

Recovery on fast track...

Varun Beverage (VBL) reported a strong set of results with 33.7% revenue growth led by 33% volume growth. However, consolidated organic volume growth was 24.7% in Q1CY21. The strong growth was led by low base quarter as well as a sharp recovery in out of home activity. Carbonated drinks, juices & water have been consumed largely 'on the go'. VBL sold 151 million cases during the quarter. Realisation per case improved slightly by 0.6% to 148 per case mainly on account of a change in product mix. Out of total volumes, 70% comprise carbonated drinks CSD, 7% juices & 23% water. Gross margins contracted 294 bps mainly due to change in product mix & sharp increase in PET resin prices. Operating profit increased 41% to ₹ 381 crore. With the 300 bps saving in employee spends & 77 bps savings in overhead spends, the company was able to improve its operating margins by 86 bps to 17%. PAT increased 127.7% to ₹ 136.8 crore. Adjusting for one-off spend in base quarter, PAT growth was 25.1%

Rural regions, at-home consumption to drive growth

VBL witnessed ~14% volume decline in CY20 due to lockdown however we are expecting a strong volume recovery 24.9% in CY21. The current summer season is also impacted by the second wave of Covid-19 and subsequent localised lockdown but the supply disruptions are limited this year. Moreover, the company has converted some 'out of home' consumption to 'at-home' by introducing 1.25 litre family pack. Further, with expanding distribution in rural regions, the company has seen strong growth in rural regions aided by establishment of Visi-coolers. Though, HORECA segment, which constitutes 10% of volumes, would continue to remain impacted, we believe rural regions and at-home consumption would drive growth for the company. We expect 20.4% revenue CAGR during CY20-22E.

PET resin, sugar prices to pressurise margins

With the increase in crude prices, PET resin prices have also gone up sharply in the last three months. Further, we expect sugar prices to increase ~15% in next one year. We believe these commodity prices would remain firm for a prolonged period of time, which would require certain amount of price hikes. However, we believe it would not be easy to take prices hikes given aggressive competition. Hence, we believe operating margins would remain under pressure. We expect 19.8%, 20.1% operating margins for CY21E, CY22E respectively (pre-Covid period margins were 20.3% in CY19).

Valuation & Outlook

Despite beverage being a discretionary category, the company has been able to curtail the impact of pandemic and lockdown in CY20. Further, we believe increase at-home consumption would result in swift recovery in volumes in CY21E and we expect a full recovery in CY22E. With strong volume growth, robust operating margins & declining interest cost (with debt reduction), we expect net profit CAGR of 57.4% in CY20-22E. We value the stock at 20x CY22 EV/EBITDA with a target price of ₹ 1200/share (earlier target price ₹ 965) and revise our recommendation from HOLD to **BUY**.



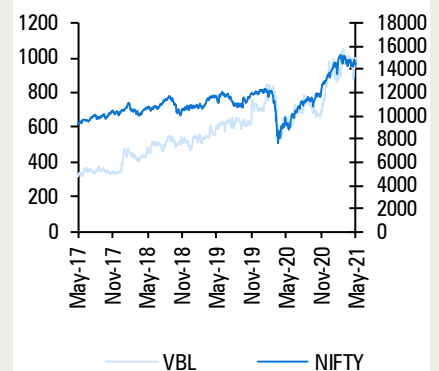
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	29,301.8
Total Debt (CY20)	2,717.9
Cash & Investments (CY20)	104.6
EV	31,915.2
52 week H/L (₹)	1066 / 485
Equity capital	288.7
Face value	10.0

Key Risk

- Any national lockdown could disrupt supply chain & demand for CSD in peak summer season
- Sustainable increase in crude based raw material prices & sugar prices could impact operating margins for prolonged period of time

Price Performance



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Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-22E)
Net Sales	5105.3	7129.6	6450.1	7915.2	9357.7	20.4%
EBITDA	1006.6	1447.7	1201.9	1563.6	1885.4	25.2%
EBITDA Margin %	19.7	20.3	18.6	19.8	20.1	
Net Profit	299.9	472.2	362.1	612.6	897.3	57.4%
EPS (₹)	16.42	16.36	12.54	21.22	31.08	
P/E	61.1	61.3	80.0	47.3	32.3	
RoNW %	15.0	14.2	10.3	15.4	19.1	
RoCE (%)	14.2	15.5	10.9	17.4	23.4	

