



Expanding its Footing in the African Market

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, and Mirinda; Non-Carbonated Beverages – Tropicana Slice, and Tropicana Frutz; and Bottled water – Aquafina. The company accounts for ~90% of PepsiCo's beverage sales volume in India and is present in 27 States and 7 UT. It is also the exclusive bottler for PepsiCo in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

- **Acquires 100% stake in South Africa-based company – The Beverage Company (BevCo):** VBL has acquired a 100% stake in South Africa-based The Beverage Company along with its wholly-owned subsidiaries "BevCo" at EV valuation of Rs 1,320 Cr (~0.8x FY23 TTM sales). The company is engaged in the business of manufacturing and distribution of licensed (Pepsico) and own-branded non-alcoholic beverages in South Africa.
- **BevCo business operation:** The company is engaged in the business of manufacturing and distribution of Pepsico (15% of sales volume) and its own brands (85% of sales volumes). BevCo has franchise rights from Pepsico in South Africa, Lesotho and Eswatini, and it also has distribution rights for Namibia and Botswana. Furthermore, it has five manufacturing facilities across Africa – two in Johannesburg and one each in Durban, East London and Cape Town. These five facilities have a total capacity of 3600 BPM and a peak month capacity of ~22 Mn cases (8 oz). The plants have 15 beverage manufacturing lines (13 for PET bottles and two lines for cans). Furthermore, it operates one BIB line and one pouch line at its facilities.
- **Strong Industry tailwind:** South Africa is one of the largest soft drinks markets in Africa with an industry volume growth projected to grow ~5% CAGR over CY22-27 to 1,537 Mn cases. Moreover, Namibia, South Africa, and Botswana (BevCo core market) have one of the highest per capita of CSD consumption in Africa. Factors such as Favourable demographics and Pepsico's low single-digit market share coupled with thrust on the GTM strategy (VBL's core strength) are expected to drive the company's long-term sustainable growth across segments.

Key Triggers

- BevCo has a low market share in its own brands (~17%) and PepsiCo (low single-digit) coupled with VBL's execution capability provides a huge long-term sustainable growth trajectory.
- Large market opportunity in Africa – 1,186 Mn cases, ~50% of India), which is expected to grow at 5.3% CAGR over CY22-27 to 1,537 Mn cases.
- Total population is 60 Mn of which 65% is between the age group of 15-64 years and urbanisation is between 60 -80%.
- Industry growth is led by rising affluence in South African households, 2) Longer working days and emerging interest from female consumers.

Outlook

We believe VBL's acquisition of BevCo provides a much-needed thrust to expand its geographical footprint in Africa coupled with the expansion of other businesses – Energy Business, Dairy and Juice would be key growth drivers for the company in the coming years. Moreover, VBL is a strong candidate in the entire FMCG space on account of 1) Normalcy of operations and 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 especially in rural markets, 3) Expansion of its distribution reach to 3.5 Mn outlets in CY23 from 3 Mn currently, 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.

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 23%/30%/35% over CY22-25E as we revised our CY24-25 PAT estimates upwards by 5%/12% based on the above-mentioned rationales. **We maintain our BUY rating on the stock with the revised TP of Rs 1,450/share (47x CY25EPS) vs. the earlier TP of Rs 1,200/share (45x CY25 EPS), implying an upside of 24% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	CY22	CY23E	CY24E	CY25E
Net Sales	12,921	16,044	19,580	23,896
EBITDA	2,788	3,589	4,814	6,091
Net Profit	1,497	2,063	2,948	3,890
EPS (Rs)	23.1	15.9	22.7	29.9
PER (x)	49.1	73.8	51.6	39.1
EV/EBITDA (x)	28.5	43.3	31.9	24.7
P/BV (x)	14.9	22.3	16.1	11.7
ROE (%)	30.4	30.2	31.1	29.9

Source: Bloomberg Consensus estimates

(CMP as of 19 th Dec 2023)	
CMP (Rs)	1,172
Upside	24%
High/Low (Rs)	1178/ 550
Market cap (Cr)	152267
Avg. daily vol. (6m) Shrs '000.	2033
No. of shares (Cr)	129.9

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	63.9	63.6	63.1
FIs	26.0	26.7	27.6
MFs / UTI	2.7	2.4	2.2
Banks / FIs	0.0	0.0	0.0
Others	7.4	7.3	7.1

