SMART SYNC SERVICES

VBL Dec CY20

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)								
	Dec CY20	Dec CY19	YoY %	Sep CY20	QoQ %	CY20	CY19	YoY%
Sales	868	895	-3.02%	1315	-33.99%	4948	5714	-13.41%
PBT	-66	-79	16.46%	104	-163.46%	203*	634	-67.98%
PAT	-52	-54	3.70%	79	-165.82%	226	449	-49.67%
Consolidated Financials (In Crs)								
	Dec CY20	Dec CY19	YoY %	Sep CY20	QoQ %	CY20	CY19	YoY%
Sales	1357	1276	6.35%	1843	-26.37%	6593	7291	-9.57%
PBT	-19	-64	70%	192	-109.90%	363*	696	-47.84%
PAT	-7	-54	87%	161	-104.35%	357	472	-24.36%

*contains an exceptional item of Rs 66.5 Cr for impairment of certain plant & equipment

Detailed Results:

1. The current quarter was down for the company with a 6.4% YoY rise in consolidated revenues & a PAT loss of Rs 7 Cr.
2. CY20 numbers were dismal with a 9.6% YoY revenue decline and a 24.4% YoY PAT decline.
3. The company saw an EBITDA rise of 48.8% YoY and a volume decline of 5.7% YoY in the quarter. CY20 EBITDA fell 17% YoY.
4. Other income in Q4 fell 84.5% YoY.
5. Sales volumes in CY20 fell 13.7% YoY and organic sales volumes fell 20.8% YoY.
6. CSD constituted 63%, Juice 5%, and Packaged Drinking water 32% of total sales volumes in Q4 2020.
7. EBITDA margin improved by 346 bps in Q4 2020 as compared to Q4 2019.
8. Gross margins improved by 472 bps YoY during Q4 2020 & 231 bps in CY20 primarily due to favourable PET chips prices and a higher mix of CSD.
9. Finance costs for the company declined 21.6% YoY due to the repayment of some debt and a lower average cost of borrowing.
10. Debt to Equity ratio stood at 0.84x and Debt to EBITDA ratio stood at 2.51x as of Dec 31, 2020.
11. Working capital days increased marginally to ~ 31 days as of Dec 31, 2020, due to lower sales volumes.

12. The company announced a dividend of Rs 2.5 per share.

Investor Conference Call Highlights:

1. For CY 2020, total sales volumes stood at 425.3 million cases.
2. VBL recently introduced a new product variance under the Mountain Dew brand which is a lemon juice based drink called Mountain Dew Ice.
3. Realization per case has improved by 4.8% in CY20. This was essentially on account of favourable mix and improvement in realization in the international markets.
4. CSD constituted 72.6%, juice constituted 6.3%, and packaged drinking water constitute 21.1% of the total sales volume mix in CY20.
5. The management stated that the rise in water sales in Q3 & Q4 was due to the resumption of people consuming drinking water outside as compared to Q2 when all outside activities and consumption were suspended.
6. In-home consumption was mostly in CSD and was geared towards large packs.
7. On the go consumption reduced to 44% in CY20 from 60% in CY19.
8. Glass volumes have declined a lot and all of the growth in CSD is coming from PET bottles.
9. The company is planning to add a plant in Bihar in CY21. This expansion will be greenfield.
10. The dairy segment is doing well so far. The management has stated that it will continue to monitor the response to it to see the results from the market before expanding into other territories.
11. The company doesn't have any plans to make any large investments into the dairy segment currently.
12. Nepal has seen 25% volume growth in Q4. Sri Lanka has seen volume decline due to lockdowns. Morocco has stayed flat due to lockdown while Zimbabwe and Zambia volumes have grown 40% and 17% respectively.
13. In CY21, any excess cash will be used for the reduction of debt only according to the management.
14. Tax rate for CY21 should be close to 24%.
15. Annual volumes for Nepal were close to 16 million; Sri Lanka was about 10.5 million; Morocco was about 18 million; Zimbabwe was 34 million; Zambia was 9.2 million.
16. The management has stated that PET prices for VBL will not be affected by rising oil prices as VBL is reasonably covered for the major portion of its year.
17. The company is open to international acquisition opportunities as the potential for market growth in India is limited. It is looking at areas in South East Asia and Africa primarily.
18. The management reports that VBL has seen market share gains in CY20.
19. Contrary to popular belief, VBL does not have 100% of India for Pepsi. It is operating in 85% of Indian territories for Pepsi only.
20. There has been no change in territory from 2020 to 2021.
21. The management has stated that it expects growth and expansion of the market to continue in 2021 for the recently acquired territories.
22. The go-to-market was very weak before when PepsiCo is running it. VBL is improving on it by expanding routes, increasing outlets, and expanding on the number of visi coolers.

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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 good YoY recovery in the quarter with sustained margins. Post lockdown demand has remained resilient and water volumes have risen dramatically as on-the-go consumption comes back to normalcy. VBL has also seen good growth in African territories except for Morocco. The company has also done well to shield itself from rising oil prices by covering for PET earlier on. It remains to be seen whether there is a further economic disruption in the future from the resurgence of COVID-19 cases 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 provide any margin of safety.