



Robust Performance; Maintain BUY

Est. Vs. Actual for Q4CY22: Revenue – **BEAT**; EBITDA – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q4CY22

CY23E/CY24E – Revenue 3%/3%; EBITDA 1%/1%; PAT 2%/1%

Recommendation Rationale

- VBL delivered robust all-round performance, 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.
- VBL is expected to perform well moving forward on account of 1) the Normalcy of operation and market share gains of 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 as reflected in its recently commissioned Bihar plant operations (it has started gaining market share), 3) Expansion in its distribution reach to 3.5 Mn outlets in CY23 from 3 Mn currently, 4) Robust growth in the International geographies, and 5) Focus on expanding high-margin Sting energy drink across outlets.

Sector Outlook: Positive

Company Outlook & Guidance: We maintain our **BUY** recommendation as well as increase our CY23/24E estimates.

Current Valuation: 38x CY24EPS (unchanged)

Current TP: Rs 1,450/share (unchanged).

Recommendation With a 19% upside potential from the CMP, we maintain our **BUY** rating on the stock.

Alternative BUY Ideas from our Sector Coverage: HUL (TP – Rs 3,000), ITC (TP – 460), Britannia (TP – Rs 5,100), CCL Products (TP – Rs 650)

Financial Performance: The company's revenue grew 28% YoY (~18% volume growth) on account of strong performance across regions and markets led by distribution expansion, strong traction from newly acquired territories (south and west), and scaling up of the Sting energy drink segment. Its net realization per case stood at Rs 164/ case (up 6% YoY), driven by selective price hikes and a higher mix of high-margin Sting energy drinks. Gross margins stood at 56.3%, up 91bps YoY while EBITDA margins at 13.9% increased 192bps, led by the higher realization and operating leverage. PAT stood at Rs 80 Cr, up 150% YoY on a lower tax rate.

- CY22 volume growth stood at 41% (802 Mn cases – India & International) led by strong recovery post-pandemic and distribution expansion across geographies. The company intends to sell 1 Bn (1000 Mn cases) by CY25 in India vs. 653 Mn cases in CY22.
- Sting contribution stood at 16% in Q4CY22 (9.6% in CY22). The management in Q3FY23 Concall highlighted that Sting's overall realization is higher by 65% vs. average realization which will give further fillip to the overall margins as it further expands this portfolio.
- As the company penetrated the newly acquired south and west territories with seasonality impact is likely to reduce going ahead.

Outlook: VBL is expected to perform well moving forward on account of 1) Normalcy of operation and market share gains of 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 as can be seen from its recently commissioned Bihar plant operations (it has started gaining market share), 3) Expansion in its distribution reach to 3.5 Mn outlets in CY23 from 3 Mn currently, 4) Robust growth in the International geographies, and 5) Focus on expanding high-margin Sting energy drink across outlets.

Valuation & Recommendation: We estimate revenue/EBITDA/PAT CAGR of 17%/21%/26% over CY22-24E based on the above thesis and we maintain our **BUY** rating on the stock with the unchanged TP of Rs 1,450/share. **We value the company at 38x CY24 EPS. The TP implies an upside of 27% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q4CY22	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	2,214	(30.3)	27.7	2,118	4.5
EBITDA	308	(56.0)	48.1	252	21.9
EBITDA Margin	13.9	-812bps	192bps	11.9	197bps
Net Profit	82	(79.4)	150.2	41	97.2
EPS (Rs)	1.3	(79.4)	66.8	0.6	98.3

Source: Company, Axis Research

(CMP as of 06th Feb'23)

CMP (Rs)	1220
Upside /Downside (%)	19%
High/Low (Rs)	1432/557
Market cap (Cr)	79,300
Avg. daily vol. (6m) Shrs.	2163229
No. of shares (Cr)	64

Shareholding (%)

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

Financial & Valuations

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

Change in Estimates (%)

Y/E Mar	CY23E	CY24E
Sales	3%	3%
EBITDA	1%	-1%
PAT	2%	1%

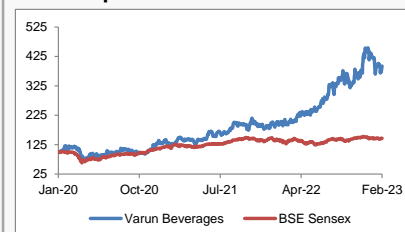
ESG disclosure Score**

Environmental Disclosure	10.06
Social Disclosure Score	22.55
Governance Disclosure	76.10
Total ESG Disclosure	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: Capitaline, Axis Securities

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Other key highlights

- **Capex** –As on Dec 31, 2022, the CWIP stood at Rs 606Cr towards greenfield expansion in Rajasthan & Madhya Pradesh and brownfield expansion at 6 plants for CY23 in India. The net capex estimated for CY23 is around Rs. 1500Cr (including CWIP).
- **Net Debt**- stood at Rs 3409.6 Crs in as on Dec 31, 2022CY22 (vs. Rs 3005.3 Crs in CY21) on account of Greenfield expansion in Rajasthan & MP and brownfield expansion in six plants in CY23.
- **Morocco**: The company begins distribution of Lays, Doritos, and Cheetos on 1st January 2023 in Morocco. VBL currently is importing the products, moreover, 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.

