

# Varun Beverages

BSE SENSEX  
80,665

S&P CNX  
24,587

**CMP: INR1,628 TP: INR1,900 (+17%)**

**Buy**



## Stock Info

Bloomberg	VBL IN
Equity Shares (m)	1299
M.Cap.(INRb)/(USDb)	2115.3 / 25.3
52-Week Range (INR)	1674 / 785
1, 6, 12 Rel. Per (%)	-5/17/70
12M Avg Val (INR M)	2615
Free float (%)	37.3

## Financials Snapshot (INR b)

Y/E MARCH	2024	2025	2026
Sales	206.4	246.4	286.8
EBITDA	48.3	55.5	65.9
Adj. PAT	28.2	34.5	43.7
EBITDA Margin (%)	23.4	22.5	23.0
Cons. Adj. EPS (INR)	21.7	26.6	33.6
EPS Gr. (%)	37.2	22.4	26.7
BV/Sh. (INR)	72.6	96.7	127.3

## Ratios

Net D:E	0.5	0.2	-0.1
RoE (%)	34.5	31.4	30.0
RoCE (%)	23.5	24.6	28.2
Payout (%)	11.5	9.4	8.9

## Valuations

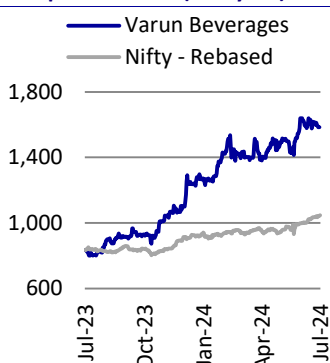
P/E (x)	75.0	61.3	48.4
EV/EBITDA (x)	44.8	38.5	31.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.2	1.6	2.0

## Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	62.7	62.9	63.6
DII	4.6	4.2	3.2
FII	25.3	25.8	26.7
Others	7.5	7.2	6.5

FII Includes depository receipts

## Stock performance (one-year)



## Hungry For More: Scaling up snack food business

Varun Beverages (VBL) has inched closer to its goal of becoming a full-scale F&B player with the recent agreement with PepsiCo to manufacture, distribute, and sell snack food items in Zimbabwe and Zambia. We believe this agreement will serve as a building block for VBL's snack food business.

- This is an exclusive snacks franchising agreement with PepsiCo to manufacture, distribute, and sell snack foods under the brand name "Simba Munchiez" in Zimbabwe and Zambia. VBL will set up a 5,000mtpa manufacturing capacity in each location for aggregate capex of ~INR1.2b.
- The total addressable market (TAM) for VBL's snack food division has expanded by 67% with the addition of two new geographies (vs. only Morocco earlier). The snack food products market in these geographies is valued at ~USD833m (aggregate) in CY24. This region accounts for ~6.5% of Africa's snack market size of USD12.9b, which is expected to clock an ~8.1% CAGR over CY24-29E. PepsiCo, which holds the highest market share globally in this segment (as of CY23), will be a perfect partner for VBL to tap into this massive opportunity.
- Going ahead, we believe VBL and PepsiCo may expand their partnership in this segment, especially within the African continent, where PepsiCo does not have any manufacturing partner and primarily relies on imports.

## Accelerating activities in snack food segment

- In line with its strategy of becoming a full-scale F&B company, VBL has forayed into the snack food business by entering into a snacks manufacturing and distribution agreement with PepsiCo for **Morocco in Feb'24** (VBL to invest INR1b for manufacturing facility; commercial production to commence in May'25).
- To further scale up and penetrate in this segment, VBL has entered into another agreement with PepsiCo for **Zimbabwe and Zambia**.
- Under this agreement, VBL, through subsidiaries Varun Foods Zimbabwe Pvt. Ltd and Varun Beverages Zambia Ltd, has entered into an exclusive snacks franchising agreement with Premier Nutrition Trading LLC, Dubai (a PepsiCo subsidiary), to manufacture, distribute, and sell snack foods under the brand of "Simba Munchiez" in Zimbabwe and Zambia.
- VBL will invest ~USD7m (INR600m) each in Zimbabwe and Zambia for setting up a **manufacturing facility of ~5,000mtpa each**.
- The manufacturing facilities in Zimbabwe/Zambia are expected to start **commercial production by Oct'25/Apr'26**.

## Leveraging the existing distribution network to scale new business

- VBL, through its subsidiaries, expects to **leverage its distribution prowess** in the African region (through existing beverage business) to introduce the new affordable range of snack food products of PepsiCo.

