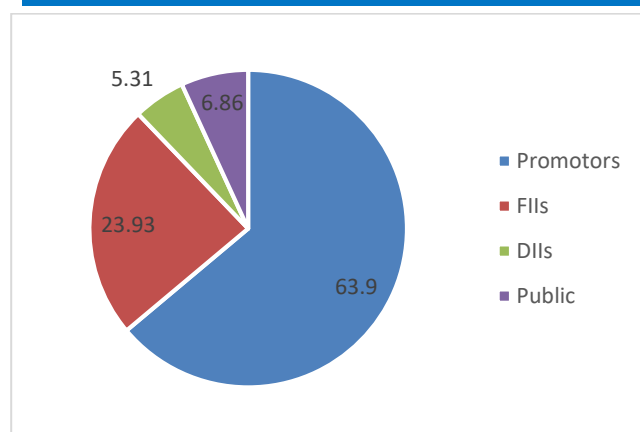


August 2022

VALUE PARAMETERS

Face Value (Rs.)	10.0
Mrk.Cap (Rs. in Cr)	64,958
52-Week High/Low	1048/480
EPS (TTM)	20.0
P/E Ratio (TTM)	50
Book Value per share (Rs)	74.1
Industry P/E	46.2
P/B Ratio (calc at CMP)	13.5
Dividend Yield (%)	0.25
Enterprise value (Rs in Cr)	67,027

SHAREHOLDING PATTERN



FINANCIAL PERFORMANCE

Consolidated	CY21	CY22E	CY23E
Sales (Rs. Cr)	8,823	12,339	13,970
Growth (%)	36.8	39.9	13.2
EBITDA (Rs. Cr)	1,654.6	2,567	2860
EBITDA margin	18.8	20.8	20.47
PAT (Rs. Cr)	694	1337	1520.2
EPS (Rs)	16.03	20.6	24.5
RoE (%)	17.01	26.2	25.9
RoCE (%)	14.31	27.9	31.2
P/BV (x)	8.73	11.2	10
EV/EBITDA (x)	32.87	23.9	21.5
P/E (x)	55.31	45.2	40

Robust volume growth with sustainable margins...

Our Recommendation: VBL's expansion of distribution network in underpenetrated areas like Bihar, MP, and Jharkhand will drive net sales growth and higher realization in coming quarters. Growth of new brands like Sting & Milk-related beverages are increasing by higher pace. Given current scenario, we expect company will perform better in coming months. Thus, we recommend BUY in price range Rs. 900-950 with target price Rs 1150 (upside 24%).

Investment Rationale:

About Company: Varun Beverages has been associated with PepsiCo since the 1990s and is the largest franchisee of PepsiCo in the world. The company produces and distributes a wide range of carbonated soft drinks, non-carbonated drinks and packaged water sold under trademarks owned by PepsiCo. Some major brands include Pepsi, Diet Pepsi, Seven-Up, Mirinda, Mountain Dew, Nimbooz, String, Slice, Tropicana, and Aquafina. The company has its operations in India, Sri-Lanka, Nepal, Morocco, Zambia, and Zimbabwe.

Q2CY22 Results: Varun Beverages recorded robust Q2 financial results with 96.9% volume growth & 2.7% realization growth..

- Net sales increased by 102% to Rs 5017.57 compared to Rs 2,483.04 crore in the year-ago period.
- Total volumes were up by 96.9% per cent to 300 million cases compared to 152 million cases in the year-ago period.
- EBITDA margins improved to 25.2 per cent in Q2FY22 led by the higher realization and operating leverage from increased sales volume.
- PAT increased by 151.6 per cent to Rs 802 crore from Rs 318.8 crore in Q2/2021, driven by high growth in revenue from operations and improvement in margins.

Strong revenue growth led by higher volume growth and better realization:

VBL reported sales growth of 102.3% to Rs 4954.8 crore aided by strong volume growth and realization growth of 96.9% and 2.7% respectively. The company witnessed sales of 300 million cases during second quarter. Of total cases sold, 73% were carbonated drinks, 18% cases of water, 9% cases of juices.

