

# Varun Beverages | BUY

## Strengthening presence in South Africa

Varun Beverages' (VBL) has announced acquisition of 100% equity stake in Twizza Proprietary Limited, South Africa for an EV of INR 11.2bn, implying 1.24x FY25 EV/sales and c.7-8x EV/EBITDA. The acquisition is inline with VBL's ambition to tap the large and attractive Africa opportunity. We believe the acquisition will: a) further strengthen Bevco's position in terms of pricing/promotional intensity in the largest soft drink market as combined entity will have c.20% market share and b) provide additional capacities which can be utilised by Bevco's portfolio thereby enabling faster scale up and market share gains. While revenue CAGR in CC terms (c.4% over FY23-25) of entity is weak, we believe VBL's execution capabilities can help accelerate the same. We expect VBL to focus on the PepsiCo portfolio and gain share from Coca-Cola and local brands in South Africa. Deal valuations are broadly similar to Bevco and Tanzania (which didn't go through) acquisition. Maintain BUY rating on the stock.

- **Strengthening presence in South Africa through acquisition of Twizza Proprietary Limited ("Twizza"), South Africa:** VBL in an exchange filing has informed that board has approved acquisition of 100% equity stake in the business conducted by Twizza through its subsidiary company in South Africa i.e. The Beverages Company Proprietary Limited ("Bevco"), subject to regulatory approvals. Twizza is engaged in the business of manufacturing and distribution of own-branded non-alcoholic beverages. It operates through 3 manufacturing facilities (all backward integrated) at Cape Town, Queenstown and Middelburg having a combined annual production capacity of c.100 mn (8oz) cases. The portfolio comprises of wide range of carbonated soft drinks (c.98% of its overall volumes), energy drinks (0.9% of volumes) and functional drinks & mixers (1.4% of volumes). The brand has presence in South Africa, as well as Lesotho, Eswatini, Botswana and Namibia.
- **South Africa - Large and attractive opportunity for Pepsico:** As per our checks, South Africa is largest soft drink market in Africa with an industry size of 1.25bn cases (which is about 50% of India market), favourable demographics (population of 70mn, median age 28 and 70% urbanisation) and high per capita CSD consumption of 244 (8oz or ~250 ml). In terms of industry structure, global brands account for 50-55% of the market (predominantly Coca-Cola as Pepsico's market share is in low-mid single digit) while balance 45-50% is with the regional brands. Post-acquisition the combined entity will have c.20% market share in South Africa.
- **Contours of the Deal:** VBL will acquire 100% stake at an EV of INR 11.2bn. This translates to EV/sales multiple of 1.24x FY25 and EV/EBITDA of c.7-8x. Over last 3 years sales have grown at a CAGR of 4% to ZAR 1.7bn (equivalent to INR 9.02bn i.e. c.4-5% of VBL's consolidated sales) and as per our checks, entity has tad better EBITDA margins (c.15%) vs. Bevco. We reckon that Bevco acquisition happened at c.0.8x EV/sales and c.7-8x EV/EBITDA. The SBC Tanzania acquisition (which didn't go through) was also valued at c.1.2x EV/sales and c.7-7.5x EV/EBITDA. The deal is expected to close on or before June, 2026.
- **Rationale for the deal:** The strategy behind acquisition is to further strengthen presence in the largest soft drinks market of Africa. With increased share, the consolidation will help rationalise promotional intensity and improve pricing power for the combined entity. Moreover, with Bevco facilities largely utilised, the additional capacity of Twizza can be used for Bevco's portfolio (including Pepsico) and enable faster scale up going ahead. The annual capacity for backward integration lines is sufficient for current and next season.



**Mehul Desai**

mehul.desai@jmfl.com | Tel: (91 22) 66303065

**Gaurav Jogani**

gaurav.jogani@jmfl.com | Tel: (91 22) 66303085

**Pooja Kubadia**

pooja.kubadia@jmfl.com | Tel: (91 22) 66303074

**Rajat Gupta**

rajat.gupta@jmfl.com | Tel: (91 22) 66303077

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	570
Upside/(Downside)	21.4%
Previous Price Target	570
Change	0.0%

### Key Data – VBL IN

Current Market Price	INR469
Market cap (bn)	INR1,587.5/US\$17.8
Free Float	37%
Shares in issue (mn)	3,248.0
Diluted share (mn)	3,381.5
3-mon avg daily val (mn)	INR2,731.9/US\$30.6
52-week range	664/419
Sensex/Nifty	84,929/25,966
INR/US\$	89.3

