

Fizzing The Portfolio for Growth

VBL announced a proposed acquisition of a 100% stake in SBC Beverages Tanzania Ltd and SBC Beverages Ghana, both PepsiCo bottlers operating in the territories of Tanzania and Ghana, further reinforcing its position in the high-growth African market following the acquisition of BevCo in Dec-23. Additionally, it has proposed acquiring the remaining 39.93% (taking its total shareholding to 100%) stake in Lunarmech Technologies which is engaged in manufacturing plastic closures for PET bottles used by VBL inhouse.

Recommendation Rationale

- SBC Beverages Tanzania (SBCT):** The proposed transaction is valued at an equity value of Rs 1,304 Cr (~USD 154.5 Mn), reflecting a reasonable valuation of ~0.9x P/S on an FY24 basis. The company reported revenue of Rs 1,505 Cr and sales volume of 78 Mn cases in FY24. SBCT manufactures and sells PepsiCo franchised brands, including Pepsi, Pepsi Max, 7UP, 7UP Free, Mirinda, Mountain Dew, and Everves. Additionally, it markets its own energy drink under the brand Supa Komando. PepsiCo holds a 56% volume market share in Tanzania. The company operates five manufacturing facilities with 12 beverage manufacturing lines – nine for RGB and three for PET bottles.
- SBC Beverages Ghana (SBCG):** The proposed transaction is valued at an equity value of Rs 127 Cr (~USD 15.06 Mn), representing a valuation of ~4x P/S on an FY24 basis. The company reported revenue of Rs 32 Cr and a sales volume of 2.25 Mn cases in FY24. Alongside the PepsiCo portfolio, SBCG also manufactures and sells its own energy drink under the brand name Cheetah. PepsiCo holds a 13% market share in Ghana, offering significant expansion potential for VBL in the region. SBCG operates one manufacturing plant with two RGB manufacturing lines.
- Footing the African territory:** Following the acquisition of BevCo in Dec'23 and the current proposed acquisitions of SBCT and SBCG, VBL has established a strong foothold in the fast-growing African beverage market. This region is poised to become a robust growth vector for VBL in the coming years, given PepsiCo's relatively low market share in Africa and VBL's proven execution capabilities as demonstrated in the Indian market after acquiring the South and West regions in India. We maintain high conviction stance on VBL's long term prospects post these acquisitions.

Current TP: 700/share; **Previous TP:** No change (As we have not modeled the numbers for acquisitions)

Current Valuation: 52xSep-26EPS

Recommendation: VBL's long-term outlook remains positive and with 23% upside potential from CMP we maintain a BUY rating on the stock.

Key Financials (Consolidated)

Y/E Dec (Rs Cr)	Net Sales	EBITDA	Net Profit	EPS (Rs)	PER (x)	EV/EBITDA (x)	ROE (%)	ROCE (%)
CY23E	15,622	3,609	2,056	15.8	35.2	21.8	30.3	25.4
CY24E	19,661	4,908	2,824	8.7	66.0	39.2	31.6	26.8
CY25E	23,967	6,044	3,637	11.2	51.3	31.6	30.9	27.8
CY26E	29,215	7,473	4,687	14.4	39.8	25.2	30.0	28.4

Source: Company, Axis Research

(CMP as of 13th November 2024)

CMP (Rs)	568
Upside /Downside (%)	23%
High/Low (Rs)	682/399
Market cap (Cr)	18,9774
Avg. daily vol. (6m) Shrs.	3654
No. of shares (Cr)	324

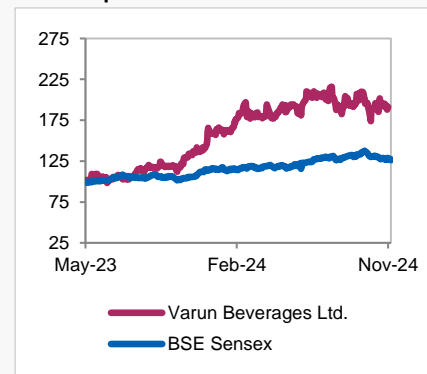
Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	62.9	62.7	62.7
FIs	25.8	25.3	24.2
MFs / UTI	2.3	2.4	2.6
FIs/Banks	0.0	0.0	0.0
Others	9.0	9.6	10.5

Financial & Valuations

Y/E Dec (Rs Cr)	CY24E	CY25E	CY26E
Net Sales	19,661	23,967	29,215
EBITDA	4,908	6,044	7,473
Adj Net Profit	2,824	3,637	4,687
EPS, Rs	8.7	11.2	14.4
PER, x	65.3	50.7	39.4
EV/EBITDA, x	38.8	31.3	24.9
P/BV, x	20.6	15.7	11.8
ROE, %	31.6	30.9	30.0