Financial & Valuation

Y/E Mar (Rs Cr)	CY23E	CY24E	CY25E
Net Sales	16,044	19,580	23,896
EBITDA	3,589	4,814	6,091
Net Profit	2,063	2,948	3,890
EPS (Rs)	15.9	22.7	29.9
PER (x)	73.8	51.6	39.1
EV/EBITDA (x)	43.3	31.9	24.7
P/BV (x)	22.3	16.1	11.7
ROE (%)	30.2	31.1	29.9

Change in estimates (%)

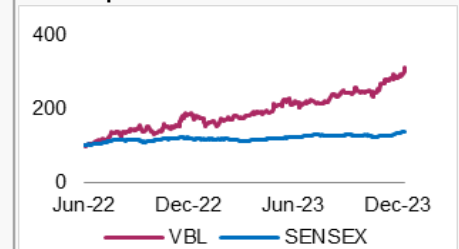
Y/E Mar	CY24E	CY25E
Sales	3%	7%
EBITDA	4%	9%
PAT	5%	12%

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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Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
Net sales	12,921	16,044	19,580	23,896
Growth, %	49.5	24.2	22.0	22.0
Other operating income	252	277	305	336
Total income	13,173	16,321	19,885	24,231
Raw material expenses	(6,261)	(7,576)	(8,750)	(10,500)
Employee expenses	(1,217)	(1,509)	(1,810)	(2,172)
Other Operating expenses	(2,907)	(3,648)	(4,511)	(5,467)
EBITDA (Core)	2,788	3,589	4,814	6,091
Growth, %	68.5	28.7	34.1	26.5
Margin, %	21.6	22.4	24.6	25.5
Depreciation	(617)	(725)	(788)	(851)
EBIT	2,171	2,864	4,026	5,240
Growth, %	93.2	31.9	40.6	30.1
Margin, %	16.8	17.9	20.6	21.9
Other Income	39	43	47	52
Non-recurring Items	-	-	-	-
Pre-tax profit	2,024	2,693	3,848	5,078
Tax provided	(474)	(630)	(901)	(1,188)
Net Profit	1,550	2,063	2,948	3,890
Unadj. shares (Cr)	65	130	130	130

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
Cash & bank	285	625	2,619	5,526
Debtors	299	440	536	655
Inventory	1,994	2,476	3,021	3,687
Loans & advances	436	436	436	436
Other current assets	389	389	389	389
Total current assets	3,404	4,366	7,003	10,694
Investments	0	0	0	0
Gross fixed assets	10,337	12,037	13,037	14,037
Less: Depreciation	(3,405)	(4,130)	(4,917)	(5,769)
Add: Capital WIP	607	607	607	607
Net fixed assets	7,539	8,514	8,726	8,875
Non-current assets	627	627	627	627
Total assets	11,618	13,556	16,404	20,245
Current liabilities	3,969	4,168	4,394	4,669
Provisions	204	204	204	204
Total current liabilities	4,173	4,372	4,598	4,873
Non-current liabilities	2,230	2,230	2,230	2,230
Total liabilities	6,403	6,602	6,828	7,103
Paid-up capital	650	650	650	650
Reserves & surplus	4,453	6,191	8,814	12,379
Shareholders' equity	5,215	6,954	9,577	13,142
Total equity & liabilities	11,618	13,556	16,404	20,245

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	CY22	CY23E	CY24E	CY25E
Pre-tax profit	2,024	2,693	3,848	5,078
Depreciation	617	725	788	851
Chg in working capital	(280)	(423)	(417)	(509)
Total tax paid	(445)	(630)	(901)	(1,188)
Cash flow from operating activities	1,915	2,365	3,319	4,232
Capital expenditure	(1,349)	(1,700)	(1,000)	(1,000)
Chg in marketable securities	221	-	-	-
Cash flow from investing activities	(1,127)	(1,700)	(1,000)	(1,000)
Free cash flow	788	665	2,319	3,232
Equity raised/(repaid)	217	-	-	-
Dividend (incl. tax)	(162)	(325)	(325)	(325)
Cash flow from financing activities	(36)	(325)	(325)	(325)
Net chg in cash	752	340	1,994	2,907
Opening cash balance	337	285	625	2,619
Closing cash balance	285	625	2,619	5,526

