



VARUN BEVERAGES LIMITED



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August 3, 2024

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
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Sub: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: Transcript of Investors & Analysts Conference Call

Dear Sir / Madam,

Transcript of Investors & Analysts Conference Call held on July 30, 2024 i.e. post declaration of Unaudited Financial Results of the Company for the Quarter and Half Year ended June 30, 2024 is enclosed.

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

You are requested to take the above on record.

Yours faithfully,
For Varun Beverages Limited

Ravi Batra
Chief Risk Officer & Group Company Secretary

Encl.: As above



Varun Beverages Limited

Q2 & H1 CY2024 Earnings Conference Call Transcript

July 30, 2024

Moderator: Ladies and gentlemen, good day and welcome to Varun Beverages Limited Earnings Conference Call. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Varun Beverages Q2 CY2024 Earnings Conference Call. We have with us Mr. Ravi Jaipuria, Chairman of the Company; Mr. Varun Jaipuria, Executive Vice Chairman and Whole-Time Director; and Mr. Raj Gandhi, President and Whole-Time Director of the Company. We'll 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 point out 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 detail of our operational and financial performance for the second quarter and half year ended June 30th, 2024.

We are pleased to report robust performance for the second quarter of CY2024, achieving a consolidated sales volume growth of 28.1%, which includes volumes from BevCo. The impressive volume growth of 22.9% in India primarily contributed to this outstanding performance, supported by our expanded capacities, enhanced distribution network and a strong summer season. Meanwhile, our international markets remained relatively flat. Moreover, it was a seasonally weak quarter for African markets.



We are excited to announce further expansion in our partnership with PepsiCo having entered into an exclusive snack franchising appointment to manufacture, distribute and sell “Simba Munchiez” in Zimbabwe by October 2025 and in Zambia by April 2026. This follows our recent announcement to manufacture and package Cheetos in Morocco by May 2025. These agreements complement our existing distribution of PepsiCo portfolio, marking another significant step forward in our strong symbiotic partnership. Additionally, we are pleased to share that we have commenced commercial production of carbonated soft drinks and packaged drinking water at our greenfield facility in DRC. With the region representing an untapped market for PepsiCo, this expansion offers a huge growth opportunity for us.

In line with our dividend policy, the Board of Directors has approved an interim dividend of 25% of the face value, i.e. Rs. 1.25 per share. Additionally, the Board has considered and recommended the subdivision split of existing equity shares of the company from one equity share with a face value of Rs. 5 each fully paid up into such number of equity shares having face value of Rs. 2 each fully paid up. This is subject to the approval of our equity shareholders of the company. This is intended for wider retail participation.

With strong performance in a key quarter, we are on track to deliver healthy double-digit growth in the calendar year. India remains a high-demand market with massive growth potential driven by a growing consuming class and the young population. To capitalize on this demand, we are focused on further strengthening our infrastructure, distribution network and product portfolio. With a focus on strategic growth and leveraging new opportunities in both India and international markets. We are confident in our ability to deliver sustainable value to all shareholders.

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 second quarter and half year ended 30th June 2024.

Revenue from operations, adjusted for excise/GST, grew by 28.3% YoY in Q2 of 2024 to the level of Rs. 71,968.6 million. Consolidated sales volume reported a growth of 28.1%, reaching 401.6 million cases in Q2 of 2024, which includes about 28 million cases from BevCo. Indian market grew by 22.9%, while the international markets were almost flat primarily on account of volumes in Zimbabwe getting affected due to portfolio of transitioning to zero sugar without affecting profits.

CSD constituted 76%, Juice 8% and Packaged Drinking Water 16% of the total sales volume in Q2 CY24. In the second quarter of CY24, net realization per case was steady due to the consolidation of BevCo where realization purchase for own brands is much lower than the company's average.

Our gross margins improved by 222 basis points to 54.7% from 52.5%. This improvement was due to timely procurement and storage of PET chips to avail pricing benefits. This was a trade-off between savings in cost of goods sold and partial offset of enhanced interest cost due to higher inventory carrying costs. Further, our ongoing focus on reducing sugar content and lightweighting packaging is also contributing to sustainable growth in gross margins. Notably about 46% of our consolidated sales volume now comes from the low sugar or no sugar products.

