YES SECURITIES INSTITUTIONAL EQUITIES

Varun Beverages

Strong margin performance and decent demand recovery; FCF generation set to improve from CY21

- ✓ **View –** We like the stock given a decent recovery in demand, opportunities for further penetration-led growth especially in West and South markets, strong ramp-up in international territories, potential in non-cola categories and juices and a solid balance sheet and margin profile. The stock is trading at 14x CY22 EV/EBITDA and 28x P/E for expected ROE of 20% and we believe it can slowly move towards a P/E of 35x, indicating more than 20% upside from current levels.
- ✓ **Result highlights –** Revenue growth of 9% and organic volume growth of 6% yoy led by a fast recovery across geographies; for CY20, volume decline of 14% (organic decline of 21%) coupled with a 5% increase in realizations due to better mix led to a 10% decline in revenue; gross margins up 470bps given higher mix of CSD and 13% decline in PET chips prices; EBITDA margins up 350bps given cost optimization measures; 22% decline in interest costs reduced losses to Rs 72mn from Rs 540mn.
- ✓ **Balance sheet highlights –** Net debt reduced to Rs 30.1bn from Rs 32.5bn, Rs 5.6bn capex in CY20 towards capacity expansions in India and Zimbabwe and dairy acquisition in Zambia, WC increased from 26 to 31 days due to lower sales.
- ✓ **Management commentary –** Ended year on a steady note after a difficult year with a washout in 2Q, witnessed a strong recovery in 2HCY20, sustained pandemic period cost saving initiatives, launched Mountain Dew Ice in Feb, focus remains on steady growth with strong cash flow generation.
- ✓ **Segment growth differential –** CSD and water impacted more given majority consumption on-the-go, but has now recovered fully except the institutional channel, juices saw a weak quarter after the recovery but picking up in current quarter; North India goods movement also impacted growth; On-the-go share decreased in CY20 from 56% to 40% and in-home consumption increased from 40% to 56%.
- ✓ **New launches –** New variant of Mountain Dew lemon juice launched to compete against Limca and Sprite, initial response very strong; should grow in-line with the energy drink Sting which has seen 250% growth in CY20.
- ✓ **Capex outlook –** Not much need in CY21 other than juices unless demand growth necessitates some brownfield expansion in CY21, will set up new plant in Bihar in CY22; no large dairy investments planned in CY21.
- ✓ **India business recovery –** Saw 7% volume decline in 3Q which has recovered to 1% volume growth in 4Q in India.
- ✓ **International performance -** Grew as per pandemic situation – saw volume growth of 25% growth in Nepal (16mn cases), Sri Lanka (10.5mn cases) down, flattish in Morocco (18mn cases), 40% growth in Zimbabwe (34mn cases), 17% growth in Zambia (9.2mn cases).
- ✓ **Market share outlook –** Have gained market share in CY20 to reach about 33-34%, hope to continue in CY21 as well.
- ✓ **Capital allocation –** Will aggressively reduce debt in CY22 given limited capex needs; open to considering new international territories in South East Asia or Africa is offered by Pepsico.

HIMANSHU NAYYAR
Lead Analyst
himanshu.nayyar@ysil.in
+91 9920915754

AAKASH FADIA
aakash.fadia@ysil.in

AMAR AMBANI, Sr. President, Head of Research
amar.ambani@ysil.in

- **Margin outlook –** Should sustain around current levels as while PET chip prices have gone up sharply, will not be impacted as have fully covered for CY21 purchases; should see margins better than CY19 levels.
- **Cost efficiency measures** – Expect about 60cr fixed overhead savings to be permanent in nature (given shutdown of 2 plants) which would imply about 100bps savings.

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Himanshu Nayyar, Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India

Email: research@ysil.in | Website: https://yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 |INVESTMENT ADVISER: INA000007331| Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code – 94338 |

Details of Compliance Officer: Vaibhav Purohit, Email: compliance@ysil.in, Contact No.: +91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.