Initiating Coverage

CMP: ₹688.5/-

04th January 2018

ACCUMULATE

Research Desk

Sector: Bottling & Distribution Services

Varun Beverages Ltd.

Fizzing Up for Growth…

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Company Details

Key Stock Data	
CMP	₹688.5
Market Cap (₹ Crs)	12,572
52W High/Low	₹761.5/341.25
Shares o/s (Crs)	18.26
Bloomberg	VBL.IN
NSE Code	VBL
BSE Code	540180

Shareholding Pattern	
Promoters	73.59%
FIIs & DIIs	13.99%
Public & Others	12.42%

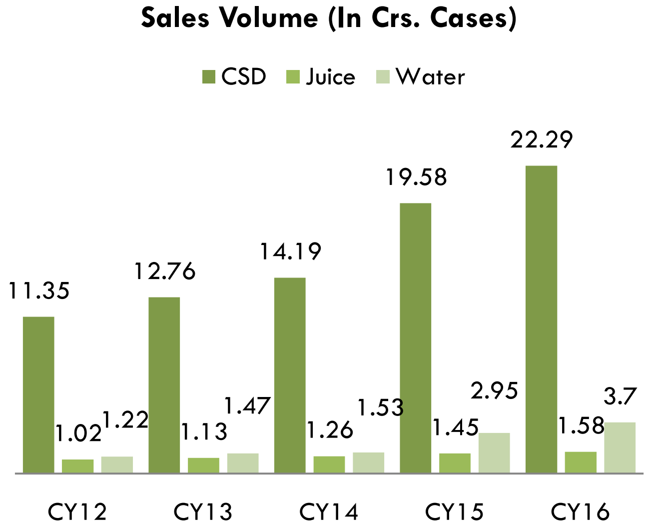
Company Overview

- Varun Beverages is the largest franchisee globally (outside USA) for carbonated soft drinks ("CSDs") and non-carbonated beverages ("NCBs") sold under trademarks owned by PepsiCo. The Company manufactures and distributes PepsiCo products in the territories assigned through exclusive franchise agreement.
- The company has been associated with PepsiCo since the 1990s and has over the last 25 years strengthened their business association with PepsiCo through turning around the territories being transferred by PepsiCo in India and overseas and increasing market share of PepsiCo products in the existing territories.
- Their product portfolio spreads across CSDs, NCBs, and packaged drinking water.

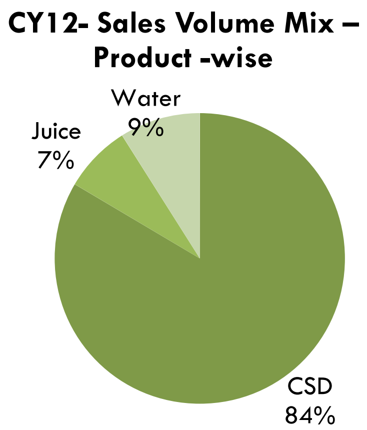
CSD Brands	NCB Brands	Bottled Water Brands
Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Mountain Dew Game Fuel, Seven-Up Nimbooz Masala Soda, Seven-Up Revive and Evervess.	Tropicana Slice, Tropicana Frutz (Lychee, Apple and Mango), Nimbooz	Aquafina

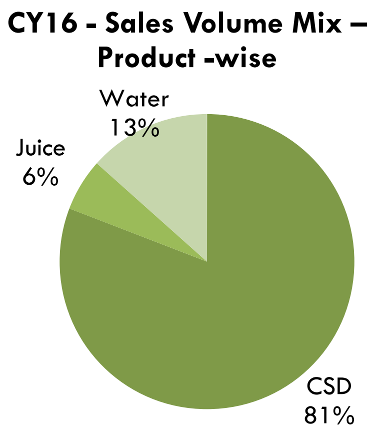
- The company has presence in 5 countries – namely India, Sri Lanka, Nepal, Zambia & Morocco. The company owns & operates 22 plants across locations with a capacity of ~ 28,800 BPM (Bottles Per Minute).
- With a market share on 47% in the domestic markets, the company has tripled its topline in the last five years through organic & inorganic routes. VBL currently has franchisee rights across 18 States and 2 Union Territories in India. Indian operations contributes ~75-76% to the topline. The company recently announced the it's bid to acquire Pepsi's Jharkhand & Chhattisgarh bottling operation. The deal for which is expected to close at the end of this month (Jan-18). We have not accounted for the same in our estimates yet due to lack of data. We expect this will add 150-200 bps to its domestic market share.
- Internationally the company has franchisee right in Sri Lanka, Nepal, Zambia & Morocco. International operations account for ~24-25% of the topline.
- Over the years the company has taken initiatives to build a integrated business model in a bid to control costs and expand reach. VBL has developed a wide-spread, integrated distribution network across their licensed territories. It's current domestic distribution strength stands at 74 depots and 2,024 delivery. The company is also backward integrated as it manufactures bulk of its requirement for PET bottles, caps, crowns, corrugated boxes, plastic shells, and shrink film sheets hence controlling its packaging costs.

