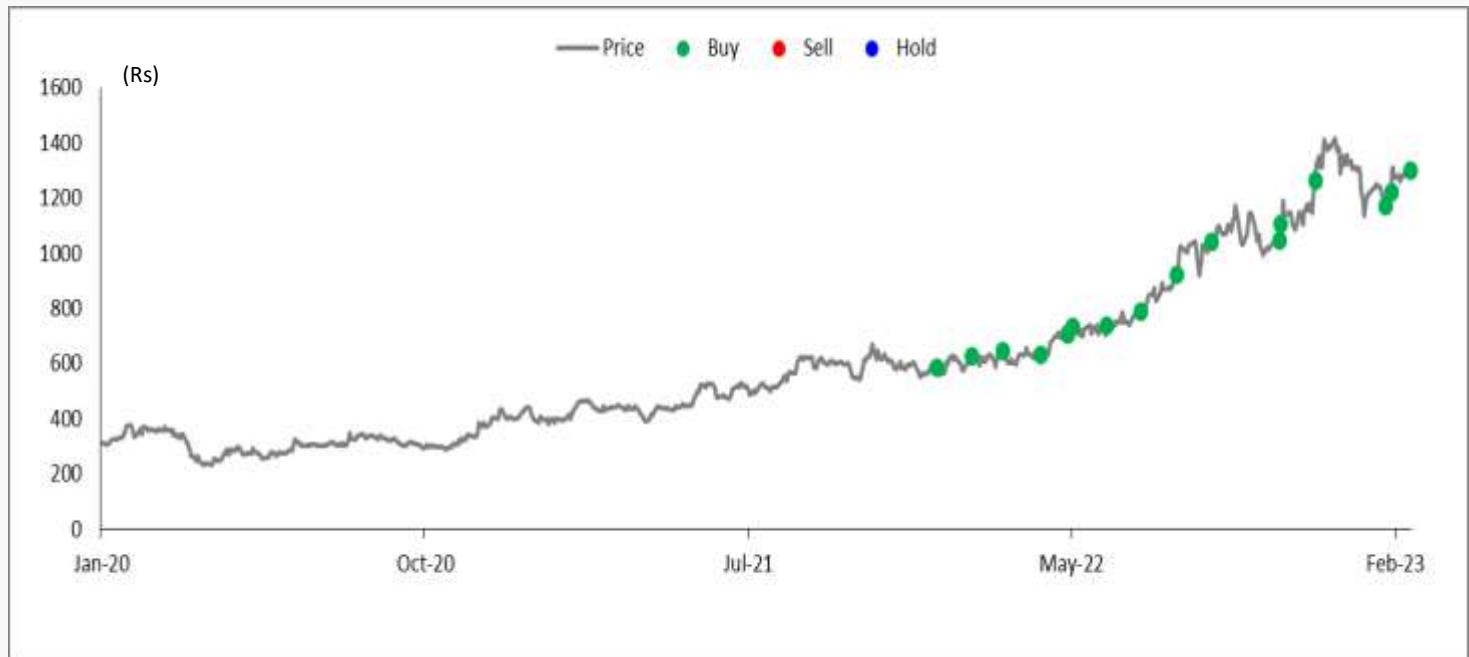
Ratio Analysis

(%)

Y/E Mar	CY21	CY22E	CY23E	CY24E
EPS (INR)	16.0	23.9	31.2	37.4
Growth, %	17.4	38.5	30.8	19.8
Book NAV/share (INR)	94.2	84.2	112.9	147.8
FDEPS (INR)	17.2	23.9	31.2	37.4
CEPS (INR)	29.5	33.4	42.4	49.1
CFPS (INR)	32.0	24.8	38.2	44.3
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	10.3	16.6	18.0	18.0
Return on equity (%)	18.3	28.4	27.7	25.3
Return on capital employed (%)	14.8	23.9	25.1	24.1
Turnover ratios				
Asset turnover (x)	1.3	1.8	1.9	2.0
Receivable days	9.3	9.3	8.3	8.4
Inventory days	61.2	61.2	61.2	61.2
Payable days	36.2	38.1	38.1	38.2
Working capital days	(34.2)	(8.6)	(1.9)	3.8
Liquidity ratios				
Current ratio (x)	0.8	1.1	1.4	2.0
Quick ratio (x)	0.4	0.4	0.6	1.2
Interest cover (x)	6.1	11.7	14.3	16.2
Total debt/Equity (%)	0.6	0.4	0.3	0.3
Net debt/Equity (%)	0.2	(0.1)	(0.2)	(0.4)
Valuation				
PER (x)	75.5	54.5	41.6	34.8
PEG (x) - y-o-y growth	4.3	1.4	1.4	1.8
Price/Book (x)	13.8	15.4	11.5	8.8
EV/Net sales (x)	6.7	6.6	5.5	4.6
EV/EBITDA (x)	35.2	31.0	24.2	20.4
EV/EBIT (x)	51.8	39.8	30.5	25.0

Source: Company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research
03-Jan-22	BUY	1,050	Top Picks
03-Feb-22	BUY	1,050	Top Picks
03-Feb-22	BUY	1,080	Result Update
02-Mar-22	BUY	1,080	Top Picks
04-Apr-22	BUY	1,110	Top Picks
29-Apr-22	BUY	1,200	Result Update
02-May-22	BUY	1,200	Top Picks
01-Jun-22	BUY	1,200	Top Picks
01-Jul-22	BUY	880	Top Picks
02-Aug-22	BUY	1,100	Result Update
01-Sep-22	BUY	1,150	Top Picks
01-Oct-22	BUY	1,150	Top Picks
02-Nov-22	BUY	1,300	Result Update
01-Dec-22	BUY	1,400	Top Picks
01-Jan-23	BUY	1,400	Top Picks
01-Feb-23	BUY	1,450	Top Picks
07-Feb-23	BUY	1,450	Result Update
23-Feb-23	BUY	1,500	Result Update

Source: Axis Securities

About the analyst**Analyst:** PreeyamTolia**Contact Details:** preeyam.tolia@axissecurities.in**Sector:** FMCG&Retail**Analyst Bio:** PreeyamTolia is B.com and CFA Level 1 and part of the Axis Securities Research Team.**Disclosures:**

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