

Axis Annual Analysis 2023



Varun Beverages Limited

Robust All-round Performance

Summary

The company achieved a strong all-round performance despite weak and challenging demand environment witnessing a volume growth of 13.9% YoY in CY23. This growth was primarily fueled by robust double-digit volume expansion in both Indian and international markets. Additionally, the realization per case increased by 7% to Rs 176, attributed to a more favourable product mix emphasizing 250 ML smaller SKUs (with higher realization per unit), greater prominence of the Sting portfolio, and enhanced realization in international markets.

The company's gross and EBITDA margin expanded by 106bps/153 bps YoY to 52.6%/23.1% on account of lower PET prices, higher realizations, and operational efficiencies. It continues to maintain its growth momentum guidance for CY24, supported by scaling up the dairy/juices portfolio, increasing distribution reach, robust on-ground execution, expanding manufacturing capacities, and ramping up the Africa (BevCo) business post completion of final approvals by Feb'24.

Key Highlights

- Increasing Manufacturing footprint:** The company is focusing on strategic investment and expanding its manufacturing facilities at Bundi (Rajasthan) and Jabalpur (Madhya Pradesh) for juices and value-added dairy products. It is setting up new plants in Uttar Pradesh, Maharashtra, and Odisha, which will increase its total capacity by 45% over CY22 levels.
- BevCo acquisition:** VBL in Dec'23 announced the acquisition of South African-based BevCo. The acquisition provides significant synergy benefits along with a market expansion opportunity. Furthermore, BevCo holds an overall market share of 1.5%, with its own brands accounting for ~13-14%. With VBL's execution capability, this acquisition sets the stage for a substantial, long-term, sustainable growth trajectory.
- Distribution reach:** The company's current distribution reach stands at 3.5 Mn outlets (compared to a potential 12 Mn outlets), and the total installed visi-cooler count is 10,00,000. VBL maintains its store addition guidance of 4-5 Lc outlets per year, driven by an increased distribution reach in rural markets.

Key Competitive Strengths

a) Penetrating new geographies through acquisition; b) Manufacturing new facilities in underpenetrated markets; c) Backward integration; d) Diversified product portfolio; e) Strengthening balance sheet

Growth Drivers a) Symbiotic relationship with PepsiCo; b) Strong supply chain management c) Extensive market share gains; d) Healthy margins expansion

Outlook & Recommendation

We believe VBL is expected to continue its strong growth momentum, which will be led by 1) Normalized operations along with market share gains in newly-acquired territories (post COVID-19 disruptions), 2) The management's continued focus on the efficient go-to-market execution in acquired and underpenetrated territories, 3) Expansion in its distribution reach mainly in rural with total outlets at 3.5 Mn outlets in CY23 as well as expected addition of 4-5 Lc outlets per year, 4) Focus on expanding high-margin Sting energy drink across outlets coupled with increased focus on expansion of Value-Added Dairy, sports drink (Gatorade), and Juice segment, and, 5) Robust growth in the International geographies, led by focused execution and scaling up BevCo in CY24.

Key Financials (Consolidated)

(Rs Cr)	CY23	CY24E	CY25E	CY26E
Net Sales	15,622	19,062	23,264	28,391
EBIDTA	3,609	4,705	5,875	7,335
Adj Net Profit	2,056	2,872	3,743	4,836
EPS, Rs	15.8	22.3	29.0	37.5
PER, x	85.8	62.8	48.2	37.3
EV/EBIDTA, x	51.3	39.1	30.8	24.2
P/BV, x	26.0	19.0	14.0	10.4
ROE, %	30.3	30.3	29.0	27.8

Source: Company, Axis Research

(CMP as of 19th Mar, 2024)

CMP (Rs)	1397
Upside /Downside (%)	11%
High/Low (Rs)	1560/645
Market cap (Cr)	181466
Avg. daily vol. (6m) Shrs.	2255159
No. of shares (Cr)	129.9

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	63.6	63.1	63.1
FII's	26.7	27.6	26.6
MFs / UTI	2.4	2.2	2.3
Banks / FI's	0.0	0.0	0.0
Others	7.3	7.1	8

Financial & Valuations

Y/E Mar (Rs Cr)	CY24E	CY25E	CY26E
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Change in Estimates (%)

Y/E Mar	CY24E	CY25E
Sales	-1%	-3%
EBIDTA	0%	-3%
PAT	0%	-3%

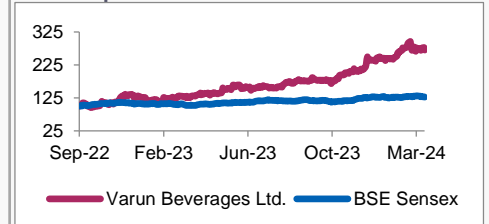
ESG disclosure Score**

Environmental Disclosure	32.98
Social Disclosure Score	21.76
Governance Disclosure Score	76.09
Total ESG Disclosure Score	43.65
Sector Average	44.87

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 2022 disclosures

Relative performance



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Company Overview

Varun Beverages Limited (VBL) - a part of RJ Corp group, is a key player in the beverage industry and one of the largest franchisees of PepsiCo in the world (outside the USA). VBL has been associated with PepsiCo since the 1990s and over the last 25 years, it has consolidated its business association with PepsiCo. This has helped the company in increasing the number of licensed territories and sub-territories covered by it, producing and distributing a wider range of PepsiCo beverages, introducing various SKUs in the portfolio, and expanding the distribution network. To date, VBL has been granted franchises for various PepsiCo products across 27 States and 7 Union Territories in India. India is the largest market for the company and contributed ~79% of revenues from operations (net) in FY23. VBL has also been granted the franchise for various PepsiCo products for the territories of Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe.

VBL produces and distributes a wide range of carbonated soft drinks (CSDs), as well as a large selection of non-carbonated beverages (NCBs), including packaged drinking water sold under trademarks owned by PepsiCo. PepsiCo CSD brands produced and sold by VBL include Pepsi, Pepsi Black, Mountain Dew, Sting, Seven-Up, Mirinda, Seven-Up Nimbooz, Masala Soda and Evervess. PepsiCo NCB brands produced and sold by the company include Slice, Tropicana Juices (100% and Delight), Seven-Up Nimbooz, Gatorade as well as packaged drinking water under the brand Aquafina.

VBL's robust operational & financial performance and significant expansion in manufacturing capabilities have all contributed to a remarkable year 2023.

FY23 Performance Round-up and Key Operational Activities

In CY23, VBL recorded a healthy performance, experiencing notable growth across all the key parameters. Despite the unusually heavy unseasonal rains during the peak season, VBL has reported a strong double-digit volume growth in both Indian and international markets.

- **Revenue:** The revenue from operations grew to Rs 16,043 Cr in CY23 from Rs 13,173 Cr in CY22; recording an increase of 21.8%. This growth was driven by double-digit volume increases in both the Indian and international markets. Additionally, there was a 7% improvement in net realization per case in CY23. This improvement can be attributed to a better mix of smaller SKUs and carbonated soft drinks (CSD) in the Indian markets, as well as higher realization per case in the international markets. The company's proactive approach to expanding its product portfolio, particularly with the addition of the energy drink "Sting" and endeavours in dairy, Hydration, and juice segments have played an important role in assisting this growth.
- **Impressive volume growth:** Total sales volume for CY23 stood at ~913 Mn cases, grew by 13.9% from ~802 Mn unit cases in CY22, led by double-digit growth in both Indian (12.9%) and international markets (18%). The company has thus achieved impressive volume growth reflecting the strong and consistent demand for the products across the markets both Indian and international, led by an increase in consumer preferences, distribution expansion, and expanding territories across the markets. Carbonated soft drinks (CSD) constituted 72%, JBD 6% and packaged drinking water 22% of the total sales volume in CY23. The realization per case increased by 7% to Rs 175 in CY23, driven by improvement in the mix of smaller SKUs (250 ml) in the Indian markets and higher realization per case in the international markets.
- **Margins improved:** In CY23, gross margins improved by 106bps to 52.6% from 51.5%, mainly led by the softening of PET chip prices, despite a slight uptick in sugar prices. Hence, due to the augmented realization per case and improved gross margins, EBITDA improved by 23.1% to Rs 3,609 Cr, accompanied by a subsequent increase in EBITDA margins by 153bps to 23.1% in CY23.
- **PAT experienced a healthy spike:** PAT reported a notable 35.6% jump, reaching Rs 2,102 Cr in CY23 from Rs 1,550 Cr in CY22, led by the growth in revenue from operations and improvement in gross margins.