- Currently, VBL has manufacturing and distribution presence in Morocco, Zambia, Zimbabwe, Eswatini, Lesotho and South Africa, with only distribution rights in Namibia, Botswana, Mozambique and Madagascar.
- Apart from this, PepsiCo will also give a strong push in certain fast-moving SKUs of Simba Munchiez through price initiatives.
- Currently PepsiCo has multiple snack food brands in the African continent, e.g., Lays, Fritos, Doritos, Simba, Sunchips, Funyuns, Cracker Jack and Sabritones.
- We believe that these are the building blocks of VBL's snack food business, and the company is consciously accelerating its activities in the segment in order to tap into the massive opportunity, which could potentially be a key growth driver for the company in the longer run.

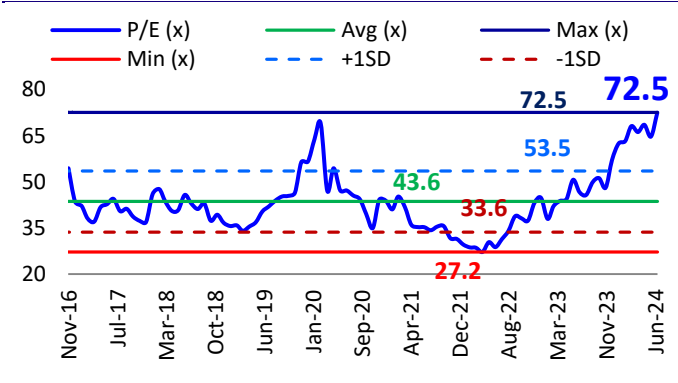
#### **Set to tap into huge opportunity by partnering with market leader**

- Globally, the snack food market is valued at USD251b in CY24 and is expected to reach USD341b by CY29 (at a CAGR of ~6.3%), supported by changing consumer lifestyles, increasing urbanization, and a growing preference for on-the-go food options. (Source: [Statista](#))
- As per PepsiCo's latest annual report, the company generated ~59% of its revenue from the food business in CY23. As of CY23, PepsiCo held the top spot in the global snack food production (Source : Ibis World)
- The snack food market in Africa is valued at ~USD13b in CY24 and is expected to clock an ~8.1% CAGR over CY24-29E.
- While the snack food industry in Morocco/Zimbabwe/Zambia is estimated to grow to ~USD500m/USD177m/USD156m in CY24.
- Going ahead, we expect more such announcements from VBL, especially in the African continent, where VBL and PepsiCo will look forward to expand its presence.

#### **Valuation and view**

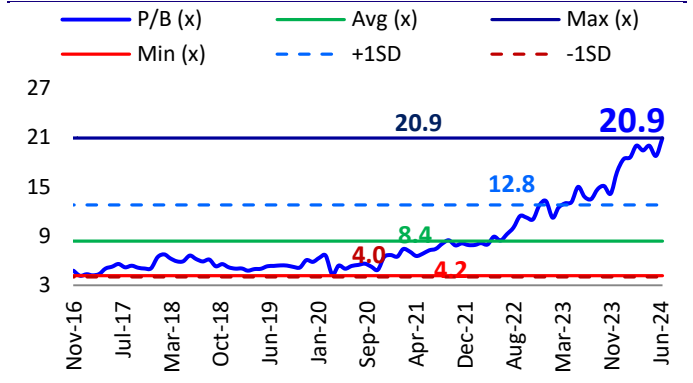
- We expect VBL to maintain its earnings momentum, aided by: 1) increased penetration in newly acquired territories in Africa, 2) higher acceptance of newly launched products, 3) ramp-up of snack food segment, 4) continued expansion in capacity and distribution reach, 5) growing refrigeration in rural and semi-rural areas, and 6) a scale-up in international operations.
- We expect a CAGR of 21%/22%/29% in revenue/EBITDA/PAT over CY23-26. We value the stock at 60x Sep'26E EPS to arrive at a TP of INR1,900. We reiterate our BUY rating on the stock.

