VARUN BEVERAGES LIMITED

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CIN No. : L74899DL1995PLC069839

August 5, 2022

To,

National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmlist@nse.co.in **Symbol: VBL**	BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 Email: corp.relations@bseindia.com **Security Code: 540180**

Sub: Regulation 30: Transcript of Investors & Analysts Conference Call

Dear Sir/Madam,

Transcript of Investors & Analysts Conference Call held on August 1, 2022 post declaration of Unaudited Financial Results of the Company for the Quarter and Half Year ended June 30, 2022 is enclosed.

The same is also being uploaded on website of the Company at www.varunpepsi.com.

You are requested to take the above on record.

Yours faithfully,
For Varun Beverages Limited

VARUN BEVERAGES LIMITED
New Delhi

Ravi Batra
Chief Risk Officer & Group Company Secretary

Encl.: As above

Varun Beverages Limited
Q2 & H1 2022 Earnings Conference Call Transcript
August 1, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Varun Beverages Limited - Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India.

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Varun Beverages' Q2 & H1 CY2022 earnings conference call. We have with us Mr. Ravi Jaipuria, Chairman of the Company; Mr. Varun Jaipuria, Executive Vice Chairman and Whole-Time Director, Mr. Raj Gandhi, Group CFO and Whole-Time Director; and Mr. Kapil Agarwal, Whole-time Director of the Company.

We will initiate the call with opening remarks from the management, following which we'll have the forum open for a question-and-answer session. Before we begin, I would like to state that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now request Mr. Ravi Jaipuria to make his opening remarks.

Ravi Jaipuria: Good afternoon, everyone and thank you for joining us on our earnings conference call. I hope all of you had the opportunity to go through our results presentation that provides details of our operational and financial performance for the second quarter and half year ended 30th June 2022.

We are pleased to share that we have delivered a record performance during the quarter. Our continuous effort to invest in our business despite the pandemic-led disruption of peak season during the last two years and return of normalcy in day-to-day activities translated to robust demand, leading to consolidated sales volume growth of 96.9% Y-o-Y. In addition, we were able to improve our realization per case by taking price hikes in select SKUs, reduction in discounts/ incentives and improving the mix leading to doubling of our top line during the quarter as compared to last year.

On the profitability front, despite the inflationary raw material environment, we witnessed limited impact on our gross margins during the quarter because of early stocking of key raw materials and improvement in realizations. Further, operating leverage due to high volume growth translated into improved EBITDA margins of 25.2%. Healthy cash flows during the period enabled us to significantly reduce our debt, thereby strengthening our balance sheet position.

I'm happy to share that in recognition of our operational excellence, end-to-end execution capabilities, governance practice and strong track record, VBL was recently awarded from PepsiCo as the best bottler in Africa, Middle East and South Asia (AMESA) region for the year 2021. I am also pleased to share that in line with our dividend policy, the Board of Directors has recommended an interim dividend of Rs. 2.5 per share.

With sustainability being a core principle of our business model, we continue to undertake efforts towards PET recycling and improving energy and water efficiencies with the goal of having a net positive impact on the planet.

On the demand front, we are seeing encouraging consumption trends across markets. Directionally, we continue to implement strategic initiatives, to solidify our market position as a key player in the global beverage industry and are confident of continuing our journey of sustainable value creation for all stakeholders.

I would now invite Mr. Gandhi to provide the highlights of the operational and financial performance. Thank you.

Raj Gandhi: Thank you, Mr. Chairman. Good afternoon and a warm welcome to everyone joining us today. Let me provide an overview of the financial performance for the Q2 & H1 CY2022 ended 30th June 2022.

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Revenue from operations, adjusted for excise GST grew by 102.3% year-on-year in Q2 CY2022 to Rs. 49,548 million. Consolidated sales volume registered a solid growth of 96.9% to 300 million cases as compared to 152 million cases in the corresponding Q2 CY2021 on account of strong demand during the peak season, driven by return to normal day-to-day operations and our continuous investment in expanding our distribution network and capacity. Realization per case improved by 2.7% to Rs.165 in Q2 CY2022 led by price hike in select SKUs, reduction in discounts / incentives and improvement in mix. CSD contributed to 73%, juices 9%, packaged drinking water 18% of the total sales volume in Q2 CY2022.

On the profitability front, gross margins for Q2 CY2022 reduced by 302 bps to 50.5% from 53.5% in Q2 CY2021, primarily because of the increase in preform / pet chips prices by ~30% over Q2 CY2021. The increase in input cost was more than offset by operating leverage, leading to improvement in EBITDA margin to the level of 25.2% during the Q2 CY2022 from 23.3% in Q2 CY2021. EBITDA increased by 119.1% to Rs. 12,506 million in Q2 CY2022 from Rs. 5,708 million in Q2 CY2021.