Exhibit 1: Variance Analysis

Particulars (₹ crore)	Q1CY21	Q1CY21	YoY (%)	Q4CY21	QoQ (%)	Comments
Net Sales	2,240.9	1,676.4	33.7	1,330.9	68.4	The strong revenue growth was led by robust volume growth of 24.7% & 1% realisation growth largely due to change in product mix
Raw Material Expenses	990.2	691.5	43.2	530.4	86.7	Gross margins contracted 300 bps on account of a change in product mix & sharp increase in PET resin prices
Employee Expenses	238.4	229.1	4.1	231.7	2.9	
Other operating Expenses	630.7	484.7	30.1	396.5	59.0	
EBITDA	381.6	271.2	40.7	172.2	121.6	
EBITDA Margin (%)	17.0	16.2	86 bps	12.9	409 bps	Operating margins improved 86 bps mainly due to saving in overhead spends
Depreciation	134.7	135.1	-0.3	134.7	0.0	
Interest	57.9	87.0	-33.4	62.0	-6.5	
Other Income	5.7	25.3	-77.3	5.6	2.9	
PBT	194.7	7.8	2,396.4	-18.9	-1,132.0	
Exceptional Items	0.0	66.5		0.0		
Tax Outgo	57.9	-52.3	-210.8	-11.6	-598.4	
PAT	136.8	60.1	127.7	-7.2	-1,988.5	Net profit increased 127.7% mainly on account of exceptional expense in base quarter. Adjusting for that, PAT increased 25.1%
Adj. PAT	136.8	109.3	25.1	-7.2	-1,988.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars (₹ Crore)	CY21E			CY22E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	7,695.6	7,915.2	2.9	8,448.5	9,357.7	10.8	We changed our CY22 estimates considering larger contribution from new products & full recovery from Covid related disruptions
EBITDA	1,553.6	1,563.6	0.6	1,715.8	1,885.4	9.9	
EBITDA Margin(%)	20.2	19.8	-43 bps	20.3	20.1	-16 bps	We changed our margin estimates due to rising sugar prices
PAT	605.1	612.6	1.2	763.6	897.3	17.5	
EPS (₹)	20.96	21.22	1.2	26.45	31.08	17.5	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Particulars (in million cases)	Current						Earlier		Comments
	CY17	CY18	CY19E	CY20E	CY21E	CY22	CY21E	CY22	
Carbonated Products	220.0	257.0	388.1	345.4	421.4	484.6	414.5	443.5	We factor in a full recovery from Covid-19 in CY22
% Growth	-1.3	16.8	51.0	-11.0	22.0	15.0	20.0	7.0	
Non Carbonated Products	14.0	22.0	29.7	22.3	29.0	34.7	26.3	27.9	
% growth	-11.1	57.1	35.0	-25.0	30.0	20.0	18.0	6.0	
Raw Material Cost									
Sugar	616.6	698.4	1,086.0	907.9	1,131.6	1,422.5	1,097.1	1,231.9	
% of sales	13.4	14.2	15.1	14.0	14.0	15.0	14.0	14.0	
cost/kg (₹)	38.9	37.0	36.6	34.8	36.9	40.2	36.5	38.4	Sugar prices are expected to increase by 10-15% in the next one to two years

