corp **VARUN BEVERAGES LIMITED**

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May 8, 2023

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 May 2, 2023 post declaration of Unaudited Financial Results of the Company for the Quarter ended March 31, 2023 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
Digitally signed by RAVI BATRA
Date: 2023.05.08 16:36:32 +05'30'

Varun Beverages Limited New Delhi

Ravi Batra
Chief Risk Officer & Group Company Secretary

Encl.: As above

Varun Beverages Limited

Q1 CY2023 Earnings Conference Call Transcript
May 02, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Varun Beverages 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 the conference call, please signal an operator by pressing "*" then "*" on your touch tone phone. Please note that this conference is being recorded.

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

Anoop Poojari: Good afternoon, everyone and thank you for joining us on Varun Beverages - Q1 CY2023 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 – Group CFO and 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 highlight 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 an opportunity to go through our results presentation that provides details of our operational and financial performance for the first quarter ended March 31st, 2023.

We are pleased to share that the company achieved remarkable operational and financial performance during the quarter despite weather disruptions in some parts of India in the month of March.

Moving on to our expansion plans, we are happy to report the commissioning of our Greenfield production facility at District Bundi, Rajasthan, and the brownfield expansion of 6 facilities. The additional Greenfield plant in Jabalpur, MP is expected to be operational very soon. With regard to our international growth plans, construction of our new production facility in DRC has already started. We expect the facility to be operational by the end of the year.

Our energy drink product has achieved a significant share in our overall mix and has firmly established our leadership position in the category. Our focus now turns towards new performers like value-added dairy, sports drink, juice segments to sustain the growth momentum. These products continue to be well received by consumers, providing us with confidence that these products will fuel the Company's next leg of growth.

It gives me immense pleasure to announce, as approved by shareholders in our Annual General Board meeting, the final dividend of Re. 1 per share, taking the total dividend payout for the year to the level of Rs. 3.5 per share. Furthermore, the board recommended the split of existing equity shares of the Company from one equity share having face value of Rs. 10 each into two equity shares having face value of Rs. 5 each. This is subject to the approval of equity shareholders of the company.

We are also committed to safeguarding our environment and promoting sustainability in our operations. One of the ways we are achieving this is by investing in PET recycling and implementing measures to improve energy and water efficiency. Our goal is to have a net positive impact on the environment.

Overall, we are encouraged by our strong start and remain confident about delivering good performance this year. With our robust on-ground execution capabilities, expanding manufacturing capacities, and increasing distribution reach, we believe we are well-positioned to achieve sustainable growth in the medium to long term.

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.

Before we start with the update on quarterly performance, I am happy to share that over the last 5 years, the Company has demonstrated strong growth across all key performance indicators. Sales volume has grown at a CAGR of 24% in 5 years which is a testament of Company's execution capabilities. Net revenue increased significantly at a CAGR of 26.7% during the same period of the last 5 years, indicating the Company's success in expanding the customer base as well as distribution reach. In terms of profitability, the Company has achieved remarkable growth with EBITDA and PAT growing at a 5-year CAGR of 35.1% and 50.8% respectively.

Now let me provide an overview of the financial performance for the first quarter ended March 31st, 2023.Net revenue from operations grew by 37.7% year-on-year in Q1 CY23 Rs. 38,929.8 million driven by robust volume growth and increase in net realization. Sales volume grew by 24.7% to the level of 224.1 million cases in Q1 CY23 from 179.7 million cases in Q1 CY22, driven by strong demand across regions in India.

In Q1 CY23 net realizations per case improved by 10.4% Rs. 173.7, primarily driven by price increase taken towards the end of the corresponding quarter last year in selected SKUs and continued improvement in the mix of smaller 250 ml SKUs.

On an overall consolidated basis, CSD contributed 71.2%, juices 7.4%, and packaged drinking water 21.4% of the total sales volume in Q1 CY23.

During the quarter gross margins improved by 89 basis points to the level of 52.4% from 51.5% in Q1 CY23, driven by marginal savings and raw material prices and improved product mix. EBITDA increased by 50.3% Rs. 7980.4 million and EBITDA margins improved by 172 bps to 20.5% in Q1 CY23, driven by operational efficiencies on the back of strong revenue growth.

Depreciation increased by 31% Rs. 1,721.9 million in Q1 CY23 as compared to Rs. 1,313.2 million and finance costs increased by 33% in Q1 CY23 on account of capitalization of assets and setting up of new production facilities. PAT increased by 61.8% to Rs. 4,385.7 million in Q1 CY23 from Rs. 2,710.9 million in Q1 CY22, driven by high growth in revenue from operations improvement in margins and transition to lower tax rate in India.

As shared by the chairman, we have successfully commissioned multiple greenfield and brownfield beverage manufacturing lines across regions in India, resulting in an increase in our production capabilities for the peak season.

Overall, we are delighted to report a strong start to the year. We are currently witnessing a healthy demand environment and remain excited about our prospects as we enter the peak season with expanded capacities and a stronger distribution network.

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 the questions and suggestions that you may have. Thank you.