Distribution network expansion: VBL's has expanded its distribution network to 3 million outlets that include 0.25 million international outlets and 0.4 million outlets are dedicated to Sting only outlets. The company aims to increase its distribution network by 8-10% every year.

Business growth to continue: Post Covid restriction, the company is expanding its distribution network to new territories where it has small market share. The company is being benefitted by demand recovery after 2 years of pandemic that helped higher sales growth. The newly set-up facility in Bihar reached its 100% utilization and now the company is looking to add a few more facilities in Bihar, MP, Rajasthan and AP with capital expenditure of more than Rs 1200 crore in FY23. VBL is expecting to double-digit volume growth in coming quarters led by higher demand in juice, energy drink, and dairy product segment.

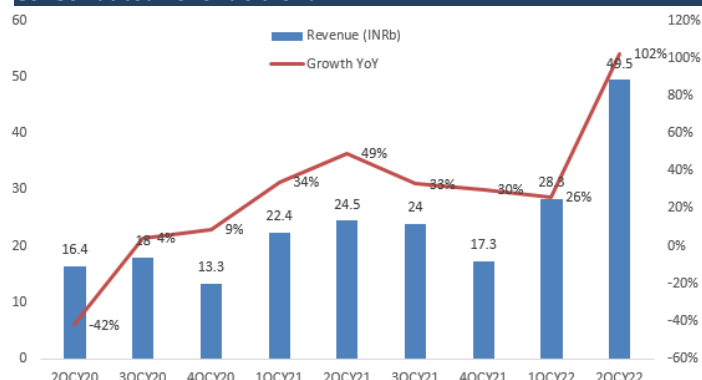
Key Risks: Unexpected increase in RM cost may dampen margins. Clearance related issues in expanding distribution network.

Financials and Valuations

Q1FY23 Quarterly snapshot (Rs in Cr)

Y/E March	Q2CY22	Q2CY21	Chg YoY (%)	Q1CY22	Chg QoQ (%)
Net Revenues	4,954.80	2,449.80	102.30	2,827.50	75.20
RM Expenses	2,451.80	1,138.30	115.4	1,370.20	78.9
Employee expenses	310.40	243.20	27.6	275.10	12.9
other operating exp.	941.90	497.50	89	651.20	44.6
EBIDTA	1,250.70	570.80	119.10	531.00	135.5
<i>EBITDA Margin (%)</i>	<i>25.24%</i>	<i>23.30%</i>	<i>194bps</i>	<i>18.78%</i>	<i>646bps</i>
Depreciation	153.1	128.8	18.9	131.30	16.6
EBIT	1,098	442	148	400	16.6
Other Income	10.5	24.4	-57.1	8.5	-51
Interest	46.40	46.80	-0.80	47.00	2.18
Exceptional items	0.00	0.00	0.00	0.00	na
PBT	1,061.7	419.60	153	361.20	193.9
Tax	259.6	100.9	157	90.1	188
PAT	802.10	318.70	151.6	271.10	195.8
Adj. PAT	802.10	318.70	151.6	271.10	195.8
EPS	12.12	4.74	155.0	3.91	210.00

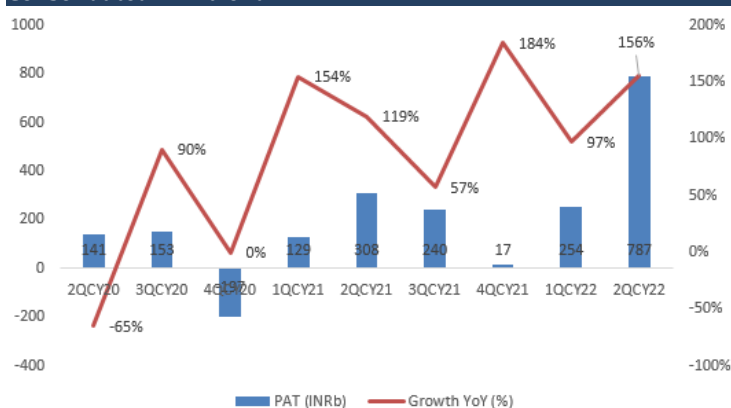
Consolidated revenue trend



Consolidated EBITDA trend



Consolidated PAT trend



Strong sales growth of 102% was due to 97% growth in volume & realization growth of 2.7%. Operating leverage helped EBITDA margins grew by 119%. PAT grew by 151.6% aided by low interest cost and operating profit. EPS is Rs 12.12 from Rs 4.74 recorded in same quarter in a year-ago period.