- **Depreciation:** Depreciation increased by 10.3% in CY23, attributed to the capitalization of assets and the expansion of Greenfield projects.
- **Capex capitalized:** The Capex outgo stood at 2,100 Cr for CY23 - i) Rs 850 Cr: Greenfield expansion in Bundi, Rajasthan and Jabalpur, Madhya Pradesh (ii) Rs 800 Cr: Brownfield expansion in 6 existing facilities across India and in International market, (iii) Rs 150 Cr: Land acquisition in Buxar, Bihar and Kangra in Himachal Pradesh for future expansion (CY24/25E), (iv) Balances Capex comprises international/net of write-offs/Forex fluctuation.

Upcoming Capex – For CY24E, VBL plans a Capex of Rs 3,600 Cr, with ~Rs 3,000 Cr allocated for projects in India and around Rs 600 Cr for international ventures. Out of this total, Rs 2,400 Cr is categorized as work-in-progress (CWIP), while the remaining Rs 1,200 Cr is earmarked for expenditure in the following year, along with any CWIP related to the CY25 season. According to management statements, once all new plants are operationalized, the revenue potential is expected to double the Capex, as capacity will increase by 45% compared to CY22 levels. This expansion is poised to drive growth in the coming years.

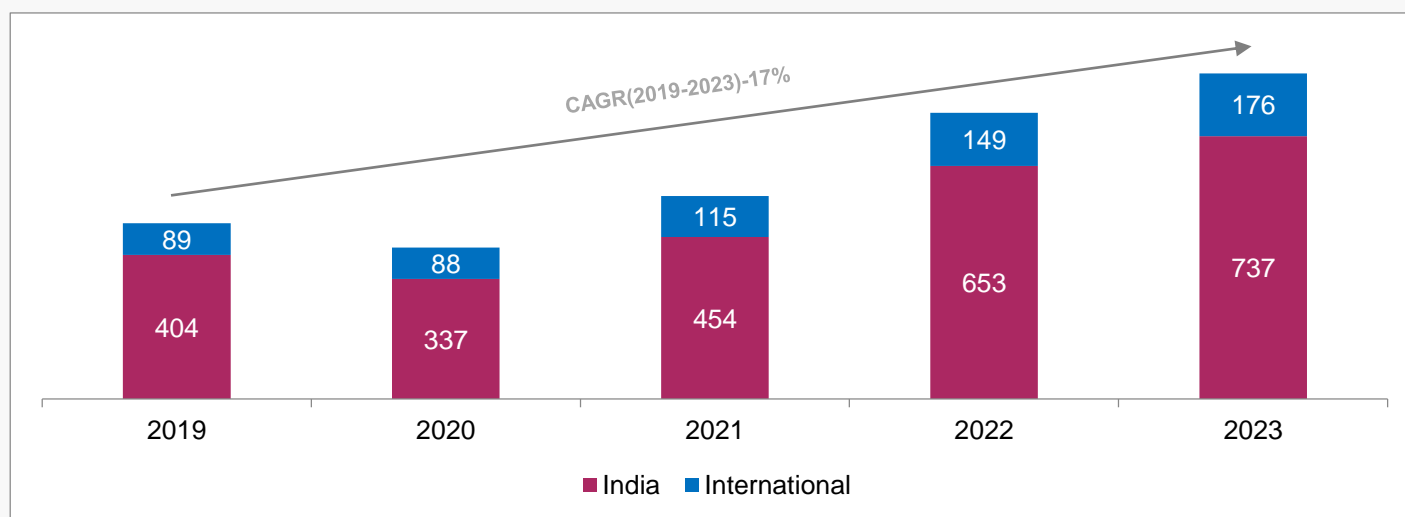
- **Debt managed:** Net debt increased to Rs 4,734 Cr in CY23 from Rs 3,409 Cr in CY22 due to growth Capex. The main reason for the increase in net debt is due to the surge in CWIP and capital advances by Rs 1,200 Cr. This is due to the completion and production at the Supa plant in Maharashtra which was scheduled to become operational by 25th Jan'24. Debt to Equity ratio remained healthy at 0.67x and the Debt to EBITDA ratio at 1.31x.
- **Dividend and share split:** The company has declared a dividend of Rs 2.50/equity share, implying a total cash outflow of Rs 324 Cr for CY23. The company's board has also approved a split in the ratio of 1:2 during the year.

Key Highlights from the Annual Report – CY23

Phenomenal Performance

VBL's stronghold lies within India, where 79% of the revenue originates whereas the remaining earnings come from the diverse international markets. VBL registered 913 Mn total sales volume cases in CY23, out of which domestic volume stood at 737 Mn over 653 Mn cases in CY22. The strong growth in the Indian business is led by the opening up of new distribution networks in underpenetrated places like the West and South. Strategic investments through the manufacturing footprint have not only opened avenues into the untapped markets but also helped VBL enhance its market presence.

Exhibit 1: Growth in Sales Volume (In Mn cases): 17%-CAGR for (2019-2023)



Source: Company, Axis Securities

Exploring more markets outside the existing territories

- The Beverage Company (BevCo):** VBL has acquired a 100% stake in a South Africa-based beverage company along with its wholly-owned subsidiaries "BevCo" at an EV valuation of Rs 1,320 Cr. The company is engaged in the business of manufacturing and distribution of licensed (Pepsico) and own-branded non-alcoholic beverages in South Africa. It holds exclusive franchise rights from PepsiCo Inc. for South Africa, Lesotho, and Eswatini, along with distribution rights for Namibia and Botswana. This acquisition which aligns perfectly with its strategic goals offers an excellent opportunity to significantly enhance its presence in the African market – a region known for high demand for soft drinks and favorable demographics. The integration of BevCo into VBL's operations is expected to yield substantial synergy benefits in the future.
- Formation of new subsidiary in Mozambique:** VBL has incorporated a new subsidiary named 'VBL Mozambique, SA' in Mozambique, South Africa. This subsidiary will be engaged in the distribution of beverages.
- Acquisition of stake in Lunarmech Technologies Private Limited:** The company has acquired 5.03% shareholding in Lunarmech Technologies Private Limited for a purchase consideration of Rs 100 Mn. Post-acquisition, the company holds 60.07% of the effective equity share capital of Lunarmech Technologies Private Limited which manufactures plastic closures for VBL.

Setting up new manufacturing units in India:-

- 1) **Commencement of commercial production at greenfield facilities as well as undertaking brownfield Expansion at 6 facilities** – In CY23, VBL has commissioned new production facilities at Bundi, Rajasthan and at Jabalpur, Madhya Pradesh, as well as expanded its capacity at six existing locations namely Pathankot, Kosi, Bharuch, Tirunelveli, Begusarai, and Guwahati.
- 2) **Commencement of Commercial Production at Greenfield facility in CY24** – The company has already started commercial production including backward integration at its new greenfield production facility at Supa (Maharashtra).

Production of 100% rPET bottles for carbonated beverages

In CY23, VBL introduced 100% recycled plastic bottles for Pepsi Black in certain territories, thereby taking a transformative initiative with PepsiCo and collaborating to build a greener future for the next generation. Furthermore, it is setting up a PET recycling facility through a **joint venture with Indorama**, aiming to start production by 2025, fulfilling 20%-25% of its PET requirement. Another plant will also start production by the end of 2025, ensuring sufficient coverage for PET recycling. Through various initiatives such as reducing the weight of preforms and closures, as well as focusing on rPET, VBL aims to achieve 100% recycling of its plastic waste by 2025.

Strengthening Product portfolio

To enrich the product portfolio, VBL now caters to 9 different key categories in the Beverages line-up, globally as well as regionally. These include:

- Carbonated Drinks
- Energy Drink
- Club Soda
- Carbonated Juice-based drinks
- Fruit Pulp/juice-based drinks
- Ice Tea
- Sports drink
- Packaged Drink water
- Value-added dairy-based beverages

Exhibit 2: Volume Breakup Across Categories

Segmental Sales Volume (Mn Cases)	CY19	CY20	CY21	CY22	CY23
CSD	348	309	401	563	656
yoy % change		-11%	30%	40%	17%
NCD	33	26	36	57	58
yoy % change		-21%	38%	58%	2%
Packaged water	111	89	132	182	199
yoy % change		-20%	48%	38%	9%

Source: Company, Axis Securities

Sting Energy Drink continues with its growth path

Sting has been exhibiting robust performance, maintaining a healthy growth trajectory. According to management, Sting currently constitutes approximately 14%-15% of the portfolio mix, indicating ample room for further expansion and growth opportunities. In fact, Sting has emerged as a key growth vector for the company. During CY23, VBL launched another variant in Sting as Sting Blue which has also performed well in the market.

