

VARUN BEVERAGES LTD

Issue Details	
Issue Opens	26-Oct-16
Issue Closes	28-Oct-16
Issue Size (Rs. Crore)	1112.50
Face value (per equity share)	10
Price Band (Rs.)	440-445
Lot Size (No of Share)	33
No of Shares on Offer (crore)	2.5
QIB (%)	50%
Non-Institutional (%)	15%
Retail (%)	35%
Commencement of Trading	8-Nov-16

Shareholding pattern	Pre Issue (%)	Post Issue (%)
Promoters and Promoter Group	86.35	73.73
Public (incl institutions and employees)	13.65	26.27
Total	100	100

Objects of the Issue

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

Issue Date: 26 Oct – 28 Oct 2016

Price Band (Rs.) : 440-445

Lot Size (No. of Share) : 33

Company Background

Incorporated in 1995, Varun Beverages Ltd is franchisee of carbonated soft drinks (CSDs) and non-carbonated beverages (NCBs) sold under trademarks owned by PepsiCo in India and internationally. It produces and distributes a wide range of products under the brand Aquafina. The company has also been granted the franchise for Ole brand of PepsiCo products in Sri Lanka. India is its largest market and contributed 84.38% of its net revenues in 2015. As of April 30, 2016, it operated 16 bottling plants across India and five plants overseas.

Financials

Particulars	For the year/period ended (in Rs. Million)				
	FY-16	FY-15	FY-14	FY-13	FY-12
Total Assets	52,955	44,375	32,950	29,894	25,548
Total Revenue	25,393	34,084	25,171	21,325	18,442
Profit After Tax	2097	870	(201)	(395)	251

Concerns

- Growth plans and expansion strategies are subject to prior approval of PepsiCo
- An inability to maintain competitive position in India and in other markets
- VBL is subject to extensive government regulation

Strengths

- Demonstrated ability to grow Sales Volumes
- Strategically located large and technologically advanced production capabilities
- Wide spread and integrated sales and distribution network that ensures effective market penetration
- Significant markets with high growth potential

Our View

On the upper price band of Rs 445 and on FY15 EPS of Rs 6.46, P/E ratio works out to 68x. On last 3 years EPS of Rs 2.21, P/E ratio works out to 200x. Means company is asking the upper band of issue price of Rs 445 for a P/E ratio between 68x to 200x. There are no listed peers to compare issue price. However, considering the high P/E ratio, we can assume that the issue is overpriced. Company revenues grew at 16% CAGR in last 4 years. It generated profit from the last year onwards. However 6 months ended Jun-16 profits are abnormal and surprising. The issue price is also over priced. One need to wait and watch for consistent performance.