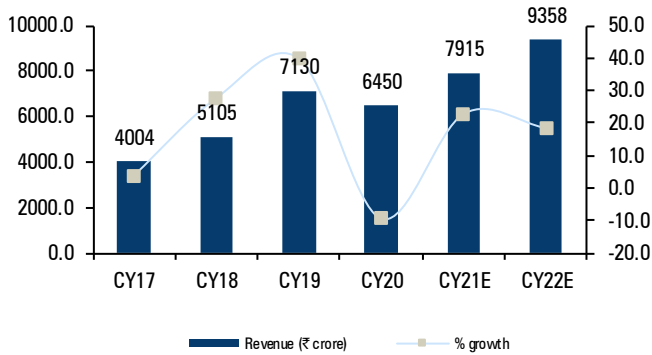
Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenue witnessed growth of 33.7% led by 33% volume growth and 0.8% realisation growth. The realisation growth was mainly on account of a change in product mix in favour of CSD. Consolidated organic volume growth was 24.7%
- Out of total volume, CSD contributed 70% to total volume compared to 67% in the corresponding quarter. Similarly, water segment contribution changed to 23% from 26% in the corresponding quarter. Juices contribution remained same at 7%
- The company witnessed small disruptions in supply chain due to localised lockdowns in April 2021. However, the situation is much better compared to last year due to better preparedness and higher volume contribution from rural regions (which are relatively insulated from lockdowns)
- In the last one year, out of home consumption has gone down from 40% to 20% given the company is trying to drive the at-home consumption with the introduction of 1.25 litre SKUs. However, HORECA segment continue to remain most impacted by lockdowns
- Capex related to Visi-coolers has already been done for CY21 as most Visi-Coolers have been placed before the summer season
- Energy drink 'sting' witnessed growth of 2.5x in CY20 over CY19. During Q1CY21, the company crossed sales of full year CY20
- In juices category, Tropicana has been growing steadily but the juice category still remains relatively small for VBL. Pathankot facility is nearing its full capacity. The company may have to take capacity expansion in the medium term
- On distribution side, the company would be able to utilise its CSD distribution network to drive growth in Tropicana. Moreover, south & west distribution network is less than 50% of the targeted area. The company would take two to three years to reach the distribution at optimum level
- The consumption pattern has been changed with SKU upgradation from 500 ml to 1.0 litre
- Capax for the next two years would be closer to depreciation provisioning given the company is not undertaking any major capacity expansion
- Prices of PET resins have significantly gone up in last three months. However, the company has sufficient inventory to cover the entire summer season in 2021. Sugar prices during the quarter have remained stable
- Income tax rate for full year would be 25-26%

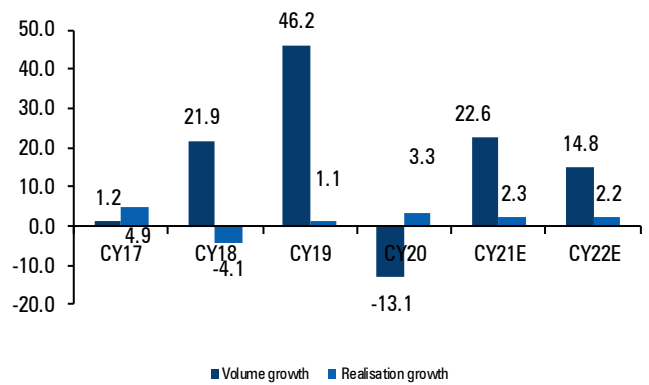
Key Metrics

Exhibit 4: Revenue growth trend (₹ crore)



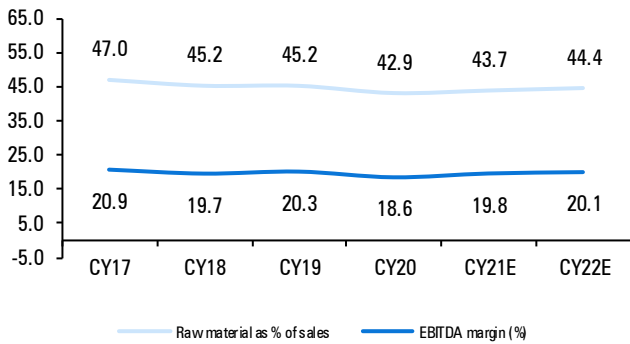
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth to drive growth



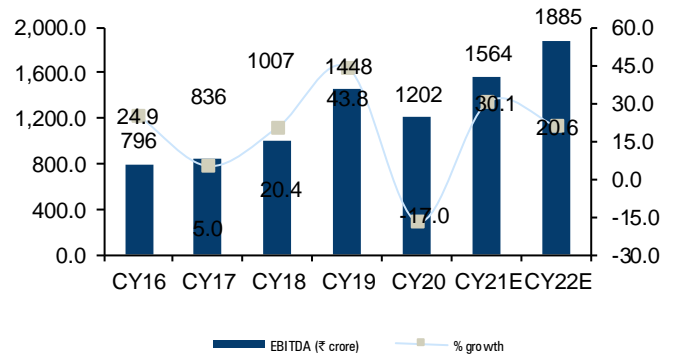
Source: Company, ICICI Direct Research

Exhibit 6: Raw material to sales & EBITDA margins (%)