- **Dairy business:** VBL has shifted its focus towards expanding its Value-Added Dairy, Sports Drinks (Gatorade), and Juice segments. Previously limited to certain markets in the east, VBL has now established three Greenfield plants - one each in Maharashtra and UP, with another in Orissa (awaiting commencement). The company has significantly increased its capacity for Tropicana and value-added dairy products, with production capacity expanding by 200% following the commissioning of facilities in Supa, Maharashtra, and Gorakhpur, UP (scheduled for commissioning by March/April).
- **Benefiting from its existing logistics and distribution network** for CSD, VBL has a competitive advantage in its Value-Added Dairy business. Additionally, the margins for value-added products are comparable to soft drinks, with higher revenue realization per case due to lower tax structures (40% for CSD vs. 12% for value-added products). Therefore, these categories are expected to drive VBL's growth in the coming years.
- **Morocco** - The company has begun distribution of Lays, Doritos, and Cheetos on 1st Jan'23 in Morocco. VBL currently is importing the products; however, as the business stabilizes, VBL plans to manufacture these products locally in Morocco.

Key Growth Drivers

Symbiotic relationship with PepsiCo company

VBL has been associated with PepsiCo for the last 32+ years and has increased the number of licensed territories and sub-territories since then. VBL has also gotten into the production and distribution of a wider range of PepsiCo beverages, introduced various SKUs in the portfolio and expanded the distribution network. So far, VBL has been granted franchises for various PepsiCo products across 27 States and 7 Union Territories in India.

VBL has maintained successful business association with PepsiCo over three decades.

Extensive market share gains

In CY23, VBL has an outlet reach of 3.5 Mn outlets from ~3 Mn in CY22 and has also guided that it is adding 4,00,000-5,00,000 new outlets every year. This has been the main source of growth for the company. VBL's strategic expansion in underpenetrated markets, expanding territories along focusing on adding multiple smaller SKUs into the portfolio have helped VBL to win a large market share. Furthermore, considering the low per-capita consumption of soft drinks in India relative to other developing nations, coupled with VBL's efforts in expanding its distribution network, VBL stands poised for significant growth opportunities within the country.

Strong supply Chain management

The company boasts a resilient and deeply ingrained distribution network that spans urban, semi-urban, and rural markets, effectively catering to the diverse needs of consumers. This network is strategically positioned to optimize market penetration within licensed sub-territories across India. In CY23, VBL's supply chain remains robust, encompassing over 120 depots, a fleet of 2,500 owned vehicles, more than 2,400 primary distributors, and an impressive installation of over 1,00,000 visi-coolers across various markets, thereby doing local-level promotion, in-store activation, customer relationship management as well as brand building.

Moreover, the company is investing in Electric Vehicles (EVs) through its distributors, with plans to establish a fleet of over 600 EVs for sustainable last-mile delivery and beverage distribution. Addressing challenges such as reliable electricity supply, refrigeration and cooling equipment, and robust logistics infrastructure, VBL's formidable distribution model and comprehensive on-ground infrastructure remain key drivers for the company's continued growth.

Exhibit 3: Robust investments in distribution expansion

	CY19	CY20	CY21	CY22	CY23
Visi Coolers	7,75,000	8,00,000	8,40,000	9,25,000	10,00,000
% yoy		3%	5%	10%	8%
Depots	90	90	100	110	120
% yoy		0%	11%	10%	9%
Owned Vehicles	2500	2500	2500	2500	2500
% yoy		0%	0%	-4%	4%
Primary Distributors	1500	1500	2000	2400	2400
% yoy		0%	33%	25%	-4%

Source: Company, Axis Securities

Healthy margins expansion

VBL has managed to sustain growth in the profit margins which indicates the company's financial strength and stability. In CY23, gross margins saw a notable improvement, rising by 106 basis points to 52.6% from 51.5% in CY22. This improvement was primarily driven by softening PET chip prices, despite a slight increase in sugar prices. As a result of improved realization per case and enhanced gross margins, EBITDA improved by 23.1% to Rs 3,609 Cr, accompanied by a subsequent increase in EBITDA margins by 153bps to 23.1% in CY23. VBL has also implemented several strategic initiatives aimed at enhancing operational excellence, such as backward integration of manufacturing process and centralized raw material sourcing, thereby maintaining high-quality standards.

Business Model

VBL manufactures and distributes a wide range of CSD, NCD, and packaged water. It has a unique way of doing business where it handles everything from making the drinks, getting them to customers, storing them, and managing money for future growth. PepsiCo gives the company brands, and formulas, and helps with big marketing. In return, the company takes full control over making and delivering the drinks, which helps it gain market share, enhance cost efficiencies, and maintain capital allocation strategies.

VBL operates a vertically integrated business model, manufacturing & distributing a range of CSD, NCD & packaged water, in partnership with PepsiCo, ensuring control over production and distribution for market growth and efficiency.

Distribution Challenges

The company has a lot of experience in getting drinks to stores, which involves tricky logistics and packaging. While the way it does business is similar in all places, each area has its own unique challenges. These can include ensuring enough electricity and cooling equipment, handling deliveries, and dealing with different types of people and economic conditions.

Distribution Network

The company has established a robust distribution network that caters to urban, semi-urban, and rural markets. This strategically located distribution network aims to cover under-penetrated markets across licenced sub-territories in India.

Facilities and Growth

As of 2023 end, the company runs 39 manufacturing facilities with 33 located in India and 6 in international territories. It has also established a strong supply chain, with numerous storage places, its own fleet of 2500+ electric vehicles, 2400+ distributors, and over 10 Lc cooling machines set up in different markets.

Expansion and Sales

Over time, the company has grown in India both organically and inorganically. It has bought new territories from PepsiCo and areas that used to be run by others. With a smart sales team, the company focuses on getting more customers and selling more drinks in the places through various customer push strategies in licensed territories. It uses different strategies like local advertising, store promotions, taking care of customers, and finding the best spots to put its vending machines and cooling machines.

Operational Excellence

The company has also worked on improving its operations by implementing backward integration of manufacturing processes and centralized raw material sourcing. VBL has set up facilities to produce things like bottle caps, boxes, and plastic wraps in some factories to work more efficiently and to maintain high quality.

Risks & Mitigation

- 1) **Demand risk:** Demand risk refers to the potential threat faced by a company due to cyclical downturns in business activity, which can adversely impact sales and revenue streams.

Mitigation: Over time, the company has shown its knack for boosting sales volumes by emphasizing the right brand, price, product, and distribution channel. Moreover, it operates in markets with promising demographics, weather conditions, and a rising population, suggesting sustained demand growth. Its diverse product portfolio allows it to serve various consumer segments effectively.

- 2) **Business risk:** The company's symbiotic relationship with PepsiCo is crucial, as any termination or disagreements with proposals could adversely affect profitability.

Mitigation: The company has fostered a strong partnership with PepsiCo in the last 32 years, expanding its market presence by entering new territories and sub-territories. This collaboration involves increasing the production and distribution of a wider range of PepsiCo beverages, integrating multiple product variants into its portfolio, and expanding its distribution network. The company has proven its ability to significantly enhance PepsiCo's market share, establishing itself as a dependable partner. This partnership is mutually beneficial, with both parties actively involved as development partners. They jointly invest in projects and business planning, focusing primarily on strategic issues.

- 3) **Regulatory risk:** The company faces regulatory risks related to consumer health regulations and the potential for discriminatory taxes and packaging waste requirements, which could harm its business.

Mitigation: The company has adopted a backward integration model to ensure the availability of plant & equipment and key materials, modern technologies, best-in-class supplier assessment, contracting and performance evaluation procedures to minimise disruptions in the supply chain.

- 4) **Regulatory risk:** Unfavourable changes in existing rules and regulations can impact the company's operations.

Mitigation: The company collaborates with PepsiCo, government bodies, and regulators to ensure fairness and transparency. VBL emphasizes sustainable manufacturing practices, including waste recycling, water management, and reducing emissions. It engages stakeholders and partners with NGOs for environmental solutions. PepsiCo's focus on healthier products aligns with VBL's goals. VBL has initiated sustainability efforts like PET bottle recycling with GEM Enviro Management Pvt. Ltd. and water/carbon footprint management with Deutsch Quality Systems (India) Pvt. Ltd..