Income Statement, consolidated (Rs. Cr)

Y/E December	CY17	CY18	CY19	CY20	CY21
Revenue	4003.5	5,105	7,130	6,450	8,823
<i>Change (%)</i>	3.7	27.5	39.7	-9.5	36.8
Raw Material Cost	1810.1	2,244	3,219	2,764	4,035
Employees expenses	462.8	583	811	890	1,008
Other Expenses	894.7	1,272	1,652	1,595	2,126
Total Expenditure	3167.6	4098.7	5681.9	5248.2	7168.6
<i>% of Sales</i>	79.1%	80.3%	79.7%	81.4%	81.2%
EBITDA	835.9	1006.6	1447.7	1201.9	1654.6
<i>Margin (%)</i>	20.9%	19.7	20.3	18.6	18.8
Depreciation	346.6	385	489	529	531
EBIT	489.3	621.5	959.1	673.2	1123.3
Finance Charges	212.2	213	310	281	185
Other Income	12.5	21.8	42.5	37	67.9
PBT bef. EO Expenses	289.6	430.7	692	429.1	1006.5
EO Items	0	0	0	-665	0
PBT after EO Exp.	289.6	430.7	692	1094.1	1006.5
Total Tax	76.9	134	224	5.2	261
<i>Tax Rate (%)</i>	26.6	31.1	32.4	1.4	25.9
Share of profit from associates	1.4	3	4.4	0	0
Minority Interest	3.9	7	3.2	28.3	52
Reported PAT	210.2	293	469	329	694
Adjusted PAT	210.2	293	469	325	694
<i>Change (%)</i>	395.5	39.3	60.1	-30.7	113.5
<i>Margin (%)</i>	5.3	5.7	6.6	5.0	7.9

Balance Sheet, consolidated (Rs. Cr)

Y/E December	CY17	CY18	CY19	CY20	CY21
Equity Share Capital	183	183	289	289	433
Share Warrants	0	0	0	0	0
Total Reserves & Surplus	1,587	1,816	3,040	3,235	3,647
TOTAL SHAREHOLDERS FUND	1,769	1,998	3,328	3,524	4,080
Minority Interest	-1	8	31	65	117
Total Loans	2,356	2,765	3,417	3,206	3,342
Deferred Tax Liabilities	142	159	270	215	309
Capital Employed	4,266	4,930	7,046	7,010	7,847
Gross Block	5,633	6,170	8,720	9,009	9,442
Less: Accum. Depreciation	1,654	1,785	2,266	2,624	3,156
Net Fixed Assets	3,979	4,385	6,455	6,384	6,287
Goodwill	2	2	24	24	24
CWIP	145	352	64	67	497
Total Investments	8	11	0	0	0
Current Investments	0	0	0	0	0
Curr. Assets, Loans & Adv.	1,149	1,281	1,833	1,972	2,772
Inventory	439	578	882	929	1,448
Account Receivables	150	128	173	242	221
Cash and Bank Balance	95	94	171	190	337
Loans and Advances	466	481	608	611	766
Curr. Liability & Provisions	1,018	1,102	1,330	1,438	1,732
Account Payables	191	317	478	511	712
Other Current Liabilities	739	644	652	689	762
Provisions	88	141	200	237	258
Net Current Assets	132	179	503	534	1,040
Application of Funds	4,266	4,930	7,046	7,010	7,847

Cash Flow statement (Rs. Cr)