Depreciation increased by 18.9% to Rs.1,531 million as compared to Rs.1,288 million in Q2 CY2021 because of capitalization of assets in Q1 CY2022. PAT increased by 151.6% Rs. 8,020 million in Q2 CY2022 from Rs. 3,188 million in the corresponding period last year, driven by higher revenue from operations, improvement in margins and transition towards lower tax rate in India. This is under the new regime to which Company has transitioned in this quarter.

Our net debt stood at Rs. 20,555 million as on June 30, 2022 as against Rs. 30,053 million as on December 31, 2021. Debt-Equity ratio was 0.4x as on June

30, 2022 and Debt-EBITDA ratio stood at 0.8x for the trailing twelve months EBITDA.

In H1 CY2022, net CAPEX was ~Rs. 6,700 million, primarily for setting up of the new greenfield production facilities in Bihar and Jammu and brownfield expansion in Sandila factory. On the working capital front, working capital days reduced to ~17 days as on June 30, 2022, compared to 24 days as on June 30, 2021 as the business returned back to normalcy and most of the raw material inventory stocked for the season has been utilized.

Overall, the Company's financial position continues to be solid and we look forward to delivering healthy growth in the years to come.

On that note, I come to an end to the opening remarks and I would like to now ask the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: The first question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: On the retail touch point number that you have given, which is at about 3 million, and the last number that we have, it was a while back, was at about 2 million. So can you just highlight the expansion in this number and how much you would have done till YTD?

Raj Gandhi: We have updated based upon the recent report provided through PepsiCo, where it is stated that about 400,000 new outlets has been added because of Sting. So, 2.6 million are composite, 0.4 million are dedicated to Sting. So total mix is 3 million outlets, which also includes the overseas outlets about 250,000.

Vivek Maheshwari: What do you mean by exclusive Sting outlets?

Ravi Jaipuria: It means 2.6 million outlets are selling all our products, whereas 400,000 outlets additional got added because of our energy drink Sting and they are right now buying only Sting from us and hopefully going forward they will be buying all our other products.

Raj Gandhi: In fact, we can piggyback on the strength of Sting to sell our other products at these outlets.

Ravi Jaipuria: It's the starting point**,** hopefully going forward the 3 million will become reality for all our products.

Vivek Maheshwari: Second on the volume growth, there is obviously a base angle over here, but still adjusting for that, the growth is very strong. So, is there a big divergence between south and west outperforming meaningfully to north and east geographies?

Ravi Jaipuria: We think the territories which we had taken, where we had said that we are increasing our go-to-market, which we could not do because of 2 years of COVID. This is the first year we have been able to get fruits out of all the expansion of go-to-market. So, that is showing huge results for us. All the weak territories we had acquired from PepsiCo as well as the other franchisees are now showing results which we could not show in the last 2 years.

Due to COVID, people got used to drinking our products at home and fortunately that has continued and on-the-go growth has also started. Hence overall, now we are getting growth in both. In addition, our go-to-market and our chilling equipment, plants capacity expansion and availability of products has really made the difference. All this has shown this kind of growth which is practically unheard of.

Raj Gandhi: All the territories, be it our core territories of North and Northeast or the territories acquired from PepsiCo in south and west, has grown in very secular way, say about 58%-59% in H1. The five underpenetrated territories of MP, Orissa, Bihar, Jharkhand, Chhattisgarh where PepsiCo's share was quiet low are performing much better. These have given us huge opportunity, which we have said in the past as well. And here I think Chairman can mention about the new capacity in Bihar which we have added.

Ravi Jaipuria: We had put up a capacity in Bihar, which we thought would be good enough for us for the next 3 to 4 years, but we have already run out of capacity in the first year itself. We are expanding further capacity in Bihar to fulfill the demand of the people of Bihar. So clearly it shows that wherever there was real weakness and wherever we have enhanced our go-to-market, added our vehicles, put in more chilling equipment, that is all showing results and giving us the benefit.

Vivek Maheshwari: Interesting. And I have a question on capacity as well but just to complete, so Mr. Jaipuria, if you have to take a medium-term view, given that there are hardly any inorganic opportunities in India, how should we think about the volume growth for your business, either at India level or at an overall level assuming no further acquisitions?