Key Risks to our Estimates and TP

- Increase in competitive intensity, RM inflation, weakening of demand environment.

Change in Estimates

	Old estimates		Revised estimates		% change	
	CY23	CY24	CY23	CY24	CY23	CY24
Sales	15,203	17,559	15,662	18,089	3%	3%
EBITDA	3,492	4,115	3,514	4,078	1%	-1%
PAT	2,023	2,454	2,073	2,472	2%	1%
EPS	31.1	37.8	31.9	38.1	3%	1%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q4CY21	Q3CY22	Axis Sec Est.	Q4CY22	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
Total Revenue	1,734	3,177	2,118	2,214	27.7	(30.3)	4.5
COGS	774	1,471	960	968	25.1	(34.2)	0.9
Gross Profit	961	1,705	1,158	1,246	29.8	(26.9)	7.6
GM%	55.4	53.7	54.7	56.3	91bps	261bps	160bps
Expenditure							
Employee expenses	260	311	312	320	23.1	2.8	2.6
Other Exp	493	695	594	619	25.5	(11.0)	4.2
Total Expenditure	1,527	2,478	1,866	1,907	24.9	(23.0)	2.2
EBITDA	208	699	252	308	48.1	(56.0)	21.9
EBITDA Margin (%)	12.0	22.0	11.9	13.9	192bps	-812bps	197bps
Depreciation	129	153	161	180	39.0	17.3	11.7
EBIT	78.3	545.8	91.5	127.8	63.3	(76.6)	39.7
Interest	37	45	48	47	27.3	4.9	(0.1)
Oth. Inc.	1	11	11	9	982.6	(12.9)	(17.1)
PBT	42	511	55	90	114.1	(82.5)	62.5
Tax	9	116	14	8	(12.8)	(93.0)	(41.4)
Effective Tax Rate(%)	22.1	22.6	25.0	9.0	-1312bps	-1362bps	-1598bps
PAT	33	395	41	82	150.2	(79.4)	97.2
PAT Margin (%)	1.88	12.45	1.95	3.68	180bps	-877bps	173bps
EPS (Rs.)	0.8	6.1	0.6	1.3	66.8	(79.4)	98.3

Source: Company, Axis Securities

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	-7,326	-8,241
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	3,514	4,078
Growth, %	37.7	68.5	26.0	16.1
Margin, %	19.1	21.2	22.4	22.5
Depreciation	-531	-617	-655	-693
EBIT	1,123	2,171	2,859	3,386
Growth, %	66.9	93.2	31.7	18.4
Margin, %	13.0	16.5	18.3	18.7
Other Income	68	39	43	47
Non-recurring Items	0	0	0	0
Pre-tax profit	1,007	2,024	2,706	3,227
Tax provided	-261	-474	-633	-755
Net Profit	746	1,550	2,073	2,472
Growth, %	76.0	107.8	33.7	19.3
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	1,170	2,506	4,641
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	4,254	6,025	8,627
Investments	0	0	0	0
Gross fixed assets	9,310	9,980	10,980	11,580
Less: Depreciation	-2,999	-3,591	-4,246	-4,939
Add: Capital WIP	497	497	497	497
Net fixed assets	6,807	6,885	7,230	7,138
Non-current assets	184	184	184	184
Total assets	9,582	11,368	13,483	15,993
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	2,182	2,182	2,182
Total liabilities	5,385	5,784	5,989	6,189
Paid-up capital	433	650	650	650
Reserves & surplus	3,647	4,818	6,728	9,038
Shareholders' equity	4,197	5,584	7,494	9,804
Total equity & liabilities	9,582	11,368	13,484	15,994

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs. Cr	CY21	CY22E	CY23E	CY24E
Pre-tax profit	1,007	2,024	2,706	3,227
Depreciation	531	617	655	693
Chg in working capital	-57	-476	-229	-268
Total tax paid	-167	-474	-633	-755
Cash flow from operating activities	1,314	1,691	2,499	2,897
Capital expenditure	-863	-695	-1,000	-600
Chg in marketable securities	21	221	0	0
Cash flow from investing activities	-843	-474	-1,000	-600
Free cash flow	472	1,217	1,499	2,297
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	1,271	1,337	2,135
Opening cash balance	190	337	1,170	2,506
Closing cash balance	337	1,170	2,506	4,641

