

CMP - 1483

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About the Company

Varun Beverages Ltd has been associated with PepsiCo since the 1990s and is a key player in the beverage industry and one of the largest franchisees 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.

PepsiCo brands produced and sold by the company include Pepsi, Seven-up, Mirinda Orange, Mountain Dew, Tropicana Juices and many more.

Recent Quarter Highlights

- Q2 CY2024 consolidated sales volume growth of 28.1%, driven by a robust 22.9% growth in the Indian market.
- Revenue from operations grew by 28.3% YoY to ₹71,968.6 million in Q2 CY2024.
- EBITDA increased by 31.8% to ₹19,912.2 million, with EBITDA margins improving by 74 basis points to 27.7%.
- PAT grew by 25.5% to ₹12,618.3 million in Q2 CY2024 from ₹10,054.2 million in Q2 CY2023.

Management view and key highlights

Varun Beverages (VBL) is the largest bottler of PepsiCo's beverages globally outside the US. Here are the key company highlights:

- Business Highlights

- Carbonated drinks constituted 76%, Juice 8%, and Packaged Drinking Water 16% of total sales volume in Q2 CY2024.
- Co. recommended Split of equity shares from ₹5 to ₹2 each, aimed at encouraging wider retail participation.
- Confident in achieving double-digit growth for the remaining CY2024,

- Expansion Plans

- VBL plans to increase its international revenue (currently 20% of sales volume) by expanding its footprint in Africa through capacity expansions, acquisitions and licensing rights from PepsiCo.
- In the Q4FY24 earnings call, Chairman Ravi Jaipuria mentioned that the Africa business unit is expected to be a major growth engine for revenue and profitability going forward.

- Competitive Landscape

- A growing threat for VBL is rival Coca-Cola's plan to sell a part of its bottling business, Hindustan Coca-Cola Beverages (HCCB).
- Coca-Cola is eyeing an investment of \$800 million to \$1 billion to grow its business and capture market share in India.

BRAND PORTFOLIO

Brands licensed by PepsiCo:				Own Brands [^] :	
Carbonated Soft Drinks		Club Soda		Carbonated Soft Drinks	
Energy Drink		Fruit Pulp / Juice Based Drinks		Energy Drink	
Sports Drink		Carbonated Juice Based Drinks		Packaged Water	
Snacks [#]		Dairy Based Beverages [*]			

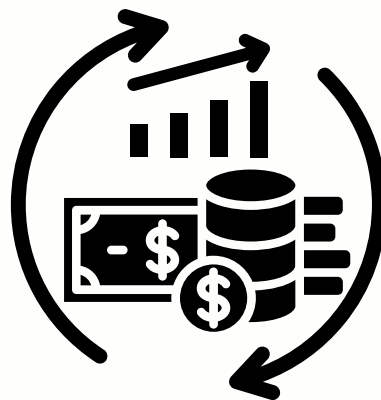
- Manufacturing of Cheetos (underway) & Distribution of Frito Lay, Doritos and Cheetos in Morocco; Manufacturing & Distribution of Simba Munchiez (underway) in Zambia and Zimbabwe; Co-manufacturing of Kurkure Puffcorn in India.
- Manufacturing & Distribution of own brands is restricted in select territories.
- The "CreamBell" trademark has been licensed to be used by VBL for ambient temperature value-added dairy-based beverages.

