Business Analysis & Valuation

Varun Beverages Ltd.

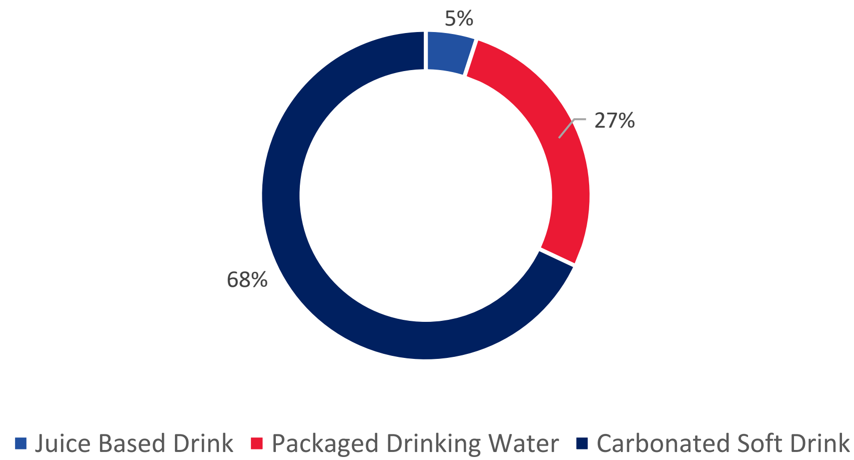
Report by: Prashant Kumar

Company Overview

Introduction

Varun Beverages Ltd (hereinafter referred as "The company", "VBL") was incorporated as on 16 June 1995 at New Delhi as a public limited company under the Companies Act, 1956. The company obtained a certificate of commencement of business on 4 July 1995. The company started its operations at Jaipur in 1996. In 1999 the company started operations at Alwar, Jodhpur and Kosi. It is part of the RJ Corp group, a diversified business conglomerate with interests in beverages, quick service restaurants, dairy and healthcare, is the second largest franchisee in the world (outside US) of carbonated soft drinks (CSDs) and non carbonated beverages (NCBs) sold under trademarks owned by PepsiCo.

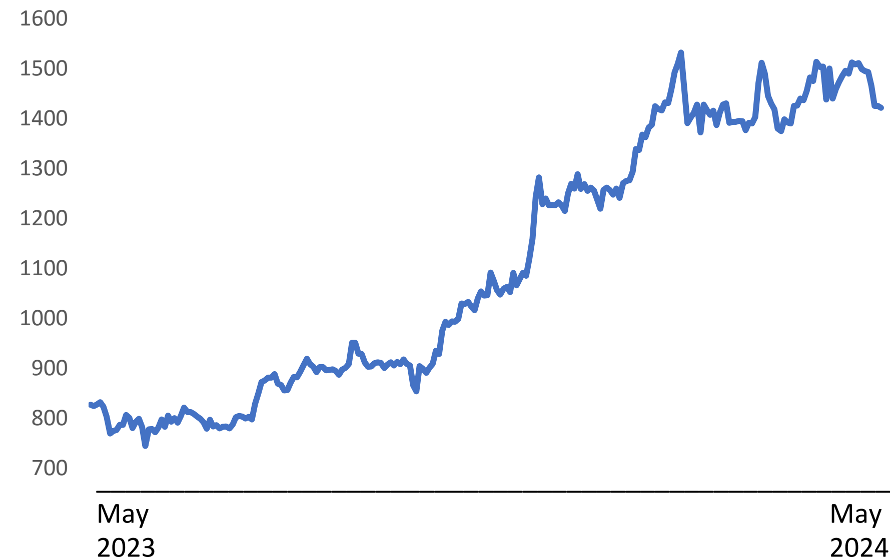
Product Wise – Revenue Breakup



Business presence

The Company has presence in 27 States and 7 Union Territories in India and 13 other countries across the world. Further, the company has 47 production facilities; of these, 36 plants are in India, which it its largest market, and 11 in International geographies, with more than 2,500 owned vehicles, more than 2,000 primary distributors and more than 130 depots.

Share Price Performance



Key Products/Brands

PepsiCo CSD brands produced and sold by VBL include Pepsi, Pepsi Black, Mountain Dew, Sting, Seven-Up, Mirinda Orange, Seven-Up Nimbooz Masala Soda and Evervess. PepsiCo NCB brands produced and sold by the Company include Tropicana Slice, Tropicana Juices (100% and Delight), Seven-Up Nimbooz, Gatorade as well as packaged drinking water under the brand Aquafina.