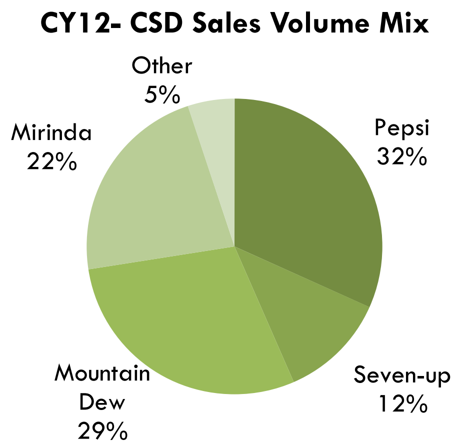
Business Model – Product-wise

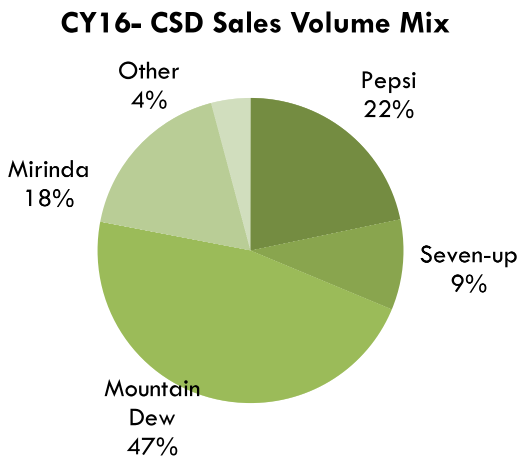


- CSD contributes ~80% to the company's topline in volume terms. This segment has seen volume CAGR of ~18%+ over the last 4 years.
- Visiting the business model on the product portfolio basis brings forward some interesting trends in the company – such as the mix shift from cola to non Cola drinks. The share of Pepsi has come down from 32% in CY12 to 22% in CY16 while Mountain dew has gone up from29% in CY12 to 47% in CY16.
- The NCB category contributes 6% in volumes. This segment has witnessed a volume CAGR of ~15% over the last 4 years. The company intends to make greater number of launches in this category in the future while leveraging on the Tropicana brand to meet the rising demand for wellness drinks.
- Packaged drinking water contributes 13% in volume terms. It has witnessed the steepest volume CAGR of 32% over the last 4 years. The company intends to launch value added/fortified/ flavored in the near future which will drive value growth in this segment.



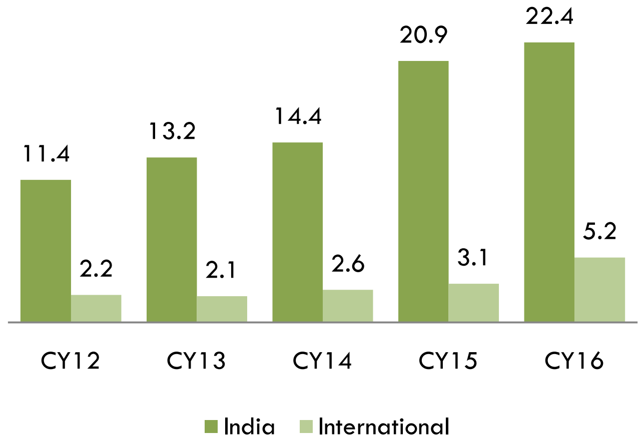




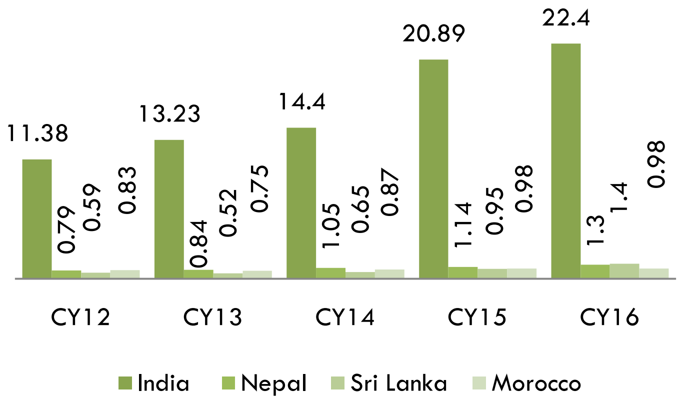


Business Model – Geography-wise

Sales Volume (In Crs. Cases)

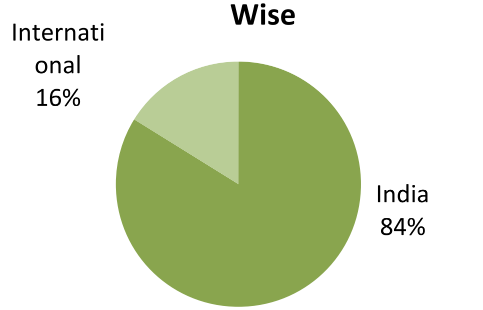


Sale in Volume (in Crs. Cases) - Region Wise

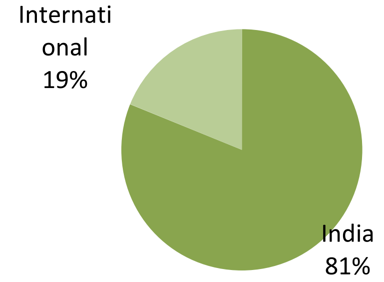


- India sales account for ~80% in volume terms & 75% in value terms. In value terms India clocked a 5 year CAGR of 20.6% vs. 24% in volume terms. Steep increase in excise duty during the last 5 years has impacted CAGR in value terms.
- In 2015 Pepsi decided to exit the bottling and distribution business in some territories in North India. They transferred franchisee rights on these territories to VBL, hence the jump in volumes in CY15.
- Recently the company also acquired new territories in MP (major part) & Orissa with an aim to grow their market share in India. The company is not shy from their voicing their quest to grow their domestic market share from 47% to 100% one day. The company's key focus is on growing market share in domestic markets.
- The International business comprises of franchisee rights in Nepal, Sri Lanka, Morroco & Zambia. The International business account for ~20% to the volume terms & ~ 25% on value terms. In all the international territories, VBL is the sole franchisee for PepsiCo.
- The asset turnover for the international business is better than domestic business on account of beneficial tax laws. Nepal, for example has an ATR of 4x while Zambia of 2x. The domestic business has an ATR of 1.2x and is expected to rise to 2x over the next 2-3 years on higher sweating of assets. The company has done capex ahead of demand in India in order to avail tax benefits.