Relative performance



Source: AceEquity, Axis Securities

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Outlook

VBL is poised to sustain its strong growth momentum, driven by several strategic factors: 1) The successful acquisition of BevCo, which strengthens its market presence in South Africa and DRC; 2) Expansion of its snacks portfolio beyond India, with a focus on markets such as Zimbabwe and Zambia; 3) A continued push to expand its distribution network, particularly in rural areas; 4) The commissioning of various greenfield and brownfield facilities, boosting manufacturing capacity and market coverage while optimizing transportation costs; and 5) The expansion of its high-margin Sting energy drink and a greater focus on value-added dairy products, sports drinks (Gatorade), and juice offerings. These initiatives are anticipated to underpin the company's long-term growth trajectory and enhance profitability.

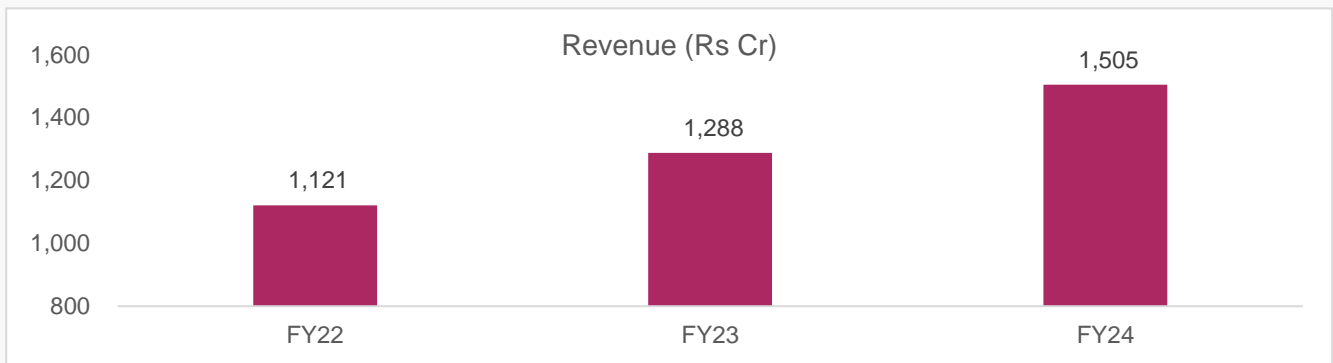
Valuation & Recommendation

We recommend a BUY rating on the stock and assign a 52x Sep-EPS to arrive at a TP of Rs 700/share. The TP implies an upside of 23% from the CMP.

Key Risks to Our Estimates and TP

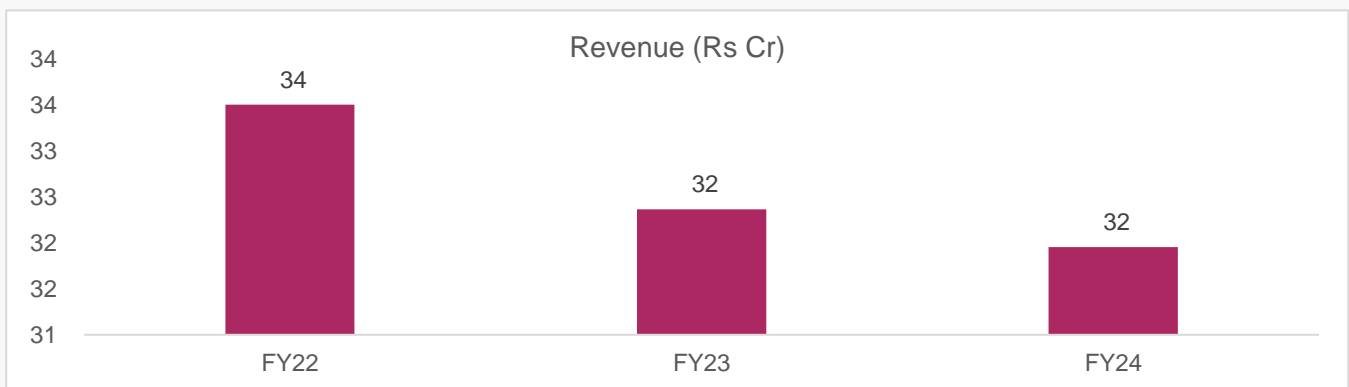
Increase in competitive intensity, RM inflation, weakening of demand environment, forex fluctuations

Exhibit 1: SBCT reported revenue of Rs 1505 Cr in FY24 with volume of 74 mn cases, average realization per case stands at Rs 203 which is 16% higher than VBL's average realization of Rs 176/case of CY23.