Global Economy

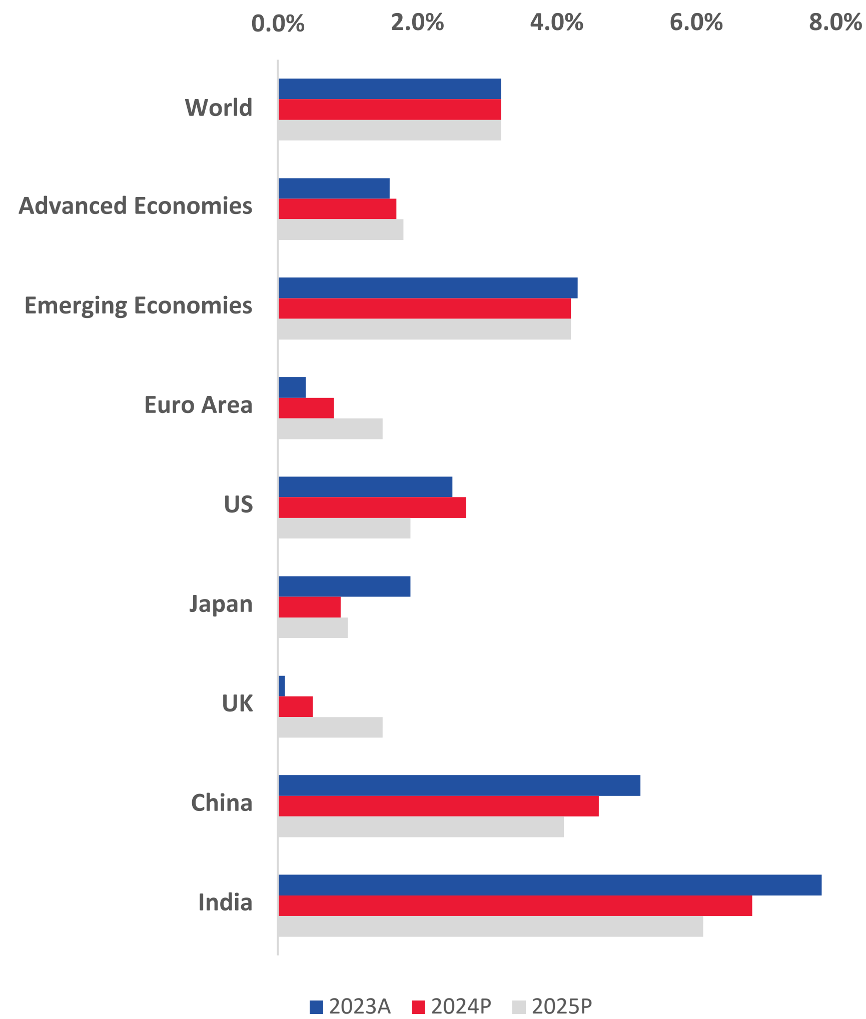
Overview

In 2023, the global GDP growth at 3.2%, surpassed the consensus expectations. Global economy demonstrated significant resilience despite challenges like elevated inflation, interest rate hikes, geopolitical tensions, OPEC+ energy supply cuts, and sluggish growth in China's economy, all of which dampened consumer demand, reduced investments, and disrupted supply chains.

In 2024, global economy continues to present a mixed picture. Multiple factors like the wide-spread elevation of debt, extreme weather conditions and elections in many parts of the world continue to contribute to the uncertainty. The impact of tight monetary conditions continues being felt, particularly in housing and credit markets, but encouragingly, inflation has softened over the highs of the previous year and is expected to continue to moderate. Meanwhile, geopolitical shocks, such as Israel-Hamas and Russia-Ukraine conflicts, continue to dominate the headlines.

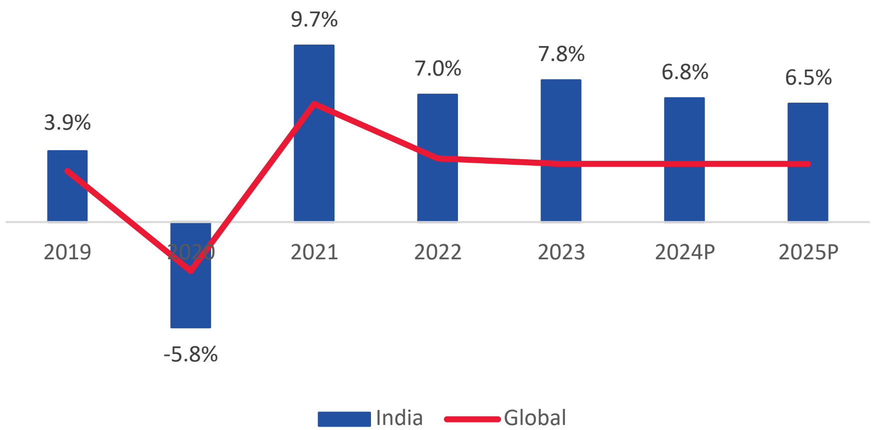
The baseline forecast is for the world economy to continue growing at 3.2 percent during 2024 and 2025, at the same pace as in 2023. A slight acceleration for advanced economies—where growth is expected to rise from 1.6 percent in 2023 to 1.7 percent in 2024 and 1.8 percent in 2025—will be offset by a modest slowdown in emerging market and developing economies from 4.3 percent in 2023 to 4.2 percent in both 2024 and 2025.

Global GDP Projections (%)

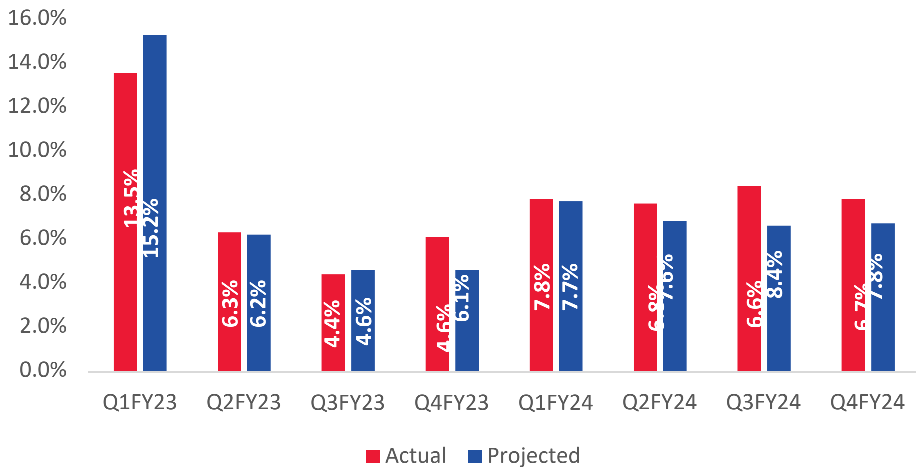


Indian Economy

India vs Global GDP Growth(%)



India GDP Growth- Actual vs Projected



Overview

With a GDP growth of 7.8% in Calendar Year 2023, India, the fifth largest economy was the fastest growing major economy. The biggest contribution to the GDP growth has come in the form of capital expenditure by the Government. At 3% of GDP, ₹10 lakh crore was allocated towards capital expenditure, a record high. The Government's strengthened thrust on capex will augur well for the economy in mid to long term with the creation of employment opportunities, improved infrastructure, and elevated ease of doing business in the country.

As per International Monetary Fund (IMF) estimates India will be the third largest economy before 2030 with its GDP projected to surpass both Japan and Germany. Both private consumption and investment are projected to rise steadily, contributing to GDP expansion. Backed by strong economy growth, FMCG consumption is expected to flourish.

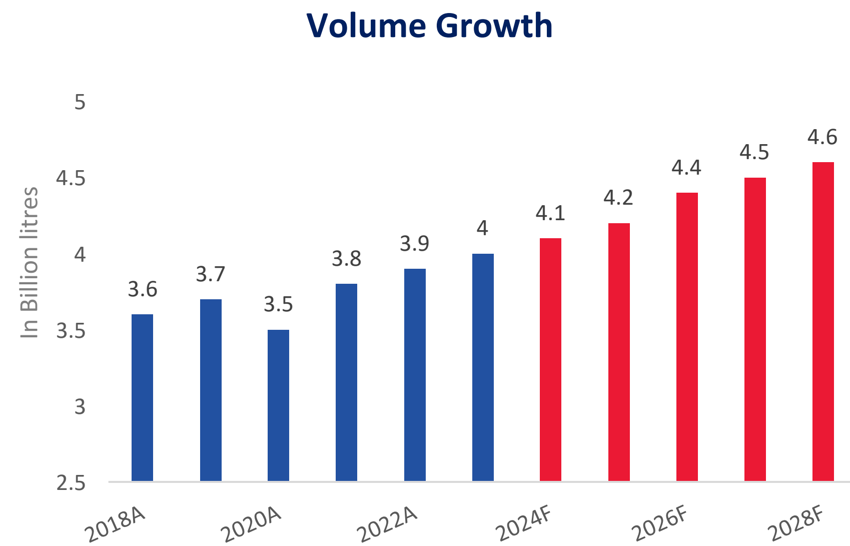
IMF raised its growth projection for India's GDP in the current fiscal year 2024/25 to 6.8%, and forecast a 6.5% expansion next year.The projected moderation in India's growth rate from 7.8% last fiscal year was due to a tightening in monetary and fiscal policy, necessary to bring inflation down, IMF economist said.