**Exhibit 1: One-year forward P/E (x)**



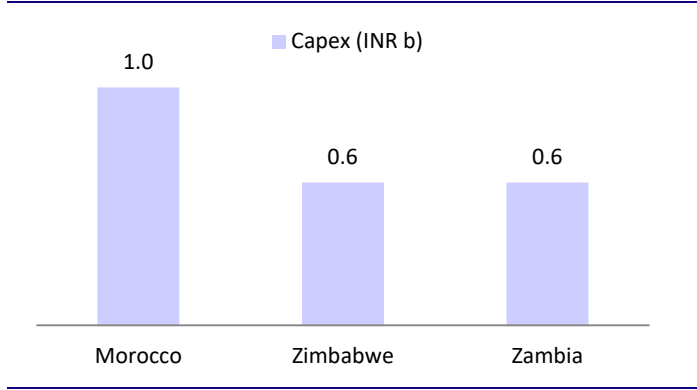
Source: Company, MOFSL

**Exhibit 2: One-year forward P/B (x)**



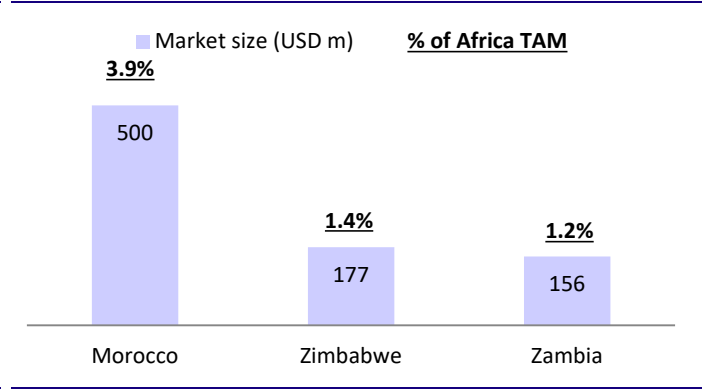
Source: Company, MOFSL

**Exhibit 3: VBL investment in snack food business in different regions of Africa**



Source: Company, MOFSL

**Exhibit 4: Snack food market size in different regions of Africa**



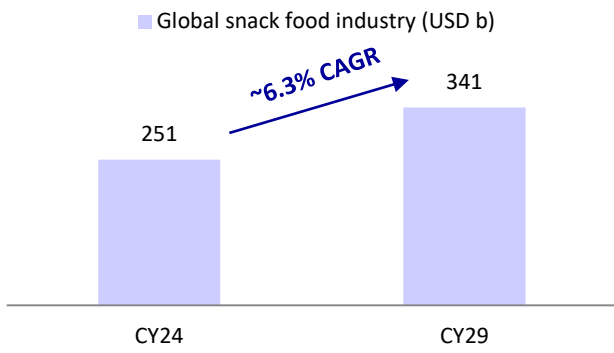
Source: Company, MOFSL