Source: Company, Axis Securities

Exhibit 2: SBCG reported revenue of Rs 32 Cr in FY24 with the volume of 2.3 mn cases, average realization per case stands at Rs 142/ case



Source: Company, Axis Securities

Exhibit 3: Expanding its footing in the Africa region – Its next key growth driver



Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24E	CY25E	CY26E
Net sales	15,622	19,661	23,967	29,215
Growth, %	20.9	25.9	21.9	21.9
Other operating income	421	463	509	560
Total income	16,043	20,124	24,476	29,776
Raw material expenses	(7,405)	(8,738)	(10,573)	(12,793)
Employee expenses	(1,447)	(1,765)	(2,153)	(2,627)
Other Operating expenses	(3,582)	(4,714)	(5,706)	(6,883)
EBITDA (Core)	3,609	4,908	6,044	7,473
Growth, %	29.5	36.0	23.2	23.6
Margin, %	23.1	25.0	25.2	25.6
Depreciation	(681)	(928)	(1,036)	(1,126)
EBIT	2,929	3,980	5,008	6,347
Growth, %	34.9	35.9	25.8	26.7
Margin, %	18.7	20.2	20.9	21.7
Other Income	79	103	113	125
Non-recurring Items	-	-	-	-
Pre-tax profit	2,740	3,681	4,740	6,109
Tax provided	(638)	(856)	(1,103)	(1,422)
Net Profit	2,102	2,824	3,637	4,687
Unadj. shares (Cr)	129	325	325	325

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24E	CY25E	CY26E
Cash & bank	460	(839)	719	3,609
Debtors	359	539	657	800
Inventory	2,151	2,707	3,299	4,022
Loans & advances	539	539	539	539
Other current assets	726	726	726	726
Total current assets	4,235	3,671	5,941	9,697
Investments	3	3	3	3
Gross fixed assets	12,463	16,163	17,963	19,463
Less: Depreciation	(4,036)	(4,964)	(6,000)	(7,126)
Add: Capital WIP	1,922	1,922	1,922	1,922
Net fixed assets	10,349	13,121	13,885	14,260
Non-current assets	537	537	537	537
Total assets	15,187	17,395	20,428	24,559
Current liabilities	4,153	4,349	4,558	4,813
Provisions	213	213	213	213
Total current liabilities	4,366	4,562	4,771	5,026
Non-current liabilities	3,737	3,737	3,737	3,737
Total liabilities	8,103	8,299	8,508	8,762
Paid-up capital	650	650	650	650
Reserves & surplus	6,287	8,299	11,123	14,999
Shareholders' equity	7,085	9,097	11,921	15,796
Total equity & liabilities	15,187	17,395	20,429	24,559

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Dec, Rs Cr	CY23	CY24E	CY25E	CY26E
Pre-tax profit	2,740	3,681	4,740	6,109
Depreciation	681	928	1,036	1,126
Chg in working capital	(349)	(539)	(502)	(612)
Total tax paid	(631)	(856)	(1,103)	(1,422)
Cash flow from operating activities	2,441	3,213	4,171	5,202
Capital expenditure	(3,491)	(3,700)	(1,800)	(1,500)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	(3,495)	(3,700)	(1,800)	(1,500)
Free cash flow	(1,054)	(487)	2,371	3,702
Equity raised/(repaid)	0	-	-	-
Dividend (incl. tax)	(227)	(812)	(812)	(812)
Cash flow from financing activities	1,270	(812)	(812)	(812)
Net chg in cash	216	(1,299)	1,559	2,890
Opening cash balance	285	460	(839)	719
Closing cash balance	460	(839)	719	3,609