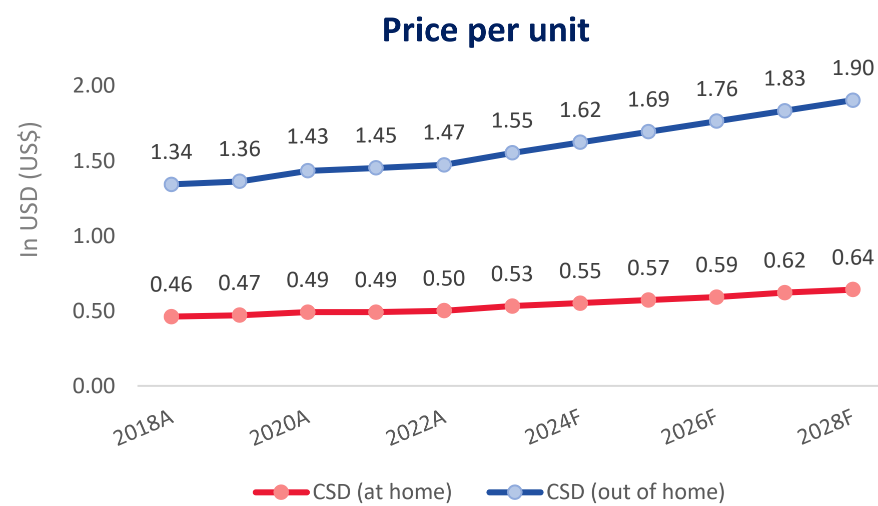
Non-Alcoholic Beverage Industry- India

Overview

The non-alcoholic beverages market in India was valued at INR 1,376.7 billion in FY 2023 and is expected to reach INR 1,986.31 billion by FY 2028, expanding at a CAGR of ~7.29% during the FY 2024 - FY 2028 forecast period. In 2023, Indian soft drinks industry encountered a challenging yet progressive year. Following substantial growth in 2022 attributed to the resurgence of out-of home consumption, the industry confronted unseasonal rains that disrupted sales during the critical summer season. Nevertheless, the sector adeptly adjusted to evolving consumer preferences and maintained a steady growth trajectory. Industry growth was fueled by expanding demographic profiles and burgeoning middle-class population. These demographic shifts, coupled with increase in disposable income, spurred higher demand. Urbanization played a pivotal role as well, with more individuals relocating to urban areas, leading to greater exposure to and demand for diverse soft drink options. This resilience was particularly evident in the energy drinks segment, which, after emerging as a growth category in 2022, continued its expansion through 2023. Carbonates retained their position as the largest category in terms of volume as much as value, reflecting their enduring popularity among Indian consumers.

The Indian beverages industry presents significant growth opportunities in the future. As 80% of non alcoholic beverages sector in India is informal, it creates immense growth opportunities for organized players.

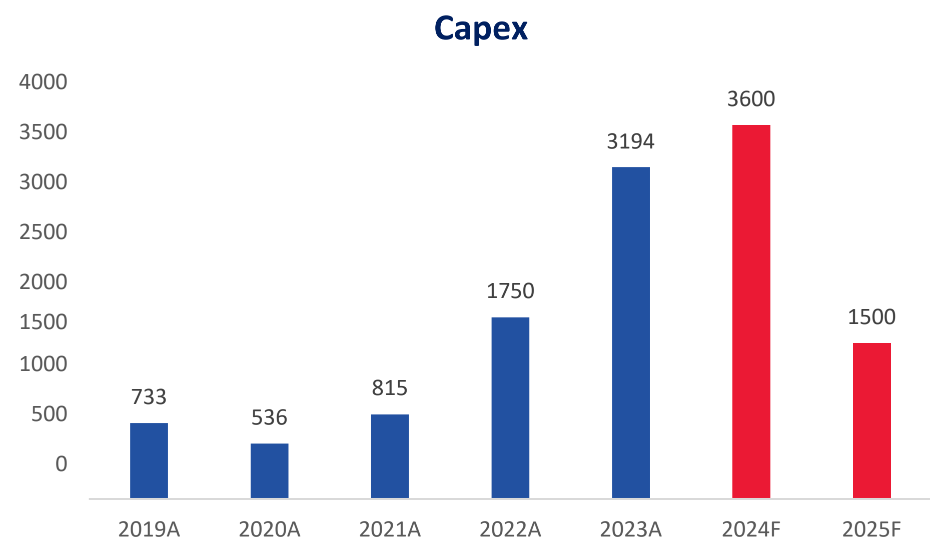




Varun Beverages Ltd – Growth Story

Capacity Expansion

VBL's plants were operating at around 100% utilization as the peak season approached in April. Company has done major growth capex in recent years. For the year 2024, the company has committed the capex of 3600 Crores, out of which, only a small portion, ~ Rs. 200 crore is left. This year VBL commissioned 3 new greenfield production facilities in India and have also set up backward integration facilities at all these plants, taking the total number of integrated plants to 13. Additionally, the forthcoming CAPEX of 400 crores for DRC unit will further fuel expansion in the African region. These investments are poised to support our long-term growth objectives as well as profitability. Capex for CY25 will be more than 1500 crore, if the company gets the kind of growth as expected. The asset turnover is expected to be 1.8-2x.



Market Dominance

The company has focused to acquire market share in unchartered or less penetrated territories through efficient go to market execution. Sighting which, the company has recently commissioned its Bihar plant and it has started gaining the market share.

Operating Efficiency

The company has control over end to end value chain such as Manufacturing, distribution, customer management, in-market execution, cost efficiencies, and cash management. This leads to superior and robust margins with contribution of highly efficient manufacturing systems and distribution network.