CY12- Sales Volume Mix – Region Wise



CY16 - Sales Volume Mix – Region Wise



Business Model

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Research Desk

(₹Crs)

	CY12	CY13	CY14	CY15	CY16
Value	**1,800.0**	**2,115.2**	**2,502.4**	**3,394.2**	**3,852.0**
Growth %	56.9%	17.5%	18.3%	35.6%	13.5%
India	**1,447.6**	**1,733.7**	**2,005.3**	**2,843.7**	**2,927.5**
Growth %	26.2%	19.8%	15.7%	41.8%	2.9%
Mix %	80.4%	82.0%	80.1%	83.8%	76.0%
International	**352.4**	**381.5**	**497.1**	**550.4**	**924.5**
Growth %		8.3%	30.3%	10.7%	68.0%
Mix %	19.6%	18.0%	19.9%	16.2%	24.0%
Volume	**13.6**	**15.3**	**17.0**	**24.0**	**27.5**
Growth %	76.3%	12.9%	10.6%	41.2%	14.8%
India	**11.4**	**13.2**	**14.4**	**20.9**	**22.4**
Growth %	47.6%	16.3%	8.8%	45.1%	7.2%
Mix %	83.7%	86.2%	84.9%	87.2%	81.5%
International	**2.2**	**2.1**	**2.6**	**3.1**	**5.1**
Growth %		-4.5%	21.8%	19.5%	66.1%
Mix %	16.3%	13.8%	15.1%	12.8%	18.5%
Per Case Revenues	**132.4**	**137.9**	**147.5**	**141.7**	**140.1**
Growth %	-11.0%	4.1%	6.9%	-3.9%	-1.1%
India	**127.2**	**131.0**	**139.3**	**136.1**	**130.7**
Growth %	-14.5%	3.0%	6.3%	-2.2%	-4.0%
International	**159.4**	**180.8**	**193.4**	**179.3**	**181.3**
Growth %		13.4%	7.0%	-7.3%	1.1%

Investment Theme

Growth Drivers

- Focus on inorganic growth opportunities to garner higher market share.
- Increase in capacity utilizations of newly acquired territories
- Expand product portfolio

Profitability Drivers

- Ramp up in capacity utilization to lead to improved operating leverage
- Sweating of assets to aid in cost efficiencies, support margins & improve ROCE's.

Valuations

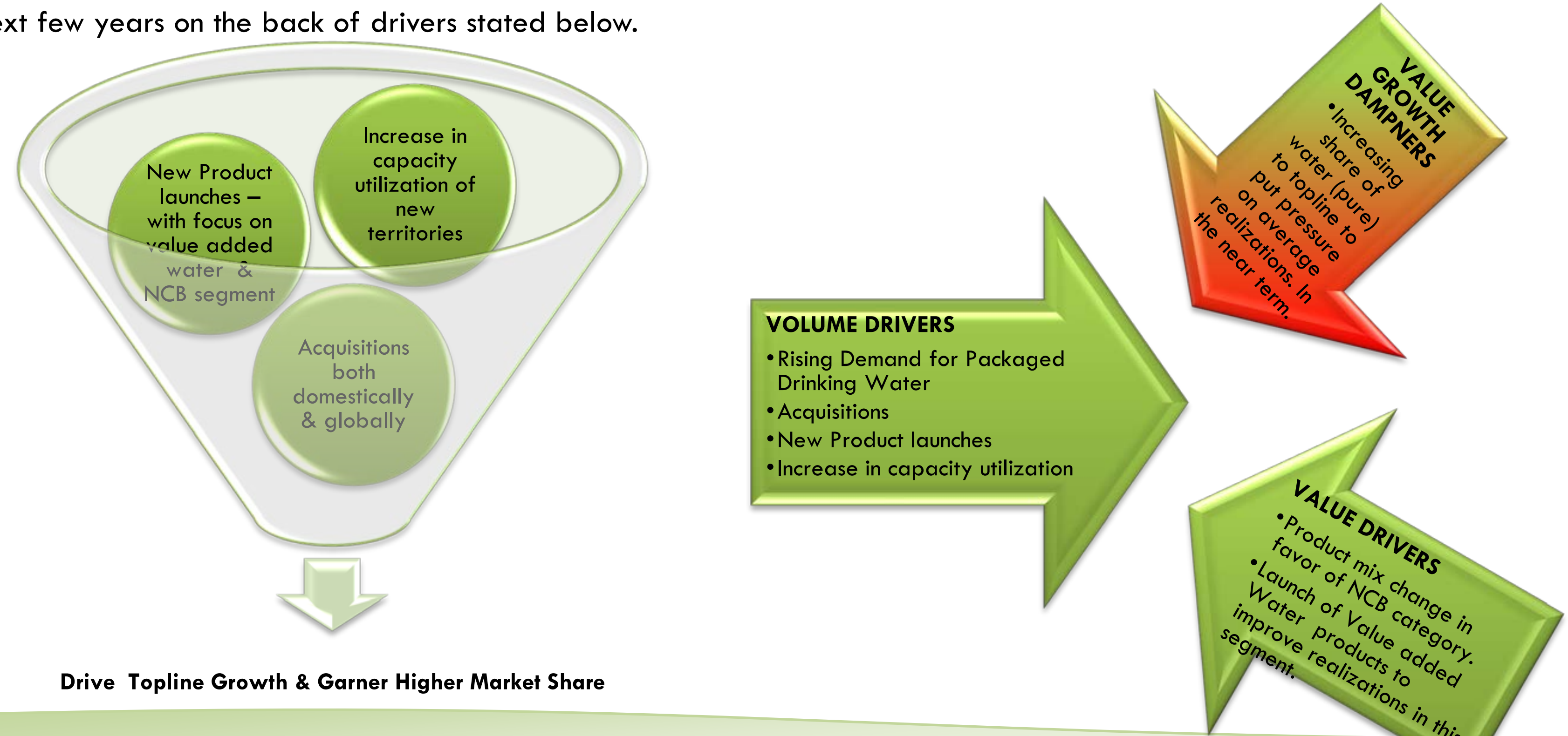
- We expect VBL To clock 11-12% topline growth over the next 2 years and 18-20% PAT growth as the operating leverage kicks in on the back of higher sweating of assets. At the CMP on ₹688.5/- the stock trades at ~44.7x & ~33.1x its CY18 & CY19 estimated EPS of ₹15.4/- & ₹20.8/- respectively .