**Exhibit 5: VBL to sell under the brand of Simba Munchiez**



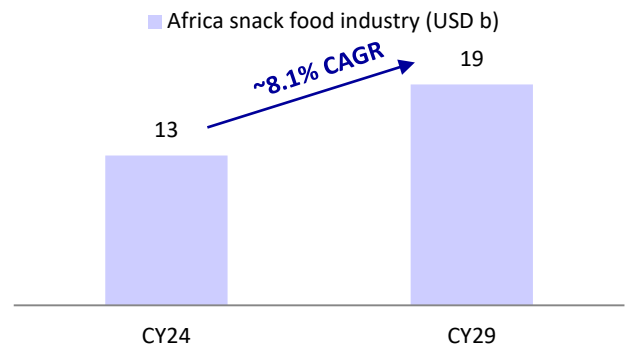
Source: Company, MOFSL

**Exhibit 6: Global snack food industry**



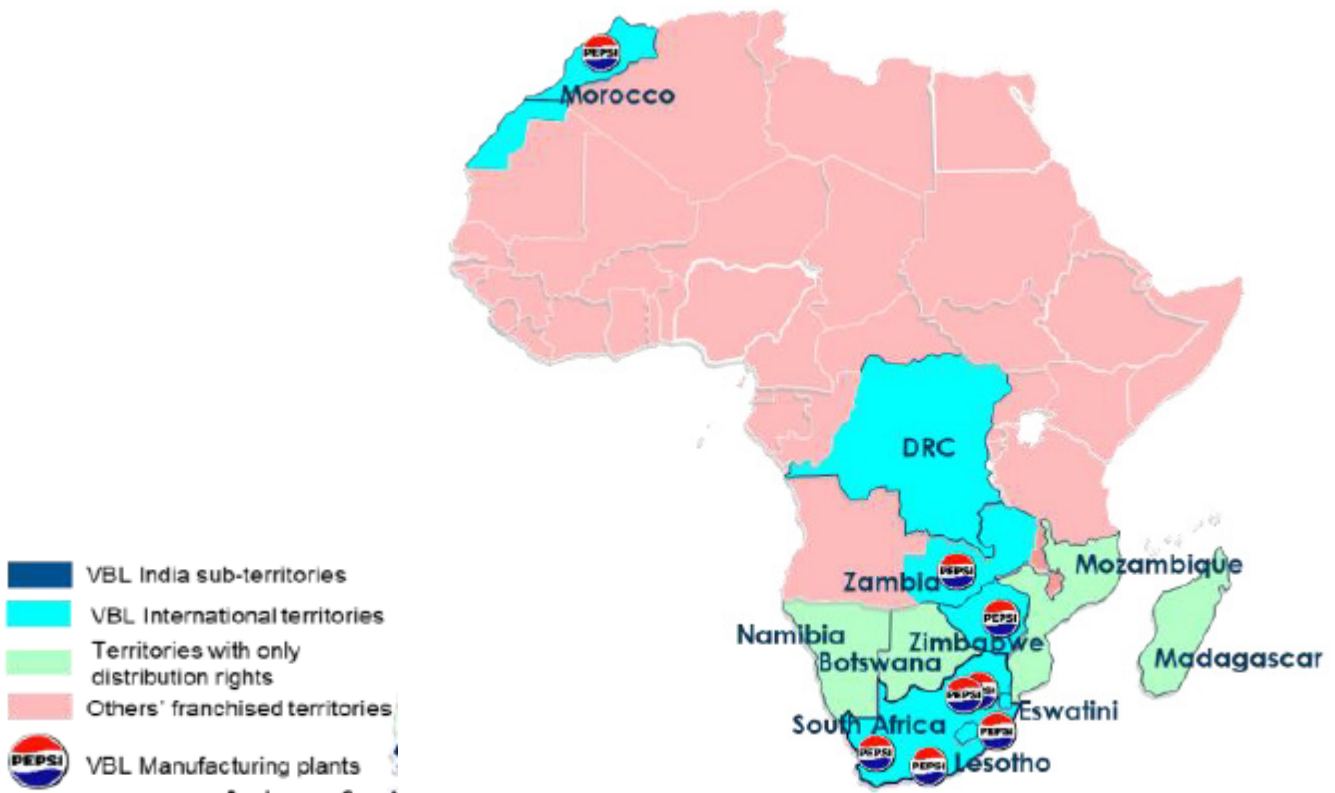
Source: Statista, Company, MOFSL

**Exhibit 7: Africa snack food industry**



Source: Statista, Company, MOFSL

**Exhibit 8: VBL presence in Africa**



Source: Company, MOFSL

Story in Chart

Exhibit 9: Strong revenue trajectory

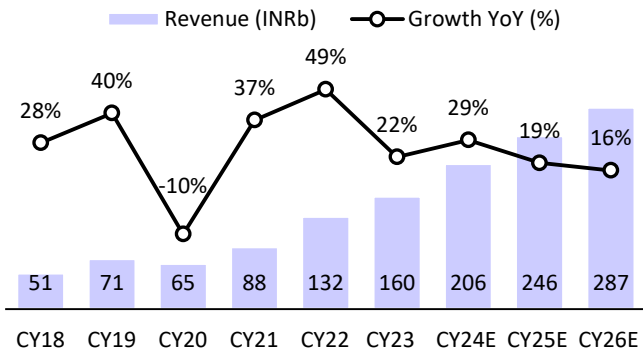


Exhibit 10: EBITDA margin trend

