

# Varun Beverages Ltd.

**Sensex** 35905  
**Nifty** 10807

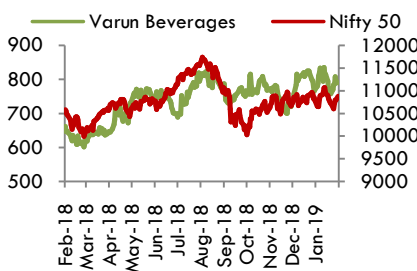
## Key Stock Data

**CMP** ₹795  
**Market Cap (₹Cr)** ₹14,517  
**52W High/Low** ₹849/₹593  
**Shares o/s (Cr)** 18.26  
**Bloomberg**  
**NSE Code** VBL  
**BSE Code** 540180

## Shareholding Pattern (%)

**Promoters** 73.56%  
**FII & DII** 18.78%  
**Public & Others** 07.66%

## Comparison Chart



## Summary

**Varun Beverages Ltd. declared its Q4CY18 results recently. Net Revenues grew by 49% YoY to ₹786crs. led by robust volume growth of 40%. EBITDA for Q4CY18 grew by 46% on a YoY basis to ₹48crs. Margins merely contracted by 10bps to 6.1%. Net loss for Q4CY18 decreased by 1.7% YoY to ₹71.5 crs. VBL now account for 80%+ of PepsiCo India's beverage sales volumes in India from 51% earlier and expanded presence to 27 States and 7 Union Territories.**

- Given the seasonality in the business, it is best to monitor the business on an annual basis as a significant portion of the revenues and entire profits are realized in the Apr-June quarter.
- Varun Beverages Ltd reported topline growth of 48.9% YoY in Q4CY18 with reported net sales at ₹785.6crs. vs. ₹527.5crs. in the corresponding quarter, last year. The volume growth in India on an organic basis was strong at 28% in Q4CY18. Revenue in CY18 grew by 27.5% to ₹5105crs vs. 4003.5crs led by robust volume growth of 21.9% and value growth of ~5.6% YoY. This was driven by introduction of higher realisation products like Sting and Tropicana and increased MRP in selected SKUs.
- Q4CY18 EBITDA grew by 46.1% YoY to ₹47.8crs. Margins merely contracted by 10bps to 6.1% due to sub-optimal volumes/margins in acquired sub-territories and contribution from the Tropicana juice portfolio, where at present VBL has only a supply and distribution arrangement. EBITDA in CY18 grew by 20.4% to ₹1006.7crs vs. 835.9crs. Blended margin has contracted by 116 bps to 19.7% in CY18.
- Net loss for Q4CY18 stood at ₹71.5 crs vs. ₹72.7crs in Q4CY17. PAT for CY2018 increased by 40% YoY on the back of robust volume growth in India and strong volumes in Zimbabwe operations since beginning in March 2018.
- Gross margins expanded by 126 bps to 56% YoY in CY18 on account of benefits realized from reduction in sugar prices which is partially offset by increase in resin prices.
- Sales volume grew by 39.4% YoY to 46mn cases in Q4CY2018 as compared to 33mn unit cases in Q4CY2017. Recently acquired territories and introduction of higher realization products (Sting, Tropicana, etc.) has aided value growth during the quarter. Organic volume growth in India stood at 28% in Q4CY18.
- Employees cost and other expenses increased by 25% & 65% YoY respectively on account of trading of Tropicana, new sub-territories and foreign currency provision.
- VBL now controls 80% of PepsiCo India's volume. Introduction of new product categories, like Tropicana and Sting, has resulted in better portfolio mix and improved realizations.
- International business has also done well. Zimbabwe recorded strong volume of 10 mn cases in only 10 months since beginning in March 2018. Market share in Zimbabwe stood at 35% in CY18. Growth has corrected in Sri Lanka with new launches and relaxed excise duty.
- The company recently approved the acquisition of franchise rights from SMV group to manufacture PepsiCo beverages in 14 districts in the state of Maharashtra, 13 states in the state of Karnataka and 3 districts in the state of Madhya Pradesh. These are highly under-penetrated regions and provide a huge opportunity for increasing volumes and gaining market share. These acquisitions are in line with the company's strategy to expand into contiguous territories to garner better operating leverage and asset utilization through economies of scale.

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- The company had entered into a strategic partnership with PepsiCo in January 2018 for selling and distribution of the larger Tropicana portfolio that includes Tropicana Juices (100%, Delight, Essentials), Gatorade in the Sports drink category and Quaker Value-Added Dairy in territories across North and East India after Pepsi Black and Sting energy drink.
- Management has guided ₹~150 crs capex for Pathankot facility and expected to be operational by March 2019.