Positive Demographic Characteristics

India has a large young population with individuals in the age group of 15- 64 years making up the majority of the overall population, which creates a sizable workforce to support economic growth. Due to the shifting population demographics, the rising spending power of young consumers, accelerated urbanization, and growing rural consumption, are likely to drive the demand for soft drinks in India

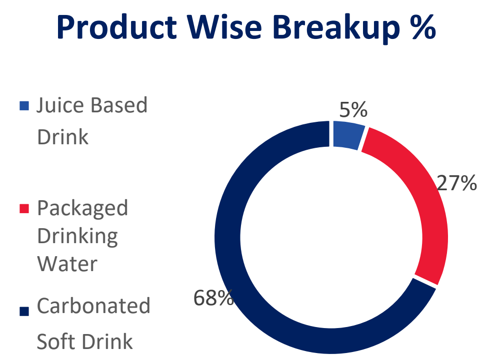
Rapid Urban Growth and Increasing Earnings

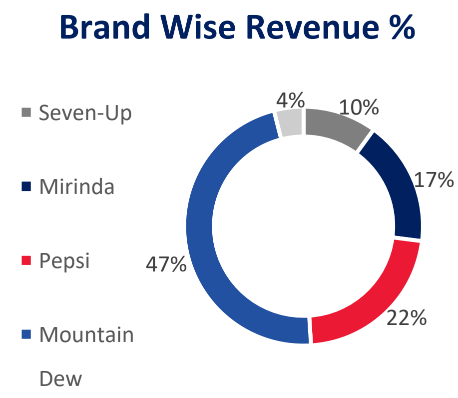
Over 50% of India's population falls within the working age group, resulting in an increase in disposable income and a shift in spending habits. Furthermore, the growing number of women joining the workforce in India has led to higher family disposable income, which has contributed to increased consumer spending.

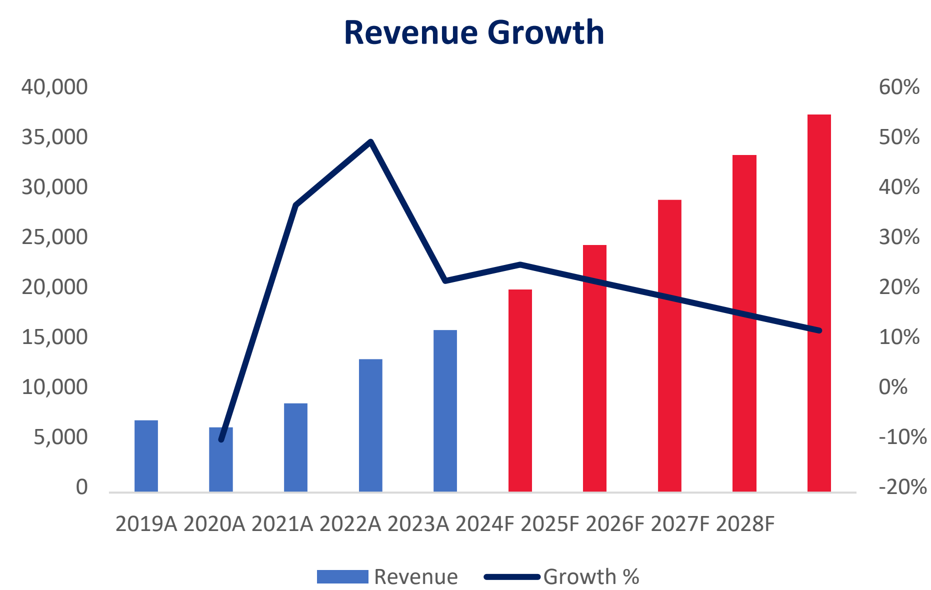
Financials

Revenue

The Company has posted revenue of INR 16,043 Crores in CY 2023 The revenue has grown at a CAGR of 35.5% and 25.7% during the last 3 and 5 Years respectively. The management is extremely positive on overall growth of Indian soft drink market due to factors such as increase in Household Income, consumer spending, migration of Population to urban areas etc. The company was facing capacity constraints in juices, value added diary beverages and sport drink, for which the company has done significant capex (estimates triple the current capacity) and betting on these product mix for next leg of growth. The Analyst's consensus growth for CY 24 is 29% growth over the CY 2023 revenues of INR 13173 crores. Considering the challenges company might faces such as lower growth in CSD, unfavorable weather conditions, Health Awareness, stringent marketing policies by the government, increased tax rates etc., we assume the company would maintain a double digit growth of 25% due to increase in popularity of its energy drink brand " and recent capex conducted by the company to for the capacity of sports Drink, Juices, Dairy Beverages which will be the main driver for the company's growth in next 2-5 years.







Varun Beverages Ltd – Growth Story

Gross Margins

An integral part of VBL's strategy is to maximize cost efficiencies, focus on actively reducing the cost of goods sold, minimizing operating expenses efficiently and increasing cash flows. Hence, the business has pursued significant programs for this purpose, including backward integration and consolidated sourcing of materials.

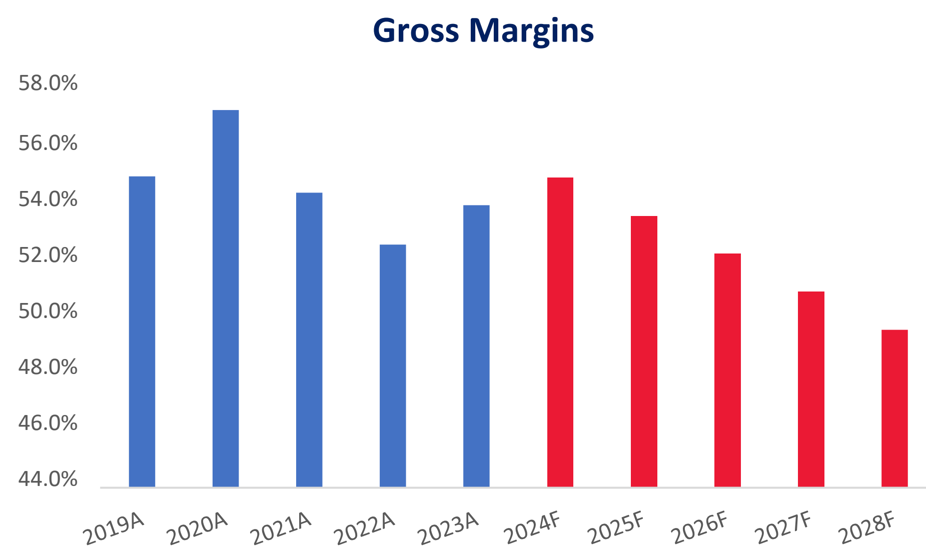
The raw materials constitutes ~90%+ of the COGS. Key raw materials for the company are PET chips and sugar.
In view of volatility of price of sugar and PET chips, the company executes various advance purchase contracts and early stocking of these materials, in order to mitigate pricing risks. This helps in maintaining consistent margins.

