

SPECIAL REPORT

TECHNO FUNDA



BP WEALTH

10th August, 2023

Technical View (Daily Chart)



Technical View

Source: TradingView

- ⇒ The price action on the weekly timeframe evinces a robust primary trend inception from the Covid lows.
- ⇒ The 30 WEMA currently trading at 741 has acted as immediate cushion for the price action as it has never slipped below the average since April 2021.
- ⇒ The pattern analysis on the daily timeframe shows that the price action is trading in a volatility contraction pattern.
- ⇒ The contractions come on diminishing price depth and time. This is a sign of buyers and sellers attempting to get into an equilibrium.
- ⇒ The pattern also imparts suction of available supply in the market at elevated levels. This means that the smart hands are taking opportunity of every dip that has come whilst the price trades near its life-highs.
- ⇒ While the price action trades sideways on dearth of volumes, the 50 period volatility on the daily and weekly timeframe remains at lower levels. This indicates that the probability of any unruly move is less likely.
- ⇒ The relatively stronger move observed on 10th May 2023 caused an imbalance among the sellers and attempted at making them weaker. As a result the zone of 764 - 784 now holds relatively stronger support to bolster the price action.
- ⇒ The relative strength on the weekly timeframe trends with an upward slope and dictates strength in the price action when compared to the benchmark index Nifty 50.
- ⇒ **We reckon to buy VARUN BEVERAGES between CMP-810 for the target of 946 and limit the risk appetite to 762.**

Fundamental View

Company Overview

Varun Beverages Ltd. (VBL) is the second largest franchisee for PepsiCo in the world (outside the US) and the largest in India which has the sole franchisee operations in Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe. The company has segregated its product portfolio into three parts- (i) Carbonated Soft Drinks (CSD) brands (74% revenue mix) - Pepsi, Pepsi Black, Mountain Dew, Sting, Seven-Up, Mirinda Orange, Seven-Up Nimbooz Masala Soda, and Evervess (ii) Non- Carbonated Beverages (NCB) (7% revenue mix) - Tropicana Slice, Tropicana Juices (100% and Delight), Seven-Up Nimbooz, Gatorade as well as packaged drinking water under the brand Aquafina (19% mix). The company has also ventured into dairy-based beverages through a licensing agreement with Creambell brand. Varun Beverages has a presence in 27 states and seven union territories in India (except Andhra Pradesh, Jammu & Kashmir, and Ladakh), accounting for more than 85% of the beverage sales of PepsiCo in India. The company has 39 state-of-the-art production facilities (33 in India & 6 in International territories) with a robust supply chain network consisting of 110+ depots, 2,400+ primary distributors, and 2,500+ owned vehicles.

Key Investment Thesis

- Despite unseasonal rains causing an overall subdued demand scenario in the industry with brands catering to the summer season, VBL registered a 13.6% YoY revenue growth to Rs. 56,997.3 million in Q2CY23. The revenue was above market expectations of Rs. 53,746.6 million, with a volume growth of 4.6% to 314 million cases compared to 300 million cases in Q2CY22.
- EBITDA and PAT margins of the company expanded 159 bps YoY / 166 bps YoY to 26.5% and 17.6% in Q2CY23, respectively, in line with GP margin expansion owing to softening PET prices. Along with this, higher net realization per bottle improved by 8.3% to Rs. 179/case compared to Rs. 165/case in Q1CY23, owing to an improvement in the smaller SKU mix – Sting - which in general has a higher realisation.
- The company commissioned its production facility in Rajasthan and Madhya Pradesh, as well as expanded its capacity in six of its existing locations. Along with this, the company is undertaking a green-field expansion in Maharashtra, Uttar Pradesh, and Odisha. This increase in production capacity is in line with the company's aim to augment its juice and dairy-based beverages business. Additionally, this will reduce the company's dependence on the North region before the commencement of the next season.
- The key growth focus of the business remains on the company's energy drink -Sting - which is performing well and dairy-based business which in general have a better realization and favourable tax structure compared to its existing portfolio brands.
- Incorporation of the new subsidiary 'Varun Beverages South Africa (PTY) Ltd.' in Johannesburg, South Africa can be considered as the next growth driver for the business. The market size is around 1 billion cases, with the industry size expected to be around 50% of the Indian market.

