

## Varun Beverages : Average Issue

**IPO Note: Great monopoly growing business, but expensive PE of 93, high debt and low profit margin of 2.55% :Ranking\*\***



### Issue details

Price band (Rs)	Rs.440-445
IPO Opening Date	26/10/16
IPO Closing Date	28/10/16
Issue Size	Rs.1112.50 Cr.

### Recommendation

Total revenue grew at a CAGR of 22.72% from Rs.1844.19 Cr for the year end December 2012 to Rs.3408.43 Cr for the year end December 2015. It had made losses in the year 2012 and 2013. For first half ended on 30.06.16 of current calendar year it has earned net profit of Rs. 209.74 cr. on a turnover of Rs. 2539.35 cr. Thus sudden jump in bottom line is surprising. The company has total consolidated debt was Rs.2046 crore on June 2016 and debt equity ratio was 1.54. After IPO it may reduce debt by Rs.540 crore and debt to equity ratio will also come around to 1.13. Last year it has reported EPS of Rs.4.78. Based on this the company asking price at PE of 93 plus. Post IPO its current paid up equity capital of Rs. 166.95 crore will enhanced to Rs. 181.95 cr. **The issue appears to be aggressively priced. As per RHP, it has no listed peers to compare with. It's an average issue and can be avoided**

### Highlights

- Varun Beverages Ltd (VBL) is one of the largest franchisee in the world (outside USA) of carbonated soft drinks (“CSDs”) and non-carbonated beverages (“NCBs”) sold under trademarks owned by PepsiCo
- VBL has been granted franchises for various PepsiCo products across 17 States and two Union Territories in India
- India is its largest market and contributed 82.48%, 80.67%, 84.38% of revenues from operations (net) in Fiscal 2013, Fiscal 2014, Fiscal 2015
- IT has reported net losses in the calander year 2013 and 2014

### Company Introduction

Varun Beverages Ltd (VBL) is one of the largest franchisee in the world (outside USA) of carbonated soft drinks (“CSDs”) and non-carbonated beverages (“NCBs”) sold under trademarks owned by PepsiCo. VBL produce and distribute a wide range of CSDs, as well as a large selection of NCBs, including packaged drinking water. PepsiCo CSD brands produced and sold by it include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Mountain Dew Game Fuel, Seven-Up Nimbooz Masala Soda, Seven-Up Revive and Evervess. PepsiCo NCB brands produced and sold by the company include Tropicana Slice, Tropicana Frutz (Lychee, Apple and Mango), Nimbooz as well as packaged drinking water under the brand Aquafina. In addition, VBL have also been granted the franchise for Ole brand of PepsiCo products in Sri Lanka.

The companies has been associated with PepsiCo since the 1990s and have over two and half decades consolidated business association with PepsiCo, increasing the number of licensed territories and sub-territories covered, producing and distributing a wider range of PepsiCo beverages, introducing



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various SKUs in its portfolio, and expanding VBL's distribution network. As of June 30, 2016, VBL has been granted franchises for various PepsiCo products across 17 States and two Union Territories in India. India is its largest market and contributed 82.48%, 80.67%, 84.38% and 83.46% of revenues from operations (net) in Fiscal 2013, Fiscal 2014, Fiscal 2015, and in the six months ended June 30, 2016, respectively. The company is also been granted the franchise for various PepsiCo products for the territories of Nepal, Sri Lanka, Morocco, Mozambique and Zambia. In addition, it is in the process of setting up a Greenfield facility in Zimbabwe in anticipation of franchise rights being granted by PepsiCo Inc. for such territory.

### Financial Summary (Rs. In Crore)

Particulars	December Ended June 16	Dec.2015	Dec.2014	Dec.2013
Total Income	2539.35	3408.43	2517.09	2132.5
Net Profit	209.74	87.03	-20.15	-39.53
EPS (Rs)**	11.52	4.78	0	0

\*EPS not annualize

\*\*EPS on enhanced equity after IPO

Source: RHP and ACE Equity

### The object of the issue

- Prepayment or scheduled repayment of a portion of outstanding indebtedness availed by the Company
- General corporate purposes.

### IPO Issue Proceed

To meet its prepayment or rescheduling repayment of outstanding debt and meet general corpus fund requirements, the company is coming out with a maiden IPO consisting offer for sale of 1.00 crore equity share and also fresh equity issue of 1.50 crore shares of Rs. 10 each via book building route in a price band of Rs. 440-445 to mobilize Rs. 1100.00 to Rs. 1112.50 crore (based on lower and upper price bands). It has reserved 5.00 Lakh equity shares for its eligible employees for allotment. Issue opens for subscription on 26.10.16 and will close on 28.10.16. Minimum application is to be made for 33 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. Post IPO its current paid up equity capital of Rs. 166.95 crore to Rs. 181.95 cr.

### RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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