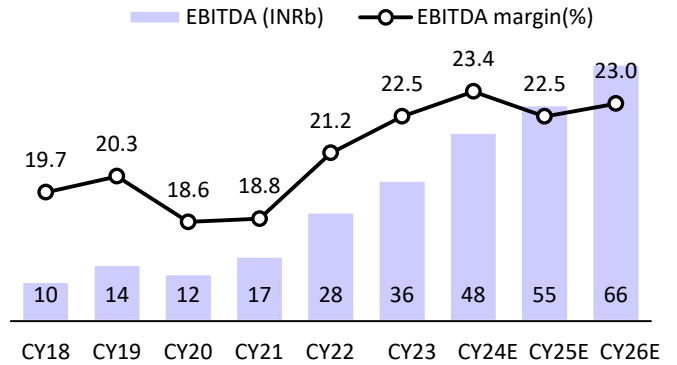


Exhibit 11: Robust earnings trajectory

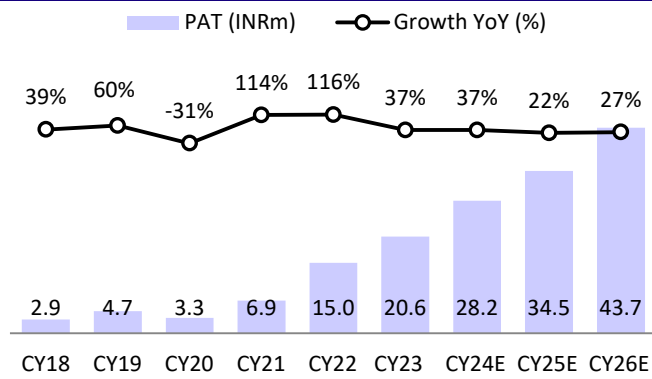


Exhibit 12: Healthy return ratios

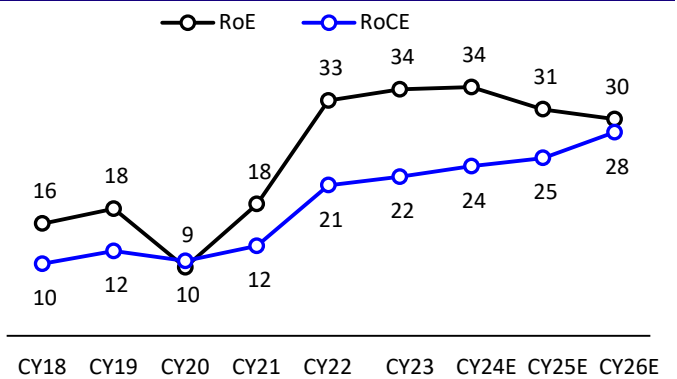


Exhibit 13: Robust cash flows

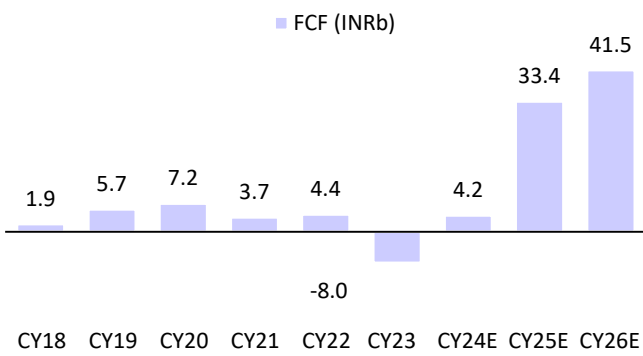


Exhibit 14: Aims to become net debt free by CY25

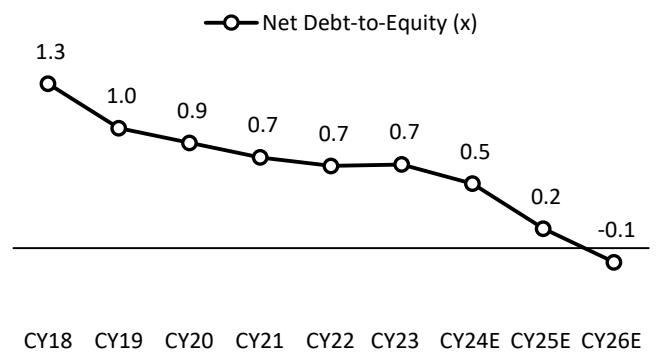


Exhibit 15: Volume mix trend (ex of BevCo)

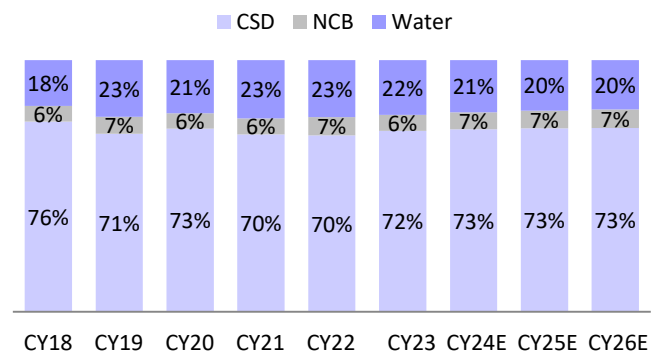
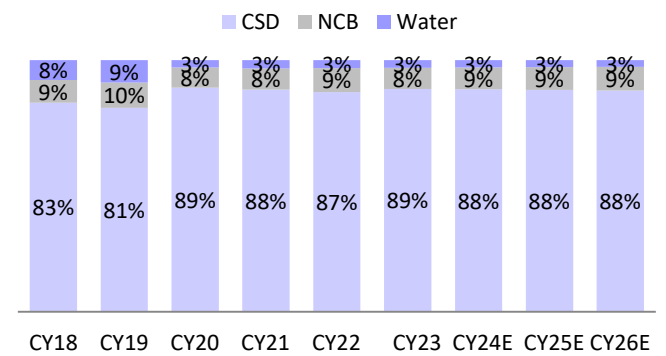