Key Growth Drivers



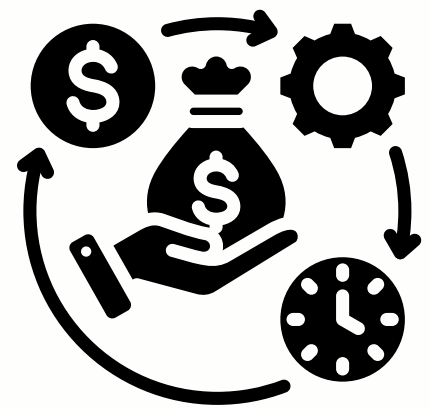
Customer Management

Visi-coolers; local level promotion and instore activation



Cash Management

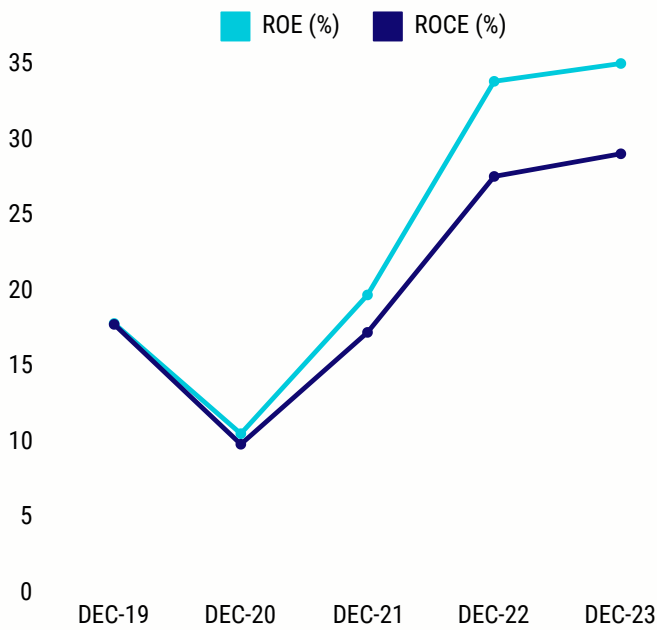
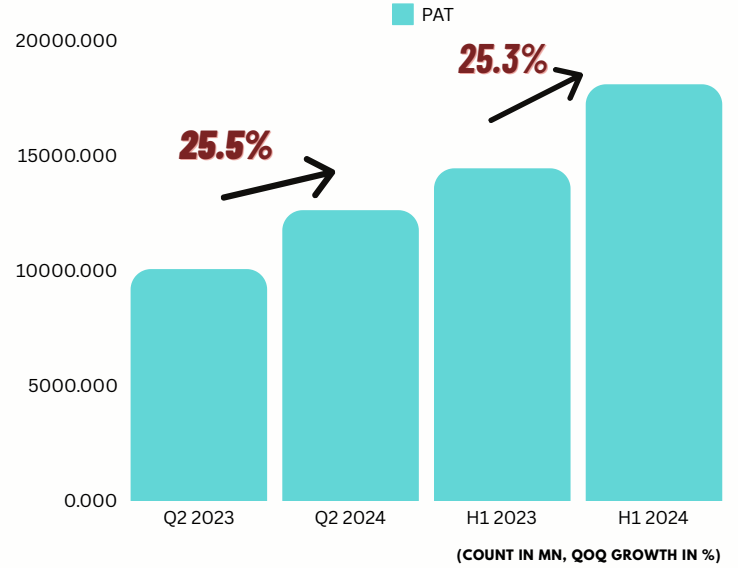
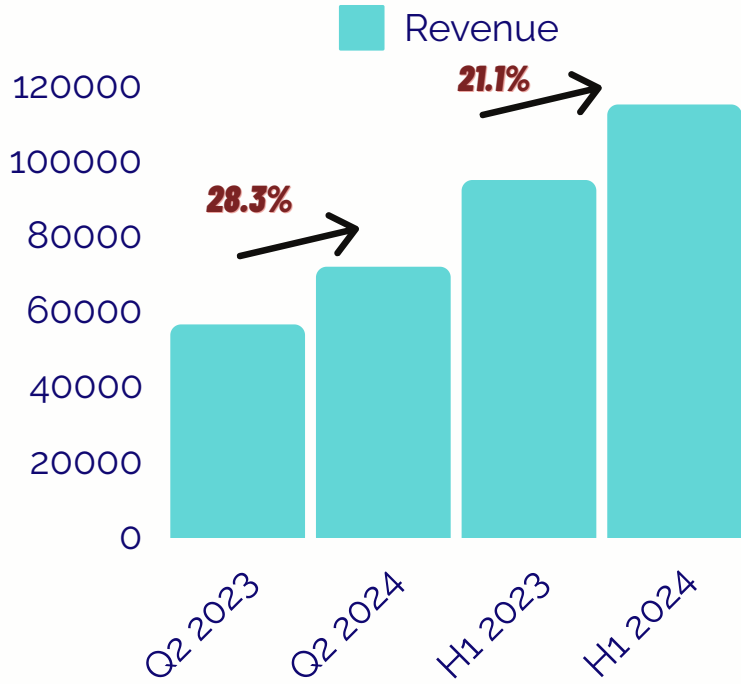
Working capital efficiencies, disciplined capex management: acquiring territories