### Price Performance

%	1M	6M	12M
Absolute	4.0	2.1	-23.4
Relative*	4.3	-0.9	-29.6

\* To the BSE Sensex

### Financial Summary

(INR mn)

Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
Net Sales	1,55,903	1,95,327	2,10,051	2,38,928	2,69,043
Sales Growth (%)	20.6	25.3	7.5	13.7	12.6
EBITDA	36,095	47,111	50,103	56,259	62,236
EBITDA Margin (%)	22.5	23.5	23.3	23.0	22.7
Adjusted Net Profit	20,559	25,946	29,226	33,948	38,400
Diluted EPS (INR)	6.3	7.7	8.6	10.0	11.4
Diluted EPS Growth (%)	37.3	21.2	12.6	16.2	13.1
ROIC (%)	22.0	20.3	16.8	17.7	19.0
ROE (%)	34.2	22.0	16.3	16.4	16.1
P/E (x)	74.1	61.1	54.3	46.7	41.3
P/B (x)	22.0	9.5	8.3	7.2	6.2
EV/EBITDA (x)	43.6	32.3	30.2	26.5	23.5
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.3

Source: Company data, JM Financial. Note: Valuations as of 19/Dec/2025

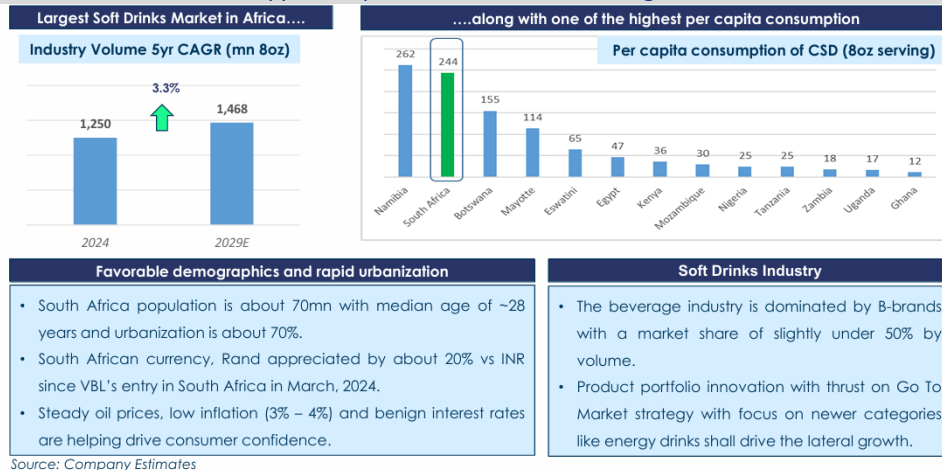
JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Transaction details of 100% acquisition of Bevco and Twizza**

Particulars	Bevco (FY24)	Twizza (FY25)
Volume (mn cases)	117	71
Net sales (INR bn)	15.9	9.0
EV	13.3	11.2
EV/sales	0.8x	1.2x
EV/EBITDA	7.0x	7-8x

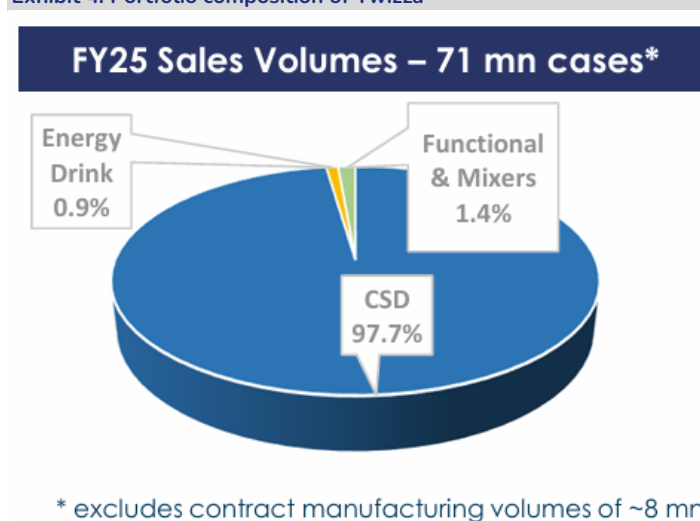
Source: Company, JM Financial. Note: Financial data for FY24 represents July'23-June'24 and for FY25 represents July'24-June'25.