Exhibit 16: Revenue mix trend (ex of BevCo)



Source: Company, MOFSL

Source: Company, MOFSL

## Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
<b>Total Income from Operations</b>	<b>71,296</b>	<b>64,501</b>	<b>88,232</b>	<b>1,31,731</b>	<b>1,60,426</b>	<b>2,06,437</b>	<b>2,46,436</b>	<b>2,86,768</b>
Change (%)	39.7	-9.5	36.8	49.3	21.8	28.7	19.4	16.4
RM Cost	32,194	27,639	40,347	62,612	74,049	93,950	1,13,854	1,31,913
Employees Cost	8,108	8,897	10,077	12,166	14,466	17,226	21,686	24,949
Other Expenses	16,517	15,946	21,262	29,072	35,816	46,915	55,444	64,024
<b>Total Expenditure</b>	<b>56,819</b>	<b>52,483</b>	<b>71,686</b>	<b>1,03,850</b>	<b>1,24,331</b>	<b>1,58,091</b>	<b>1,90,984</b>	<b>2,20,886</b>
% of Sales	79.7	81.4	81.2	78.8	77.5	76.6	77.5	77.0
<b>EBITDA</b>	<b>14,477</b>	<b>12,019</b>	<b>16,546</b>	<b>27,881</b>	<b>36,095</b>	<b>48,346</b>	<b>55,452</b>	<b>65,882</b>
Margin (%)	20.3	18.6	18.8	21.2	22.5	23.4	22.5	23.0
Depreciation	4,886	5,287	5,313	6,172	6,809	8,758	9,824	10,374
<b>EBIT</b>	<b>9,590</b>	<b>6,732</b>	<b>11,234</b>	<b>21,709</b>	<b>29,286</b>	<b>39,588</b>	<b>45,628</b>	<b>55,508</b>
Int. and Finance Charges	3,096	2,811	1,847	1,861	2,681	3,837	2,397	837
Other Income	425	370	679	388	794	1,196	1,725	2,151
<b>PBT bef. EO Exp.</b>	<b>6,919</b>	<b>4,290</b>	<b>10,066</b>	<b>20,236</b>	<b>27,398</b>	<b>36,946</b>	<b>44,956</b>	<b>56,822</b>
EO Items	0	-665	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>6,919</b>	<b>3,625</b>	<b>10,066</b>	<b>20,236</b>	<b>27,398</b>	<b>36,946</b>	<b>44,956</b>	<b>56,822</b>
Total Tax	2,241	52	2,606	4,735	6,375	8,234	9,890	12,501
Tax Rate (%)	32.4	1.4	25.9	23.4	23.3	22.3	22.0	22.0
Share of profit from associates	44	0	0	0	-5	-2	0	0
Minority Interest	32	283	520	527	459	505	555	611
<b>Reported PAT</b>	<b>4,690</b>	<b>3,290</b>	<b>6,941</b>	<b>14,974</b>	<b>20,559</b>	<b>28,206</b>	<b>34,511</b>	<b>43,710</b>
<b>Adjusted PAT</b>	<b>4,690</b>	<b>3,251</b>	<b>6,941</b>	<b>14,974</b>	<b>20,559</b>	<b>28,206</b>	<b>34,511</b>	<b>43,710</b>
Change (%)	60.1	-30.7	113.5	115.8	37.3	37.2	22.4	26.7
Margin (%)	6.6	5.0	7.9	11.4	12.8	13.7	14.0	15.2