Source: Company, Axis Securities

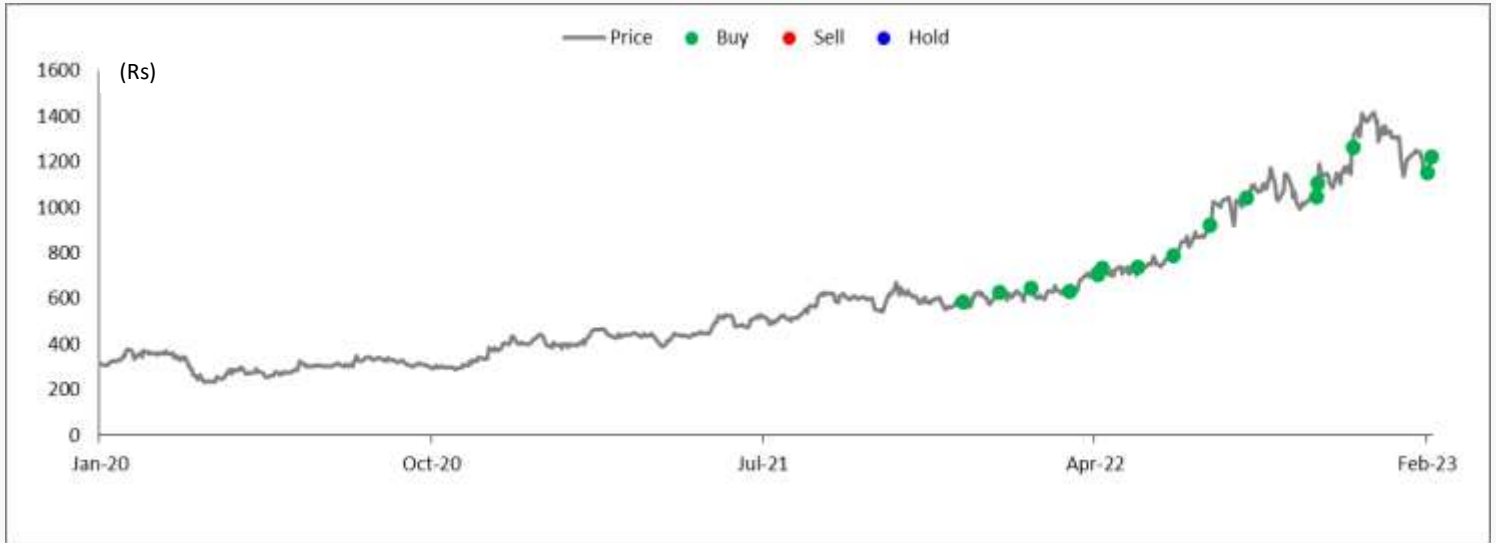
Ratio Analysis

(%)

Y/E Mar	CY21	CY22E	CY23E	CY24E
EPS (INR)	16.0	23.9	31.9	38.1
Growth, %	17.4	38.5	33.7	19.3
Book NAV/share (INR)	94.2	84.2	113.6	149.1
FDEPS (INR)	17.2	23.9	31.9	38.1
CEPS (INR)	29.5	33.4	42.0	48.7
CFPS (INR)	32.0	25.4	37.8	43.9
DPS (INR)	2.5	2.5	2.5	2.5
Return ratios				
Return on assets (%)	10.3	16.6	18.3	18.2
Return on equity (%)	18.3	28.4	28.1	25.5
Return on capital employed (%)	14.8	23.9	25.4	24.2
Turnover ratios				
Asset turnover (x)	1.3	1.9	2.1	2.3
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	1.3	1.7	2.3
Quick ratio (x)	0.4	0.6	0.9	1.5
Interest cover (x)	6.1	11.7	14.6	16.5
Total debt/Equity (%)	0.6	0.4	0.3	0.2
Net debt/Equity (%)	0.2	(0.2)	(0.4)	(0.5)
Valuation				
PER (x)	68.4	49.4	36.9	31.0
PEG (x) - y-o-y growth	3.9	1.3	1.1	1.6
Price/Book (x)	12.5	14.0	10.4	7.9
EV/Net sales (x)	6.1	5.9	4.9	4.1
EV/EBITDA (x)	32.0	27.9	21.8	18.2
EV/EBIT (x)	47.1	35.9	26.8	22.0

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

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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