Moderator: We have our first question from line of Chirag Shah from CLSA India.

Chirag Shah: Mr. Jaipuria, you mentioned that sports drinks and value-added dairy would fuel the next leg of growth. Can you please elaborate a bit more on this and in that context can you also touch upon how we are positioned to protect our market share in the energy drinks, juices I understand earlier were restricted due to capacity constraints?

Ravi Jaipuria: We are constrained by the production capacities of both Tropicana juices as well as value-added dairy. We are putting up two plants that are going to add our capacities in both these categories which are Tropicana as well as value-added dairy which is going to be in Maharashtra and UP. This will increase our capability for next year as right now, we don't have the capacity to supply.

Chirag Shah: When you say value-added dairy, are we looking to further expand our product portfolio in dairy or the products that we have would suffice for the national rollout?

Ravi Jaipuria: We have enough products but now since we don't have the capacity, we have not looked at expanding it. Once we have the capacity then if we feel there is a need, but right now I don't think. We have enough products which are enough to take care of the current demand.

Chirag Shah: And just your views on the emerging competitive landscape, especially with Campa looking to tie up with bottlers and packaging partners.

Ravi Jaipuria: It's a big market. We already have strong competition, we also had a lot of B brands before. So, there is always going to be competition and as the market is going to grow, there will be more people coming in. Campa and Reliance will be a formidable competition. We think the Indian market is so large and we are still scratching the surface, so there is enough room for everybody.

Chirag Shah: On the energy drink side, is there a change in strategy to protect our market share over there?

Ravi Jaipuria: I think we are just increasing our distribution and that is what is required right now. As we said before, there is so much room and there are so many more outlets that we can open, which we are adding every year that there is a huge scope to keep on adding further volumes and the number of stores. We don't think we need to do anything else except to enhance our distribution.

Chirag Shah: And on that note, I mean of course we have come a long way in terms of our visi-cooler infrastructure on the ground, last year itself has seen a huge ramp-up, what are the plans in terms of the rollout of visi-cooler, and infrastructure going forward and how do we look at enhancing that capacity?

Ravi Jaipuria: We will keep on enhancing that because as our number of outlets keeps growing, our visi-coolers deployment will also have to keep on going in parallel. As we want to open more stores, so we will have to keep on adding more visi-coolers every year.

Chirag Shah: Can you just give us a sense of the raw material prices versus the last year and what is the situation of PET inventory and the price that we have logged in for the same?

Ravi Jaipuria: We normally lock in enough for six months for our season which we did this year also and that's why our inventory levels go very high during this time and then they start coming down by the end of June. We try to maintain this trend because the lowest pricing in PET is usually in our off-season.

Raj Gandhi: Also, as stated, the gross margin has slightly improved because the commodity prices were under control.

Chirag Shah: Last question, what was the net debt at the end of the quarter and any clarity on the CAPEX spend for the year?

Raj Gandhi: The guidance stays the same for CAPEX spent for the year which was around Rs. 1,500 crore out of which a major portion is already spent. This resulted in a debt level of around Rs. 4,000 crore. Going forward, in the season it will come down, so the same by June quarter is the lowest and, in the pre-season, it's always the highest.

Moderator: We have a next question from the line of Vivek M from Jefferies.

Vivek M: Sting volume numbers for this quarter?

Ravi Jaipuria: Sting is doing extremely well with growth in double digits but exact numbers we would not like to disclose.

Raj Gandhi: Vivek, keeping in mind the competitive scenario and the sensitivity around it, we have decided not to share granular level numbers anymore but directionally and overall numbers in terms with position and capacity, etc. we will always continue to share.

Vivek M: Momentum continues to be as strong in Sting?

Ravi Jaipuria: Yes, momentum is still very strong.

Vivek M: You mentioned about the next leg of growth about dairy, sports drink and juices is it only because of capacity or is it also because you think that Sting has reached a level where you think that you need the next driver because Sting will start to taper off, the growth will start to taper off as we head into this year because the base has certainly moved up quite a bit in the past eight quarters

Ravi Jaipuria: No, We don't think Sting should taper off. There's no reason for it because there are still a lot of outlets that we still have to reach. The value-added dairy, juices, and our sports drink, didn't had the capacity, so that is what is being ramped up for CY24, this is going to play an additional role for us.

Vivek M: My understanding is that dairy from a return perspective is a low return business. Is that understanding correct that you know it is going to be returned dilutive or what do you think about the economics of the dairy business?

Ravi Jaipuria: We are not in the basic dairy business; we are not selling raw milk. We are selling value-added dairy. Our margins are as good as our soft drink in our dairy business, so it won't be dilutive at all.

Vivek M: Even for value-added business, do you think the returns are as good as it is for the base business?

Ravi Jaipuria: Yes, absolutely and it's a high-value product. The selling price of dairy is much higher than our soft drinks.

Raj Gandhi: Our revenue realization is higher and the tax structure is lower in value-added dairy. Its 40% GST on CSD, while in the case of dairy, it's 12% and any incremental cost in the case of dairy gets compensated due to favorable tax structure.