- 5) **Business viability risk:** This risk refers to the potential challenge of integrating operations and leveraging operating efficiencies from newly acquired territories. Any failure to do so may harm the company's business and financial performance.

Mitigation: VBL's clear approach and financial strategy guarantee that forthcoming acquisitions or partnerships will not only be beneficial but will also be in line with the Board's acquisition principles. The company invests significant management effort and financial means to ensure the success of newly acquired ventures. This involves crafting tailored market strategies, tackling cultural and linguistic obstacles, and harmonizing business operations to ensure overall business sustainability.

- 6) **Consumer Preferences risk:** This risk refers to the potential negative impact on demand if the company fails to adapt to changing health trends or address misconceptions about the health effects of soft drink consumption.

The company, VBL is exposed to many risks and has mitigation strategies in place to deal with these risks.

Mitigation: To remain competitive, VBL's sales team collaborates closely with PepsiCo to analyze changing consumer behaviours, emphasizing product innovation, and expanding product line-up. Additionally, PepsiCo's new product strategy prioritizes healthier options with reduced calorie and sugar content.

- 7) **Raw material risk:** This risk refers to the potential negative impact on the company's business if there is a disruption in the supply or a significant price increase of raw materials or packaging materials. This could adversely affect the company's business prospects, operational results, and financial condition.

Mitigation: VBL focuses on maximizing cost efficiencies by reducing costs, minimizing expenses, and improving cash flows. It achieves this through initiatives like backward integration, centralized sourcing, and negotiation with suppliers. The company also optimizes assets for operational efficiency and invests in innovative solutions to streamline processes and enhance supply chain monitoring.

ESG Initiatives

During the year CY23, VBL has identified 10 specific areas in which ESG issues can be classified.

These are-

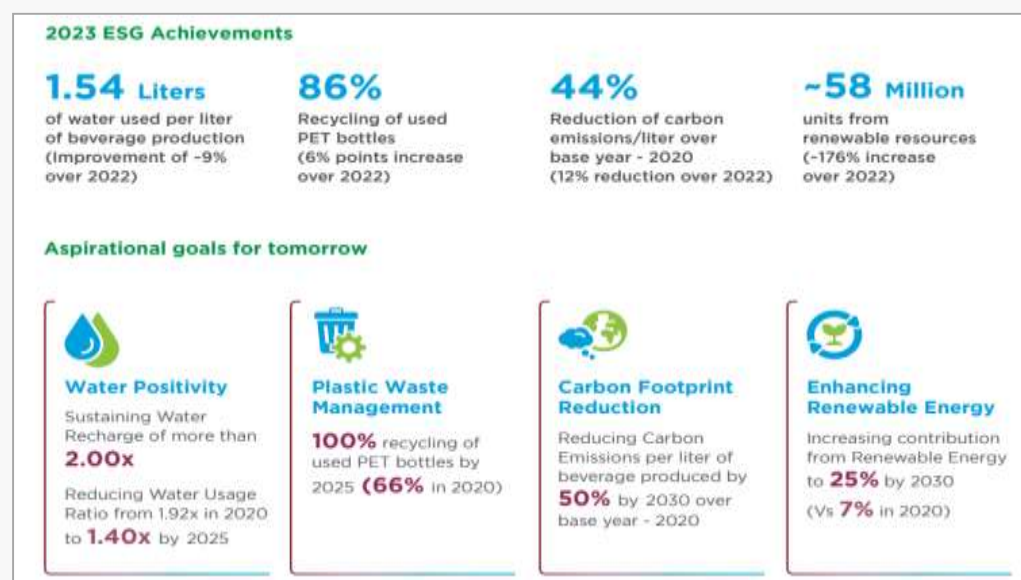
- Water Management,
- Carbon Footprint & Emissions,
- Product Safety & Quality,
- Consumer Health & Nutrition,
- Corporate Citizenship,
- Employee Health & Safety,
- Packaging Lifecycles Management,
- Business Performance,
- Corporate Governance and
- Business Ethics.

VBL is fully dedicated to sustainability and environmental stewardship, aligning with PepsiCo's global PEP+ objectives. Their investments focus on green energy and PET reuse to reduce environmental impact, reflecting their commitment to a greener future.

As a responsible business, the company has taken significant initiatives to optimize resource efficiency, reduce and manage waste and increase the share of renewable energy. It has formalized ESG business strategies which comprises 5 key pillars- **Environmental Protection, Social Capital, Human Capital Development, Business Model & Innovation, and Leadership & Governance**. Prioritizing the material aspects under each of these pillars helps it to consistently focus on the most significant sustainability issues and create long-term value for its stakeholders.

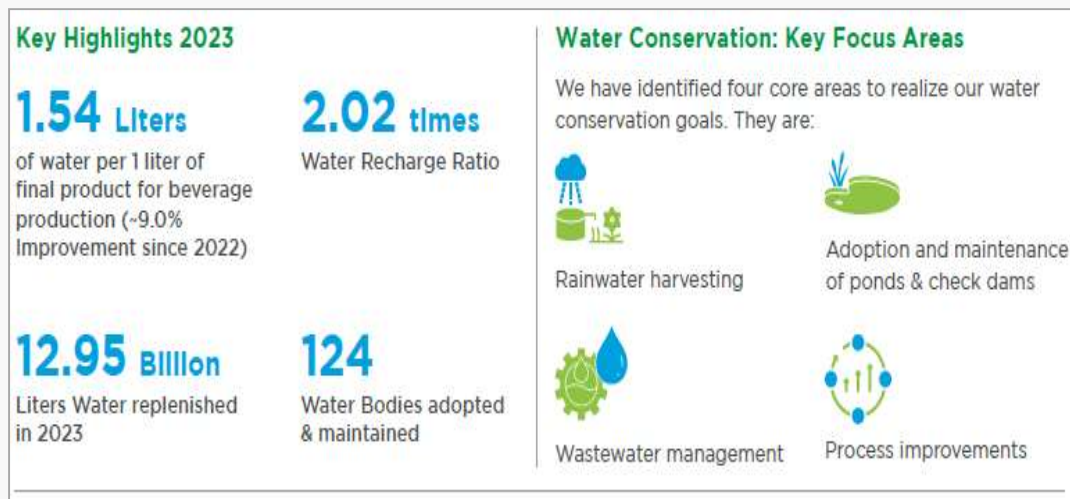
VBL has formed an ESG team with representatives from diverse business functions across the organizational structure. Their extensive experience and varied exposure empower it to seamlessly navigate through the increasing demand for transparency and associated regulatory risks, alongside enhancing the effectiveness of ESG efforts. This team identifies the company's risks and opportunities, and charts VBL's ESG journey, its reputation and its corporate responsibility.

The company has made considerable progress in its ESG milestones in CY23 and now it has crafted an aspirational roadmap for the future. This includes its 2025 goals for reducing waste and achieving water positivity and 2030 goals for reducing carbon footprint and enhancing renewable energy.



Environment

Worldwide, water levels are depleting. Swelling global population, rapid economic development, urbanization and climate change are straining the natural balance in water bodies, calling for urgent and sustainable action. As a beverage company, VBL focuses on optimizing water efficiency, treating wastewater effectively, rejuvenating freshwater sources, and replenishing more water than it consumes in the manufacturing of beverages.



VBL has taken a lot of initiatives for Water Stewardship

- **Reduce, Reuse and Recycle-** The triple-sided strategy focused on reducing, reusing, and recycling forms the cornerstone of the water management and conservation strategy. Key measures include reducing water consumption per litre of beverage produced and cutting down wastage; improving water efficiency through reuse and multiple process improvements; and rainwater harvesting to recycle and replenish groundwater levels.
- **Staying Water Positive-** In its commitment to sustainable water management, VBL prioritizes meeting present water demands while safeguarding ample water reservoirs for future generations. Their pledge to remain water-positive entails replenishing more water than it consumes. As of 2023, the company's production processes only utilized half of the replenished water.
- **Cleaning water-** The company understand its responsibility to keep the water clean and makes extensive efforts towards reducing water usage and increasing efficiency across the value chain.
- **Wastewater Management-** VBL recognizes its duty to guarantee that the water discharged from its plants into the ecosystem meets adequate quality standards. To uphold this commitment, all wastewater discharged from VBL's manufacturing facilities throughout India undergoes treatment in effluent treatment plants, ensuring 100% compliance.