### Risks

- Volatility in raw material prices most important ones being sugar & PET chips to impact margins.
- 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.
- Changes in consumer preference/tastes will impact demand for products.

### Valuation & Outlook

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. Improvement in capacity utilisations, margin expansion and consolidation of operations will lead to improvement in FCF going forward. **At the CMP of ₹795 the stock trades at 41.2x & 30.8x its estimated EPS of ₹19.3/- & ₹25.8/- for CY19 & CY20 respectively. We advise investors with a long-term investment horizon to HOLD the stock.**

**Standalone Financials**

	Q4CY18	Q4CY17	VAR [%]	Q3CY18	VAR [%]	CY18	CY17	VAR [%]
(₹ Crs)								
Net Sales	416.9	330.1	26.3%	809.3	-48.5%	3,862.3	3,062.7	26.1%
Other Income	42.6	0.1	42510.0%	27.7	53.7%	96.2	47.3	103.3%
<b>Total Income</b>	<b>459.5</b>	<b>330.2</b>	<b>39.1%</b>	<b>837.0</b>	<b>-45.1%</b>	<b>3,958.4</b>	<b>3,110.0</b>	<b>27.3%</b>
Raw Material Consumed	172.8	176.0	-1.8%	309.1	-44.1%	1,660.3	1,454.6	14.1%
Stock Adjustment	(40.1)	(56.2)	-28.6%	(2.9)	1302.1%	(68.4)	(66.2)	3.3%
Purchase of Finished Goods	32.1	1.3	2369.2%	58.0	-44.7%	182.9	15.9	1049.8%
RMC %	39.5%	36.7%		45.0%	-12.1%	46.0%	45.9%	
Employee Expenses	96.3	78.1	23.3%	102.0		411.4	319.2	28.9%
EMC %	23.1%	23.7%		12.6%	83.3%	10.7%	10.4%	
Advertisement Expenses	0.0	0.0	-	0.0		0.0	0.0	-
Advt %	0.0%	0.0%		0.0%	-	0.0%	0.0%	
Other Expenses	146.9	123.7	18.8%	170.9		819.6	617.0	32.8%
Other Expenses %	35.2%	37.5%		21.1%	66.9%	21.2%	20.1%	
<b>TOTAL EXPENDITURE</b>	<b>408.0</b>	<b>322.9</b>	<b>26.4%</b>	<b>637.1</b>	<b>-36.0%</b>	<b>3,005.9</b>	<b>2,340.5</b>	<b>28.4%</b>
<b>PBIDT</b>	<b>8.8</b>	<b>7.2</b>	<b>22.5%</b>	<b>172.2</b>		<b>856.4</b>	<b>722.2</b>	<b>18.6%</b>
PBIDT Margin %	2.1%	2.2%		21.3%	-90.1%	22.2%	23.6%	
Interest	50.9	53.1	-4.2%	42.0	21.2%	194.3	191.7	1.3%
<b>PBDT</b>	<b>0.5</b>	<b>(45.8)</b>	<b>-101.2%</b>	<b>157.9</b>	<b>-99.7%</b>	<b>758.3</b>	<b>577.8</b>	<b>31.2%</b>
Depreciation	69.7	69.8	-0.1%	75.1	-7.2%	295.6	273.6	8.0%
<b>PBT before Exceptional items</b>	<b>(69.1)</b>	<b>(115.6)</b>	<b>-40.2%</b>	<b>82.8</b>		<b>462.7</b>	<b>304.2</b>	<b>52.1%</b>
<b>PBT after Exceptional items</b>	<b>(69.1)</b>	<b>(115.6)</b>	<b>-40.2%</b>	<b>82.8</b>	<b>-183.5%</b>	<b>462.7</b>	<b>304.2</b>	<b>52.1%</b>
Tax	(15.1)	(46.5)	-67.5%	19.2	-178.6%	130.6	68.6	90.5%
Tax Rate %	21.9%	40.3%		23.2%	-5.9%	28.2%	22.5%	
<b>Reported Profit After Tax</b>	<b>(54.0)</b>	<b>(69.1)</b>	<b>-21.7%</b>	<b>63.6</b>		<b>332.1</b>	<b>235.6</b>	<b>40.9%</b>
<b>Adjusted Profit After Extra-ordinary item</b>	<b>(54.0)</b>	<b>(69.1)</b>	<b>-21.7%</b>	<b>63.6</b>	<b>-185.0%</b>	<b>332.1</b>	<b>235.6</b>	<b>40.9%</b>
Basic:								
EPS	(2.96)	(3.79)	-21.7%	3.48		18.21	12.92	40.9%
Equity	182.4	182.4		182.4	0.0%	182.4	182.4	
Face Value	10.0	10.0		10.0		10.0	10.0	