**Exhibit 2. Market size and opportunity in South Africa remains large and attractive**

Source: Company, JM Financial

**Exhibit 3. Manufacturing network post acquisition of Twizza**

Source: Company, JM Financial

**Exhibit 4. Portfolio composition of Twizza**

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
Net Sales	1,55,903	1,95,327	2,10,051	2,38,928	2,69,043
Sales Growth	20.6%	25.3%	7.5%	13.7%	12.6%
Other Operating Income	4,523	4,749	4,987	5,236	5,498
<b>Total Revenue</b>	<b>1,60,426</b>	<b>2,00,077</b>	<b>2,15,038</b>	<b>2,44,164</b>	<b>2,74,541</b>
Cost of Goods Sold/Op. Exp	74,049	89,047	95,800	1,09,080	1,23,266
Personnel Cost	14,466	18,850	21,019	23,963	26,956
Other Expenses	35,816	45,068	48,117	54,861	62,083
<b>EBITDA</b>	<b>36,095</b>	<b>47,111</b>	<b>50,103</b>	<b>56,259</b>	<b>62,236</b>
EBITDA Margin	22.5%	23.5%	23.3%	23.0%	22.7%
EBITDA Growth	29.5%	30.5%	6.4%	12.3%	10.6%
Depn. & Amort.	6,809	9,474	11,987	13,137	14,196
EBIT	29,286	37,637	38,116	43,122	48,040
Other Income	794	1,213	2,053	2,440	3,103
Finance Cost	2,681	4,504	1,606	812	558
PBT before Excep. & Forex	27,398	34,346	38,564	44,750	50,586
Excep. & Forex Inc/Loss(-)	0	0	0	0	0
PBT	27,398	34,346	38,564	44,750	50,586
Taxes	6,375	7,988	9,062	10,516	11,888
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	454	382	175	186	198
Reported Net Profit	20,559	25,946	29,226	33,948	38,400
<b>Adjusted Net Profit</b>	<b>20,559</b>	<b>25,946</b>	<b>29,226</b>	<b>33,948</b>	<b>38,400</b>
Net Margin	12.8%	13.0%	13.6%	13.9%	14.0%
Diluted Share Cap. (mn)	3,248.0	3,381.5	3,381.5	3,381.5	3,381.5
<b>Diluted EPS (INR)</b>	<b>6.3</b>	<b>7.7</b>	<b>8.6</b>	<b>10.0</b>	<b>11.4</b>
Diluted EPS Growth	37.3%	21.2%	12.6%	16.2%	13.1%
Total Dividend + Tax	2,273	3,248	3,832	3,785	4,336
Dividend Per Share (INR)	0.7	1.0	1.1	1.1	1.3

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
Profit before Tax	27,394	34,331	38,514	44,700	50,536
Depn. & Amort.	6,809	9,474	11,987	13,137	14,196
Net Interest Exp. / Inc. (-)	1,887	3,291	-447	-1,628	-2,546
Inc (-) / Dec in WCap.	-6,735	-6,694	-3,682	-3,358	-1,937
Others	1,232	685	0	0	0
Taxes Paid	-6,679	-7,276	-9,062	-10,516	-11,888
<b>Operating Cash Flow</b>	<b>23,908</b>	<b>33,811</b>	<b>37,309</b>	<b>42,335</b>	<b>48,361</b>
Capex	-31,939	-43,822	-26,500	-18,000	-18,000
Free Cash Flow	-8,031	-10,011	10,809	24,335	30,361
Inc (-) / Dec in Investments	-1,180	22	0	0	0
Others	220	631	2,053	2,440	3,103
<b>Investing Cash Flow</b>	<b>-32,899</b>	<b>-43,168</b>	<b>-24,447</b>	<b>-15,560</b>	<b>-14,897</b>
Inc / Dec (-) in Capital	48	75,119	0	0	0
Dividend + Tax thereon	-2,273	-3,248	-3,832	-3,785	-4,336
Inc / Dec (-) in Loans	14,769	-37,075	-12,407	-7,236	-2,000
Others	-2,694	-5,261	-1,606	-812	-558
<b>Financing Cash Flow</b>	<b>9,849</b>	<b>29,535</b>	<b>-17,845</b>	<b>-11,832</b>	<b>-6,893</b>
<b>Inc / Dec (-) in Cash</b>	<b>858</b>	<b>20,179</b>	<b>-4,983</b>	<b>14,942</b>	<b>26,572</b>
Opening Cash Balance	3,741	4,322	24,501	19,518	34,460
Closing Cash Balance	4,599	24,501	19,518	34,460	61,032