Outlook

Over the years, VBL has reported robust revenue growth with a four-year CAGR growth (CY2018-22) of 24.2% in its total domestic sales volume. Going ahead, the company is strongly focusing on increasing its penetration in the domestic market, especially in the South and West regions. Accordingly, VBL is taking both greenfield and brownfield expansion to cater to the growing demand for its juice and dairy-based beverages brands wherein it had faced a shortfall in production in CY22 which resulted in a contraction of its juice portfolio mix. Along with this, the growing demand for Sting bodes well for the revenue trajectory of the business as the brand enjoys higher realization per case. On the operational front, the company has guided margins to be in the 21-22% range, assuming stable commodity prices. Further, the increasing penetration of refrigerators in semi-urban and rural areas is positive for VBL's products, as the customer base is expanding at a rapid pace in these regions. Going forward, we remain optimistic about the growth trajectory of the company's growing brands i.e. value-added dairy beverages, sports, and energy drinks - Gatorade and Sting and juice portfolio and remain interested over new developments in its South African subsidiary. Thus, based on the factors discussed above, we remain positive on Varun Beverages Ltd.

Execution Data

Target (Rs)	946
Stop loss (Rs)	762
Buying Range (Rs)	CMP-810
Last Close Price (Rs)	823
% change Weekly	-0.25

Weekly Oscillator Direction

10 DMA	FLAT
20 DMA	FLAT
50 DMA	UPWARD
RSI	BULLISH
MACD	BULLISH

Sector Outlook Positive

Stock

BSE code	540180
NSE Symbol	VBL
Bloomberg	VBL IN
Reuters	VARB.BO

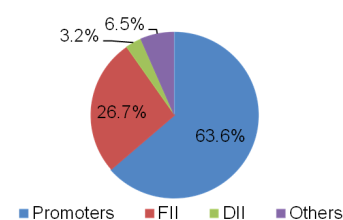
Key Data

Nifty	19,633
52WeekH/L(Rs)	874 / 454
O/s Shares (mn)	1,299
Market Cap (Rs bn)	491
Face Value (Rs)	5

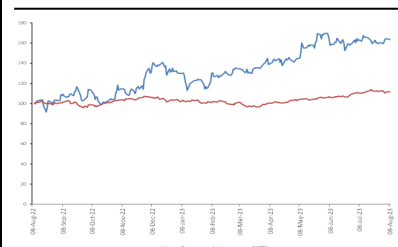
Average volume

3 months	18,57,100
6 months	17,90,430
1 year	19,71,170

Share Holding Pattern (%)



Relative Price Chart



FMCG - Beverages

Key Financials

YE March (Rs. millions)	CY20	CY21	CY22	CY23E	CY24E
Net Sales	65,558	89,583	1,33,906	1,60,709	1,89,394
Growth %		36.6%	49.5%	20.0%	17.8%
EBIDTA	12,019	16,546	27,881	34,772	40,034
Growth%		37.7%	68.5%	24.7%	15.1%
Net Profit	3,300	7,108	15,435	19,679	24,428
Growth %		115.4%	117.2%	27.5%	24.1%
Diluted EPS	10.7*	23.1*	11.9	15.2	18.8

Profitability & Valuation

EBIDTA (%)	18.3%	18.5%	20.8%	21.6%	21.1%
NPM (%)	5.0%	7.9%	11.5%	12.2%	12.9%
ROE (%)	9.6	18.3	32.6	32.6	30.8
P/E (x)	76.9*	35.6*	69.1	54.1	43.7
EV/EBITDA (x)	24.6	25.2	32.1	31.2	26.2
Net Debt/EBITDA (x)	2.5	1.8	1.3	0.9	0.5

Note: *Stock Split from Rs.10 to Rs.5 each with effect from June 15, 2023.

Source: Company, Bloomberg Estimates

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Disclaimer Appendix

Analyst (s) holding in the Stock : Nil**Analyst (s) Certification:**

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