Ravi Jaipuria: We are expecting double digit growth minimum and how much it will be, we don't know, but the market is looking good. Our products are very well accepted. Our energy drink has surpassed all our expectations. Our dairy products are doing extremely well, and our juices are doing extremely well as well. So, all our products have been well accepted and doing extremely well.

Vivek M: Sure, double-digit growth implies double-digit volume growth?

Ravi Jaipuria: Yes.

Vivek M: Okay. Your press release talks about 90% capacity utilization, you spoke about Bihar. So, can you just highlight the plans on the Capex side for calendar 2023 and 2024?

Ravi Jaipuria: Well, we are already in the process of setting up two large greenfield plants, in Madhya Pradesh and Rajasthan. We are adding a few more lines like I said, we are expanding in Bihar and few more territories which are brownfield plants, where our Capex will be much lower. So hopefully, next year we are looking to add about 30% more CSD/JBD PET capacity.

Vivek M: Can you just quantify in terms of Rs. million that you are going to spend this year and next year?

Ravi Jaipuria: Well, exact amounts are not completely here right now, but we are looking at approximately about Rs. 1,200 crore.

Moderator: The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: Yes, thank you so much and congratulations on the strong performance. Would it be possible to give a breakup of the volumes that you generated between India and the international territories and in that, also if you could bifurcate for the south and west part of it?

Ravi Jaipuria: Second quarter is 262 million cases for India and 37.7 million cases is international.

Nihal Jham: So approximately what in this 262 would be, south and west?

Ravi Jaipuria: We don't have that breakup right now, but the growth has been practically identical for south as well as west.

Nihal Jham: How do you look at your market share even after such a strong season, because somewhere the statements keep coming up, but just wanted a sense from you that, how do you think your share has performed because you highlighted some of the underperforming territories in the eastern region along with the ramp at south and west territories. So, versus, say, 2 years back, has the share of Pepsi overall increased in all categories or any things specifically you want to highlight?

Ravi Jaipuria: Well, it's very difficult for me to say, but we think the market has to judge, everything is open. Competition has just partly disclosed their numbers and we are giving you, our numbers. We would not like to comment on whether we have gained market share or lost market share.

Raj Gandhi: We can only say, in the last quarter, VBL India has grown 106% in volume terms.

Nihal Jham: After such a robust quarter where I'm assuming that we've seen some benefit of the strong summer season, is it possible or are we still targeting a double-digit volume growth?

Ravi Jaipuria: No, we are definitely looking at double digit growth. After the summer obviously, in the rainy season it depends where it rains a little bit more or less, but fundamentally overall, if one territory might perform a little less or one better because of the rains, we are still looking at double-digit growth.

Raj Gandhi: This confidence is coming from the fact that we have seen in this season the constraints on the supply chain, the preforms, on delivery and the production, etc. This is what we could achieve with our constraints. So, all the capex to increase capacity and the improvements for the next year, is to en-cash the demand, that we have missed out during the year. So, if other things being equal that should be a possibility.

Nihal Jham: If you could give the contribution of Sting this quarter and I would be done?

Raj Gandhi: Sting has grown by 185% in H1 and mix to the total volume is about 7.2%

Moderator: The next question is from the line of Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Yes, thank you so much for taking my questions and congratulations to the Varun team for such excellent numbers. Mr. Jaipuria, you mentioned that the dairy portfolio is also now doing quite well. Could you just give us a sense of how many states have we launched this product in and how much distribution touch points have we covered?

Ravi Jaipuria: Well, we have not been able to go very far because of our capacity. Dairy we can only produce in one of our plants, which is in the north in Punjab. So, we have restricted most of our products to the north region only and whenever we had some extra capacity, we have sold to other provinces. But fundamentally, we've restricted it to north. Hopefully for the season in 2024, we will be able to supply most of the other territories after we have got the plant going.

Chirag Shah: So, can we assume by the end of calendar year 2024, we will have a lot of capacity?

Raj Gandhi: Yes, by the end of 2024, we will be doubling the capacity for value added dairy.

Chirag Shah: Can you just elaborate a little bit around write-offs that you have done, we have considered to write-offs RGB assets in last quarter. I understand that demand trends are moving from RGB to PET. Are there any further write-offs that is required now going forward on the RGB side?

Raj Gandhi: If there would have been any further write-offs, we would have done right away. See, this is a real time exercise and you will recollect, even in the last quarter, after reviewing the Roha plant utilization, we had written off those assets. And as we have stated, the mix is undergoing a lot of change. PET is growing faster than glass. And the mix of glass now is under 10% and therefore, it was necessary to bring the value of the equipment producing glass bottles etc. in line with that, which has already been done.