In Q1 of CY2024, gross margins improved significantly, rising by 385 basis points to the level of 56.3%. This increase was largely driven by focus on reducing sugar content and the lightweighting packaging material, along with the benefits from reduced PET prices. Currently ~46% of the total portfolio consists of either zero sugar or low sugar products, and the efforts to reduce sugar content remain constant.

The sugar production in India is more than its consumption and exports of sugar from India has been increased to fifth year straight. It is unlikely that the country will face shortage of sugar and witness spike in sugar prices Further, inflationary cycle is expected to slow down in coming years which should keep the price of sugar in check.

The company has done backward integration to increase efficiency by reducing packaging cost and also focused on economy of scale have better bargaining power with raw material suppliers.

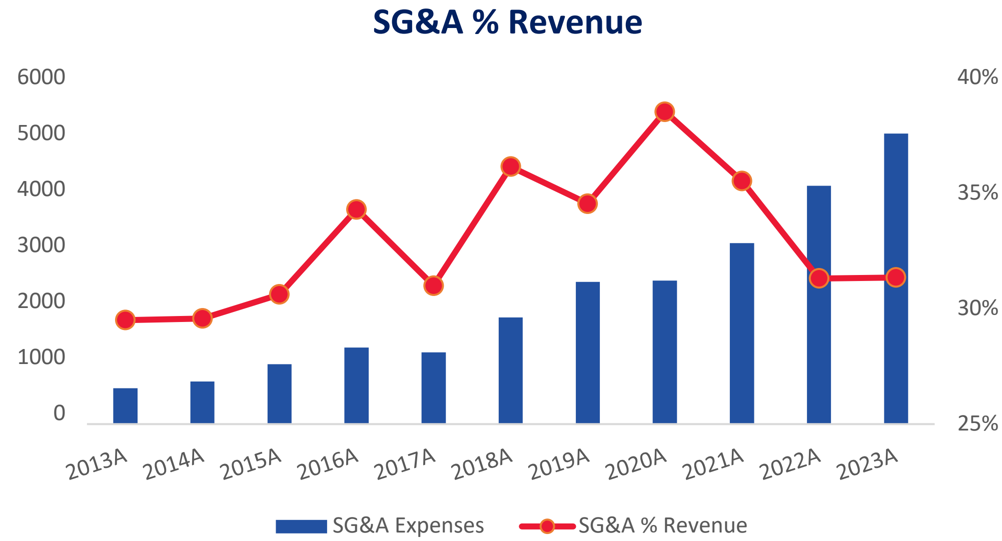
While historically, the company has posted gross margin 57.54% in the last 6 years. Basis our research, the gross margin posted by non alcoholic beverage sector in India was 53.7%, by the sector in global emerging markets was 44.3% and global sector margin was 49.5%. Due to the several efforts like reducing sugar content and lightweight packaging, we assume that margin will retract to 54.8% in short term and converge with global sector margin of 49.5% in long term.



SG&A Expenses

During CY23 the company has reported EBITDA margin of 22.5% which is 130bps higher than CY22 (21.2%). The reason for rise in EBITDA margin is softening of key raw material prices and operational efficiencies. The management is determined to keep the operating expense in check and keep intact the EBITDA margin guidance of ~21- 22% in the long run.

Basis our research, we have identified that historically, SG&A expenses is 32.6% of revenue. We assumed total SG&A expenses to remain at 32.6% level and it almost aligns with street estimate and management guidance.

