

Varun Beverages: Equity Report

An Analysis by Integra PROFIT Ltd.

10 April 2024



About the Company

Varun Beverages Ltd has been associated with PepsiCo since the 1990s and is a key player in the beverage industry and one of the largest franchisees 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.

Quarterly

Revenue - Varun Beverages Ltd. Dec-2023 Quarterly Revenue is Rs 1,897 Cr which is a growth of 17.3% YoY.

Net Profit - Varun Beverages Ltd. Dec-2023 Quarterly Net Profit is Rs 119 Cr which is a growth of 101.6% YoY.

What should investors do?

Varun Beverage's share price has given an 8.7x return (from Rs 125 in April 2019 to Rs 1430 in April 2024).

- We revise our CY24 earnings number upwards with robust volume growth, margin expansion through operating leverage & reduction in debt & interest.
- We suggest to BUY And HOLD the stock.

Key Financial Summary

Historical Financial Statement =VARUN BEVERAGES LTD					
Years	Dec-20	Dec-21	Dec-22	Dec-23	LTM
Sales	₹ 6,450.14	₹ 8,823.23	₹ 13,173.14	₹ 16,042.58	₹ 16,042.59
Sales Growth	-9.53%	36.79%	49.30%	21.78%	0.00%
Gross Profit	₹ 2,264.77	₹ 3,114.86	₹ 4,725.52	₹ 6,103.07	₹ 3,608.80
Gross Margin	35.11%	35.30%	35.87%	38.04%	22.50%
EBITDA	₹ 1,214.96	₹ 1,693.95	₹ 2,863.00	₹ 3,716.74	₹ 2,880.22
EBITDA Margin	18.84%	19.20%	21.73%	23.17%	17.95%
Net Profit	₹ 387.29	₹ 695.17	₹ 1,568.19	₹ 2,106.68	₹ 1,293.67
Net Margins	6.00%	7.88%	11.90%	13.13%	8.06%
EPS	₹ 2.98	₹ 5.35	₹ 12.07	₹ 16.22	₹ 9.96

SWOT Analysis

Strengths:

- 1. Strong Market Presence:** Varun Beverages has established a strong presence in the beverage industry, particularly in the markets it operates in. Its distribution network and brand recognition contribute to its dominance in those markets.
- 2. Diversified Product Portfolio:** The company offers a diverse range of beverages, including carbonated drinks, juices, bottled water, and energy drinks. This diversification helps in reducing risk and tapping into various consumer segments.
- 3. Strategic Partnerships:** Varun Beverages has strategic partnerships with global beverage giants like PepsiCo, which provide access to popular brands and technologies, enhancing its product offerings and market reach.
- 4. Efficient Distribution Network:** The company has an efficient distribution network, enabling it to reach even remote areas. This wide distribution network gives it a competitive edge over smaller players and ensures wider market penetration.
- 5. Strong Financial Performance:** Varun Beverages has demonstrated consistent financial performance over the years, with steady revenue growth and healthy profit margins, reflecting its operational efficiency and effective cost management.

Weaknesses:

- 1. Dependency on Few Suppliers:** The company might be heavily dependent on a few suppliers for raw materials, especially for its key products. Any disruption in the supply chain could impact production and affect its financial performance.
- 2. Vulnerability to Raw Material Price Fluctuations:** Varun Beverages is susceptible to fluctuations in raw material prices, such as sugar, packaging materials, and energy costs. These fluctuations can affect its profitability if not managed effectively through hedging or other strategies.
- 3. Regulatory Challenges:** Operating in different countries exposes Varun Beverages to various regulatory challenges, including changes in taxation policies, environmental regulations, and health-related regulations on sugary beverages, which could potentially affect its operations and profitability.