As a result of higher gross margins, EBITDA increased by 31.8% to the level of Rs. 19,912.2 million, with EBITDA margins improving by 74 basis points to the level of 27.7% in Q2 CY2024. With enhanced capacity of preform manufacturing, majority of preform requirement is now being manufactured in-house, leading to shifting of conversion costs from COGS to other expenses.

Moreover, to get better operational efficiency and low production overheads, we have written off small residual values of Property, plant and equipment of certain lines from the acquired sub-optimal-sized old plants. All the new production categories are fully integrated and backward integrated and the renewable solar energy generation facilities, which will further help in reducing fixed costs.

Depreciation increased by 41.0% in Q2 CY2024 on account of the acquisition of BevCo and the establishment of new production facilities. Finance costs increased by 86.2% primarily due to new production facilities, the acquisition of BevCo and, higher borrowing costs. PAT grew by 25.5% to the level of Rs. 12,618.3 million in Q2 CY2024 from the level of Rs. 10,054.2 million in Q2 CY2023, driven by volume growth and improved margins, partially offset by higher depreciation, finance costs and write-off's of Property, plant and equipment values to the extent of approx. Rs. 700 million.

As of 30th June 2024, our net debt stood at the level of Rs. 58,808 million, up from Rs. 47,345 million as on December 31, 2023. During H1 2024, we spent ~ Rs. 12,000 million on the capex of CY2024 and around Rs. 6,000 million for the capex of CY2025. Additionally, we acquired BevCo for ~Rs. 11,629 million. Consequently, net debt increased by about Rs. 11,500 million with the remaining amount funded through internal accruals. These strategic investments have expanded our footprint and strengthened our presence across several dynamic markets, both in India and

the African business. Despite these growth-led investments, our financial stability remains strong with debt-equity and debt-to-EBITDA ratios standing at 0.67x and 1.37x, respectively, as of 30th June 2024.

In H1 of CY2024, the net capex capitalized amounted to ~Rs. 30,000 million, excluding BevCo assets. This expenditure was primarily for setting up new greenfield production facilities in Supa; Maharashtra, Gorakhpur; Uttar Pradesh and, Khordha; Odisha, as well as for brownfield expansion in Morocco. As of June 30th, 2024, the capital work in progress and capital advances totalled around Rs. 12,000 million, mainly for the DRC plant and Phase 2 of the Gorakhpur plant, which focuses on Juice and value-added dairy plants. The net capitalization, capex for CY2024 is expected to remain at the earlier disclosed level of Rs. 36,000 million only.

Considering the continued robust demand for our products as well as diversification into our newer product categories, we shall be doing a capitalization of around Rs. 25,000 million-Rs. 26,000 million for the season of CY2025 primarily towards the greenfield production facilities in India and three snacks manufacturing facilities in the African markets. Out of the planned capex, about Rs. 3,000 million has already been spent till June 2024, and we expect to spend about Rs. 10,000 million more in the second half of CY2024.

Our working capital days increased to ~33 days as of 30th June, 2024 from ~21 days of 30th June 2023. This increase is attributed to the strategic purchasing of PET chips in India and the inorganic expansion into new markets, including BevCo and the DRC plant. DRC plant, as indicated earlier, already started commercial production on 22nd July 2024, and we have a lot of good hopes out of it.

To conclude, we remain committed to maintaining a strong financial position by focusing on the execution of multiple strategic initiatives that we believe will sustain our long-term growth trajectory. Our ongoing investments in expanding capacities, enhancing our network, on ground infrastructure, and diversifying our product portfolio are expected to drive sustainable and continuous growth in the coming years.