Exhibit 4: Water Audit Team Findings on Water Stewardship

	Water consumption (In Billion Liters)	Beverage production (In Billion Liters)	Water usage ratio	Water recharge (In Billion Liters)	Water recharge ratio	No. of water bodies adopted
CY 2019	4.12	2.12	1.94 times	7.22	1.75 times	103
CY 2020	3.74	1.95	1.92 times	10.19	2.72 times	108
CY 2021	4.86	2.57	1.89 times	11.10	2.28 times	110
CY 2022	6.32	3.72	1.70 times	12.79	2.02 times	116
CY 2023	6.39	4.14	1.54 times	12.95	2.02 times	124

Source: Company, Axis Securities

Along with its water conservation efforts, VBL has adopted 118 ponds and constructed 6 check-dams for its maintenance and rejuvenation. This initiative by VBL has created a significant socio-economic and environmental impact. It considerably eased and improved the lives of communities, while providing sustained opportunities for farming and livelihood. The measures also steered biodiversity and improved water levels in Earth's natural reservoirs.

Plastic waste management and Recycling

VBL aims to reduce the use of plastic derived from non-renewable sources as well as recycling of used PET bottles. During the year, the company introduced 100% recycled plastic (rPET) bottles for Pepsi Black in specific sub-territories. Also, the company has plans to incorporate 30% r-PET in its total PET packaging by 2025, through a joint venture(JV) with Indorama.

This year CY23, VBL has achieved-

- 1) Recycled 4.04lakh MT of used PET bottles.
- 2) Implementing 100% phased recycling of used PET bottles and collection from end-users.

Exhibit 5: Weight Reduction of Preforms(in Grams)

Pack Size	2010-2014	2015-2019	2020-2023	Net Reduction (%)
600ML	25.5	22.2	22.2	12.9
750ML	34.7	30.7	27.1	21.9
1.0L	21.0	21.0	19.0	9.5
1.25L	36.0	34.7	32.5	9.7
2.25L	52.5	50.7	47.0	10.5

Source: Company, Axis Securities

Exhibit 6: Weight Reduction of Closures(in Grams)

Pack Size	2010-2014	2015-2019	2020-2023	Net Reduction(%)
CSD/Juice	3.15	2.75	2.35	25.4
Packaged water	1.70	1.50	1.35	20.6

Source: Company, Axis Securities

Furthermore, VBL has recycled 86% of the total PET bottles consumed during CY23. PET bottles consumed during the year were 175,292 MT and those recycled during the same period stood at 150,982MT. Through various initiatives such as reducing the weight of preforms and closures, as well as focusing on rPET, VBL aims to achieve 100% recycling of its plastic waste by 2025.

Exhibit 7: Plastic Water Recycling % over the years


Source: Company, Axis Securities

Enhancing Energy Efficiency in Beverages Distribution

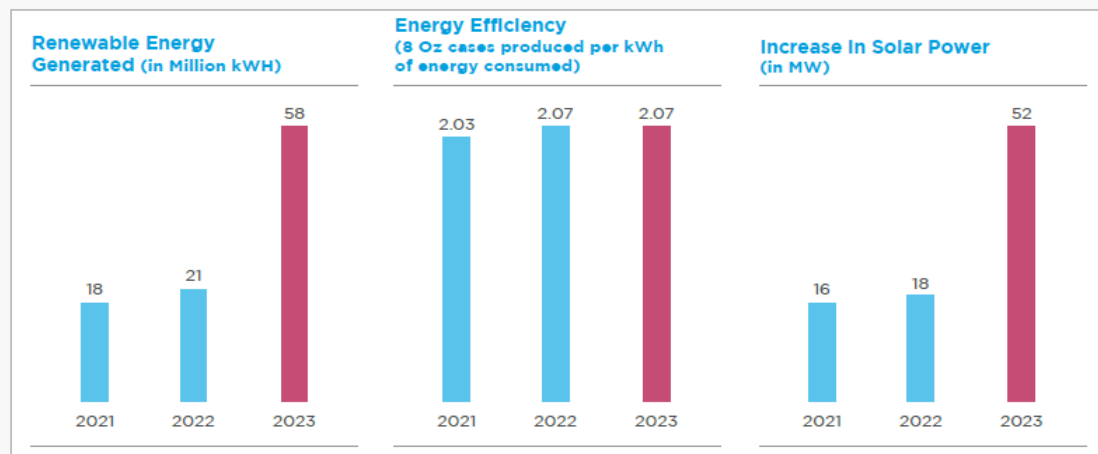
In regards to the company's net zero-transition goal, VBL has taken some remarkable steps by increasing its renewable energy portfolio through rooftop solar and open-access power purchase agreements.

In CY23, VBL has achieved-1) Generated ~58 Million Units of electricity through renewable sources –this is equivalent to the annual power consumption of 25,000+ households.

2)VBL is teaming up with the distributors to create about 1200 electric vehicles. These efforts will help it to deliver its beverages sustainably and cut down the yearly carbon emission by about 2 Mn tonnes.

Exhibit 8: Renewable and Non-Renewable Sources

	CY 2022	CY 2023
RENEWABLE SOURCES		
Electricity consumption	21 mn kWh	58 mn kWh
Fuel consumption (Briquette, Firewood, LPG, PNG)	74 mn Kg	64 mn Kg
NON-RENEWABLE SOURCES		
Electricity consumption	283 mn kWh	382 mn kWh
Fuel consumption (HSD Diesel)	5.5 mn Liters	4.4 mn Liters



Source: company, Axis Securities

Continuous efforts to reduce Carbon Footprint

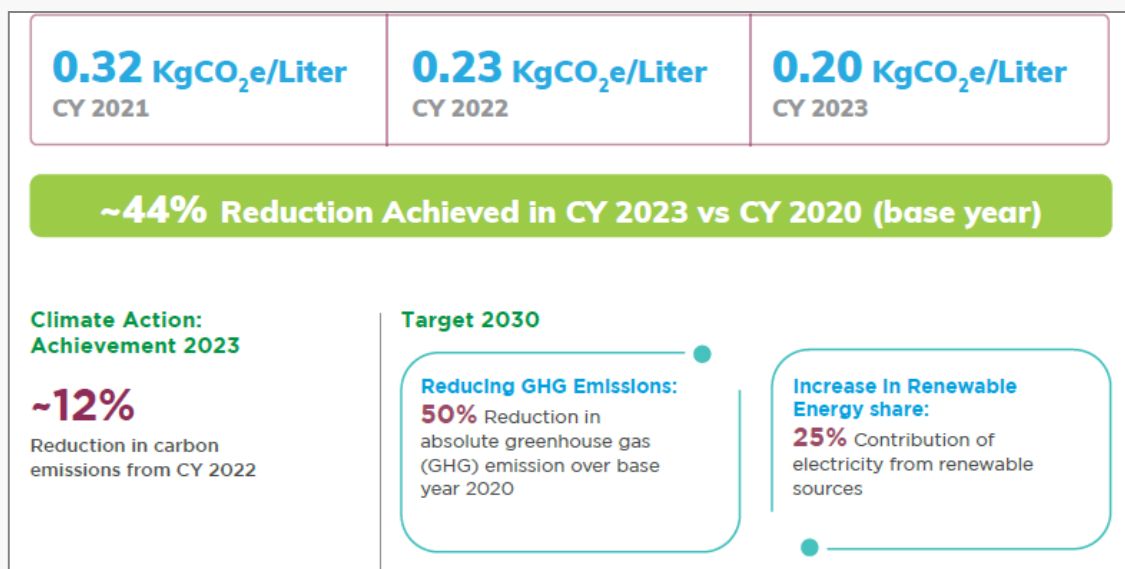
As climate change gets worse and affects the planet and its ecosystems, VBL is committed to making sure that it leaves a positive impact on the environment. It is doing this through ongoing efforts like using energy better, finding new ways to do things, using more technology, and running its operations more efficiently. These efforts help it save natural resources and cut down on how much carbon it releases into the atmosphere. In addition to this, VBL has conducted a carbon footprint emission assessment for 33 manufacturing facilities across India, in collaboration with Deutsch Quality Systems(India) Pvt Ltd.