Consolidated - Balance Sheet								(INRm)
Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
Equity Share Capital	2,887	2,887	4,330	6,496	6,496	6,496	6,496	6,496
Total Reserves	30,397	32,353	36,469	44,528	62,869	87,827	1,19,090	1,58,902
<b>Net Worth</b>	<b>33,284</b>	<b>35,240</b>	<b>40,799</b>	<b>51,024</b>	<b>69,365</b>	<b>94,323</b>	<b>1,25,586</b>	<b>1,65,398</b>
Minority Interest	307	648	1,168	1,131	1,482	1,986	2,542	3,152
Total Loans	34,172	32,059	33,418	36,948	51,944	53,944	25,944	1,944
Deferred Tax Liabilities	2,697	2,149	3,087	3,368	3,430	3,430	3,430	3,430
<b>Capital Employed</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>92,471</b>	<b>1,26,221</b>	<b>1,53,684</b>	<b>1,57,501</b>	<b>1,73,925</b>
Gross Block	87,203	90,086	94,420	1,06,807	1,28,385	1,73,625	1,83,625	1,93,625
Less: Accum. Deprn.	22,655	26,242	31,555	37,727	44,536	53,294	63,118	73,493
<b>Net Fixed Assets</b>	<b>64,548</b>	<b>63,844</b>	<b>62,865</b>	<b>69,080</b>	<b>83,849</b>	<b>1,20,331</b>	<b>1,20,507</b>	<b>1,20,132</b>
Goodwill on Consolidation	242	242	242	242	242	4,202	4,202	4,202
Capital WIP	638	668	4,966	6,066	19,222	8,222	8,222	7,222
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>211</b>	<b>211</b>	<b>211</b>	<b>211</b>
Current Investments	0	0	0	0	211	211	211	211
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>18,327</b>	<b>19,719</b>	<b>27,721</b>	<b>40,794</b>	<b>48,347</b>	<b>55,987</b>	<b>66,619</b>	<b>91,240</b>
Inventory	8,815	9,288	14,481	19,939	21,505	27,345	33,034	38,206
Account Receivables	1,726	2,418	2,212	2,993	3,594	4,625	5,521	6,424
Cash and Bank Balance	1,711	1,901	3,366	2,853	4,599	4,407	5,884	20,800
Loans and Advances	6,076	6,113	7,661	15,009	18,649	19,612	22,179	25,809
<b>Curr. Liability &amp; Prov.</b>	<b>13,297</b>	<b>14,378</b>	<b>17,322</b>	<b>23,711</b>	<b>25,651</b>	<b>35,270</b>	<b>42,259</b>	<b>49,083</b>
Account Payables	4,777	5,114	7,118	8,243	7,582	10,828	13,081	15,129
Other Current Liabilities	6,517	6,893	7,622	13,135	15,117	20,644	24,644	28,677
Provisions	2,003	2,371	2,583	2,333	2,952	3,798	4,534	5,277
<b>Net Current Assets</b>	<b>5,031</b>	<b>5,342</b>	<b>10,399</b>	<b>17,083</b>	<b>22,696</b>	<b>20,717</b>	<b>24,359</b>	<b>42,157</b>
<b>Appl. of Funds</b>	<b>70,459</b>	<b>70,096</b>	<b>78,473</b>	<b>92,471</b>	<b>1,26,221</b>	<b>1,53,684</b>	<b>1,57,501</b>	<b>1,73,925</b>



## Financials and valuations

### Ratios

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>3.6</b>	<b>2.5</b>	<b>5.3</b>	<b>11.5</b>	<b>15.8</b>	<b>21.7</b>	<b>26.6</b>	<b>33.6</b>
Cash EPS	7.4	6.6	9.4	16.3	21.1	28.5	34.1	41.6
BV/Share	25.6	27.1	31.4	39.3	53.4	72.6	96.7	127.3
DPS	0.5	0.6	0.8	1.7	2.5	2.5	2.5	3.0
Payout (%)	16.7	21.9	15.6	15.2	15.8	11.5	9.4	8.9
<b>Valuation (x)</b>								
P/E	451.0	650.6	304.7	141.2	102.9	75.0	61.3	48.4
Cash P/E	220.9	247.7	172.6	100.0	77.3	57.2	47.7	39.1
P/BV	63.5	60.0	51.8	41.4	30.5	22.4	16.8	12.8
EV/Sales	30.1	33.3	24.3	16.3	13.5	10.5	8.7	7.3
EV/EBITDA	148.4	178.5	129.7	77.1	59.9	44.8	38.5	31.9
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
FCF per share	4.4	5.5	2.8	3.4	-6.2	3.2	25.7	31.9
<b>Return Ratios (%)</b>								
RoE	17.6	9.5	18.3	32.6	34.2	34.5	31.4	30.0
RoCE	11.8	10.4	12.5	20.9	22.1	23.5	24.6	28.2
RoIC	11.5	9.8	12.1	21.6	24.2	25.3	25.1	30.0
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.8	0.7	0.9	1.2	1.2	1.2	1.3	1.5
Asset Turnover (x)	1.0	0.9	1.1	1.4	1.3	1.3	1.6	1.6
Inventory (Days)	45	53	60	55	49	48	49	49
Debtor (Days)	9	14	9	8	8	8	8	8
Creditor (Days)	24	29	29	23	17	19	19	19
<b>Leverage Ratio (x)</b>								
Current Ratio	1.4	1.4	1.6	1.7	1.9	1.6	1.6	1.9
Interest Cover Ratio	3.1	2.4	6.1	11.7	10.9	10.3	19.0	66.3
Net Debt/Equity	1.0	0.9	0.7	0.7	0.7	0.5	0.2	-0.1