On that note, I come to an end of the opening remarks and 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 Aditya Soman from CLSA India. Please go ahead.
- Aditya Soman:** Sir, two questions from my end. Firstly, on India growth, can you give us a sense of how growth has planned out in Q3, especially in the first month of Q3, since we had a very strong calendar Q3. And related question to that, can you give us a sense of how this 23% volume growth that we saw in Q2, how the various months have done, particularly energy drinks and on CSD with regards from that?
- Ravi Jaipuria:** Our Q3 is also growing in double digits, and we are quite happy with our growth. Q2 growth was close to 23% in India, which is a very healthy and a very nice growth.
- Raj Gandhi:** Aditya, as far as Sting is concerned, it's mix is around 15% in H1. So Sting has stabilized, and we are very happy to say that we are holding on to that in a competitive scenario and still expanding further. And as far as rest of the mix is concerned, we have seen growth in juice and in CSDs, but we have deliberately kept the sale of water quite low in this quarter because, as indicated earlier, the margin is comparatively lower in case of water. We increased water only in Morocco, where realization is much higher as compared to India. And as Chairman said, the outlook stays healthy going forward also.
- Aditya Soman:** I understand, very clear. And then just maybe a second question on the new snacking opportunity. At the margin level, would business be similar to what you've seen for beverages, or do you have any sense of how the margins for the snacks would compare in Morocco, Zimbabwe, and Zambia?
- Ravi Jaipuria:** No, for each country the margins are different, but overall, we had a very healthy EBITDA margin of 27%-28%.
- Raj Gandhi:** This is for the season. And Aditya, your question is about the snack foods or on the beverage for those territories?
- Aditya Soman:** On snack foods. Beverages, obviously we get the overall average, right? So on snack foods, would it be very different from the beverages average or broadly in the same beltline?
- Ravi Jaipuria:** It would be actually better than the beverages. Snack food has quite healthy margins and it's a good business. That's why if you look at it, mostly, it's kept by PepsiCo themselves.

Aditya Soman: Understand. Very clear. And then would you look at this as like a stepping stone to hopefully getting more of these in other geographies?

Ravi Jaipuria: We are open to take as many countries they are willing to give us, but it would be in the African region only. They are not interested in giving it to us in India. But each country is a large market and the 3 countries we have taken alone are \$800 million worth of market for snacks.

Raj Gandhi: And Aditya, if you remember a few quarters ago when we mentioned it, the initial step was starting the first co-packaging at our Kosi plant. Since then, we have been regularly providing updates. We think the progress we have made in this short time is commendable.

Moderator: Next question is from the line of Gautam Trivedi from Nepean Capital.

Gautam Trivedi: First of all, congratulations on yet another bumper quarter. So we are happy shareholders. With respect to the fact that you are now at 4 million outlets and the fact that, as you just mentioned. So I guess my question is that, as you just mentioned, Mr. Jaipuria, that the PepsiCo is not expanding the portfolio for snacks outside of Kurkure for India as of today, if I understood that right. Would that be correct?

Ravi Jaipuria: Well, they are keeping the complete snack portfolio for themselves in India. We are only co-packing for them in India and that also Kurkure Puffcorn.

Gautam Trivedi: I guess my question is, since we already have an outreach to 4 million outlets and have successfully launched Creambell milk products, is there merit in entering the snack food business ourselves with our own brands?

Ravi Jaipuria: We would not like to do that and that would not make our partner happy. We don't think we would be doing that, we are getting full support from PepsiCo, especially in the African country, they are quite happy to give it to us in Africa. We think there's enough room for us to grow, why go into competition with them.

Moderator: Next question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: My first question is on the water business. What you are seeing in this quarter, June quarter, the market leader in Juice business base of an impact because out-of-home travel being less. So they were expecting and maybe Street were also expecting good double digit, but it can be lower than that. Similarly, another listed player, which is in Water business, we were also expecting a very strong double digit, but it will be lower than that. Wanted to understand in your business also when I see this quarter

v/s last year same quarter, around 100 bps lower water contribution is there. So you have also seen some impact of less out of on travel?

Ravi Jaipuria: Well, there is impact because when it's 45-48 degrees, there is less traffic in the market, which you also saw. So there is a definite effect, and we are also not going out of our way to push water anyway.