Exhibit 9: Operational boundaries across different scopes



Source: Company, Axis Securities

Exhibit 10: Intensity of GHG emissions/litre production of Beverages

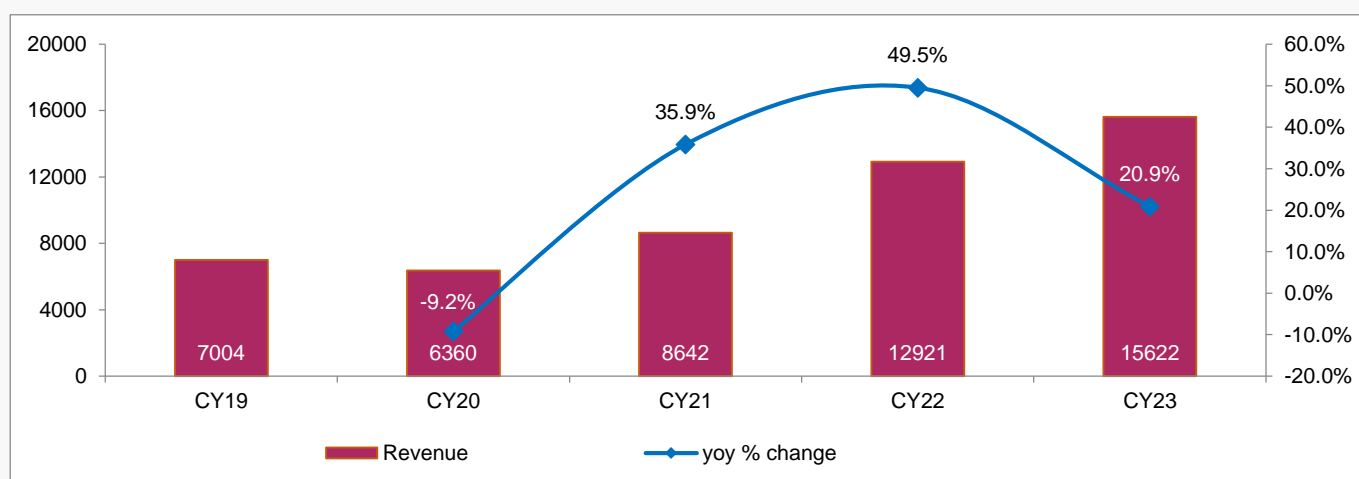


Source: Company, Axis Securities

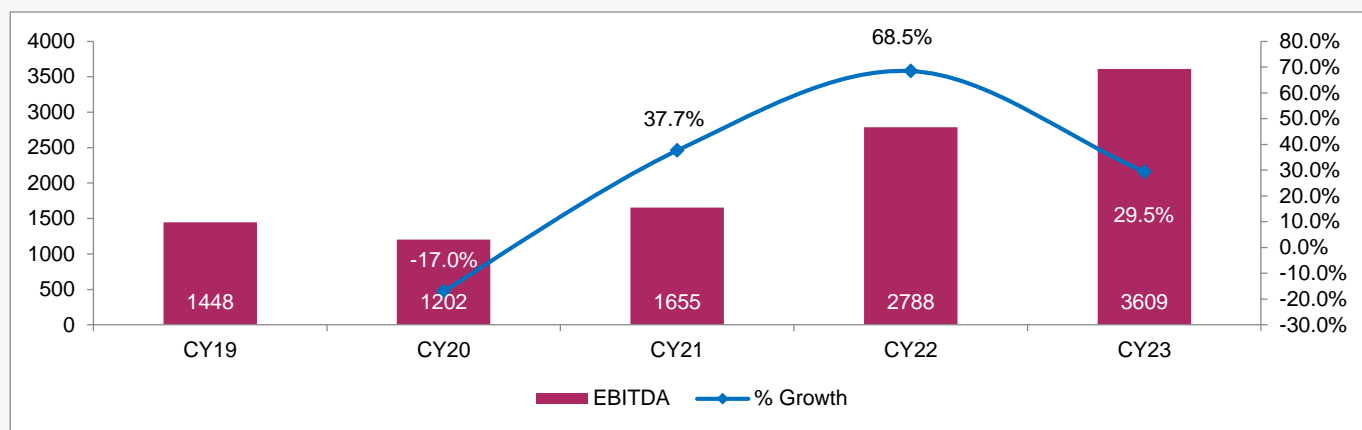
Profitability Analysis (Rs Cr)

Particulars	CY22	CY23	Change	Comments/Analysis
Sales	12,921	15,622	20.9%	Revenue growth was driven by a double-digit volume growth in both India and international markets and improved in net realization per case in CY23
RM Cost	6,161	7,405	18.3%	
Gross Profits	6,660	8,217	23.4%	An increase in revenue is reflected in higher gross profits.
Gross Margins %	51.5	52.6	106bps	Gross margins improved by 106bps, mainly led by the softening of PET chip prices, despite a slight uptick in sugar prices.
Operating Expenses	4,124	5,028	21.9%	Increase in expense majorly due to higher employee benefits and other expenses including advertisement cost during the year.
EBITDA	2,788	3,609	29.5%	EBITDA increased on account of improved realization per case and enhanced gross margins
EBITDA Margins%	21.6	23.1	153bps	Strong operating leverage led to EBITDA margin expansion
Interest	186	268	44%	Higher interest cost due to the increase in average cost of borrowings by about 30% to the level of 7.95% pa.
PAT	1,550	2,102	35.6%	Increase in profits driven by growth in revenue from operations and improved gross margins
EPS	12	16	37.3%	Earnings in line with profitability

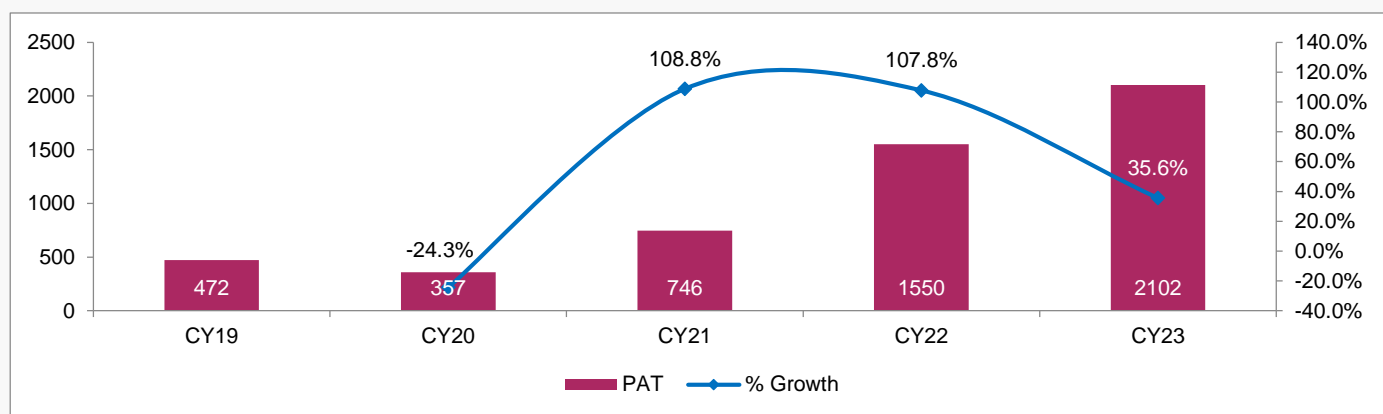
Source: company; Axis Securities

Exhibit 11: High double-digit revenue growth trend


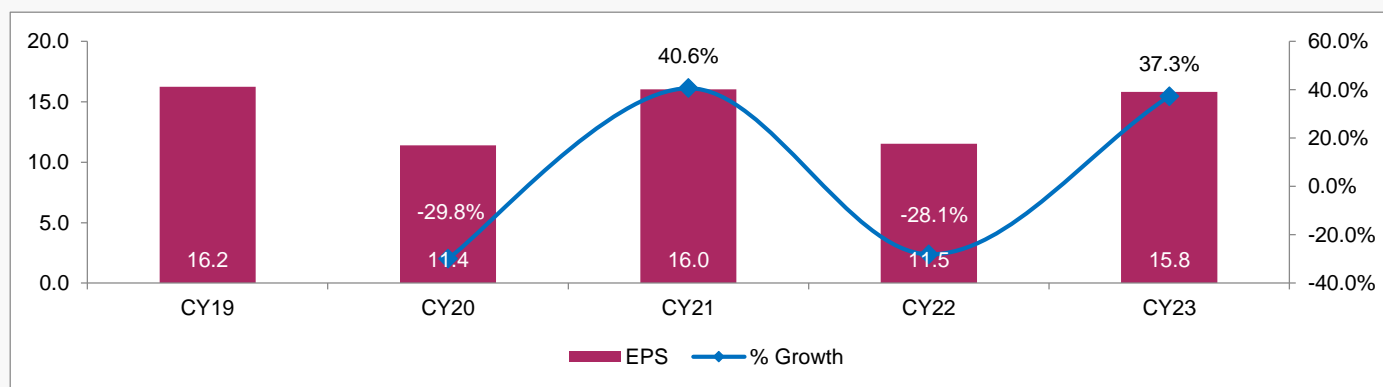
Source: company, Axis Securities

Exhibit 12: EBITDA and EBITDA Growth Trend


Source: company, Axis Securities

Exhibit 13: Net Profit (Cr) and PAT Growth Trend (%)