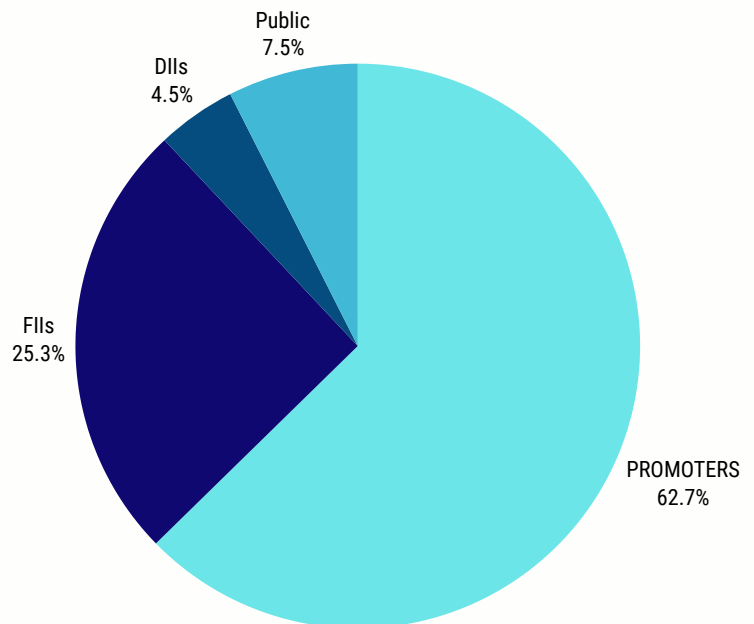
Cost Efficiencies

Backward integration; production optimization; innovation packaging

Financial Ratios



SHAREHOLDING PATTERN



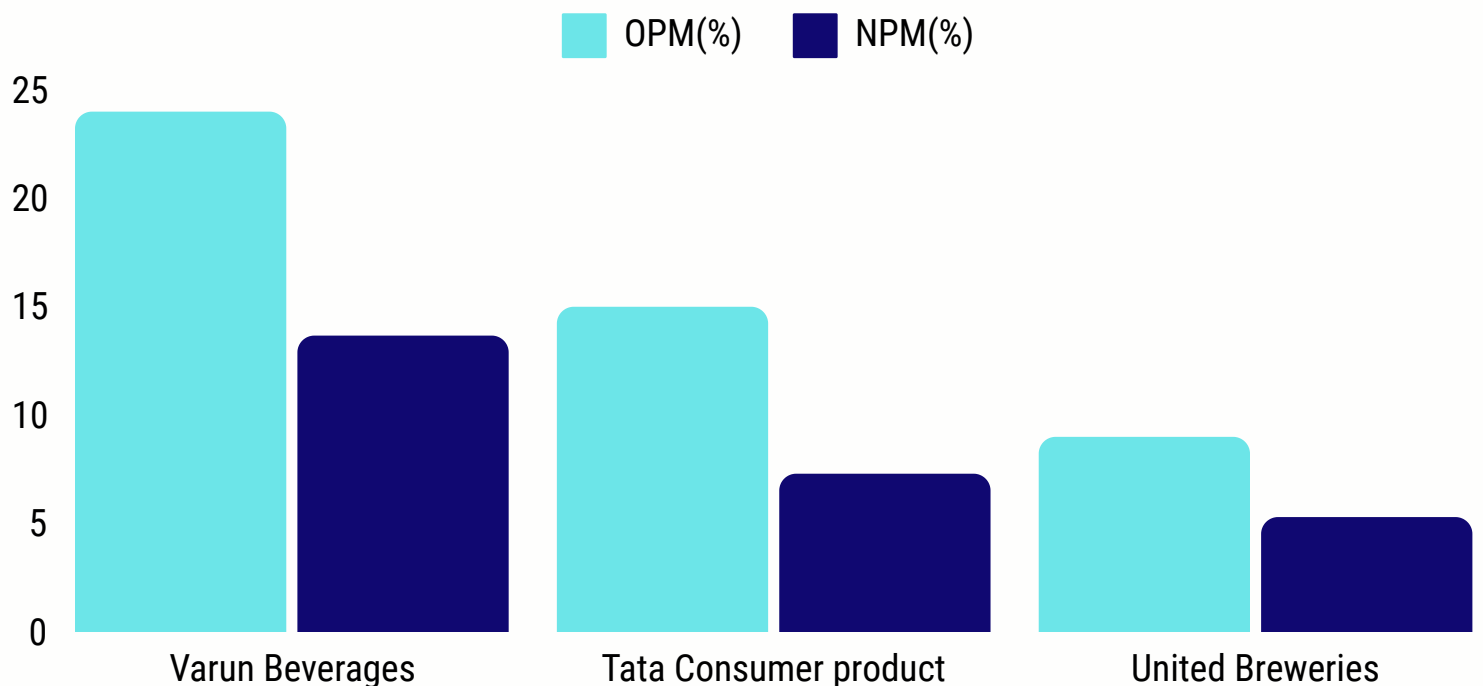
Peer Comparison

The companies that we have chosen to compare VBL with are United Breweries, Hatsun Agro Products, and Tata Consumer Products. These companies are all listed on the stock exchange and have a similar product portfolio to VBL.

It is important to note that VBL's two toughest competitors, Hindustan Coca-Cola Bever- ages Pvt. Ltd. (HCCB) and Amul Dairy, are not listed on the stock exchange. We have not compared VBL to HCCB and Amul Dairy because it is difficult to get accurate financial information about these companies.

Finally, we have not compared VBL to Reliance Industries Limited (RIL) because Campa Cola contributes insignificantly to RIL's overall revenue. Thus, comparing VBL to RIL would not be a fair comparison.

Company	Sales (₹Cr.)	3Y Sales growth	Profit (₹Cr.)	3Y Profit growth	PEG
Varun Beverages	18,052	23%	1,262	49%	1.15
Tata Consumer Products	15,817	13%	1,167	20%	4.12
United Breweries	8,323	5%	448	-9%	-35.4



Consolidated Profit & Loss Statement

Particulars (Rs. Million)	Q2 2024	Q2 2023	YoY(%)	H1 2024	H1 2023	YoY(%)
1. Income						
(a) Revenue from operations	73,336.72	56,997.34	28.70%	1,17,316.52	96,523.25	21.50%