Abneesh Roy: And one follow-up question on the coming quarters. I see your base in India is now 15% and 18%. And this quarter, the high range, of course, is not conducive because the temperature will be lower. In December quarter, the La Nina impact generally, the winter is harsher. So would you be still confident that for the entire second half CY, you will be confident of double digit. These are early days, I understand. But given the base and given the seasonality, would you still expect double-digit growth in India?

Ravi Jaipuria: Consolidated, we see no reason why we should not be doing double digits growth.

Abneesh Roy: Not India.

Ravi Jaipuria: India also.

Raj Gandhi: The factors influencing the extent of what we are saying are, First, the stability in the South where seasonality is flat, so those regions will continue to contribute. Secondly, in Africa, the second quarter of the year is a low season, while the peak season is in the fourth quarter. Further, BevCo and DRC will contribute to this trend going forward.

What we are seeing in our 30th June results is all the costs associated with setting up these operations. We should be mindful that in Africa, through BevCo acquisition and a new plant in DRC, we have doubled our capacity this calendar year. The result of that has not yet come, but we are seeing the costs, depreciation, and interest related to it. We have also taken some strategic decisions where we have taken advantage in COGS by stocking PET materials, and the cost of which is getting reflected in the interest cost. The interest expense was at its peak last quarter.

And in the next few months, when the costs come down, as our model stays the same and as the chairman explained, with these two territories of SA and DRC, for whom the season is going to be the fourth quarter, and with the South and West India, which have flat seasonality, there is no reason why we should not achieve double-digit growth.

Abneesh Roy: Sir, last question, back on Africa. So, on Africa, if I see, another HPC company has sold some parts of Africa because of, maybe the potential not being to the desired expectation. And if I see per capita income of Africa also last 10 years, it is very below initial expectation. So my second question here is if Pepsi is happy in some geographies in Africa to give you, what are the pros and cons and how would you also meet because currency fluctuation issues, lack of democracy or per capita income not at all meeting the expectation, what is initial expectation. What are your proactive steps to overcome to you?

Ravi Jaipuria: See, if you look at it, the per capita consumption in Africa is 5-6x of that of India. The consumption in African countries is very high. Secondly, the population growth in Africa is close to 3%. Every year, there is close to 3% people being added. So, there is a huge potential. Also, Pepsi is very underpenetrated in Africa, like DRC which was a white patch. In South Africa, we are at ~2.0-2.5% market share. So, there's nothing to go down. There's only upside everywhere, which we have shown in the other markets too, we have seen that every year, we have gained share or increased our margins and done better. We don't see any reason in Africa where we would be struggling, it might take a little longer, because each country is a different animal.

Raj Gandhi: And you asked in your question that the per capita income is low, but as Chairman explained, per capita consumption is higher, which compensates much.

Ravi Jaipuria: Soft drink is food in Africa, it's not a luxury. It's a food. Almost every individual has soft drinks in the afternoon.

Raj Gandhi: And on the currency, we think the worst situation is in Zimbabwe. However, we have managed very well over the last few years; it's a debt-free company and is really growing. The sugar tax, which came a couple of quarters ago, did cause volumes to drop during the transition, but the margins were not affected. Now, volumes have started to recover. So, we have learned to manage these challenges in Africa effectively.

Ravi Jaipuria: If you can manage it, Africa is a great business and going forward it's looking very positive for us.

Abneesh Roy: Sir, I understood on the positive. Just one question on your comment on why Pepsi is willing to give some part of Africa, but not willing to give India.

Ravi Jaipuria: They don't give snacks anywhere in the world. This is the first time they have started giving snacks. They will give it in the smaller territories. Snacks worldwide, they don't give franchise. We are one of the lucky ones who have got it initially.