Investment Rationale

- **Inherent strength in business model :**

Relationship with Pepsi	➢ Varun Beverages Ltd. is the largest franchisee of Pepsi Co. outside of the US. The company is not just a bottler but a strategic business partner with presence across the value chain. While a mere bottler's business works on the conversion fee structure; VBL's business operations entails manufacturing and supply chain of the end product. While Pepsi does the demand creation & owns the trademarks; VBL looks into demand delivery. ➢ The company has been associated with PepsiCo since the 1990s and has over the last 25 years strengthened their business association with PepsiCo through turning around the territories being transferred by PepsiCo in India and overseas and increasing market share of PepsiCo products in the existing territories.
Backward Integration –Packaging	➢ A majority of their packaging requirements is met internally. They have 2 production facilities in India, and 1 in Sri Lanka which manufactures preforms. The company manufactures crowns in its Jaipur facility and manufactures shrink-wrap films, plastic shells, corrugated boxes and pads at its Alwar facility. ➢ PET chips have seen a significant price drop globally on account of reduction in crude oil prices. PET has gone ~13% of the cost of raw material in CY13 to 9.3% in CY16 on account of price corrections. ➢ Packaging innovations has enabled the company to roll in costs. One such example was in 2015-16 when the company shifted from corrugated boxes to shrink film wraps for packing of PET bottles and reduced the weight of PET bottles by shortening the neck size. This was a key driver for margin improvement during those years.
Delivery systems in place	➢ The co. boasts of an extensive distribution network in India which includes 74 depots and 2,024 delivery vehicles ➢ 100% of the sales happens through distributors. The company has 1,211 primary distributors which constitute 80% of the total sales volumes.
Scale of Operations	➢ With 47% market share VBL is PepsiCo's key partner for growth in the Indian subcontinent. The company has 22 plant across locations and is backward and forward integrated enabling it to deliver profitable value growth. ➢ With this scale and its below the line marketing spends VBL brings value to PepsiCo and enables it to meet the last leg of demand delivery. ➢ As scale grow the company will be better able to consolidate and increase capacity utilisation at newly acquired territories.

- **Key focus on topline growth –** The company's key strategic focus in the years to come is to garner higher market share in the existing domestic markets as well as increase geographical presence through acquisition of new territories in India and overseas. With the current share of PepsiCo's beverage business in India close to 47%, the company is aspiring for 100% share in the next decade. The reason why a slew of bottling plants are ready to sell or have already sold operations to VBL is because their small scale of operations are not optimal to meet profitability. With VBL's scale of operations the capacity utilization in these units can be optimized and hence drive profitable growth. PepsiCo, the parent company, is also very comfortable with the VBL group which is evident from the fact that they sold their north operations to VBL in 2015. While volumes will be the major driver of growth; the change in product mix in favor of value added water as well as new launches in NCB segment will add to value growth. We expect topline to grow at ~12-15% over the next few years on the back of drivers stated below.



Drive Topline Growth & Garner Higher Market Share

- **Acquisitions –** The company is keen to consolidate more geographies to its portfolio in a bid to garner higher share of PepsiCo's business domestically. Seeing VBL's performance in Indian markets Pepsi has entrusted them with some of the international operations in the India sub-continent as well as in Africa. The company has sole franchisee rights in Morocco, Nepal, Sri Lanka & Zambia. The company's vision is to become the sole franchisee for Pepsi in India as well and hence is aggressive in acquiring territories where it is not present. We believe over the next 4-5 years the company will be at ~60-65% of PepsiCo's beverage business in India. This will entail a capex of ~₹1000-1200 crs over the next 5 years.

Matrix	CY13	CY14	CY15	CY16
Consolidated Total Volume Growth	12.9%	10.6%	41.2%	14.8%
India				
Total Volume Growth	16.3%	8.8%	45.1%	7.2%
Organic Volume Growth	14.7%	25.2%	-7.1%	7.2%
International				
Total Volume Growth	-4.5%	21.8%	19.5%	66.1%
Organic Volume Growth	-4.5%	21.8%	19.5%	21.8%

- **Optimizing capacity utilization in newly acquired territories –** Many of the small bottlers are struggling on account of lower than optimal capacity utilization making it unviable for them. VBL brings scale and expertise which can help these units scale up their volumes and hence drive profitable growth. Many of the newly acquired territories are working at ~50% capacity utilization vs. VBL's existing capacity utilization of ~70% in the peak month. This gap is the opportunity VBL targets to fill in the newly acquired territories.

- **New Product Launches in the Non- Carbonated Beverage Segment –** The company is currently present in the NCB segment with it's popular drinks of Tropicana Slice, Tropicana Fruitz & Nimbooz. This segment has favorable GST taxation at 12% vs. 40% for Carbonated drinks. The company plans to leverage on the Tropicana brand and launch more still fruit juices. With the rising health and wellness wave we believe the market will digest these new launches more favorably. We believe PepsiCo's product innovation will straddle a more pro-health cause. This will enable VBL to leverage on this and plug the space of health oriented beverages. We expect such launches to come into play in the next 2-3 quarters. VBL's extensive distribution reach will help add face and volume to the new launches over the next 2 years.