Chirag Shah: On the Greenfield Capex number, this is to be spent over how many financial years?

Raj Gandhi: Well, the capital work in progress starts when the land is purchased and other things keep on happening. This has already started, but the capitalization from capital work in progress will happen when the assets are put to use, which will be sometime in February - March 2023.

Chirag Shah: But the cash outflow will happen from February 2023, right?

Raj Gandhi: In fact, –it happened the same way even for last year. This is because our year ends in December and some part of CWIP stays and it may create little problem for calculating ROCE, but for that purpose June is better time.

Moderator: The next question is from the line of Dhruv Bhimrajka from Monarch AIF. Please go ahead.

Dhruv Bhimrajka: Yes. Congratulations on a good set of numbers. Just to get the clarity on the Capex part, you said for CY22, what will be the Capex?

Raj Gandhi: It's about Rs. 800 crore and after about Rs. 200 crore adjustment because of foreign exchange the net amount is about Rs. 670 crore.

Dhruv Bhimrajka: No, I am asking the guidance for the full year CY22.

Raj Gandhi: Capex is already done for CY22 because the season is over. Now whatever we will be spending will be for CY23, which will be parked as the capital work in progress and will be capitalized when the assets will be put to use.

Ravi Jaipuria: This will be early next year.

Dhruv Bhimrajka: You said domestic volumes were 262 million cases, so what would be the south and west combined contribution?

Ravi Jaipuria: We don't have the breakup right now but south and west both have done well for us.

Moderator: The next question is from the line of Nitesh Seth from Vedant Securities. Please go ahead.

Nitesh Seth: Congrats for the good quarter and a very good execution. Could you please share some qualitative detail about the direction of the volumes and the territories which are still under-penetrated and where there is more than double-digit 20%-30% scope of penetration and incremental volumes?

Ravi Jaipuria: See, most of our territories which we acquired are under-penetrated and there is still lot of scope, but there are challenges with it. But, if things go well, we are quite confident that double-digit growth look very feasible going forward for the next few years.

Nitesh Seth: Can you suggest like whether there is a more scope in south and west territories, north and northeast also, is there still a decent scope?

Ravi Jaipuria: Well, there is scope in every territory obviously south and west, there is more scope and even in east which we acquired, there is enough scope. North was the only original territory that we had, where the growth will be the regular growth, but the rest of the territories we expect better growth.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: Congratulations on very solid results. I would like to understand distribution number that you have shared, so just to understand it correctly, 3 million outlets as per the report, which includes about 250,000 overseas retail outlets, 400,000 exclusive Sting outlets and the balance would be India outlets that you are able to sell the entire portfolio. Is that understanding, correct?

Ravi Jaipuria: Yes, the 400,000 outlets are also India outlets. But right now, they have started with Sting and as every month passes by, they will start carrying our other products also.

Jaykumar Doshi: Correct. But that 3 million includes 250,000 internationally, right?

Ravi Jaipuria: That's right.

Jaykumar Doshi: Now how does this compare versus Coca-Cola in India as per the same data overall India outlets today?

Ravi Jaipuria: So, we have still less than them, that's why our share is much lower than them. Lot of our territories are weaker which as I said where we are holding low market share. So, there is lot of scope and the only thing I can tell you, there is enough headroom and enough opportunity for us to grow.

Jaykumar Doshi: What is the magnitude of opportunity?

Ravi Jaipuria: We would not like to comment on that.

Jaykumar Doshi: You had indicated that at the time of acquisition for south and west, the target at that point of time was to double distribution in 3 years. Now we have lost 2 years. So how much of this distribution expansion has come from south and west, if you can give us some color?

Ravi Jaipuria: Of the 3 years that have passed, 2 years were washout for us, because both the years COVID happened in the peak season of April and May. The real expansion has happened only this year and you cannot double your distribution in one year. So, we are on the right path. Things are happening in the right way and that's why you're seeing such healthy growth and that's why I'm also saying that, going forward, it looks very positive and we feel that double-digit growth rates are very doable. Hopefully we can do better.

Jaykumar Doshi: Do you see a scenario where south and west will accelerate from here on while the growth over the past maybe couple of years would have been ballpark similar to north and east?

Ravi Jaipuria: Let me tell you south, west and east all three territories will grow as north was the only original territory we really had. So even in east, lot of territories came later on which was Bihar, Jharkhand, Orissa, etc. So, as we have mentioned, when we have put up a plant in Bihar, the growth has been out of proportion and we have already run out of capacity. So, I really don't know how large can it be, because we had planned this capacity for 3 years and we have outdone the first year. So, I don't know. Some of these territories are so under-penetrated, that it's very difficult to really answer.