### Cash Flow statement

Y/E December	CY19	CY20	CY21	CY22	CY23	CY24E	CY25E	CY26E
<b>(INR m)</b>								
OP/(Loss) before Tax	6,919	3,625	10,066	20,236	27,398	36,946	44,956	56,822
Depreciation	4,826	5,287	5,313	6,172	6,809	8,758	9,824	10,374
Interest & Finance Charges	2,948	2,441	1,168	1,473	2,681	2,641	672	-1,314
Direct Taxes Paid	-1,201	-52	-2,606	-4,735	-6,679	-8,234	-9,890	-12,501
(Inc)/Dec in WC	-827	-1,181	-1,627	-5,246	-6,735	1,787	-2,164	-2,882
<b>CF from Operations</b>	<b>12,665</b>	<b>10,120</b>	<b>12,314</b>	<b>17,900</b>	<b>23,474</b>	<b>41,899</b>	<b>43,397</b>	<b>50,499</b>
Others	411	0	0	0	434	505	0	0
<b>CF from Operating incl EO</b>	<b>13,076</b>	<b>10,120</b>	<b>12,314</b>	<b>17,900</b>	<b>23,908</b>	<b>42,404</b>	<b>43,397</b>	<b>50,499</b>
(Inc)/Dec in FA	-7,331	-2,913	-8,632	-13,487	-31,939	-38,200	-10,000	-9,000
<b>Free Cash Flow</b>	<b>5,745</b>	<b>7,207</b>	<b>3,682</b>	<b>4,414</b>	<b>-8,031</b>	<b>4,204</b>	<b>33,397</b>	<b>41,499</b>
(Pur)/Sale of Investments	0	0	0	0	-216	0	0	0
Others	-15,862	-1,798	-1,474	-3,559	-744	1,196	1,725	2,151
<b>CF from Investments</b>	<b>-23,192</b>	<b>-4,711</b>	<b>-10,106</b>	<b>-17,046</b>	<b>-32,899</b>	<b>-37,004</b>	<b>-8,275</b>	<b>-6,849</b>
Issue of Shares	9,002	0	0	0	44	0	0	0
Inc/(Dec) in Debt	6,487	-2,113	1,359	3,530	15,064	2,000	-28,000	-24,000
Interest Paid	-3,011	-2,811	-1,847	-1,861	-2,694	-3,837	-2,397	-837
Dividend Paid	-690	-722	-1,083	-2,274	-2,273	-3,248	-3,248	-3,898
Others	-895	427	829	-763	596	-506	0	0
<b>CF from Fin. Activity</b>	<b>10,893</b>	<b>-5,219</b>	<b>-742</b>	<b>-1,368</b>	<b>10,737</b>	<b>-5,591</b>	<b>-33,645</b>	<b>-28,734</b>
<b>Inc/Dec of Cash</b>	<b>776</b>	<b>190</b>	<b>1,466</b>	<b>-514</b>	<b>1,746</b>	<b>-192</b>	<b>1,478</b>	<b>14,916</b>
Opening Balance	935	1,711	1,901	3,367	2,853	4,599	4,407	5,884
<b>Closing Balance</b>	<b>1,711</b>	<b>1,901</b>	<b>3,367</b>	<b>2,853</b>	<b>4,599</b>	<b>4,407</b>	<b>5,884</b>	<b>20,800</b>

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NOTES



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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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