Source: company, Axis Securities

Exhibit 14: EPS growth revived to Pre-Covid levels


Source: company, Axis Securities

Financial Ratios

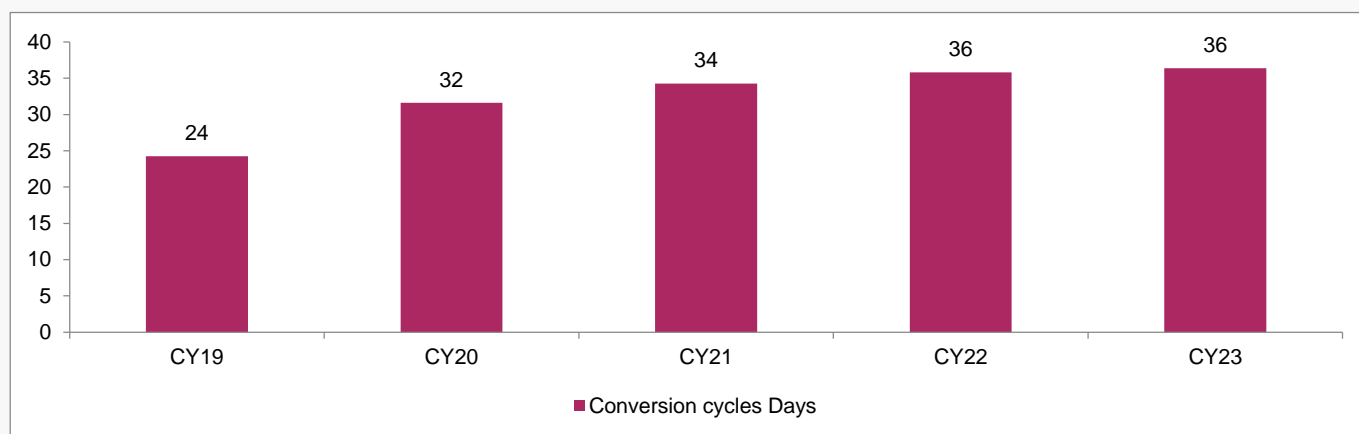
Particulars	CY22	CY23	Change	Comments/Analysis
ROCE	24.4%	25.4%	100bps	ROCE was up due to higher EBIT during the year
Asset Turn	1.7	1.5	(0.12)	Asset turnover is slightly lower owing to an increase in the Gross Block.
ROA	16.4	17.7	130bps	Due to higher PAT from strong operational performance
Net-debt/Equity	0.3	0.4	0.33	Higher owing to the higher debt during the year.

Source: company; Axis Securities

Key Balance Sheet Takeaways

Particulars	CY22	CY23	Change (days)	Comments/Analysis
Inventory Days	56	50	(6)	Inventory days declined due to faster turns implying better sales efficiency
Trade Receivables	9	8	(1)	Reduced due to faster received on payments
Trade Payables	29	22	(7)	The company paid back suppliers faster due to the excess cash available
Cash Conversion Cycle	36	36	-	

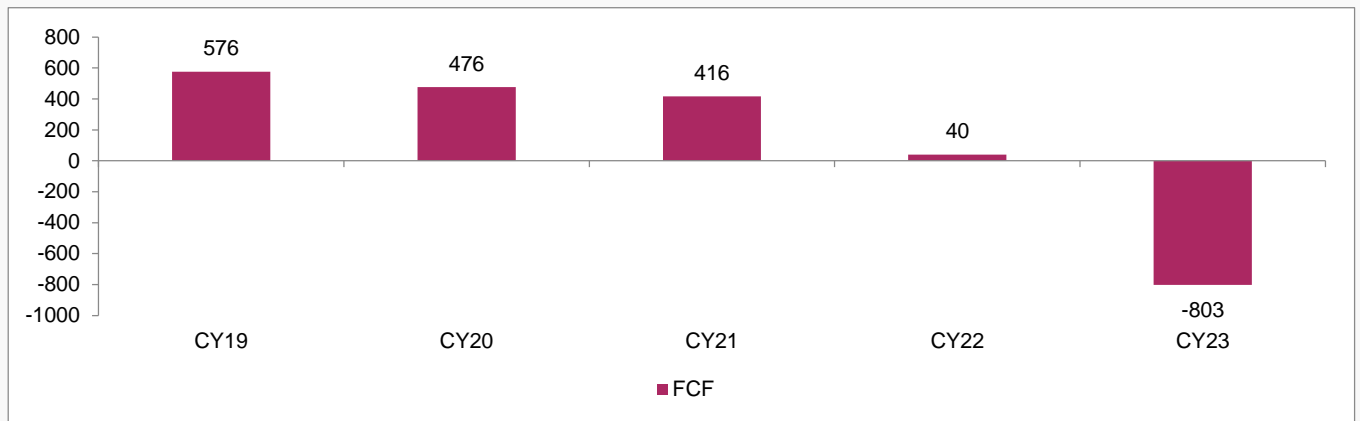
Exhibit 15: Cash Conversion Cycles



Source: company, Axis Securities

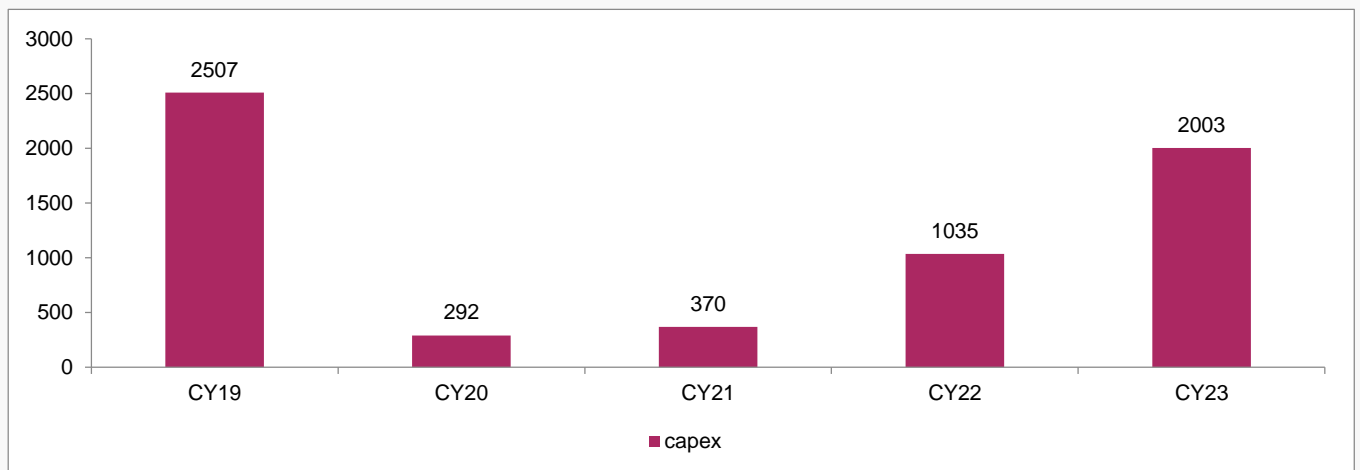
Key Cashflow Takeaways (Rs Cr)