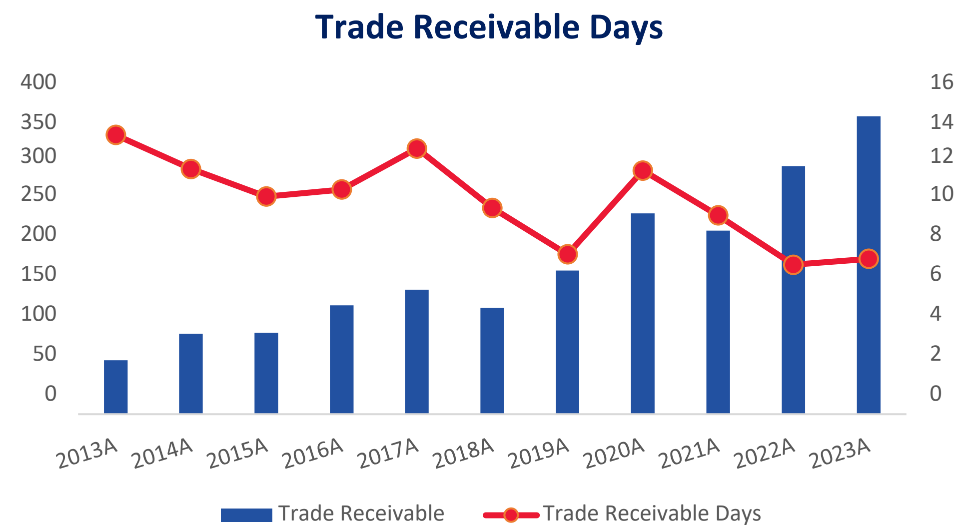


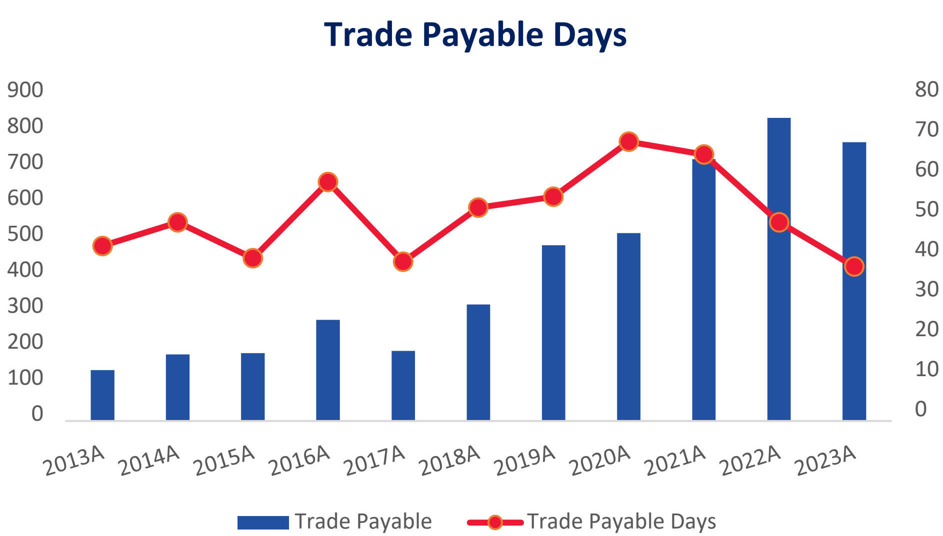
Inventory

The Company usually increase inventory levels during Oct-Dec quarter and Jan-March quarter to prepare for season demand. Also during this period PET prices are cheapest throughout the year, the company gets an edge in gross profitability by restocking the raw material when prices are cheapest. Historically, the company is maintaining inventory levels at ~ 10-14% of Revenues. With Inventory turnover ratio being consistent around 7.7x and Inventory days of 47-50. We Assume our inventory levels to go up by 3 days from 47 days to 52 days in year 2023 and 2024 due to increased freight costs and delay in shipments. Also the company is having to overstock for safety reasons which will cause additional inventory cost. Moreover due to new products launched by the company in energy drink, value based diary, sports drink and juices, the inventory levels may increase. Post that inventory levels are expected to normalize at 47 days.

Trade Receivable

The company usually has increased receivable levels during April - June quarter due to seasonality. The company has robust collection mechanism due to which receivable levels were normalized by the end of year. Company is not exposed to any significant credit risk from a single counterparty. The company has policy to deal with creditworthy counterparties whose security deposit is kept with the company at the time of onboarding. The receivables are spread across large number of customer at various scale and geographies. We don't foresee any significant credit impairment by the company in near future. Historically, the company is maintaining receivable levels at ~ 2.9% of the revenues, with median receivable turnover ratio of ~35.0x . Further, street estimates suggest the receivable levels to increase from current level and then remain flat between 8-10 days. We Assume our receivable levels to be flat at 9 days.



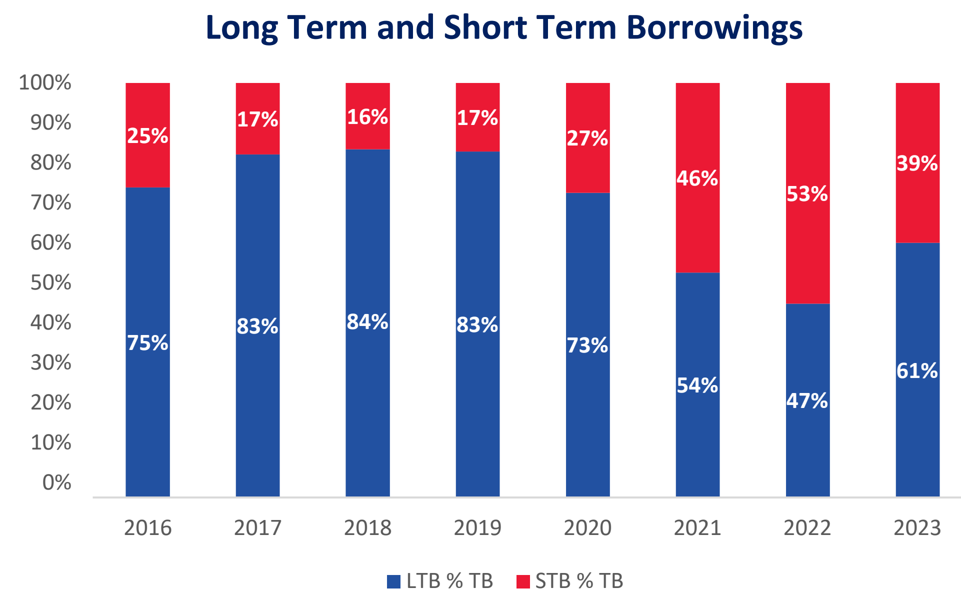


Trade Payable

Company has maintained consistent payable of ~40-50 days except COVID year where the payables were delayed. However, in year 2023, the payables were reported to a lower level of 37 days, from previous year's normal level of 48 days. The trade payable is consistently ~13% of COGS and ~6% of Revenue. Further, street estimates suggest the payable levels to remain flat from existing payable days. In absence of management guidance and basis our research, we assume the payable days to remain flat at 40 days.

Borrowings

In the recent years, the company has substantially reduced the long terms debt from *83% of the total debt in 2017 to 61% in 2023 with Debt to Equity ratio is consistent at 0.8x, Debt to Capital ratio at 0.4x, Debt to Asset Ratio at 0.3x. But, Debt to EBITDA ratio has reduced to 1.4x. The Management has provided the guidance to maintain Debt to EBITDA at 1-1.25x and Debt to Equity to 0.5-0.7x. The management is committed to reduce the debt levels further in future. Also, the company has increased the usage of short term borrowings to fund its cyclical operations. Due to which debt levels are usually high pre season (December) and at the lowest level post season (June). The company has guided for debt levels at constant in short term.



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Valuation

Objective

The objective is to reach at the intrinsic value of VBL's stock. The analysis aims to assess the company's worth basis its ability to generate cash flows, future growth and risk associated with the business. We have carefully considered management's guidance while performing this analysis.

Valuation Methodology

There are primarily three approaches in valuation (viz Cost Approach, Market Approach, and Income Approach). For any valuation, all the approaches ay not be relevant and therefore will not give a fair estimate of value. Hence, the approach most suitable for specific business/company must be applied in the valuation exercise based on common practices.

The three approaches generally adopted in valuation are as under:

- Market Approach: Comparable Companies method and Comparable Transactions Method
- Income Approach: Discounted Cash Flow Method
- Asset Approach: Net Asset Value method

Market Approach

Under this approach, we measure the value of business of the company by applying the market multiples of listed companies which trade actively and possess attributes, similar and comparable with the target company. This methodology is based on the principle that such market pricing taking place between informed buyers and informed sellers, while taking into account all the relevant factors.

Not all multiples are applicable to every company. Therefore, the relevant multiples should be chosen carefully and adjusted for differences between the comparable. For the purpose of Valuation of VBL, we have chosen EV/EBITDA multiple.

Asset Approach

Under this approach, the value of the business is derived basis difference between the value of assets and liabilities. This approach focuses on determining the value of net assets from the perspective of equity valuation The value of net assets can be determined as follows: Net assets = Total Assets - Total External Liabilities. The value of net assets is also known as Total Equity.

Income Approach

Under this approach, the value of business is derived by considering free cash flows, future growth and weighted average cost of capital which signifies risk.

There are four major steps in Income Approach:

- Forecasting future cash flows for explicit growth period.
- Discounting these cash flows to present value at the rate of return which depicts the risk in realizing the future cash flows and expected growth.
- Calculation of terminal value of free cash flow post explicit growth period.
- Addition of present value of terminal cash flows and free cash flows during explicit forecast period.