Jaykumar Doshi: On Sting, is there an opportunity for Sting in overseas market or are you already sort of selling Sting?

Ravi Jaipuria: We are already selling Sting in overseas market. We have just launched in Nepal, and in other countries we were already selling.

Jaykumar Doshi: Okay. And finally, the Rs. 1,200 crore Capex number that you indicated for this year and next year, is it on the growth Capex or does it include maintenance Capex?

Ravi Jaipuria: Maintenance we charge-off in the P&L.

Jaykumar Doshi: Well, from a cash flow perspective, what will be the total outgo this year and next year, including Rs. 670 crore that you have done in the first half of this year?

Ravi Jaipuria: For this year it's Rs. 670 crore and next year, when the expansion happens by March, which is when we capitalize. So, the cash flow happens as and when we purchase the land and the buildings. Part of it is this year and part of it is going to be next year so, about 40% would be this year and 60% next year.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Our organic volume growth, if we see before COVID, was about 13% and now also post COVID after unlocking, if we see on a 3-year CAGR basis, it's about 15%. If you can sort of narrow the double-digit volume forecast in terms of low teens, mid-teens, high teens, then it would be really helpful for us to sort of understand this better?

Ravi Jaipuria: So that is not possible, I wish I could predict that specifically, but double digit itself is a good enough number and that is what realistically, we are looking at. It could be 12% or 18% I'm not very sure. Depends partly on the season and on our execution. We believe we are executing well and it also depends on our competition also how they execute.

Devanshu Bansal: And secondly, wanted to understand, within categories, juices have seen relatively faster growth this quarter versus carbonates and water if we see on a 3-year CAGR basis. So, wanted to check currently versus carbonate, what would be the extent of distribution for juices? Among 3 million retail outlets, in how many outlets we are distributing juices?

Ravi Jaipuria: We don't have the exact number, but in about 60% to 70% of the outlets

Devanshu Bansal: And all the rest 30% to 40%, we can service or distribute juices to those outlets as well or there are certain limitations?

Ravi Jaipuria: We can, but some of the outlets don't take juices so. As we have said, 400,000 outlets out of this, which is about 18%- 20% have only started with our energy drink. So ultimately, as I said, they will start carrying our other products also, but it takes time to enter new outlets. Sometimes we have to accept what he wants and then slowly once you have a relationship, you start penetrating with your other products.

Devanshu Bansal: Sure, sir. And last question is to understand the margin profile. So, currently in this year, despite significant raw material inflation in PET chips etc. most likely, we will be doing like pre-COVID margins at about 20%. So, when these gross margins recover going ahead, so can we build in better than 20%, 21% EBITDA margins?

Ravi Jaipuria: Very difficult again, the world scenario is such that one of the key raw material is the PET raisin and that depends exactly on the petroleum prices. So, I think depending on the world market conditions, but I feel it has already reached peak levels.

Devanshu Bansal: Assuming they come off?

Ravi Jaipuria: Assuming they come off, obviously our margins will improve.

Moderator: The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: On a 3-year CAGR basis, for India, the volume growth is 15% CAGR and the value growth is 20% which assumes a 5% pricing on a 3-year CAGR which means about 15% point to point. Am I looking at this correctly or is there some other sort of explanation to this?

Ravi Jaipuria: No, I think fundamentally you're pretty close to it. See, what happens is partly because our lower value product, which is glass has reduced, so our high value products have started selling more. So that's why you're seeing a change in the value of the products. Also, as I said, our energy drink, dairy and Tropicana are doing better which are at a higher value. So, both ways, as we said double-digit volume and plus some value will keep on this momentum and this is why we anticipate growth to be coming for the next few years.

Percy Panthaki: So, of this 15% difference between volume and value on 3-year basis, would you be able to split up that 15% between pure pricing and mix?

Ravi Jaipuria: No, it's very difficult at the moment. If you have some queries, then offline maybe we can give you.

Percy Panthaki: Sure. Secondly, when you earlier said that we would be able to do a double-digit volume growth stable state going ahead, I just wanted to understand how much of this would you attribute to the industry growth itself and how much is sort of your confidence of growing faster than industry?

Ravi Jaipuria: I've never said I am growing faster. So, I believe that we are doing a good job and the rest I leave it to the market to judge, but the industry is growing very healthily, and I think we are doing a good job.