Exhibit 16: FCF



Source: company, Axis Securities

Exhibit 17: Capex



Source: company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	CY23	CY24E	CY25E	CY26E
Net sales	15,622	19,062	23,264	28,391
Growth, %	20.9	22.0	22.0	22.0
Other operating income	421	463	509	560
Total income	16,043	19,525	23,773	28,951
Raw material expenses	(7,405)	(8,701)	(10,528)	(12,739)
Employee expenses	(1,447)	(1,779)	(2,135)	(2,562)
Other Operating expenses	(3,582)	(4,340)	(5,235)	(6,316)
EBITDA (Core)	3,609	4,705	5,875	7,335
Growth, %	29.5	30.4	24.9	24.9
Margin, %	23.1	24.7	25.3	25.8
Depreciation	(681)	(768)	(826)	(883)
EBIT	2,929	3,938	5,049	6,451
Growth, %	34.9	34.5	28.2	27.8
Margin, %	18.7	20.7	21.7	22.7
Other Income	79	87	96	106
Non-recurring Items	-	-	-	-
Pre-tax profit	2,740	3,743	4,878	6,303
Tax provided	(638)	(871)	(1,135)	(1,467)
Net Profit	2,102	2,872	3,743	4,836

Source: company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	CY23	CY24E	CY25E	CY26E
Cash & bank	460	1,808	4,564	8,364
Debtors	359	522	637	778
Inventory	2,151	2,624	3,203	3,908
Loans & advances	539	539	539	539
Other current assets	726	726	726	726
Total current assets	4,235	6,220	9,670	14,315
Investments	3	3	3	3
Gross fixed assets	12,463	13,963	14,963	15,963
Less: Depreciation	(4,036)	(4,804)	(5,629)	(6,513)
Add: Capital WIP	1,922	1,922	1,922	1,922
Net fixed assets	10,349	11,082	11,256	11,373
Non-current assets	537	537	537	537
Total assets	15,187	17,904	21,528	26,290
Current liabilities	4,153	4,320	4,524	4,773
Provisions	213	213	213	213
Total current liabilities	4,366	4,533	4,737	4,986
Non-current liabilities	3,737	3,737	3,737	3,737
Total liabilities	8,103	8,270	8,473	8,722
Paid-up capital	650	650	650	650
Reserves & surplus	6,287	8,837	12,257	16,770
Shareholders' equity	7,085	9,634	13,055	17,568
Total equity & liabilities	15,187	17,904	21,528	26,290

Source: company, Axis Securities

Cash Flow
(Rs Cr)

Y/E Mar, Rs Cr	CY23	CY24E	CY25E	CY26E
Pre-tax profit	2,740	3,743	4,878	6,303
Depreciation	681	768	826	883
Chg in working capital	(349)	(470)	(490)	(597)
Total tax paid	(631)	(871)	(1,135)	(1,467)
Cash flow from operating activities	2,441	3,171	4,079	5,122
Capital expenditure	(3,491)	(1,500)	(1,000)	(1,000)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	(3,495)	(1,500)	(1,000)	(1,000)
Free cash flow	(1,054)	1,671	3,079	4,122
Equity raised/(repaid)	0	-	-	-
Dividend (incl. tax)	(227)	(323)	(323)	(323)
Cash flow from financing activities	1,270	(323)	(323)	(323)
Net chg in cash	216	1,348	2,756	3,800
Opening cash balance	285	460	1,808	4,564
Closing cash balance	460	1,808	4,564	8,364

Source: company, Axis Securities

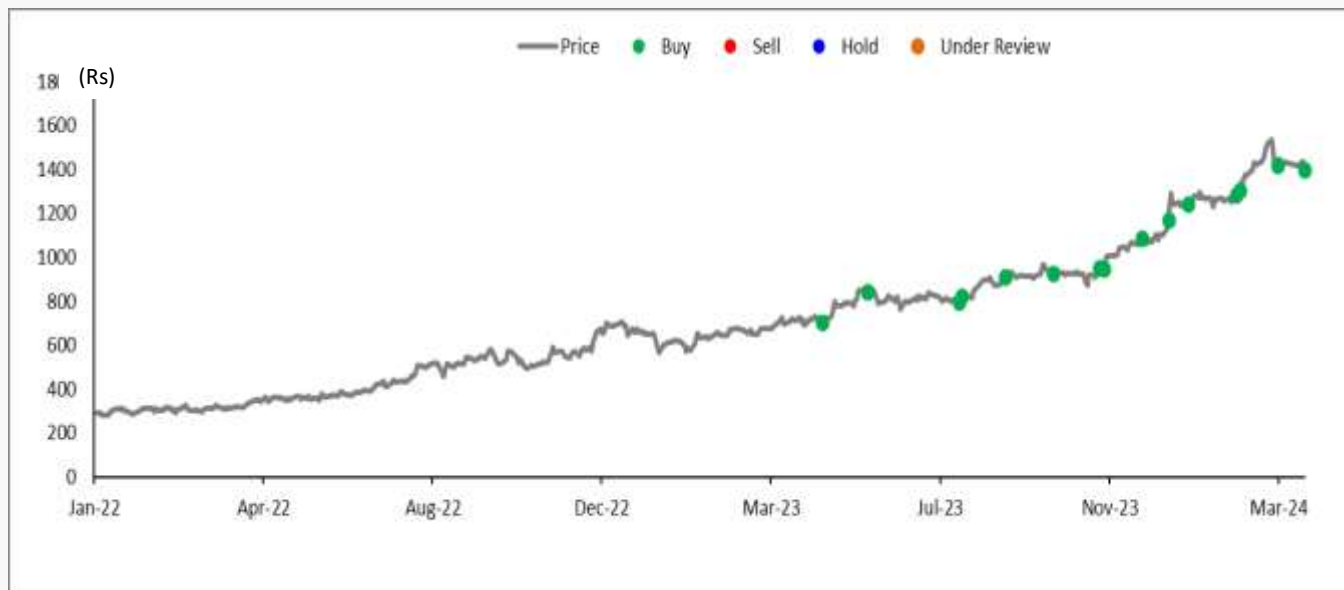
Ratio Analysis

(%)

Y/E Mar, Rs Cr	CY23	CY24E	CY25E	CY26E
EPS (INR)	15.8	22.3	29.0	37.5
Growth, %	(32.7)	36.6	30.3	29.2
Book NAV/share (INR)	53.8	73.5	100.0	135.0
FDEPS (INR)	16.3	22.3	29.0	37.5
CEPS (INR)	21.6	28.2	35.4	44.3
CFPS (INR)	17.2	23.9	30.9	38.9
DPS (INR)	1.8	2.5	2.5	2.5
Return ratios				
Return on assets (%)	17.7	19.1	20.3	21.3
Return on equity (%)	30.3	30.3	29.0	27.8
Return on capital employed (%)	25.4	25.6	26.2	26.4
Turnover ratios				
Asset turnover (x)	1.5	1.5	1.7	2.0
Receivable days	8.4	10.0	10.0	10.0
Inventory days	50.2	50.2	50.2	50.2
Payable days	22.3	22.8	23.0	23.3
Working capital days	(8.8)	1.8	9.1	15.2
Liquidity ratios				
Current ratio (x)	1.0	1.4	2.1	3.0
Quick ratio (x)	0.5	0.8	1.4	2.2
Interest cover (x)	10.9	14.0	18.9	25.4
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.4	0.1	(0.2)	(0.4)
Valuation				
PER (x)	85.8	62.8	48.2	37.3
PEG (x) - y-o-y growth	(2.6)	1.7	1.6	1.3
Price/Book (x)	26.0	19.0	14.0	10.4
EV/Net sales (x)	11.8	9.6	7.8	6.2
EV/EBITDA (x)	51.3	39.1	30.8	24.2
EV/EBIT (x)	63.2	46.7	35.9	27.5

Source: company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research
01-Apr-23	BUY	1,500	Top Picks
01-May-23	BUY	1,600	Top Picks
03-May-23	BUY	1,600	Result Update
01-Jun-23	BUY	1,860	Top Picks
01-Jul-23	BUY	930	Top Picks
01-Aug-23	BUY	930	Top Picks
04-Aug-23	BUY	930	Result Update
01-Sep-23	BUY	1,000	Top Picks
03-Oct-23	BUY	1,050	Top Picks
03-Nov-23	BUY	1,050	Top Picks
06-Nov-23	BUY	1,050	Result Update
01-Dec-23	BUY	1,200	Top Picks
20-Dec-23	BUY	1,450	Company Update
01-Jan-24	BUY	1,450	Top Picks
02-Feb-24	BUY	1,450	Top Picks
06-Feb-24	BUY	1,430	Result Update
01-Mar-24	BUY	1,550	Result Update
20-Mar-24	BUY	1,550	AAA

Source: Axis Securities

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