- Moderator:** Next question is from the line of Percy Panthaki from IIFL.
- Percy Panthaki:** Congrats on a good set of numbers. My question is also on the Foods business. While there is some idea on what is happening there in terms of the company willing to give you a franchisee, etcetera. As investors, if you can give some better guidance on how to estimate what kind of sales this business could generate in the next couple of years so that we can accordingly model it.
- Ravi Jaipuria:** Well, I think at present we are looking at 3 countries and in the next couple of years, we can definitely look at close to \$100 million revenue depending on which other countries we expand. It's a growing market and it's a very lucrative and a positive market in snacks because the capex is much lower and the turnovers are much higher.
- Raj Gandhi:** Percy, just see the data points we have already shared. One is the capex. Second is the date from when the plants will be installed. Third is the market size. As of now, these should be sufficient because we only have these data points. Once this starts, the size of the market and PepsiCo's presence will be factors to consider. The rest of the projections depend on the date by when the plants will be ready. According to the new guidelines, we have to inform about any new investment. So, we have informed and are now working on those things. Except in Morocco, where we had the selling and distribution agreement and sales started ahead of time.
- Percy Panthaki:** Understood, sir. Second question is on the capex. If I look at your cash flow statement, in addition to the acquisition, there is a Rs. 2,000 crores of capex as per the cash flow. And if I look at the balance sheet, there is about a Rs. 3,000 crores of capitalization. So, if you can just help me for the remaining half of the year, how much we should see capex in the cash flow and how much more in terms of capitalization?
- Raj Gandhi:** Percy, you remember on the 31st of December, we mentioned that out of this year's total estimated capex of Rs. 3,600 crore, approximately Rs. 2,400 crore was sitting in CWIP.
- Out of the opening CWIP of Rs. 2,400 crore plus Rs. 1,200 crore spent in the current year for current year's capex, Rs. 3,000 crore is capitalized, and Rs. 600 crore will be capitalized later. The major part of remaining capitalization was DRC, which got capitalized on the 22nd of July, with Rs. 400-plus crore, and roughly Rs. 200 crore is in Gorakhpur, which is still a work-in-progress.

For the next year, about Rs. 2,600 crore is planned for new plants coming up in areas near the market to take freight benefit and handle the competition more effectively. Out of the planned capex for next year season, about Rs. 300 crores has already been spent till June 2024 and we expect to spend about Rs. 1000 crores more in the second half of CY24.

Percy Panthaki: Understood. So basically, next 6 months, the cash outflow you are saying will be about Rs. 1,200 crores for next 6 months?

Raj Gandhi: Rs. 1,000 crores, roughly.

Ravi Jaipuria: Rs. 300 crores is already incurred.

Moderator: Next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Sir, congratulations on a very good performance, and thanks for the opportunity. Sir, this 23% growth when we compare it to about 40%-45% expansion in our capacity. I guess some of it is due to delay in opening of some of the plants, which happened during the quarter. The question is to check is in even for a short period of time, did we touch the peak capacity in the June quarter?

Ravi Jaipuria: Well, for very short period before some of our new plants started because some of the plants got delayed slightly because of the supply chain issues and the containers getting delayed.

Raj Gandhi: Moreover, majority of the expansion was for CSD Lines in India.

Devanshu Bansal: Got it, sir. Second question is on margin time. Our stand-alone EBITDA margin improved largely in line with the gross margin improvement that we have seen. However, in the consolidated level, there is some mismatch between gross margin gains and EBITDA margin gains. What is the reason for that, sir?

Raj Gandhi: Yes, this is because of consolidation of South Africa territory, which has come with its own brands, and their higher costs. This was the first quarter, and South Africa's ratios are slightly different.

Ravi Jaipuria: One, it was the first quarter. Second, it was the winter quarter, which is the worst quarter for the African region and especially South Africa. So, give us another quarter and we will be pretty used to South African systems and market. We are just correcting all the weaknesses to be prepared for the next season, which is coming up in the fourth quarter of the year.