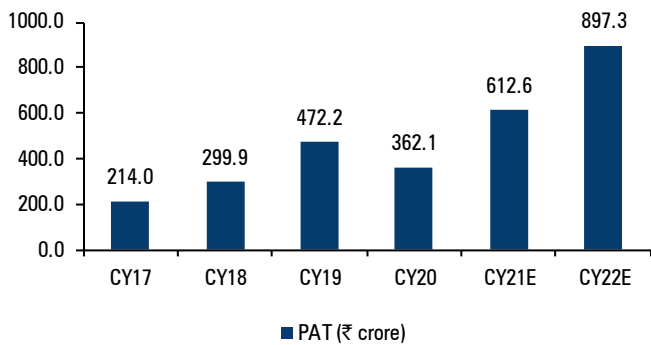
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA (₹ crore) & EBITDA growth (%) trend



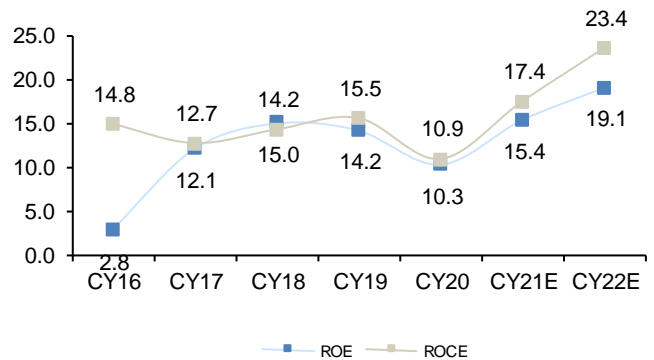
Source: Company, ICICI Direct Research

Exhibit 8: Earnings to grow on low base in CY21E (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio trend (%)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY19	7129.6	39.7	16.4	-0.4	61.3	21.9	14.2	15.5
CY20	6450.1	-9.5	12.5	-23.3	80.0	26.3	10.3	10.9
CY21E	7915.2	22.7	21.2	69.2	47.3	19.6	15.4	17.4
CY22E	9357.7	18.2	31.1	46.5	32.3	15.7	19.1	23.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
	CY19	CY20	CY21E	CY22E
Total operating income	7129.6	6450.1	7915.2	9357.7
Growth (%)	39.7	-9.5	22.7	18.2
Raw Material Expenses	3219.4	2763.9	3455.5	4159.0
Employee Expenses	810.8	889.7	1029.0	1197.8
Marketing Expenses	122.1	0.0	121.3	141.8
Other expenses	1529.6	1594.6	1745.8	1973.7
Total Operating Expenditure	5681.9	5248.3	6351.6	7472.3
EBITDA	1,447.7	1,201.9	1,563.6	1,885.4
Growth (%)	43.8	-17.0	30.1	20.6
Depreciation	488.6	528.7	555.5	580.3
Interest	309.6	281.1	249.5	145.0
Other Income	42.5	37.0	40.5	44.6
PBT	691.9	429.0	799.2	1204.7
Total Tax	224.1	5.2	191.8	313.2
Minority interest	0.0	0.0	0.0	0.0
Profit from Associates	4.4	4.8	5.3	5.8
PAT	472.2	428.6	612.6	897.3
Growth (%)	57.5	-23.3	69.2	46.5
EPS (₹)	16.4	12.5	21.2	31.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Profit After Tax	907.7	599.6	856.8	1,036.5
Add: Depreciation	482.6	523.2	555.5	580.3
(Inc)/dec in Current Assets	-319.3	-98.6	174.7	-259.7
Inc/(dec) in CL and Provisions	234.1	-12.3	197.0	354.4
CF from operating activities	1,305.2	1,012.0	1,784.0	1,711.5
(Inc)/dec in Investments	73.1	107.4	0.0	0.0
(Inc)/dec in LT loans & advances	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-2,358.2	-535.6	-386.1	-429.3
Others	22.1	8.7	0.0	0.0
CF from investing activities	-2,319.2	-471.1	-386.1	-429.3
Issue/(Buy back) of Equity	900.2	0.0	0.0	0.0
Inc/(dec) in loan funds	648.7	-470.9	-900.0	-1,000.0
Dividend paid & dividend tax	-78.2	-72.2	-153.2	-179.5
Others	-317.5	-277.4	-249.5	-145.0
CF from financing activities	1,109.7	-573.7	-1,345.9	-1,301.8
Net Cash flow	95.7	-32.8	52.0	-19.6
Opening Cash	106.9	138.0	104.6	156.6
Other Bank balance	33.1	85.5	85.5	85.5
Closing Cash	171.1	104.6	156.6	137.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Liabilities				
Equity Capital	288.7	288.7	288.7	288.7
Reserve and Surplus	3039.7	3235.3	3694.8	4412.6
Total Shareholders funds	3328.4	3524.0	3983.5	4701.3
LT Borrowings & Provisions	2355.4	2004.1	1204.1	304.1
Deferred Tax Liability	282.5	225.9	237.2	249.1
Total Liabilities	6168.1	6023.4	5639.6	5480.1
Assets				
Gross Block	7,710.6	8,542.5	8,959.4	9,359.4
Less: Acc Depreciation	2,186.7	2,715.4	3,270.8	3,851.1