Percy Panthaki: So basically, over the next 3- 4 years, you believe that the industry itself can do a double-digit volume growth?

Ravi Jaipuria: Should.

Percy Panthaki: I know you have said this, but I just wanted to again ask because it was not clear to me. What is the Capex plan in CY22 and CY23? And here I understand the CWIP moving into gross block when it is commenced, etc. I'm looking at it from the point of view in which it moves into gross block. So, let's ignore the CWIP, let's ignore the cash flow impact of the Capex, but let's look at when the Capex come into the balance sheet, on that basis, what's the Capex in CY22 and in CY23?

Raj Gandhi: CY22 it was net Rs. 670 crore, which is given in the presentation and for next year, Chairman has stated approx. Rs. 1,200 crore.

Percy Panthaki: Rs.1,200 crore and with this Capex, Rs. 670 crore plus Rs. 1,200 crore, what percentage would it result in expansion in the capacity?

Ravi Jaipuria: Well, I had already said about 30%.

Raj Gandhi: Rs. 670 crore is already captured in this year, and we have already used that capacity. With Rs. 1,200 crore capex we will be adding about 30% of CSD/JBD PET capacity.

Percy Panthaki: And this Rs. 1,200 crore is all in India?

Ravi Jaipuria: Yes, this is mostly in India.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Can you indicate what is our current share of e-commerce, modern trade, B2B channels like HoReCa and then the general consumer market? And also, what is the revenue share of in-home consumption versus out-of-home consumption? So maybe 500 ml SKU and below and 500 ml SKU and above share for us?

Ravi Jaipuria: HoReCa and modern trade is about 9%.

Aniruddha Joshi: Sir, lastly on Sting, can you indicate the current market size and the total market potential for this brand?

Ravi Jaipuria: Very difficult to say because there are very few players in the energy drink market. Main competitor has just entered the energy segment. World-wide energy segment is doing extremely well and we believe it should do extremely well here also. We have seen in lot of countries, it has reached about 12% to 15% of the mix and even larger.

Aniruddha Joshi: So, in India is industry currently 7%

Ravi Jaipuria: So, India it is not 7%. 7% is our mix. It's not 7%, because main competitor was not in energy drink.

Aniruddha Joshi: Okay. So what is overall mix in India?

Ravi Jaipuria: Right now, energy drink is very low. I mean, Red Bull and all are many niche products. They are expensive niche products, so there is huge opportunity to grow this product.

Aniruddha Joshi: So, the 3 million distribution outlets that we are looking at, where do you see this number by end of CY23?

Ravi Jaipuria: Well, we normally look at about 8% to 10% expansion in our footprint. So that is what we expect. If we can do better, it will be great.

Moderator: The next question is from the line of Chetan Gindodia from AlfAccurate. Please go ahead.

Chetan Gindodia: Is it possible for you to give some color on the region-wise international geographies? And secondly, for CY21, the profitability in Nepal region, Sri Lanka region, and Morocco region was slightly lower compared to the Company level PBT margins. So, what could be the reasons for this and what are the steps that we are undertaking?

Ravi Jaipuria: Sri Lanka environment is shaky. So, things keep happening internationally, that is why we consolidate international numbers and give you one. Mostly all our markets are doing well. Sri Lanka has its challenges, but it's such a small portion of our overall business that it really doesn't affect us. It's about 2%. So, it doesn't really affect us to that level, even though we are growing there, we believe it will come back and it might take a little longer. Morocco and Nepal are both doing well for us and they are both growing and we are quite happy. And profit margins are also increasing. So, they are in line with our business margins.

Chetan Gindodia: What is the industry long-term volume growth for our carbonated drinks category over the last decade or so. Do you think this is going to change going ahead or do you think the increased penetration impacts this number?

Ravi Jaipuria: Well, it's basically because of increased penetration you are getting double-digit growth. Otherwise, why would you get the growth. Since we are adding 8% to 10% new outlets and the markets have opened up so on the go consumption as well as home consumption both are growing. Even HoReCa channel is growing. Overall everywhere consumption is growing.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So, when we talk about the under-penetrated markets like Bihar, UP, West Bengal and Jharkhand. So, can you discuss about how the penetration in these markets compare to the developed markets like west and some markets in south?

Ravi Jaipuria: If we start describing it will take too long, but as we said, most of the territories we acquired, a lot of them were very under-penetrated where we had low market share. So, all we need to do is keep on increasing our distribution. And as we said, Bihar was one state where we did not have a plant and after putting a plant, we have had real healthy growth and we have run out of capacity in the first year itself. So, these under-penetrated markets as we are putting more vehicles, visi coolers, they are all growing at a faster pace than our regular markets. There is still so much scope because when you are at 15%- 20% market share, then the gap is so large that hopefully next few years we don't see any challenges, except putting in enough vehicles and visi-coolers and increasing go to market.