DCF Valuation

In INR Crores unless stated otherwise

Free Cash Flow to Firm

	Actual			Explicit Forecast Period									
	CY2021	CY2022	CY2023	CY2024	CY2025	CY2026	CY2027	CY2028	CY2029	CY2030	CY2031	CY2032	CY2033
EBITDA	1,654	2,788	3,609	4,451	5,083	5,626	6,025	6,235	6,983	7,821	8,760	9,811	10,988
Less: Depreciation & Amortization	(531)	(617)	(681)	(1,020)	(1,162)	(1,398)	(1,630)	(1,839)	(2,074)	(2,337)	(2,631)	(2,961)	(3,331)
EBIT	**1,123**	**2,171**	**2,928**	**3,431**	**3,922**	**4,228**	**4,396**	**4,396**	**4,909**	**5,484**	**6,128**	**6,850**	**7,658**
Less: Tax	(261)	(474)	(638)	(745)	(867)	(962)	(1,018)	(1,029)	(1,168)	(1,321)	(1,488)	(1,671)	(1,871)
EBIT(1-t)	**863**	**1,697**	**2,291**	**2,686**	**3,055**	**3,265**	**3,378**	**3,367**	**3,741**	**4,164**	**4,640**	**5,179**	**5,786**
Add: Depreciation & Amortization	531	617	681	1,020	1,162	1,398	1,630	1,839	2,074	2,337	2,631	2,961	3,331
Cash NOPAT	**1,394**	**2,314**	**2,972**	**3,706**	**4,216**	**4,664**	**5,008**	**5,206**	**5,815**	**6,501**	**7,272**	**8,140**	**9,117**
Less: Reinvestments													
Change in Non-Cash Working Capital	(269)	(585)	(673)	(648)	(761)	(379)	(683)	(602)	(731)	(819)	(917)	(1,027)	(1,150)
Capex during the Year	(815)	(1,750)	(3,194)	(3,600)	(1,500)	(2,509)	(2,451)	(2,223)	(2,490)	(2,788)	(3,123)	(3,498)	(3,918)
Free Cash Flow to Firm	**310**	**(21)**	**(896)**	**(542)**	**1,956**	**1,775**	**1,874**	**2,381**	**2,594**	**2,894**	**3,232**	**3,616**	**4,050**
Discount Period Years (Mid Year? Yes)				0.5	1.5	2.5	3.5	4.5	1	2	3	4	5
Discount Rate (WACC) 9.00%													
Present Value Factor				0.958	0.879	0.806	0.740	0.679	0.917	0.842	0.772	0.708	0.650
Present Value of Free Cash Flow to Firm				**(519)**	**1,719**	**1,431**	**1,386**	**1,616**	**2,380**	**2,435**	**2,496**	**2,561**	**2,632**

DCF Calculation -Perpetuity Growth

Perpetuity Growth Rate	5%
Terminal Year FCFF x (1+PGR)	4,238
Terminal Value	**97,214**
Present Value of Terminal Value	65,965
Present Value of FCFFs	18,137
Enterprise Value	**84,102**
Implied Exit Multiple	7.7x
Implied EV/EBITDA	23.3x
Less: Debt	(5,194)
Add: Cash	459
Less: Minority Interest	(148)
Add: Non Operating Asset	65
Equity Value	**79,284**
Less: Value of Options	(107)
Equity Value for Shareholders	**79,177**

DCF Calculation -Exit Multiple

Exit Multiple	16x
Terminal Year EBITDA	6,235
Terminal Value	**99,760**
Present Value of Terminal Value	64,837
Present Value of FCFFs	18,137
Enterprise Value	**82,975**
Implied Exit Multiple	*13.3x*
Implied EV/EBITDA	*23.0x*
Less: Minority Interest	(148)
Add: Non Operating Asset	65
Less: Debt	(5,194)
Add: Cash	459
Equity Value	**78,157**
Less: Value of Options	(107)
Equity Value for Shareholders	**78,050**

Market Price
INR 183,683 Crores

Intrinsic Value
INR 79,177 Crores

WACC
9%

Terminal Growth
5%

Terminal Growth %

WACC	4%	5%	6%	7%
8%	88,209	1,02,967	1,65,543	3,20,212
9%	70,368	79,177	1,10,304	1,60,223
10%	58,420	64,203	82,594	1,06,769
11%	49,842	53,889	65,902	79,955
12%	43,374	46,339	54,722	63,801

Exit Multiple

WACC	15x	16x	17x	18x
8%	77,390	81,634	85,877	90,121
9%	73,997	78,050	82,102	86,154
10%	70,780	74,651	78,523	82,394
11%	67,727	71,427	75,127	78,827
12%	64,829	68,367	71,904	75,442

Relative Valuation

Comparable Companies	Description
Varun Beverages Ltd.	Varun Beverages Ltd has been associated with PepsiCo since the 1990s and is a key player in beverage industry and one of the largest franchisee of PepsiCo in the world. The company produces and distributes a wide range of carbonated soft drinks, non-carbonated drinks and packaged water sold under trademarks owned by PepsiCo. PepsiCo brands produced and sold by the company include Pepsi, Seven-up, Mirinda Orange, Mountain Dew, Tropicana Juices and many more.
Nestle India Ltd.	Nestle India Ltd. is one of the leading food and beverage companies in India. It is a subsidiary of Nestle S.A. The company operates in multiple lines of business, including nutrition, health and wellness, beverages, prepared dishes and cooking aids, confectionery, and dairy products. It is well-known for its wide range of products, including coffee, tea, chocolate, breakfast cereals, infant nutrition, dairy products, pet food, and bottled water. Some of the popular brands from Nestle India Ltd. are Nescafe, Maggi, KitKat, Milkmaid, Cerelac, and Nestea
Britannia Industries Limited	Britannia Industries Limited is an India-based food products company. The Company is primarily engaged in the manufacturing and sale of various food products including biscuits, dairy, breads, rusk, cakes and snacking. It also has a range of popular brands such as Good Day, Tiger, NutriChoice, Marie Gold, Milk Bikis, 50-50, Little Hearts, and Britannia.
Bikaji Foods International Ltd.	Bikaji Foods International Ltd is an India-based ethnic snacking company. The company's product range includes six principal categories: bhujia, namkeen, packaged sweets, papad, western snacks as well as other snacks which primarily include gift packs (assortment), frozen food, mathri range, and cookies.

Criteria :- Indian listed companies which derive majority of their revenues from Food & Beverages segment.