(b) Excise Duty	1,368.10	883.32	54.90%	2,174.77	1,479.48	47.00%
Net Revenues	71,968.62	56,114.02	28.30%	1,15,141.75	95,043.77	21.10%
(c) Other income	440.26	416.01	5.80%	523.79	517.37	1.20%
2. Expenses						
(a) Cost of materials consumed	28,723.27	22,187.25	29.50%	48,032.49	41,830.36	14.80%
(b) Purchase of stock-in-trade	1,600.16	1,289.66	24.10%	3,952.31	2,506.96	57.70%
(c) Changes in inventories of FG, WIP and stock-in-trade	2,282.36	3,188.82	-28.40%	-503.52	845.57	-159.50%
(d) Employee benefits expense	4,992.91	3,646.04	36.90%	8,929.63	7,037.26	26.90%
(e) Finance costs	1,291.59	693.68	86.20%	2,228.46	1,319.40	68.90%
(f) Depreciation and amortisation expense	2,424.77	1,719.27	41.00%	4,299.93	3,441.26	25.00%
(g) Other expenses	14,457.75	10,692.05	35.20%	24,931.06	19,733.04	26.30%
Total expenses	55,772.81	43,416.77	28.50%	91,870.36	76,713.85	19.80%
EBITDA	19,912.17	15,110.20	31.80%	29,799.78	23,090.58	29.10%
3. Profit before share of loss of associates and joint venture (1-2)	16,636.07	13,113.26	26.90%	23,795.18	18,847.29	26.30%
4. Share of loss of associates and joint venture	-5.36	-2.39	-124.30%	-6.97	-2.66	-162.00%
5. Profit before tax (3+4)	16,630.71	13,110.87	26.80%	23,788.21	18,844.63	26.20%
6. Tax expense	4,012.37	3,056.65	31.30%	5,690.05	4,404.69	29.20%
7. Net profit after tax (5-6)	12,618.34	10,054.22	25.50%	18,098.16	14,439.94	25.30%