Sumant Kumar: When we talk about the under-penetrated that is, you are talking about your distribution channel? Does this also include the changing consumer behavior, consumer drinking pattern also?

Ravi Jaipuria: Well, it does. Under-penetration is basically your availability in outlets is much lower and that's why we have to keep expanding the number of outlets and keep on increasing our distribution. As we keep doing that, the local people increasingly like the product. It's just that it is not available so, as we are making it available, the volumes are growing.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Congratulations for a fantastic set of numbers. Can you just clarify your distribution outlet expansion growth plan? I heard that you were annually targeting 8% to 10%, just want to reconfirm that.

Ravi Jaipuria: That's right.

Sanjaya Satapathy: The Capex plan which you have said will take up your capacity by 30%, so that will be ready by onset of next summer season. Is that right?

Ravi Jaipuria: That's what we are planning.

Sanjaya Satapathy: Okay. Last thing that I just wanted to check that your margin, which you stated you are protected by buying these preforms in advance, but probably you have run out of stock now. And so how will the cost structure shape up from here in the near term? And secondly, as people have been trying to probe that now that south and western market is kind of completing the turnaround

Ravi Jaipuria: So, our margins are what we have delivered would be approximately that. Unless until the oil prices come down and the resin prices come down, then our margins could improve. But we have got very healthy margins and we have never seen better margin than this. So, we should be able to maintain our margins, we don't see a challenge.

Sanjaya Satapathy: Okay. Despite running out of those preform stocks?

Ravi Jaipuria: Yes. It's ongoing. We keep buying and selling, so we keep replenishing that.

Sanjaya Satapathy: Understood. And if I can just check with you that the kind of operating leverage which we saw in this quarter, was it something that was affected because you ran out of capacity?

Raj Gandhi: We have grown 106% in terms of volume. We have taken advantage of operating efficiencies despite direct costs going up thus improving the EBITDA margin. So we have availed that advantage to the fullest.

Sanjaya Satapathy: What I feel is that the beverage market has been growing so fast that the advertisement and brand visibility by the respective brands has probably come off.

That at least appears from the minutes of advertisement that we see on media channels. Is that something which is the demand is taking for granted?

Ravi Jaipuria: Budgets are going up only. They are not coming down, so advertising levels don't come down.

Sanjaya Satapathy: Okay. And in terms of product innovation from your side, like are there more products on the anvil and are likely to keep the excitement going?

Ravi Jaipuria: Absolutely. Although every year first, we need to consolidate what we have added and then there are always categories in our portfolio whenever we need, we can take out and start adding.

Sanjaya Satapathy: And the reason why you have chosen this greenfield capacity in these two States is because of under-penetration?

Ravi Jaipuria: Not under-penetration but because our supply as compared to the demand is lower. Our capacity was lower than what our requirement is for these two States.

Sanjaya Satapathy: Because if you can repeat the Bihar like experience here and these are two much bigger States?

Ravi Jaipuria: In Rajasthan we already have two plants, because our sales are higher and our capacity has come to exhaustion that's why we are adding more capacity. Similarly, in Madhya Pradesh we already have a plant, but we are putting on the border near Chhattisgarh where we don't have a plant. So, Madhya Pradesh and Chhattisgarh will be catered from there.

Moderator: The next question is from the line of Akash Patel an individual investor. Please go ahead.

Akash Patel: What is the debt plan of the Company after some 5 years or 7 years? Can we see VBL as a debt free Company?

Ravi Jaipuria: We can be debt free if we don't expand even for 1 year. See, question is, do we want to be exactly debt free, our debt is so low that we will keep on getting some opportunities or the other and we will keep expanding, but if we really want to be debt free, we can do it in any year.

Moderator: The next question is from the line of Gautam Jain from GCJ Finance. Please go ahead.

Gautam Jain: Congratulations for very great set of numbers. Is there any deliberation regarding any new product to be added from Pepsi side and any new geography still to be added?

Ravi Jaipuria: Well, in India there is nothing very much left and we are always in discussion with PepsiCo. They can give us any territory, which is good. We are always looking to expand.

Gautam Jain: Okay. And in terms of new products?

Ravi Jaipuria: Pepsi always has a slew of products which are available. Question is, once we launch couple of products, then we need to make sure that they're properly serviced. Just by adding new products, it doesn't help. So, once we feel that we have reached a scale with those products, then we add more products. So, there is no shortage of new products.