Relative Valuation

In INR Crores unless stated otherwise

		Market Data				Financials									Multiples								
						2024A	2025F	2026F	2024A	2025F	2026F	2024A	2025F	2026F	2024A	2025F	2026F	2024A	2025F	2026F	2024A	2025F	2026F
Relative Valuation	Ticker	Share Price	Market Cap	Debt	Enterprise Value	Sales	Sales	Sales	EBITDA	EBITDA	EBITDA	PAT	PAT	PAT	EV/Sales	EV/Sales	EV/Sales	EV/EBITDA	EV/EBITDA	EV/EBITDA	PE	PE	PE
Varun Beverages Ltd.	NSE: VBL	1413	1,83,683	5,431	1,90,838	16,043	19,673	23,700	3,717	4,431	5,380	2,102	2,505	3,181	11.9x	9.7x	8.1x	51.3x	43.1x	35.5x	87.4x	73.3x	57.7x
Nestle India Ltd.	NSE: NESTLEIND	2476	2,38,749	345	2,38,315	19,126	21,613	24,248	4,471	5,347	6,093	2,999	3,506	3,968	12.5x	11.0x	9.8x	53.3x	44.6x	39.1x	79.6x	68.1x	60.2x
Britannia Industries Limited	BRITANNIA	5230	1,26,073	2065	1,27,691	16,769	18,605	20,470	3,167	3,513	3,902	2,134	2,434	2,749	7.6x	6.9x	6.2x	40.3x	36.3x	32.7x	59.1x	51.8x	45.9x
Bikaji Foods International Ltd.	BIKAJI	546	13,667	139	13,630	2,295	2,685	3,135	394	382	445	270	254	306	5.9x	5.1x	4.3x	34.6x	35.7x	30.6x	50.6x	53.8x	44.7x
High															12.5x	11.0x	9.8x	53.3x	44.6x	39.1x	79.6x	68.1x	60.2x
75th Percentile															10.0x	8.9x	8.0x	46.8x	40.5x	35.9x	69.3x	61.0x	53.0x
Average															**8.7x**	**7.7x**	**6.8x**	**42.7x**	**38.9x**	**34.2x**	**63.1x**	**57.9x**	**50.2x**
Median															**7.6x**	**6.9x**	**6.2x**	**40.3x**	**36.3x**	**32.7x**	**59.1x**	**53.8x**	**45.9x**
25th Percentile															6.8x	6.0x	5.3x	37.5x	36.0x	31.7x	54.8x	52.8x	45.3x
Low															5.9x	5.1x	4.3x	34.6x	35.7x	30.6x	50.6x	51.8x	44.7x

EV/Sales	
Sales	16,043
EBITDA	3,717
Earnings	2,102
Valuation Multiple	EV/Sales
EV/Sales	7.6x
Enterprise Value	₹ 1,22,163
Less: Debt	(₹ 5,194)
Add: Cash	₹ 459
Less: Minority Interest	(₹ 148)
Add: Non Operating Asset	₹ 65
Equity Value	**1,17,34 5**
Less: Value of Options	(₹ 107)
Equity Value for Shareholders	**1,17,23 8**

EV/EBITDA	
Sales	16,043
EBITDA	3,717
Earnings	2,102
Valuation Multiple	EV/EBITDA
EV/EBITDA	40.3x
Enterprise Value	₹ 1,49,867
Less: Debt	(₹ 5,194)
Add: Cash	₹ 459
Less: Minority Interest	(₹ 148)
Add: Non Operating Asset	₹ 65
Equity Value	**1,45,049**
Less: Value of Options	(₹ 107)
Equity Value for Shareholders	**1,44,941**

P/E	
Sales	16,043
EBITDA	3,717
Earnings	2,102
Valuation Multiple	P/E
P/E	59.1x
Equity Value	₹ 1,24,182
Equity Value	**1,24,182**
Less: Value of Options	(₹ 107)
Equity Value for Shareholders	**1,24,075**

WACC

WACC Inputs	
Country	India
Local Currency 10Y Government Bond Yield	6.99%
India Moodys Sovereign Rating	Baa3
Credit Default spread as per Dr. Damodaran	2.35%
Implied US Equity Risk Premium	4.15%
Debt to Capital (Gearing)	42%
Marginal Tax Rate	25%
Company Credit Rating Available?	No
Company is Large firm or Small firm?	L
Provide Credit Rating	Aa2/AA
Interest Coverage Ratio	10.9
ICR Based Corporate Default Spread	0.59%

Particulars	Low	Mid	High
Risk Free Rate	4.64%	4.64%	4.64%
Equity Risk Premium	6.50%	6.50%	6.50%
Equity Beta	0.56	0.56	0.56
CAPM Cost of Equity	**8.28%**	**8.28%**	**8.28%**
Small Size Premium	2.70%	2.70%	2.70%
Asset Specific Premium	0.00%	0.00%	0.00%
Modified Cost of Equity	**10.98%**	**10.98%**	**10.98%**
Pre Tax Cost of Debt	7.58%	7.58%	7.58%
Marginal Tax Rate	25.00%	25.00%	25.00%
Post Tax Cost of Debt	**5.69%**	**5.69%**	**5.69%**
Capital Gearing (D/D+E)	42%	42%	42%
Weighted Average Cost of Capital	8.74%	8.74%	8.74%
Weighted Average Cost of Capital (Rounded)	**9.00%**	**9.00%**	**9.00%**

Risk Free Rate

We have considered 4.64% as the risk free rate in estimation of cost of equity of 8.28%. The risk free rate of India is calculated by considering local currency 10 years government bond yield adjusted for default spread of India.

Equity Beta

We have obtainted Equity Beta of 0.56 from Yahoo Finance which is based on 5 Year monthly regression.

Equity Risk Premium (ERP)

An ERP of 6.50% has been adopted based on US implied equity risk premium, relative equity volatiliy of ICE BoFA Public Sector Issues Emerging Mkts Index, S&P Emerging BMI Index and country risk premium of India.

Cost of Debt

For the purpose of assessing the cost of debt, we have used country's risk free rate, country's default spread and corporate default spread based on company's debt rating and interest coverage ratio.

Small Size Premium

Empirically small sized assets have exceeded the returns as compared to large sized assets. We have used the study on size premium conducted by Incwert which is based on difference between actual returns and CAPM expected returns arranged in decile basis market capitalization of Indian companies.

Summary

Value derived from different valuation approaches:-

DCF Valuation

- **Using Perpetuity Growth = 79,177**
- **Using Exit Multiple = 78,050**

Relative Valuation

- **Using EV/Sales = 1,17,238**
- **Using EV/EBITDA = 1,44,941**
- **Using Price/Earnings = 1,24,075**

In INR Crores, unless stated otherwise