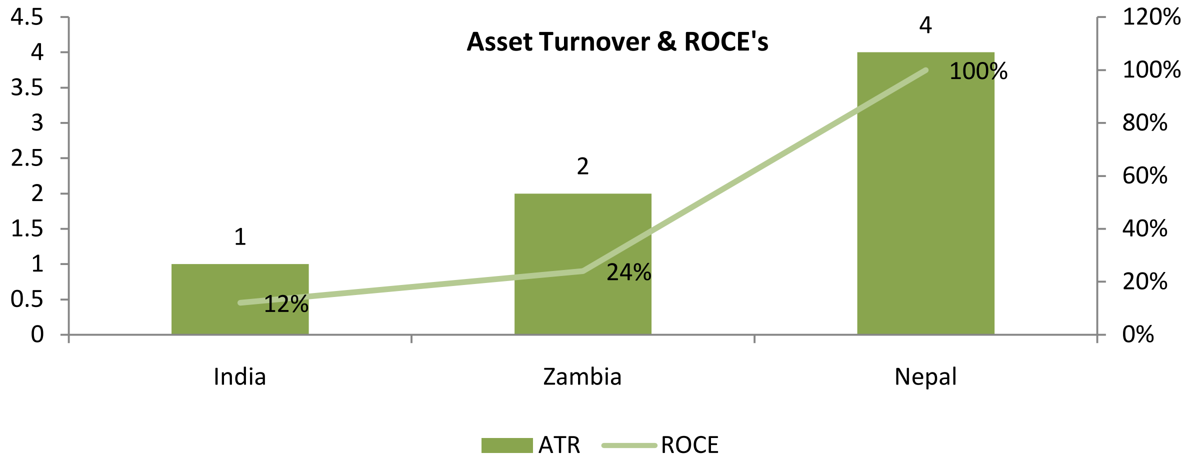
- **Water segment evolution to drive value growth –** Pepsi Co. parent has expressed its intent on the launch of vale added - fortified & flavored waters in the next 6-12 months. While the water segment for VBL has grown at ~30%+ in volume terms in the last 5 years it is dilutive in value terms on account of lower realizations. With the launch of value added offering in the water segment we expect the value growth will also be supported as these products are priced at 2-3X normal bottled water prices. We believe this will accelerate growth for this segment.

➢ **Sweating of assets and improvement in domestic asset turnovers to drive profitable growth -** Inorganic growth has been a key strategy focus for the company. Over the last few years the company has garnered over 47% of PepsiCo's beverage business in domestic markets. Some of the key milestones are enumerated below.

1995	Commenced operations in Greater Noida
1996	Jaipur
1998	Nepal (acquired existing operations)
1999	Jodhpur & Kosi
Jan-12	Controlling stake in Nepal, Shri Lanka, Morocco SA
Jan-12	Goa & North East Sub Territories
Jan-13	Acquired rest of Delhi Sub-territory
Feb-15	Sub-territories in UP, Uttarakhand, HP,Haryana, Punjab and Union Territory of
Apr-16	Varun Beverages (Zimbabwe) Pvt Ltd (85%)
Jan-16	Acquired shareholding in Zambia (60%) & Mozambique (51%)
2016	Acquired co-packing facilities in Phillaur, Punjab & Satharia, UP
Mar-16	New production line in Goa
Oct-17	Acquired part of MP and Orissa territories

➢ Majority of the new territories were operating at below optimal capacity utilization and hence profitably unviable for the owner. According to the company many of the recent acquisitions in India are working at ~50% capacity utilization vs. VBL's average of ~70% during the peak month The company believes that with its scale of operations & a steady smart delivery setup the company can drive up utilizations and hence better absorb costs. With the new territories having margins in a range of 12-15% the company's aim is to bring them at par with their existing margins of 20-22%.

- The asset turnover for the Indian operations is much lower than international operations. Indian operations have been plagued by higher indirect taxes which have been passed on to the consumers and hence dented demand. Moreover, the company has done capex ahead of demand in India in order to avail tax benefits. The current ATR in India is ~1.2x while Zambia & Nepal enjoy 2x & 4x respectively.
- The company intends to ramp up ATR in Indian operations with a plan to increase capacity utilization in the newly acquired territories, expand it's product lines, & launch of value added offering in the water segment. We believe ROCE's will move up from their current 13% levels to ~ 19-20% by 2020.



- The company has invested ahead of demand in many territories. For Example in Sri Lanka, under the scheme from Board of Investment, Government offered 15% tax rate for perpetuity vs. 30% corporate tax rate if the investment above a particular threshold is made. The company has gone ahead and made the investments and hence capacity utilization ailed at ~40%. This has impacted ROCE's negatively in that region in the short term but will improve rapidly once the asset utilization increases.

Investment Rationale

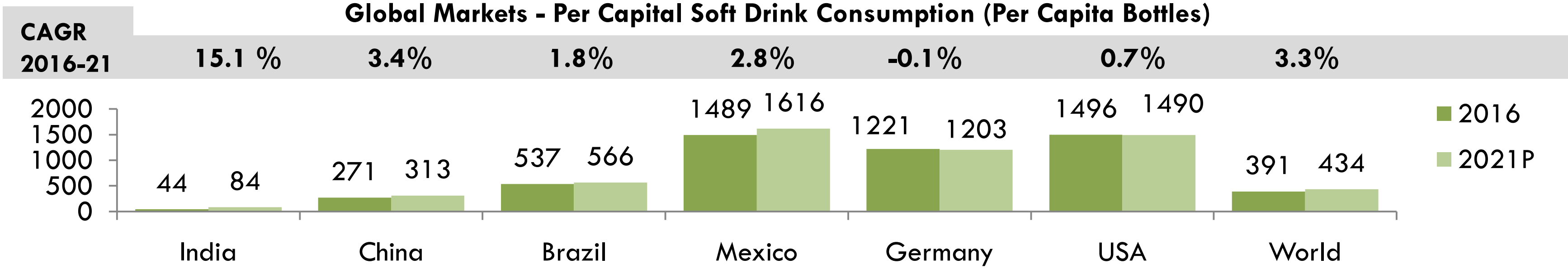
- **Scale of operations & scope for margin improvement in new territories to support margins at these levels –** As the largest franchisee partner for PepsiCo outside of USA, VBL has garnered scale of operations over the years and plays a critical role for PepsiCo. in below the line marketing activities. With plants across 22 locations the company has over the years backward integrated to keep control on costs of packaging materials. The company also has a strong distribution network. With over 1,200+ distributors, 2,000+ delivery vehicles & approx. 5 lakh visi coolers, the company has expansive reach and a pulse on the consumer preference. VBL is present across the value chain and is a key business partner for PepsiCo. On account of company's value initiatives to be present across the value chain they have improved margins from ~12% in CY11 to 21% in CY16. The company expects that margins will remain stable at these levels and new territories garner pace in increasing capacity utilization. We expect there is a positive bias to the margins given sugar prices remain stable. Sugar and concentrate account for 50-55% of the raw material cost for the company. We believe there is scope for operating leverage to set in post optimal capacity utilization is achieved at newly acquired territories.