Source: Company, Axis Securities

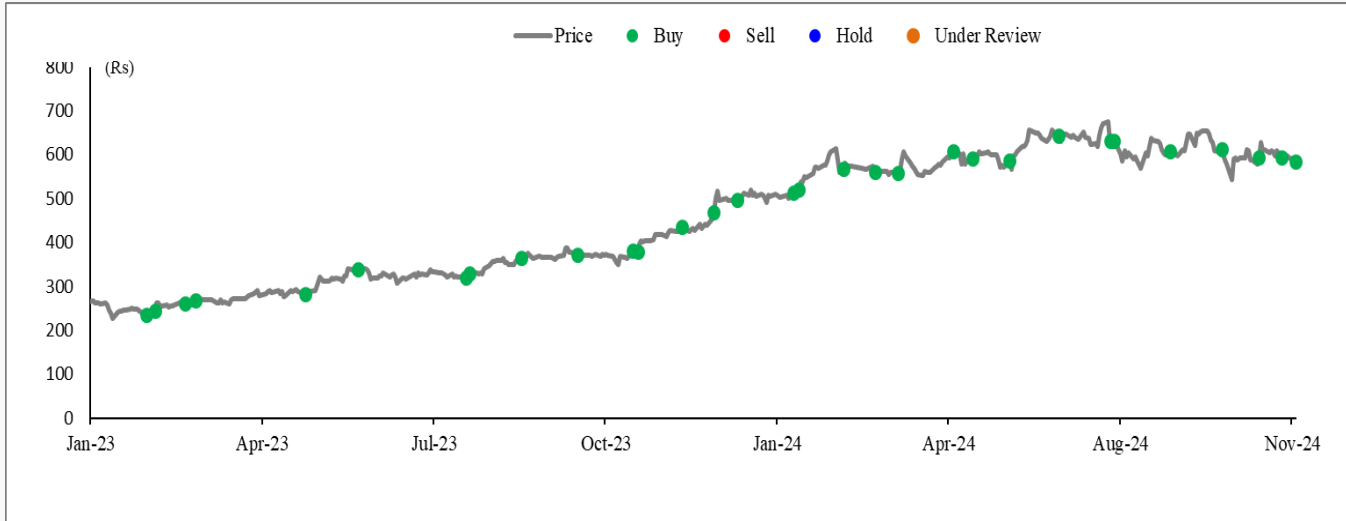
Ratio Analysis

(%)

Y/E Mar	CY23	CY24E	CY25E	CY26E
EPS (INR)	15.8	8.7	11.2	14.4
Growth, %	(32.7)	(46.7)	28.8	28.9
Book NAV/share (INR)	53.8	27.5	36.2	48.2
FDEPS (INR)	16.3	8.7	11.2	14.4
CEPS (INR)	21.6	11.5	14.4	17.9
CFPS (INR)	17.2	9.6	12.5	15.6
DPS (INR)	1.8	2.5	2.5	2.5
Return ratios				
Return on assets (%)	17.7	19.8	21.2	22.4
Return on equity (%)	30.3	31.6	30.9	30.0
Return on capital employed (%)	25.4	26.8	27.8	28.4
Turnover ratios				
Asset turnover (x)	1.5	1.5	1.5	1.7
Receivable days	8.4	10.0	10.0	10.0
Inventory days	50.2	50.2	50.2	50.2
Payable days	22.3	22.9	23.0	23.2
Working capital days	(8.8)	3.0	10.1	15.9
Liquidity ratios				
Current ratio (x)	1.0	0.8	1.3	2.0
Quick ratio (x)	0.5	0.2	0.6	1.2
Interest cover (x)	10.9	9.9	13.1	17.5
Total debt/Equity (%)	0.7	0.6	0.4	0.3
Net debt/Equity (%)	0.4	0.4	0.1	(0.2)
Valuation				
PER (x)	34.9	65.3	50.7	39.4
PEG (x) - y-o-y growth	(1.1)	(1.4)	1.8	1.4
Price/Book (x)	10.6	20.6	15.7	11.8
EV/Net sales (x)	5.0	9.7	7.9	6.4
EV/EBITDA (x)	21.6	38.8	31.3	24.9
EV/EBIT (x)	26.6	47.9	37.7	29.3

Source: Company, Axis Securities

Varun Beverage Price Chart and Recommendation History



Date	Reco	TP	Research	Date	Reco	TP	Research
01-Jan-23	BUY	290	Top Picks	05-Feb-24	BUY	572	Result Update
01-Feb-23	BUY	290	Top Picks	01-Mar-24	BUY	620	Result Update
06-Feb-23	BUY	290	Result Update	19-Mar-24	BUY	620	AAA
23-Feb-23	BUY	300	Result Update	01-Apr-24	BUY	620	Top Picks
01-Mar-23	BUY	300	Top Picks	02-May-24	BUY	660	Top Picks
01-Apr-23	BUY	300	Top Picks	13-May-24	BUY	700	Result Update
01-May-23	BUY	320	Top Picks	03-Jun-24	BUY	700	Top Picks
02-May-23	BUY	320	Result Update	01-Jul-24	BUY	732	Top Picks
01-Jun-23	BUY	372	Top Picks	31-Jul-24	BUY	720	Result Update
01-Jul-23	BUY	372	Top Picks	01-Aug-24	BUY	720	Top Picks
01-Aug-23	BUY	372	Top Picks	02-Sep-24	BUY	720	Top Picks
03-Aug-23	BUY	372	Result Update	01-Oct-24	BUY	717	Top Picks
01-Sep-23	BUY	400	Top Picks	22-Oct-24	BUY	700	Result Update
03-Oct-23	BUY	420	Top Picks	04-Nov-24	BUY	700	Top Picks
03-Nov-23	BUY	420	Top Picks	14-Nov-24	BUY	700	Company Update
06-Nov-23	BUY	420	Result Update				
01-Dec-23	BUY	480	Top Picks				
19-Dec-23	BUY	580	Company Update				
01-Jan-24	BUY	580	Top Picks				
02-Feb-24	BUY	580	Top Picks				

Source: Axis Securities

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