

VARUN BEVERAGES LTD.

Sector

June 27, 2022

Buy at CMP: Rs 770 | Target: Rs 906 (18%) | SL: Rs 670

FMCG



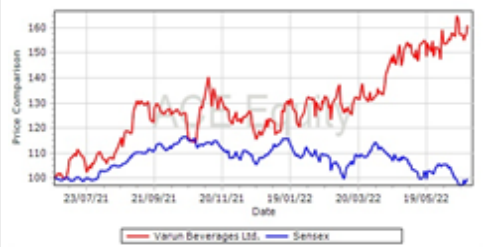
Script Details

BSE Group	A
BSE Code	540180
NSE Code	VBL
Bloomberg Code	VBL IN
Market Cap (INR Cr.)	49,989
Free Float (%)	56.7%
52wk Low/High	805/473
Beta (1yr Nifty 50)	0.59
Face Value (INR)/ D. Yield (%)	10/0.3
Total paid Up Shares (Mn.)	649.5

Share Holding Pattern (%)

Promoters	Public	Others
43.3%	56.7%	-

Share Price Relative Performance



Varun Beverages Limited is offering a wide variety of carbonated and non-carbonated soft drinks. The company has emerged as the second-largest PepsiCo franchisee in the world outside of USA. The company has a national bottling, sales and distribution footprint (except Jammu & Kashmir, Ladakh and Andhra Pradesh) for Pepsi, Mountain Dew, Pepsi Black, Mirinda, 7up, Tropicana Slice, Tropicana (100%, Delight & Essentials), Sting, Evervess, Gatorade, Lipton Ice Tea, Duke's, 7up Nimbooz, 7up Nimbooz Masala Soda.

Investment Rationale

- ◆ **VBL's Volumes to boost from PepsiCo's Aggressive Marketing:** VBL and PepsiCo are in association from 30 years+. VBL's business model consist of two pillars- Demand Creation & Demand Delivery. PepsiCo takes care of creation and Delivery is done by VBL. PepsiCo is aggressively marketing products by means of TV commercial and advertising at restaurants by heavy weight influencers from Bollywood. This plans yield for VBL as brand recall and demand has improved in terms of 20%+ CAGR in carbonated soft drinks. The PepsiCO brand has strengthen its position as major competitor to Coca cola.
- ◆ **To commence trial 'Kurkure Puffcorn' manufacturing & Only franchise to Receive Tropicana Rights:** VBL has received franchise rights for Tropicana from PepsiCo which had never franchised it anywhere in the world and VBL is already working on 100% capacity utilization on Tropicana. Apart from this VBL's portfolio is added with 'Sting' energy drink which grew 440% YoY and contributed 5% of mix. Company's Board has approved to manufacture 'Kurkure Puffcorn' on trial basis with Rs 20-23 Cr investment. This to boost revenue company ahead.
- ◆ **Strong PAN India Logistics Moat to Distribute Products:** VBL has dominating presence in all Indian states except AP, J&K. company has 100+ depots, 2000+ primary distributors and 2500+ owned vehicle to cater growing demand. This creates a moat which difficult to replace and PepsiCo has Varun beverage as partner to ensure seamless and fast supply of its products all over India, Nepal, Morocco, Zambia and Zimbabwe.
- ◆ **Outlook and Valuations:** We estimate a 18% CAGR in Topline over FY22-25E, which implies a forward PE (x) of 42.5 for FY 25E. VBL's Historical average median PE is 55. We apply a earnings multiple of 50x to FY25E which result per share value of Rs 906. We recommend BUY on VBL at CMP of Rs. 770 with Target price of Rs. 906 (18%).

◆ Financial Snapshot:

Year	Revenue	EBITDA	PAT	PE Ratio (x)	EV/EBITDA (x)
FY22	9,556	1,950	819	61.0	28.3
FY23E	11,276	2,142	846	59.1	24.8
FY24E	13,306	2,528	998	50.1	21.0
FY25E	15,701	2,983	1,178	42.5	17.8

Source: Company Data, Ace Equity, GEPL Research

TECHNICAL VIEW

Varun Beverages Ltd, India, NSE:VARB, W

Observation

- On weekly chart, VBL has been moving in a strong uptrend since March 2020 and forming higher high, higher low formation.
- On daily timeframe we saw breakout from rounding bottoming in April 2022 with higher volumes.
- On weekly chart, Post the breakout we can spot change in the polarity pattern which is followed by strong volumes.
- Prices on weekly timeframe took support from its 13 week EMA, which acted as strong support to prices and 32 week EMA which acted as proxy to trend line.
- RSI indicator on weekly as well as on daily timeframe has sustained above 50 mark, which here is indicating a bullish sign.
- In the previous week the stock made its fresh all time high with a strong momentum.



Inference & Expectations

- Uptrend is supported by the volumes and indicator evidence, this indicates the strength in existing trend.
- Going ahead we expect the stock to move higher towards 1000 level.
- 670 level will act as a major support on the downside.



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