Opportunities:

- 1. Expansion into New Markets:** Varun Beverages has opportunities to expand its presence into new geographical markets where demand for beverages is growing, especially in emerging economies with rising disposable incomes and changing consumer preferences.
- 2. Product Innovation:** There is a growing trend towards healthier beverage options and functional drinks. Varun Beverages can capitalize on this trend by innovating and introducing new products, such as low-sugar or sugar-free alternatives, vitamin-enriched drinks, and natural/organic beverages.
- 3. Acquisitions and Partnerships:** The company can explore strategic acquisitions or partnerships to strengthen its market position, acquire new technologies, or expand its product portfolio. This could help accelerate growth and capture a larger market share.

Threats:

- 1. Intense Competition:** The beverage industry is highly competitive, with numerous local, regional, and global players vying for market share. Intense competition could lead to pricing pressures, erosion of margins, and loss of market share for Varun Beverages.
- 2. Changing Consumer Preferences:** Shifts in consumer preferences towards healthier beverages, natural ingredients, and environmentally sustainable packaging could pose a threat to Varun Beverages' traditional product offerings if it fails to adapt and innovate accordingly.
- 3. Economic Instability:** Economic downturns, currency fluctuations, and geopolitical tensions in the regions where Varun Beverages operates can adversely affect consumer spending patterns, leading to reduced demand for its products and impacting its financial performance.
- 4. Health and Wellness Trends:** Increasing awareness about the health risks associated with sugary beverages and regulatory measures aimed at curbing their consumption could pose a threat to Varun Beverages' sales of carbonated drinks, unless it diversifies its product portfolio to include healthier alternatives.

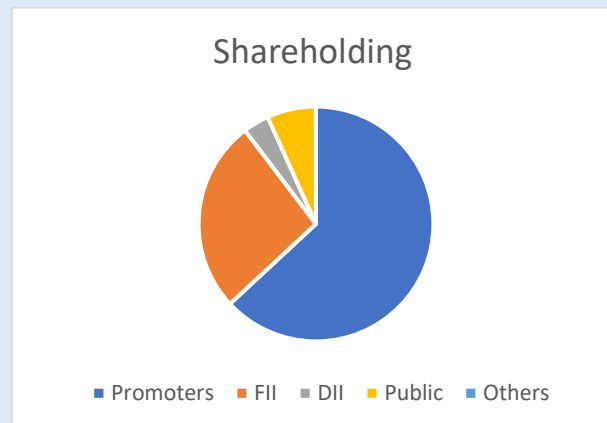
This SWOT analysis provides a comprehensive overview of Varun Beverages' internal strengths and weaknesses as well as external opportunities and threats.

Financial Analysis-

Mkt. Cap (Cr.)	1,94,098
Current Price	1,494
52-week High/Low	1,562/688
Debt to equity	0.78
ROA(%)	16.2
ROCE(%)	28.8
P/E Ratio	91.6
Price to Book	27.2
Dividend Yield(%)	0.17
EV/EBITDA	51
EPS	15.8

% INCREASE	
Revenue	40.20%
Net Profit	22,21%
ROE	47.53%

SHAREHOLDING	
Promoters	63.09
FII	26.58
DII	3.58
Public	6.74
Others	0.01



Returns Over the Periods

CMP= Rs 1430	
Periods	Returns(%)
Last 1 month	0.63%
Last 3 month	12.71%
Last 6 month	54.10%
Last 1 Year	102.31%
Last 3 Year	550.23%
Last 5 Year	1022.64%

- Shares of Varun Beverages Ltd. have doubled investor wealth in a year. The stock delivered 102.31% returns during the period. It has a high PE ratio of 90.66 compared to the sectoral PE of 103.53. The price-to-book ratio of the stock is 23.68.
- Varun Beverages is ramping up production capacity in juice and dairy segments for 2024 according to their latest annual report. They also plan to strengthen their distribution network to reach new markets.
- The company reported a 77% surge in profits for Q4 with revenue reaching Rs 2,731 crore.
- Varun Beverages recently acquired The Beverage Company for Rs 1,320. This acquisition is expected to help them expand their market reach.