Source: Company, Axis Securities

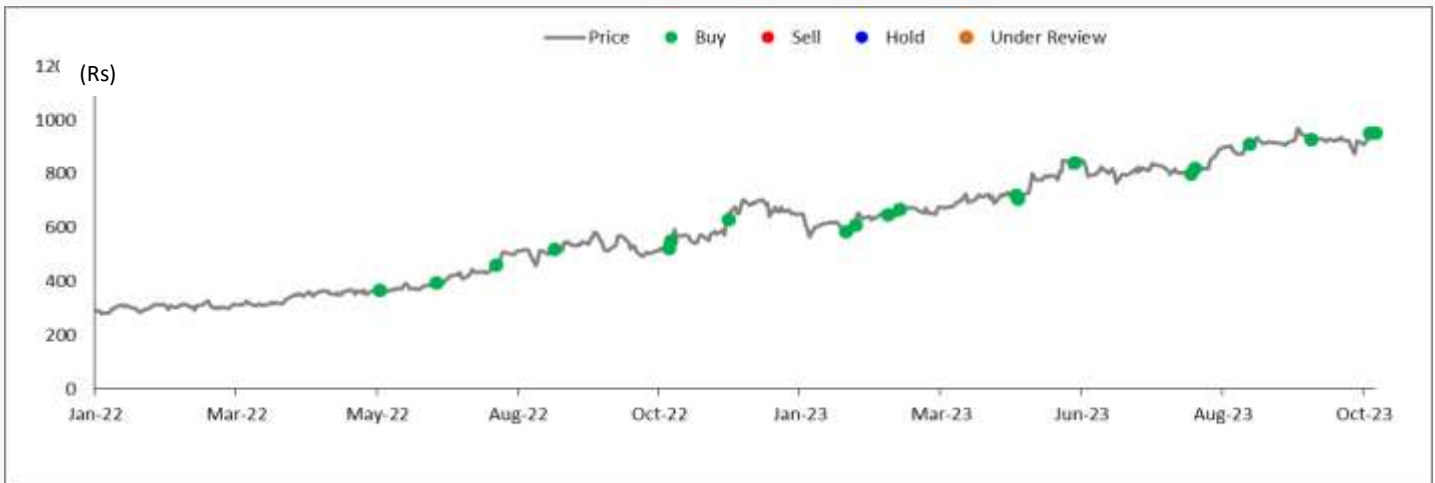
Ratio Analysis

(%)

Y/E Mar	CY22	CY23E	CY24E	CY25E
EPS (INR)	23.1	15.9	22.7	29.9
Growth, %	38.5	(33.5)	42.9	32.0
Book NAV/share (INR)	78.6	52.7	72.8	100.3
FDEPS (INR)	23.9	15.9	22.7	29.9
CEPS (INR)	33.4	21.5	28.8	36.5
CFPS (INR)	14.7	17.9	25.2	32.2
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	16.4	18.1	21.2	22.4
Return on equity (%)	30.4	30.2	31.1	29.9
Return on capital employed (%)	24.4	26.7	29.6	29.7
Turnover ratios				
Asset turnover (x)	1.7	1.7	1.9	2.2
Receivable days	8.5	10.0	10.0	10.0
Inventory days	56.3	56.3	56.3	56.3
Payable days	29.0	29.3	30.3	30.7
Working capital days	(24.0)	(9.7)	(0.2)	7.6
Liquidity ratios				
Current ratio (x)	0.9	1.0	1.6	2.3
Quick ratio (x)	0.4	0.5	0.9	1.5
Interest cover (x)	11.7	13.4	17.9	24.5
Total debt/Equity (%)	0.7	0.5	0.4	0.3
Net debt/Equity (%)	0.3	0.1	(0.2)	(0.4)
Valuation				
PER (x)	49.1	73.8	51.6	39.1
PEG (x) - y-o-y growth	1.3	(2.2)	1.2	1.2
Price/Book (x)	14.9	22.3	16.1	11.7
EV/Net sales (x)	6.2	9.7	7.8	6.3
EV/EBITDA (x)	28.5	43.3	31.9	24.7
EV/EBIT (x)	36.6	54.2	38.1	28.7

Source: Company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research
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
01-Mar-23	BUY	1,500	Top Picks
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

Source: Axis Securities

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

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HOLD	Between 10% and -10%
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