**Consolidated Financials**

	Q4CY18	Q4CY17	VAR [%]	Q3CY18	VAR [%]	CY18	CY17	VAR [%]
(₹ Crs)								
Net Sales	785.6	527.5	48.9%	1,165.8	-100.0%	5,105.3	4,003.5	27.5%
Other Operating Income	0.0	0.0	-	0.0	-	0.0	0.0	-
Other Income	12.7	1.5	727.3%	0.6	1112.1%	21.8	22.6	-3.7%
<b>Total Income</b>	<b>798.4</b>	<b>529.0</b>	<b>50.9%</b>	<b>1,166.4</b>	<b>-100.0%</b>	<b>5,127.1</b>	<b>4,026.2</b>	<b>27.3%</b>
Raw Material Consumed	264.5	248.5	6.4%	452.5	-100.0%	2,112.3	1,855.5	13.8%
Stock Adjustment	(33.6)	(63.0)	-46.6%	12.3	-103.8%	(62.4)	(73.2)	-14.8%
Purchase of Finished Goods	36.0	6.2	480.6%	61.9	-92.2%	194.2	27.8	599.6%
RMC %	34.0%	36.4%		45.2%		44.0%	45.2%	
Employee Expenses	144.7	115.8	24.9%	148.6	-99.8%	583.0	462.9	25.9%
EMC %	18.4%	22.0%		12.7%		11.4%	11.6%	
Advertisement Expenses			-		-	0.0	0.0	-
Advt %	0.0%	0.0%		0.0%		0.0%	0.0%	
Other Expenses	326.2	187.2	74.3%	279.2	-99.7%	1,271.6	894.7	42.1%
Other Expenses %	41.5%	35.5%		23.9%		24.9%	22.3%	
<b>TOTAL EXPENDITURE</b>	<b>737.8</b>	<b>494.8</b>	<b>49.1%</b>	<b>954.5</b>	<b>-99.9%</b>	<b>4,098.7</b>	<b>3,167.6</b>	<b>29.4%</b>
<b>PBIDT</b>	<b>47.8</b>	<b>32.7</b>	<b>46.1%</b>	<b>211.3</b>	<b>-99.8%</b>	<b>1,006.7</b>	<b>835.9</b>	<b>20.4%</b>
PBIDT Margin %	6.1%	6.2%		18.1%		19.7%	20.9%	
Interest	53.7	52.6	2.1%	47.2	-100.0%	212.5	212.2	0.2%
<b>PBDT</b>	<b>6.9</b>	<b>(18.3)</b>	<b>-137.4%</b>	<b>164.7</b>	<b>-100.8%</b>	<b>815.9</b>	<b>646.4</b>	<b>26.2%</b>
Depreciation	94.1	88.0	6.9%	99.9	-99.9%	385.1	346.7	11.1%
<b>PBT before Exceptional items</b>	<b>(87.2)</b>	<b>(106.3)</b>	<b>-18.0%</b>	<b>64.8</b>	<b>-100.3%</b>	<b>430.8</b>	<b>299.7</b>	<b>43.7%</b>
<b>Prior period Item</b>						0.0	0.0	
Share of profit in associate	0.7	0.5	43.5%	0.6	-27.5%	3.1	1.4	123.4%
Minority interest	0.7	0.7		0.0		0.7	0.7	
<b>PBT after Exceptional items</b>	<b>(87.3)</b>	<b>(106.6)</b>	<b>-18.1%</b>	<b>65.4</b>	<b>-100.3%</b>	<b>433.2</b>	<b>300.4</b>	<b>44.2%</b>
Tax	(15.8)	(43.9)	-64.0%	21.2	-103.0%	133.9	76.8	74.2%
Tax Rate %	18.1%	41.2%		32.4%		30.9%	25.6%	
<b>Reported Profit After Tax</b>	<b>(71.5)</b>	<b>(72.4)</b>	<b>-1.2%</b>	<b>44.2</b>	<b>-99.7%</b>	<b>299.3</b>	<b>223.6</b>	<b>33.9%</b>
Extra-ordinary Items	0.0	0.0	-	0.0	-	0.0	0.0	-
<b>Adjusted Profit After Extra-ordinary item</b>	<b>(71.5)</b>	<b>(72.4)</b>	<b>-1.2%</b>	<b>44.2</b>	<b>-99.7%</b>	<b>299.3</b>	<b>223.6</b>	<b>33.9%</b>
Basic:								
EPS	(3.91)	(3.99)	13.9%	2.42	-94.2%	16.39	12.24	33.9%
Equity	182.6	182.6		182.6		182.6	182.6	
Face Value	10.0	10.0		10.0		10.0	10.0	

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**Disclosure of Interest Statement in Varun Beverages Ltd. as on February 27, 2019**

Name of the Security	Varun Beverages Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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