SMART SYNC SERVICES

VBL June CY21

Brief Company Introduction

VBL are 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 and a key player in the beverage industry. They produce and distribute a wide range of CSDs, as well as a large selection of NCBs, including packaged drinking water. PepsiCo CSD brands sold include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Seven-Up Nimbooz Masala Soda, Evervess Soda, Sting and Gatorade. PepsiCo NCB brands sold by the company include Tropicana (100%, Essentials & Delight), Tropicana Slice, Tropicana Frutz, Seven-Up Nimbooz and Quaker Oat Milk as well as packaged drinking water under the brand Aquafina.

Standalone Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	1421	2469	-42.45%	1344	5.73%	2766	3469	-20.27%
PBT	159	537	-70.39%	5*	3080.00%	165*	614	-73.13%
PAT	122	382	-68.06%	77**	58.44%	199	438	-54.57%
Consolidated Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	1669	2855	-41.54%	1725	-3.25%	3393	4237	-19.92%
PBT	182	582	-68.73%	8*	2175.00%	190*	645	-70.54%
PAT	143	405	-64.69%	60***	138.33%	203	445	-54.38%

*contains an exceptional item of Rs 66.5 Cr for impairment of certain plant & equipment
**Contains negative tax expenses of Rs 71.8 Cr
*** Contains negative tax expenses of Rs 52.2 Cr

Detailed Results:

1. The current quarter was dismal for the company with a 42% YoY fall in consolidated revenues.
2. Consolidated Profits were down with over 65% YoY decline.
3. The company saw an EBITDA decline of 52% YoY and volume decline of 66% YoY in the quarter.
4. Organic volume growth in India declined by 50% due to disruption caused by COVID-19. The same declined by 33% in international territories and 48% on a consolidated basis.
5. EBITDA margins declined 501 bps YoY and increased 685 bps QoQ. The EBITDA margin in the current quarter was 23%.
6. Sales volumes started picking up gradually from about 25% in April to about 75% in June.
7. CSD accounted for 85%, Juices 7%, and packaged water was 8% of total sales volumes.
8. Finance costs for the company declined 12.5% YoY due to the repayment of some debt from the funds from the QIP.
9. Net debt stood at Rs 2939 Cr as of 30th June 2020 vs Rs 3246 Cr 6 months ago.
10. Net capex in the last 6 months was at Rs 243 Cr. Capacity utilization in the peak month was at around 60%.
11. Working capital days increased to 20 days vs 14 days last year due to lower sales.
12. The company announced an interim dividend of Rs 2.5 per share.

Investor Conference Call Highlights:

1. The capex mentioned above was primarily towards commitments made prior to March for brownfield expansion at certain plants for new tetra lines for Slice and backward integration.
2. The company has not availed moratorium for its debt repayments and has been timely servicing all its debt obligations.
3. The management has stated that the company's go-to-market sales have dropped along with sales in public spaces like theatres. But in-home consumption has increased drastically.
4. The management has admitted that Rs 10 is a very competitive price point for juices and the company already has a presence at this price point.
5. The company is not looking to change its product mix and add new products. It will instead be focussing on promoting its juices particularly Tropicana brand.
6. The management has stated that at least 50% of the current cost savings are sustainable for the long term for the company.
7. The company does not see any need to approach PepsiCo for any support currently.
8. The main reason for realizations going up is the decline in sales of water in public spaces.
9. The company has close to 25% market share but increasing penetration or market share for the current year is still uncertain due to COVID-19.
10. The company has indeed gained some market share from local competitors which didn't open up in time due to COVID-19 at the start of the peak season after Holi.
11. The management has stated that the company will aim to keep capex at lower than 50% of depreciation from next year.
12. The company has not faced any repayment issues in Zimbabwe in the quarter.
13. More in-home consumption has led to an increase in sales of medium and large bottles vs single-serve bottles for the company.
14. The company is working on digital and e-commerce channels as per its media strategy.
15. The management has stated that as lockdowns are being lifted, the company is slowly coming back to its normal sales levels.
16. The management expects performance from international regions to be better than last year as the peak season for the African regions starts from November.
17. Realizations have grown 8-9% QoQ in the current quarter.
18. The management expects the current volume share to persist as long as public spaces like hotels, theatres, etc come back to normalcy.
19. The management expects to run out of capacity for Tropicana by the end of 2021 as the same equipment is used for ambient temperature value-added products under the brand of Cream Bell.

20. On-the-go consumption including water was close to 70% pre-covid for the company. Now it is less than 50%.
21. The company is not looking to do any capex on juices in the next year so far.
22. The company does not need any capacity expansions for at least 20-25% rise in volumes.
23. Going forward, discounts or promotions will be dependent only on market demand and competition.
24. Around 84.6% of volumes sold in the quarter were domestic and the rest was international.
25. Urban areas have been negative or neutral for the company while rural areas have been the fastest-growing segment. The revenue share of rural has gone up by 5-10%.
26. The company has held back on the launch of the dairy product due to the COVID-19 outbreak and is looking to launch it again next year.
27. Currently, less than 50% of outlets are open for the company. At the domestic level, UP is the largest selling state for the company.
28. The company is now looking to focus its marketing efforts towards home consumption and larger pack size.
29. The company has shut down a small unprofitable plant in Bargarh Odisha.

Analyst Views:

Varun Beverages have been one of the biggest bottlers in India and has been quite proactive in international expansion for some time now. The company has seen a major decline in the quarter with a massive fall in on-the-go consumption. The lockdown has hit the company's sales hard but demand seems to have stayed resilient as in-home consumption has risen along with juice consumption. It remains to be seen whether there is a further economic disruption in the future from COVID-19 which may have severe second-order effects on the company's performance. Nonetheless, given the resilient sales network, the rising demand for the company's products, and the arrival of the peak season for the beverages industry, Varun Beverages is a good consumption stock to watch out for at present. However, as it is a capital intensive business, the current pandemic can put a strain on the Balance Sheet which is already laden with debt. The valuation at current levels does not give any margin of safety at the moment.