- **Improvement in capacity utilization to lead to improvement in ROCEs & FCF over the next 2-3 year** - The expected increase in capacity utilization over the next two years will enable to company to improve its consolidated asset turnover and hence lead to higher cash generation. The company has set up capacities ahead of demand in many locations and believes that capacity utilization will enable operating leverage to set in and hence improve profitability. The company has in the last 5 years tripled its topline through organic and inorganic growth. While growth is the key focus area for the company, both through organic & inorganic routes we expect a taper in investment in capacity building 3 to 4 years down the line and hence expect further improvement in FCF. With the increase in capacity utilization the ROCEs are also expected to improve from the current 13% to 17-19% in the next 2- 3 years.

Industry Overview

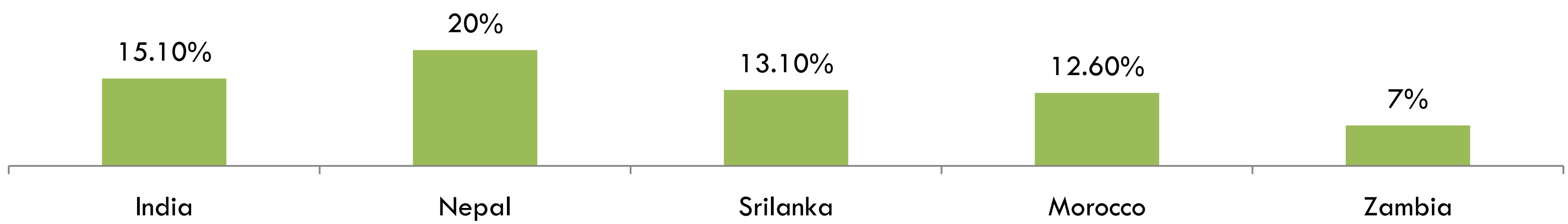
- The Indian soft drinks market is estimated at ₹336 bn with volumes of ~2.39 bn case. Total volumes between 2011-16 grew at a CAGR of 16%. Segment wise growth for the similar period was at 10% for carbonates, 22% for bottled water and 20% for packaged juice. In value terms carbonates is the largest segment while in volume terms water is the largest segment. At 44 bottles per capita consumption in 2016, the soft drinks market in India is relatively under-penetrated compared to matured markets like U.S. Mexico and Germany.

Global Markets - Per Capital Soft Drink Consumption (Per Capita Bottles)



- The per capita global soft drink consumption increased from 353 bottles in 2011 to 391 bottles in 2016 and is further expected to reach 434 bottles by 2021. In terms of per capita consumption of soft drinks, Asian and African economies (VBL's key markets) are well behind mature markets like US and Germany. The forecasted per capita volume consumption CAGR for the period of 2016-2021 in India (15.1%), Sri Lanka (13.1%), Morocco (12.6%), Nepal (20.0%) and Zambia (7.0%) surpasses the projections in some of the other global markets.

Expected Compounded Volume Growth in Soft Drink Consumption During 2016-21

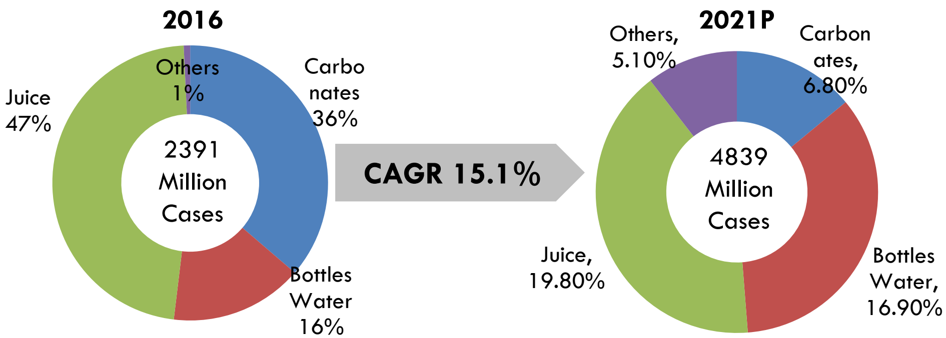


- Favourable demographics, low per capita consumption, long summers and higher spending on packaged products is expected to drive this growth. Going forward the soft drink industry is expected to continue its robust growth trajectory with a projected CAGR of 15.1% over 2016-2021 led by broad based growth across the various categories especially juices and bottled water.

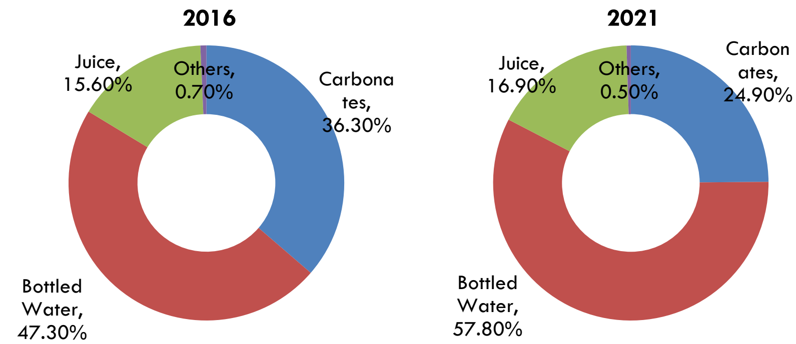
Segments	CAGR (2016-2021E)	Key Drivers	Key Trends
Carbonates	6.8%	Teen population, rise of middle class and extensive investment on new product development.	Energy drinks & higher fruit concentrate carbonated drinks
Bottled Water	16.9%	Increasing disposable income, increasing awareness and rising consciousness among consumers about water borne diseases.	Flavored & fortified water to address the rising demand for health & wellness
Juices	19.8%	Changing consumer lifestyles, increased health awareness and new products launches.	This segment is growing on the back of local flavors . This has been very well addressed by Hector Beverages.