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
Shareholders' Fund	69,365	1,66,098	1,91,493	2,21,656	2,55,721
Share Capital	6,496	6,763	6,763	6,763	6,763
Reserves & Surplus	62,869	1,59,335	1,84,730	2,14,893	2,48,957
Preference Share Capital	0	0	0	0	0
Minority Interest	1,482	1,298	1,523	1,759	2,007
Total Loans	51,944	23,643	11,236	4,000	2,000
Def. Tax Liab. / Assets (-)	3,430	4,879	4,879	4,879	4,879
<b>Total - Equity &amp; Liab.</b>	<b>1,26,221</b>	<b>1,95,918</b>	<b>2,09,131</b>	<b>2,32,294</b>	<b>2,64,607</b>
Net Fixed Assets	1,03,314	1,45,641	1,60,154	1,65,017	1,68,822
Gross Fixed Assets	1,06,021	1,53,963	1,78,963	1,96,963	2,14,963
Intangible Assets	6,799	16,912	16,912	16,912	16,912
Less: Depn. & Amort.	39,075	50,489	61,670	74,062	87,605
Capital WIP	29,569	25,255	25,949	25,204	24,551
Investments	211	595	2,595	2,595	2,595
Current Assets	48,347	85,203	84,719	1,07,145	1,41,635
Inventories	21,505	27,912	30,000	34,063	38,301
Sundry Debtors	3,594	8,458	8,837	10,034	11,283
Cash & Bank Balances	4,599	24,501	19,518	34,460	61,032
Loans & Advances	13,281	18,756	20,533	22,487	24,637
Other Current Assets	5,368	5,576	5,832	6,101	6,383
Current Liab. & Prov.	25,651	35,521	38,338	42,463	48,445
Current Liabilities	10,020	20,271	21,448	23,731	26,114
Provisions & Others	15,631	15,250	16,890	18,732	22,331
Net Current Assets	22,696	49,682	46,382	64,682	93,190
<b>Total - Assets</b>	<b>1,26,221</b>	<b>1,95,918</b>	<b>2,09,131</b>	<b>2,32,294</b>	<b>2,64,607</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
Net Margin	12.8%	13.0%	13.6%	13.9%	14.0%
Asset Turnover (x)	1.2	1.0	0.9	0.9	0.9
Leverage Factor (x)	2.2	1.6	1.3	1.3	1.2
RoE	34.2%	22.0%	16.3%	16.4%	16.1%

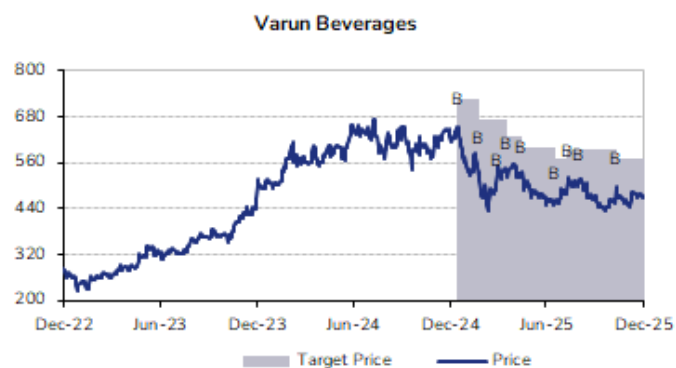
Key Ratios					
Y/E March	CY23A	CY24A	CY25E	CY26E	CY27E
BV/Share (INR)	21.4	49.1	56.6	65.5	75.6
ROIC	22.0%	20.3%	16.8%	17.7%	19.0%
ROE	34.2%	22.0%	16.3%	16.4%	16.1%
Net Debt/Equity (x)	0.7	0.0	-0.1	-0.1	-0.2
P/E (x)	74.1	61.1	54.3	46.7	41.3
P/B (x)	22.0	9.5	8.3	7.2	6.2
EV/EBITDA (x)	43.6	32.3	30.2	26.5	23.5
EV/Sales (x)	9.8	7.6	7.0	6.1	5.3
Debtor days	8	15	15	15	15
Inventory days	49	51	51	51	51
Creditor days	22	37	37	37	37

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
2-Jan-25	Buy	725	
10-Feb-25	Buy	675	-6.9
16-Mar-25	Buy	675	0.0
4-Apr-25	Buy	630	-6.7
30-Apr-25	Buy	600	-4.8
4-Jul-25	Buy	570	-5.0
29-Jul-25	Buy	595	4.4
17-Aug-25	Buy	595	0.0
29-Oct-25	Buy	570	-4.2

## Recommendation History



## APPENDIX I

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SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfirancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: ashley.johnson@jmfl.com

Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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