- Raj Gandhi:** And in Q2, basically, one, we were setting it right in South Africa. And secondly, we were installing the DRC, which is now operational and started contributing from this quarter.
- Devanshu Bansal:** A couple of bookkeeping questions. The working capital days have inched up to 31. Can we expect normalization back to 20-odd days at CY 2024 end?
- Raj Gandhi:** In fact, in a couple of months, you'll see the difference. As already explained, we purchased excess PET chips worth about Rs. 250 crore to take advantage of the pricing, which has led to a substantial increase in the gross margin. However, this has been partially offset by an increase in inventory carrying cost and interest cost. Nonetheless, it made sense as it brought savings. So, we decided to proceed with this strategy. In the normal course, if we stop purchases, the excess inventory will be liquidated in the next couple of months.
- Devanshu Bansal:** Got it. And sir, you mentioned about margins in the snacking business better being, better than the overall beverages business. Can you throw some light on asset turns for this business? Are these also better versus the beverage business?
- Raj Gandhi:** It should be similar, and the only advantage is that we don't have to run that business with three shifts, which is not that complicated. In this business, we don't have to make adjustments in the off-season, reduce the staff, and still manage the show.
- Ravi Jaipuria:** The seasonality curve is much better in snacks. It's reasonably flat. So you get a much better return on your capital.
- Moderator:** Next question is from the line of Nitesh Dutt from Burman Capital Management.
- Nitesh Dutt:** My question is regarding the usage of recycled PET chips. So if my interpretation is correct, you will have to use 30% recycled content, I think, from 1st of April 2025. So given, I believe there are capacity constraints in the market and Indorama joint venture potentially is not active yet. So how are you planning to comply with the regulations from per capita as well?
- Ravi Jaipuria:** The joint venture plant will be operational next year and will be sufficient to give us close to 30% of our requirement. Between what we are buying and what the plant will be able to produce, we don't see any challenge.
- Raj Gandhi:** And as a trial, last year we started production of Pepsi Black from recycled PET procured from outside.

Nitesh Dutt: And sir, what will be the impact of this on your cost of PET chips? Would it be gross margin dilutive? Also, do you expect any kind of relaxations in this from the government or regulators?

Ravi Jaipuria: We don't know about the relaxation part, but it's not very negative on margins. It's very close to the virgin PET chips. So we don't think it's much of a margin issue.

Moderator: Next question is from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: My first question was, sir, if you could give some flavour on the market share which we have in Africa for the Beverages business, we understand South Africa, it's low single digit, but if you could remind us what is our market share across the markets we are present here?

Raj Gandhi: Sheela, as we have already informed you that we have different share in different markets, South Africa we just discussed. And in Zimbabwe last year, we reported ~71% market share on a full year basis. And we finished at about 35% in Zambia. And including water, we did ~30% in Morocco.

Sheela Rathi: Just a follow-up on the question asked earlier on working capital days. So you mentioned that this will be resolved in the next couple of months. Does that also mean for the consolidated changes also, which we are seeing because of BevCo? Because you know inventory days are higher, debtor days are higher as well as the receivable days are higher. So I just want to understand whether all this will improve in the coming months.

Raj Gandhi: Well, as far as the effect of BevCo is concerned, it will take time. It will start showing results from the next quarter, but it will take a lot of time because there are many fundamental issues to correct. Market penetration needs to be deepened so that we can dictate the terms. Currently, most of their volume sales are to large modern trade outlets, where it's very difficult to dictate terms; instead, they decide the terms for the number of days of credit period. This will not change in a couple of days but rather in a few months. The impact will be felt in a couple of months, and it will definitely be addressed over time.

As far as India is concerned, it's in good shape because we have been in this business for 50 years. And in South Africa, we have only been there for 4 months. Initially, we are assessing what needs to be done. On the margin front, the realization is much lower for own brands, about 30% lower than the PepsiCo brands in that country. The mix of PepsiCo brands, which used to be 15%, has already increased

to 18.5%. Gradually, PepsiCo brand's sales mix will start improving, and this will help.

We need to create our own larger facilities with economies of scale, like in India. All three of our plants that started this year in India are using solar electricity. We generate our own power and do 100% backward integration in-house. We are aware of these changes in India, and we plan to replicate them in SA, though it will take time. However, we should not underestimate the value of our investment. Acquiring five operational plants for ~ Rs. 1,200 crore was too reasonable, and we need to capitalize on that. We have taken a big step, but the results will take time to come in.