Net Block	5,892.5	5,827.2	5,688.5	5,508.2
Capital WIP	63.8	66.8	50.0	50.0
Net Intangible Assets	562.3	557.2	585.1	614.3
Non-current Investments	0.9	0.1	0.1	0.1
Goodwill	24.2	24.2	24.2	24.2
Current Assets				
Inventory	881.5	928.8	769.5	909.8
Debtors	172.6	241.8	197.9	233.9
Loans and Advances	6.9	10.0	219.9	259.9
Other Current Assets	219.8	251.8	17.6	20.8
Cash	138.0	104.6	156.6	137.0
Deferred Tax Assets	12.8	11.0	11.0	11.0
Current Liabilities				
Creditors	477.7	511.4	527.7	623.8
Provisions	30.0	33.2	66.0	78.0
Short term debt & other CL	1,697.5	1,886.5	1,933.0	2,073.5
Application of Funds	6,168.1	6,023.4	5,639.6	5,480.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
EPS	16.4	12.5	21.2	31.1
Cash EPS	33.3	30.9	40.5	51.2
BV	115.3	122.1	138.0	162.9
DPS	0.0	2.5	5.3	6.2
Cash Per Share	75.7	94.1	113.3	133.4
Operating Ratios (%)				
EBITDA Margin	20.3	18.6	19.8	20.1
PBT / Total Operating income	9.7	5.6	10.1	12.9
PAT Margin	6.6	5.6	7.7	9.6
Inventory days	45.1	52.6	35.5	35.5
Debtor days	8.8	13.7	9.1	9.1
Creditor days	24.5	28.9	24.3	24.3
Return Ratios (%)				
RoE	14.2	10.3	15.4	19.1
RoCE	15.5	10.9	17.4	23.4
Valuation Ratios (x)				
P/E	61.3	80.0	47.3	32.3
EV / EBITDA	21.9	26.3	19.6	15.7
EV / Net Sales	4.4	4.9	3.9	3.2
Market Cap / Sales	4.1	4.5	3.7	3.1
Price to Book Value	8.7	8.2	7.3	6.2
Solvency Ratios				
Debt/EBITDA	1.9	2.3	1.2	0.4
Debt / Equity	0.8	0.8	0.5	0.2
Current Ratio	0.6	0.7	0.6	0.6
Quick Ratio	0.1	0.2	0.2	0.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,491	1,860	Buy	43,654	35.0	37.8	40.5	42.5	39.4	36.8	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	537	620	Buy	91,067	9.9	11.0	12.3	54.2	48.8	43.8	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,407	2,715	Buy	554,458	33.9	40.5	45.0	71.1	59.4	53.4	12.2	10.6	9.8	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	200	245	Hold	267,970	10.7	12.8	14.1	18.7	15.6	14.1	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	142	175	Hold	5,728	5.9	6.4	7.1	24.2	22.2	20.0	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	460	490	Buy	53,027	9.3	9.6	10.7	49.5	47.8	43.0	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	16,546	19,300	Hold	164,840	216.0	254.8	283.8	76.6	64.9	58.3	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	645	700	Buy	53,448	11.0	12.5	14.1	58.5	51.7	45.7	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,191	3,600	Hold	5,090	201.3	218.8	234.9	15.9	14.6	13.6	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	1,003	1,200	Buy	28,955	12.5	21.2	31.1	80.0	47.3	32.3	4.5	3.7	3.1	10.9	17.4	23.4	10.3	15.4	19.1
Zydus Wellness (ZYDWEL)	2,072	2,500	Buy	12,343	19.0	60.3	71.3	109.2	34.4	29.0	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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