Y/E December	CY17	CY18	CY19	CY20	CY21
PBT	290	431	692	363	1,007
Depreciation	347	385	483	529	531
Interest & Finance Charges	197	199	295	244	117
Direct Taxes Paid	-57.1	-73.3	-120	-5.2	-261
(Inc)/Dec in WC	-197	-50.1	-82.7	-118	-59.2
CF from Operations	580	891	1,267	1,012	1,335
Others	40	109	41.1	0	0
CF from Operating incl other	620	1,000	1,308	1,012	1,335
(Inc)/Dec in FA	-517	-809	-733	-291	-863
Free Cash Flow	103	191	575	721	472
Others	-233	-64.7	-1,586	-180	-147
CF from Investments	-750	-873	-2,319	-471	-1,011
Issue of Shares	304	0.7	900	0	0
Inc/(Dec) in Debt	-57.2	457	649	-211	136
Interest Paid	-156	-189	-301	-281	-185
Dividend Paid	-45.6	-45.6	-69	-72.2	-108
Others	113	-351	-89.5	42.6	-20.6
CF from Fin. Activity	159	-127	1,089	-522	-178
Inc/Dec of Cash	28.8	-1	77.6	19	147
Opening Balance	65.7	94.5	93.5	171	190
Closing Balance	94.5	93.5	171	190	337

Key Ratios

Y/E March	CY2017	CY2018	CY2019	CY2020	CY2021
Per Share Data (Rs)					
EPS	11.52	10.69	16.83	11.4	16.03
BV/Share	43	48.63	76.86	81.38	94.22
DPS	2.50	2.50	2.50	2.50	2.50
Dividend Payout (%)	22%	23%	15%	22%	16%
Valuation Ratios					
P/E	25.15	21.82	29.05	53.55	55.31
P/BV	5.18	5.55	5.29	6.59	8.73
EV/EBITDA	17.75	17.35	17.75	31.13	32.87
Return Ratios (%)					
ROE	11.88%	14.65%	14.09%	9.23%	17.01%
ROCE	11.47%	12.61%	13.61%	9.60%	14.31%
Leverage Ratio (x)					
Current Ratio	0.61	0.66	0.75	0.74	0.84
Interest Cover Ratio	2.35	2.93	3.13	2.23	5.86
Net Debt/Equity	1.5	1.41	1.03	0.91	0.82
Quick Ratio	0.33	0.32	0.36	0.36	0.36

VP – Head Research - Dr. Ravi Singh
Mob: +919810313561
Email ID: ravi.singh@shareindia.com

Disclosure:

We, research team at Share India Securities Ltd. (SISL), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SISL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

We state that Research Analyst or his/her relative or SISL may have any financial interest in the subject company. Also Research Analyst or his relative or SISL or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report.

Further, Research Analyst or his relative or SISL or its associate a) does not have any material conflict of interest at the time of publication of the research report; b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; c) has not received any compensation for investment banking or merchant banking or brokerage services or for any other product/s or service/s or for any other reason whatsoever from the subject company in the past twelve months; d) has not received any compensation or other benefits from the subject company or third party in connection with the research report; e) has not served as an officer, director or employee of the subject company; and f) has not been engaged in market making activity for the subject company.

SISL is a SEBI Registered Research Analyst having registration no. INH100005011.

Disclaimer:

This report has been prepared by SISL and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable.

Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject SISL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of SISL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. SISL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mainland/or its attachments.

SISL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

SISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

SISL is a Member of National Stock Exchange of India Limited (NSE), BSE Ltd (Bombay Stock Exchange), Multi Commodity Exchange of India Limited (MCX), National Commodity and Derivatives Exchange Limited (NCDEX), Indian Commodity Exchange Limited (ICEX) and has Depository Participant affiliation with Central Depositories Services (India) Limited (CDSL). It is a SEBI registered Portfolio Manager and SEBI registered Research Analyst [SEBI Reg. No.:INB/F/E 231079832, INB/F/E 011079838, IN-DP-32-2015, AMFI Reg. No. ARN: 78041, SEBI Research Analyst Reg. No.: INH100005011, CIN - L67120GJ1994PLC115132].