Moderator: Next question is from the line of Sanjaya Satapathy from Ampersand.

Sanjaya Satapathy: Congratulations once again for delivering superb numbers. Sir, you have already explained, but still made a bit of clarification that your staff cost and other expenses as well as finance cost, as expanded both for the stand-alone as well as consolidated entity. So if you can just explain like why such a big jump in staff cost, particularly.

Raj Gandhi: 9 plants were added in H1 compared to the last year: 5 in South Africa, 3 in India, and 1 in DRC. The results of these additions are yet to come in. As we mentioned, it will take some time for us to stabilize. The expenses have already come in, but the revenue will start building up. And for South Africa, as we have discussed, keep in mind that it was the off season. If you calculate the interest cost and depreciation in India for November, December, and January, it mirrors the winter months in South Africa. We will see the positive impact over the next two quarters. Improvements will come as we make progress, and the steps we are taking will bring advantages, as well as economies of scale and backward integration.

Today, they have to buy everything from outside, unlike in India where we manufacture everything in-house, except for concentrate and sugar. Further, ~85% of their sales are from their own brand, and they don't have the ability to upcharge in the market. They are treated as B-Brands, where the realizations are 30% lower than if we manufactured the same product on the same equipment with the same sugar, but for the PepsiCo brand, which is a more premium, well-accepted, and recognized brand. On the availability side, as we mentioned, we had to make a lot of adjustments. Currently, they are too dependent on modern trade.

Sanjaya Satapathy: Understood. And lastly, I just wanted to check that you will continue to be on an investment phase for quite some time to come, which is, in a way, a good thing because you have that kind of a growth opportunity ahead of you. And is there any way to articulate that what kind of minimum return on capital employed or any other

risk parameter like net debt to equity or something which you are closely monitoring while you're driving your growth trajectory?

Raj Gandhi: Firstly, regarding the debt-to-equity and debt-to-EBITDA ratios, we are very cognizant of those and are monitoring them closely. Based on these ratios, we decide on any capital expenditure. The only time we felt the need to address this was in 2019 when we were acquiring South and West India, which led us to do a QIP. Currently, all these ratios are well under control, and we are in a very happy situation. So there is nothing to worry about; these issues have been taken care of.

Moderator: Next question is from the line of Amit Purohit from Elara Capital.

Amit Purohit: Sir, just on the comment that you made on international volumes, which are flat ex of BevCo and that you ascribe it to shift towards zero or low sugar. One, while you indicated 46% of the volumes is low sugar, I mean, majority of that would be in the international market, right? Just one clarification.

Raj Gandhi: That's right. Yes.

Amit Purohit: Yes. And this shift has been happening for quite some time, right? Why has the impact been seen probably in this quarter? And how do we think about it going forward in this transition?

Ravi Jaipuria: The impact was temporary, which was mainly in Zimbabwe, which is a large international market for us, before South Africa and DRC starts. There was a special tax on sugar. So there was a complete change in the portfolio and that's why there was an effect on volumes for this quarter, which has already changed now, the market is growing back into normal, and we are growing in that territory again.

Moderator: Next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: Sir, my question is on the realization front. In this quarter, our realization stood flat and we have stated that because of the consolidation of the BevCo business, where the margins are quite lower, the realization stood flat. Considering the fact that in the second half of the year, when season for Africa business is quite good, should we expect realization to be lower in the second half of the year on a YoY basis?

Raj Gandhi: Kaustubh, there are two things to consider: one is South Africa, which will bring it down, and the other is DRC, which might take it up. Let's wait and see. We are analyzing this ourselves, and maybe both will compensate, and we might end up with the same monthly revenue growth and per case sales growth. Moreover, in

South Africa, the mix will also be changing. For example, from the 15% mix of PepsiCo brands we have moved to 18.5% in South Africa, without adding even a single bottle of capacity or doing backward integration. If we can increase this further, the top line will grow from its previous level. We would be happy if we are able to continue this trend.