Gautam Jain: And can you just highlight few points on the recent tie-up with Pepsi regarding Kurkure?

Ravi Jaipuria: That we are going to start manufacturing by end of October or November. And once we start that then hopefully in the coming years, we will expand with that.

Gautam Jain: And the license would be same like other products?

Ravi Jaipuria: So, we are producing for PepsiCo. PepsiCo is doing the marketing. We are going to manufacture and give it to PepsiCo.

Gautam Jain: Okay. But in future we can get that distribution also, right?

Ravi Jaipuria: I wish we could decide for Pepsi. There are opportunities there and we can keep trying.

Moderator: The next question is from the line of Aarushi Lunia from Hem Securities. Please go ahead.

Aarushi Lunia: In the last con-call you had mentioned that in Zimbabwe you are adding capacity by end of May or early June, so could you please give some light on the development?

Ravi Jaipuria: We have added one line in Zimbabwe and the line has started producing, so it will give us results for this season because, their season starts end of August and we will have enough capacity to feed that market.

Moderator: The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Assuming that you are very close to full capacity utilization, your current asset turnover on a gross block basis is about 1 time, I am adjusting the gross block for whatever Ind-AS adjustments happened in 2016. And on that basis, it is approximately 1x or 1.1 times. Now with the sale of Rs. 8,800 crore expected approximately in CY22, if I add 30% to that, which is your capacity enhancement, it can generate Rs. 2,600 crore of sale with Rs. 1,200 crore of Capex. So, the incremental asset turnover on this Capex would be more than 2 times versus your overall India sales by about 1.1 times. So, can you explain why the asset turnover for the incremental Capex is going to be higher?

Ravi Jaipuria: See, whenever you are adding brownfield Capex, it will always be less, because your cost of land and the cost of development around it is not there. Its only cost is that of the line. Your cost is higher when you are doing a greenfield plant.

Percy Panthaki: But of this Rs. 1,200 crore, a large part is greenfield, right?

Ravi Jaipuria: No about 60%-65% is the greenfield, whereas in 35% of brownfield it practically gives the same capacity.

Percy Panthaki: Okay. I see. But this calculation is correct, right, that for the Rs. 1,200 crore of Capex you put in, once it is fully utilized, then you will be able to generate Rs. 2,600 crore of sales from that?

Ravi Jaipuria: You have to look at overall the Company's plan, because it depends where you are putting the line. What's the seasonality of that territory? If it is put in south or west the turnover per line is much higher, because the seasonality curve is much lower, but there are lot of permutation combinations. But overall, you have to look at the overall Company's total turnover.

Percy Panthaki: Sure. So, I'm not asking what would be the turnover generated from those plants, I am just saying that once you do this Rs. 1,200 crore of Capex at all India level, you would be okay to add Rs. 2,600 crore of sales

Ravi Jaipuria: Practically, what you're saying, yes. It could be little higher or lower depending on what products we are making.

Moderator: The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

Jenish Karia: Yes, so I was saying that recently we announced stake purchase in a joint venture with IVL Dhunseri Petrochem Industries for PET recycling. So, are we expecting some benefits on PET preforms from that venture, what is the scale of opportunity, some color on that front?

Ravi Jaipuria: Well, there are two things. One, that is the need of the hour, because we have commitments towards environment and we want to make sure that we recycle our products on our platform also. At the same time, when we are going to produce our own resin out of that, so we will get benefits out of that.

Jenish Karia: Any color on what would be the size of recycling, how many PET bottles do we expect to recycle in a year or something like that?

Ravi Jaipuria: We don't know, but the first capacity we are looking at is about 30,000 tonnes.

Moderator: The next question is from the line of Gagan Goyal from Trinity Capital. Please go ahead.

Gagan Goyal: How are we investing in the dairy business expansion across geographies and product mix?

Ravi Jaipuria: The dairy is doing extremely well, and as sales keep on going up, we will keep on adding, but at the moment we are doubling our capacity for next year.

Gagan Goyal: Sir. In terms of geographies where are we like expanding?

Ravi Jaipuria: Yes, it would be the Western region which would service west and south.

Gagan Goyal: And in terms of product mix?

Ravi Jaipuria: Product mix is the same that we have, and we can't supply right now because of shortage of capacity. So, we are just going to add that to the western and the southern region.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Raj Gandhi: Thank you all for your participation and I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications, or would like to know more about the Company, please feel free to contact our Investor Relations team. Thank you

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