- PepsiCo reiterated that, along with its partners, it will invest ₹13,300 crore over five years to set up a food and beverage plant.

Soft Drinks Industry - India



Segmental Share of Constitution in Indian sort drinks markets



Source : Euromonitor Report

Valuation & Outlook

It is no secret that the next decade or so India will be a consumption driven economy. Food & beverage consumption is evolving from need based to experiential. Taste matters & the experience carry's forth future demand. Indian Franchising Business circuit is buzzed with investment in the food & beverage space.

Coca Cola is a leader in the beverage space with 33.5% market share & PepsiCo follows with 22.3% market share. The CSD market has suffered in the past with the growing awareness of health & wellness among consumers. Local players have cashed in on this and both Coca Cola & PepsiCo have lost market share. But this doesn't mean they are out with a large distribution network to leverage on and expansion of its product portfolio will enable it to garner higher share of growing segments. Penetration of carbonated drinks in India has been rising. From being a celebration restricted drink habit last 10-15 years ago it is now a go to refresher drink. In India carbonated drinks market is growing at ~12-15% driven by greater consumption per drinker.

VBL is a play on the consumption story in India. VBL is well-positioned in one of PepsiCo's largest markets, with thriving demographics. It has a strong distribution network and has over the years developed deep entrenched relations with the PepsiCo. This is evident from the fact that PepsiCo has sold many of its bottling plants in North & east to VBL to drive growth. Over the years the company has been acquiring to grow its share and it is expected to ramp up capacity utilizations at these new territories. This will flow down to profitability & hence drive improvement in return ratios. The company recently announced the it's bid to acquire Pepsi's Jharkhand & Chhattisgarh bottling operation. The deal for which is expected to close at the end of this month (Jan-18). We have not accounted for the same in our estimates yet due to lack of data. We expect this will add 150-200 bps to its domestic market share. The company has been on and acquisition spree (will continue to be so for next few years in a bid to garner higher geographical presence) which impacted FCF. Improvement in capacity utilisations, margin expansion and consolidation of operations will lead to improvement in FCF going forward. **We expect VBL To clock 11-12% topline growth over the next 2 years and 18-20% PAT growth as the operating leverage kicks in on the back of higher sweating of assets. At the CMP on ₹688.5/- the stock trades at ~44.7x & ~33.1x its CY18 & CY19 estimated EPS of ₹15.4/- & ₹20.8/- respectively We advise investors with a long-term investment horizon to *ACCUMULATE* the stock.**

Risks & Concerns

- The company's growth focus will entail acquisitions to continue for the time being which will continue to put pressure on the balance sheet and FCF for the next few years.
- Changes in consumer preference/tastes will impact demand for products.
- Volatility in raw material prices most important ones being sugar & PET chips to impact margins.
- Regulatory risk in terms of adverse tax incidence on consumption of CSD products can dent demand
- Nature of business is such that franchisee rights will come up for renewal at select time periods. Seasonal nature of business makes the Apr-Jun quarter the main stay for the company.
- The company's business model is a service delivery model. It is dependent on PepsiCo's strategy in the Indian markets and their response to competition which will drive underlying growth for VBL

Financials

Income Statement

(₹Cr)

Particulars	CY15	CY16	CY17E	CY18E	CY19E
Revenue From Operations(Net)	**3,394.2**	**3,852.0**	**3,950.9**	**4,413.9**	**4,903.6**
Total Raw Material Cost	1,716.5	1,736.3	1,777.9	2,030.4	2,294.9
Employee Benefits Expenses	323.8	426.4	464.2	518.5	576.1
Other Expenses	716.9	894.1	862.0	905.1	950.4
Total Expenses	**2,757.1**	**3,056.8**	**3,104.1**	**3,454.0**	**3,821.3**
EBIDTA	**637.1**	**795.2**	**846.8**	**959.8**	**1,082.3**
EBIDTA Margins	*18.8%*	*20.6%*	*21.4%*	*21.7%*	*22.1%*
Other Income	*14.3*	*34.8*	*25.0*	*25.0*	*25.0*
Depreciation and Amortization Expenses	317.4	372.4	390.0	400.0	446.9
EBIT	**333.9**	**457.6**	**481.8**	**584.8**	**660.4**
EBIT Margins	*9.8%*	*11.9%*	*12.2%*	*13.2%*	*13.5%*
Finance Costs	*168.8*	*214.8*	*188.0*	*178.6*	*142.9*
PBT	**165.1**	**242.8**	**293.8**	**406.2**	**517.5**
PBT Margins	*4.9%*	*6.3%*	*7.4%*	*9.2%*	*10.6%*
Tax Expenses	78.8	82.9	88.2	121.9	144.9
Tax Rates %	*41.4%*	*34.1%*	*30.0%*	*30.0%*	*28.0%*
Reported PAT	**86.30**	**159.97**	**205.69**	**284.35**	**372.61**
PAT Margins	*2.5%*	*4.2%*	*5.2%*	*6.4%*	*7.6%*
EPS	**1.9**	**8.3**	**11.1**	**15.4**	**20.8**

Balance Sheet

(₹Cr)