Kaustubh Pawaskar: Right. Second, maybe Q3, Q4 might give us a better understanding how the realization would pan out.

Raj Gandhi: That's right.

Kaustubh Pawaskar: And just from the understanding point of view, we are seeing the contribution of no sugar or low sugar products going up, are realization and margins in this product much better than the conventional Pepsi products?

Ravi Jaipuria: That's right. Our margins are better with low sugar and no sugar.

Kaustubh Pawaskar: Once the contribution pick up, I think that should also add to your profitability going ahead.

Ravi Jaipuria: Yes. It depends which country and where, but it will definitely help.

Moderator: Next question is from the line of Onkar Ghugardare from Shree Investments.

Onkar Ghugardare: Yes. Is it possible to give the volume growth or how many million cases BevCo sold in the last season, which is the fourth quarter?

Raj Gandhi: Quarter-wise, we can't give historical numbers but they sold about 112 million cases last year.

Onkar Ghugardare: The entire financial year, you are saying?

Raj Gandhi: That's right. Last calendar year.

Onkar Ghugardare: And this quarter, it was 28 million cases, right?

Raj Gandhi: Yes.

Onkar Ghugardare: Only for the current quarter, you are saying?

Raj Gandhi: Yes which is 1/4th of 112 that is 28, and this is the weakest quarter. This tells the total story.

- Onkar Ghugardare:** What you are saying is earlier, you mentioned that you will be seeing quite a lot of changes in BevCo in the upcoming season. Can you just share some light on what kind of changes we are expecting there?
- Ravi Jaipuria:** Changes with respect to our go-to-market, our backward integration. It will take time, but we are going to correct and that's why we have taken the market with such a low share. But if you look at it, what the total year volume was, we are achieving 25% of that practically in the lowest quarter, which is the weakest quarter of the year.
- Onkar Ghugardare:** Now that you have understood the market a little bit better when you acquired the company, can you throw a little bit more light on what kind of opportunity you are looking?
- Ravi Jaipuria:** It's a new country, and we've only been there for 2-3 months. We have given you enough information that, during the worst winter, we are achieving the numbers we should. We can't give you the complete exact detail at this point. We wish you would give us a couple of quarters to really understand the country.
- Onkar Ghugardare:** One more thing is that you had mentioned that DRC will be a big opportunity. Can you just throw more light on that?
- Ravi Jaipuria:** It's a big opportunity because there's more than 100 million population. And it's practically on the equator. There, it's summer all the time. The seasonality is very low there. There's no change in seasonality throughout the year. So it's a good market and it will be a constant throughout the year market.
- Onkar Ghugardare:** What's the presence of Varun Beverage over there or through PepsiCo?
- Ravi Jaipuria:** We have just started 8 days back.
- Onkar Ghugardare:** Can you say that, I mean, apart from India and South Africa, this can be our biggest market for you?
- Ravi Jaipuria:** No, we won't say it's the biggest market, but it will be a decent market for us. India of-course is much bigger, and it will always be the biggest market.
- Onkar Ghugardare:** And what about the consumption wise, per capita consumption there?
- Ravi Jaipuria:** Africa per capita consumptions are all high everywhere, South Africa being the highest. I don't have the exact number, but it would be at least 3-4x of India.
- Moderator:** Next question is from the line of Shravan Rajpurohit from Nakshatra Assignment.

Shravan Rajpurohit: Sir, my question is, what is your guidance for next year? How much percent we can grow next year?

Ravi Jaipuria: We can't give you exact number. We have said double digit looks feasible, and that's what we can tell you.

Shravan Rajpurohit: Sir, one more question. What kind of growth we can expect in the next 2 quarters?

Ravi Jaipuria: Well, again, the same thing we are saying we should grow double digits. That's the guidance we are giving and that's what it was feasible.

Moderator: Ladies and gentlemen, we'll take that as the last question. I'll now hand the conference over to the management for closing comments.

Raj Gandhi: Thank you very much. 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 once again for your interest and support and for taking the time out to join us on this call. Look forward to interacting with you all soon. Thank you very much.

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