Consolidated Balance Sheet

Particulars (Rs million)	30-Jun-24	30-Jun-23	Particulars (Rs million)	30-Jun-24	30-Jun-23
Equity and liabilities			Assets		
Equity			Non-current assets		
(a) Equity share capital	6,497.20	6,495.68	(a) Property, plant and equipment	96,294.01	69,858.39
(b) Other equity	79,280.46	58,389.81	(b) Capital work in progress	9,420.85	5,312.38
(c) Non-controlling interest	1,681.50	1,340.74	(c) Right of Use of Assets	12,837.87	10,147.90
Total equity	87,459.16	66,226.23	(d) Investment properties	-	20.08
Liabilities			(e) Goodwill / franchise rights*	6,931.24	242.30
Non-current liabilities			(f) Other intangible assets	6,638.98	5,488.33
(a) Financial liabilities			(g) Investment in associates and joint venture	392.27	51.44
(i) Borrowings	35,412.33	17,871.78	(h) Financial assets	1,147.19	611.34
(ia) Lease liabilities	3,885.47	2,032.75	(i) Other non-current assets	3,436.06	3,883.57
(b) Provisions	2,245.97	2,008.61	Total non-current assets	137,098.47	95,615.73
(c) Deferred tax liabilities (Net)	3,849.83	3,401.33	Current assets		
(d) Other non-current liabilities	65.92	5.55	(a) Inventories	27,960.18	20,907.24
Total non-current liabilities	45,459.52	25,320.02	(b) Financial assets		
Current liabilities			(i) Trade receivables	10,254.84	6,035.76
(a) Financial liabilities			(ii) Cash and cash equivalents	2,121.61	2,065.62
(i) Borrowings	27,473.16	16,966.77	(iii) Other bank balances	1,955.87	1,056.66
(ia) Lease liabilities	838.20	392.82	(iv) Loans	-	10.00
(ii) Trade Payables	14,086.54	11,022.22	(v) Others	9,195.86	5,448.18
(iii) Other financial liabilities	6,729.20	4,416.62	(c) Current tax assets (Net)	55.50	2.95
(b) Other current liabilities	7,622.93	7,166.48	(d) Other current assets	5,159.24	3,044.07
(c) Provisions	952.28	301.35	Total current assets	56,703.10	38,570.48
(d) Current tax liabilities (Net)	3,180.58	2,373.70	Total assets	193,801.57	134,186.21
Total current liabilities	60,882.89	42,639.96			
Total liabilities	106,342.41	67,959.98			
Total Equity and liabilities	193,801.57	134,186.21			

* Purchase price allocation for BevCo acquisition to be updated during annual audit.

Valuation And Outlook

YEAR	SALES	EBITDA	EBIT
LTM	756-935	1431-1759	1670-2051
FY 2024	863-1065	1382-1700	1398-1718
FY2025E	826-1019	1331-1637	1218-1499
FY 2026 E	1008-1243	1397-1717	1124-1384

In summary, their capital expenditure plans demonstrate a strong commitment to growth and expansion. For H1 2024, they have allocated ₹12,000 million, with an additional ₹6,000 million for CY2025. The total planned capex for CY2024 is around ₹36,000 million, aimed at major greenfield and brownfield projects in India and Africa. For CY2025, they expect to invest another ₹25,000 million-₹26,000 million, focusing on new production facilities in India and expanding their snacks manufacturing in Africa.

The management is optimistic about achieving double-digit growth for the rest of CY2024, fueled by strong demand in India and strategic expansions in Africa. The company is well-positioned to take advantage of India's growing consumer base and young population. Although they face challenges in international markets like Zimbabwe, especially with the shift towards zero-sugar products, they are confident in their recovery and growth potential. With the FMCG sector projected to grow at a 28% CAGR from 2024 to 2030, they are well-placed to seize these opportunities and drive consistent growth.

Therefore, we give this stock a "BUY" rating with a target of 1720.

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