Particulars	CY15	CY16	CY17E	CY18E	CY19E
SOURCES OF FUNDS:					
Shareholders Funds					
Share Capital	583.8	182.3	182.3	182.3	182.3
Reserves & Surplus	90.5	1,711.6	1,884.0	2,123.2	2,445.8
Total Shareholder's Fund	**674.3**	**1,893.9**	**2,066.3**	**2,305.5**	**2,628.1**
Loan Funds	1,579.5	963.3	707.2	812.2	737.2
Deferred Tax Liability	148.2	222.6	254.6	286.6	318.6
Other Financial Liabilities					
Long-Term Provisions	44.3	62.3	75.0	82.0	99.0
Other Non current Liabilities	636.3	345.5	102.0	82.0	52.0
Total Non Current Liabilities	**2,408.3**	**1,593.7**	**1,138.8**	**1,262.8**	**1,206.8**
Short-Term Borrowings	252.4	405.6	634.0	754.0	764.0
Trade Payables	184.5	274.6	329.0	365.0	402.0
Other Current Liabilities	879.8	1,018.3	1,049.3	704.3	808.3
Short-Term Provisions	37.2	43.0	52.0	68.0	77.0
Other Financial Liabilities					
Total Current Liabilities	**1,353.9**	**1,741.4**	**2,064.3**	**1,891.3**	**2,051.3**
Total Liabilities	**4,436.5**	**5,229.0**	**5,269.4**	**5,459.5**	**5,886.2**

Balance Sheet

(₹Cr)

Particulars	CY15	CY16	CY17E	CY18E	CY19E
APPLICATION OF FUNDS:					
Fixed Assets	**3,533.5**	**4,058.9**	**4,260.1**	**4,315.1**	**4,523.6**
Investments	3.3	5.6	6.0	8.0	14.0
Long-Term Loans and Advances	159.3	279.1	120.0	100.0	120.0
Deferred tax assets (net)	5.3	6.8	7.0	8.2	9.3
Other Non-Current Assets	5.0	4.3	5.0	6.0	5.0
Total Non Current Assets	**3,706.3**	**4,354.7**	**4,398.1**	**4,437.3**	**4,671.9**
Current Investments	-	-	-	-	-
Inventories	424.7	489.9	522.0	588.0	648.0
Sundry Debtors	97.9	130.3	133.0	142.0	155.0
Cash & Bank Balance	58.1	65.7	48.0	77.9	167.0
Other Current Assets	9.4	9.9	9.0	10.0	10.0
Other Financial Assets					
Short- term Loans & Advances	140.0	178.6	150.0	195.0	225.0
Total Current Assets	**730.1**	**874.5**	**862.0**	**1,012.9**	**1,205.0**
Other Assets	-	-	-	-	-
Total Assets	**4,436.4**	**5,229.2**	**5,269.4**	**5,459.5**	**5,886.2**

Cash Flow Statement

(₹Cr)

Particulars	CY15	CY16	CY17E	CY18E	CY19E
Cash Flow from operation					
Profit before tax	190.6	242.8	293.8	406.2	517.5
Depreciation	298.2	372.4	390.0	400.0	446.9
Tax Paid	(48.3)	(58.1)	(88.2)	(121.9)	(144.9)
Chnages in Working Capital	(41.9)	82.0	(19.7)	(0.5)	11.0
Others	13.7	(9.0)	37.0	25.0	25.0
Operating Cash Flow	554.7	830.2	613.0	708.9	855.5
Cash flow from Investing Activities	**(299.7)**	**(1,067.9)**	**(410.0)**	**(200.0)**	**(223.4)**
Capital Expenditure	(306.2)	(1,075.8)	(410.0)	(200.0)	(223.4)
Change in other non curr assets	6.5	7.9	-	-	-
Free cash flow	255.0	(237.7)	203.0	508.9	632.1
Cash flow from Financing activities	**(236.0)**	**245.9**	**(188.0)**	**(478.6)**	**(542.9)**
Debt financing/disposal	(95.2)	(217.5)	-	(300.0)	(400.0)
Dividends paid	-	-	-	-	-
Interest Paid	(140.8)	(217.3)	(188.0)	(178.6)	(142.9)
Equity Proceeds	-	680.8	-	-	-
Others					
Net Working Capital in Cash	19.0	8.3	15.0	30.3	89.2
Opening Cash Balance	**5.2**	**24.3**	**32.5**	**47.6**	**77.8**
Closing Cash Balance	**24.2**	**32.5**	**47.6**	**77.8**	**167.0**

Ratio Analysis

Growth Ratios	CY15	CY16	CY17E	CY18E	CY19E
Net Sales		13.5%	2.6%	11.7%	11.1%
EBIDTA		24.8%	6.5%	13.3%	12.8%
PAT		33.8%	33.4%	39.5%	34.9%

Valuation Ratios	CY15	CY16	CY17E	CY18E	CY19E
CEPS	23.6	28.7	32.5	37.4	45.3
EPS	6.2	8.3	11.1	15.4	20.8
P/CEPS	29.2	24.0	21.2	18.4	15.2
P/EPS	111.0	83.0	62.2	44.6	33.1
EV/EBIDTA	17.2	14.2	13.3	12.0	10.5
Debt/Networth	2.7	0.7	0.6	0.7	0.6

Profitability Ratios	CY15	CY16	CY17E	CY18E	CY19E
EBIDTA Margins	18.8%	20.6%	21.4%	21.7%	22.1%
EBIT Margins	9.8%	11.9%	12.2%	13.2%	13.5%
APAT Margins	3.3%	4.2%	5.2%	6.4%	7.6%
ROCE	10.8%	13.1%	15.0%	16.4%	17.2%
RONW	16.8%	8.0%	9.8%	12.2%	14.4%

Working Capital Ratios	CY15	CY16	CY17E	CY18E	CY19E
Inventory Turnover	8.0	7.9	7.6	7.5	7.6
Inventory Days	46	46	48	49	48
Debtor Turnover	39.9	34.7	29.7	31.1	31.6
Debtor Days	9	11	12	12	12
Creditor Turnover	7.7	6.1	5.4	5.6	5.7
Creditor Days	47	60	68	66	64
Working Capital Cycle	8	(3)	(7)	(5)	(4)
Current Ratio	0.5	0.5	0.4	0.5	0.6

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Name of the Security	**Varun Beverages Ltd.**
Name of the analyst	**Shivani V. Vishwanathan & Ashwini Sonawane**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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