Vivek M: The other thing is if I look at the trend in consol, gross margins in standalone versus in the subsidaries, also the EBITDA margins. So, what if there is a decline in EBITDA margin at a subsidiary level and what is your outlook on subsidiaries?

Ravi Jaipuria: The subsidiaries are doing well, it's just that we had some weather issues in one of our territories.

Raj Gandhi: Also, Zambia currency's last quarter depreciation was abnormal which affected the results. However, during the current quarter, the currency has started strengthening or at least will remain constant. Instead of spreading that loss to more than one quarter, we have booked complete currency loss, and therefore temporarily it's looking like this. Otherwise, the basic model stays intact like in earlier periods.

Vivek M: The international margins have moved up quite a bit in the last 3 years. It used to be significantly below our India business. What is your expectation on where this margin should settle on the international side?

Raj Gandhi: Let us share with you a fundamental shift that has happened from this quarter. Earlier in every quarter we used to discuss the currency volatility in Africa and we used to justify how Zimbabwean Reserve Bank has supported us by giving the currency for repayment of our debt. Now the debt is repaid and about 90% of our transactions are in dollar terms.

In other words, 50% of our business today in Africa is dollar based. So instead of currency risk on the negative side going forward it is expected to be definitely positive. You may notice this in the current quarter's comprehensive income. So in spite of minority interest, total comprehensive income is higher than the PAT. So, these are some structural changes that we witnessed and fundamentally views are continuing to be strong.

Vivek M: My last question is, you are growing so strongly for the last several quarters. I just saw Coke's comment in the media where they have said that they have gained market share in India. How is that possible if your growth is so strong and it doesn't look like the industry is growing faster than that?

Raj Gandhi: You are all smart people and this we will leave up to you to make your own assessment, nothing beyond it.

Moderator: We have our next question from the line of Nihal Jham from Nuvama.

Nihal Jham: Historically you have mentioned Sting ideally should be 15% of the market and while we are not getting the exact contribution, at least currently it is there in terms of our portfolio. So, would it be fair to say that Sting currently has raised the so-called optimum percentage of the portfolio, or do you still see it becoming a much higher proportion going forward?

Ravi Jaipuria: We had never said that Sting should be 15% of the portfolio. We have always said energy drinks are becoming a 15% of the portfolio which is at the industry level. There is still plenty of room for us to grow.

Raj Gandhi: This is a comparison between other economies where energy drinks are launched. In India, it's a new product, and if we assess the industry size that's a benchmarking and it will keep on growing. We are increasing simultaneously capacity in the Tropicana, in value-added dairy, in sports drinks, etc. So that the momentum continues for many more quarters.

Nihal Jham: Just on that very aspect where you've highlighted the new initiatives and I think there have been questions earlier. That the only aspect about dairy is that given it's a cooperative driven business and while I know we are more in the beverage, on the value-added side pricing and margins in that segment are controlled. Would it be fair for us to believe that maybe sports and juice would be more priority for us to scale up rather than dairy at this point in time?

Ravi Jaipuria: Well, not necessarily because our dairy business is very profitable for us. So, it is both – juice & dairy and the advantage we have is the same machines can manufacture both the products. So whichever demand comes, we can switch from one to the other overnight.

Nihal Jham: So, would the gross EBITDA margins for the dairy be similar to the current portfolio average?

Ravi Jaipuria: It is as good or better.

Nihal Jham: Just one last bookkeeping question. For the realization increase that we've seen, I think we took a price increase of 2%-3% in the corresponding quarter last year and maybe there is a reduction in discounts and plus there has been a product mix, if it's possible to just give a ballpark bifurcation of that?

Ravi Jaipuria: Basically, the main reason has been a very slight increase due to price but mainly because of product mix and our water mix has also slightly come down.

Moderator: We have our next question from the line of Jay Doshi from Kotak.

Jay Doshi: Could you give us some idea in terms of what's the potential of sports drink in India, the way you had articulated earlier that energy drinks can be potentially 15% of the market when you compare India versus other economies, where does sports drink, do you think in your assessment, how big can it be?

Ravi Jaipuria: We are not sure to be honest. As more people are becoming health conscious, sports drink is becoming a go to category and we have one of the strongest brands in the world in this category which is Gatorade. We expect a good momentum once we start focusing on it and we have the capacity to supply it.

Jay Doshi: Any color you can give us in terms of in other market, is it comparable to energy drink, half the size of energy drink? I know it's too early to put a guess on India.

Ravi Jaipuria: India is still not ready for it but we think we need to really put it in the market properly. We are getting good response wherever we are putting it and the growth is really exponential. But because of our capacities we have not been able to put it. So hopefully by this year, we will have enough capacity and we will be really able to test it next year.

Jay Doshi: And what would be your reach of Gatorade in India today as a percentage of overall reach?

Ravi Jaipuria: The reach is there but it's very exclusive, so we are only going to the top outlets.

Jay Doshi: My second question is if you can give some color, how is the summer shaping up this year? Because from time to time we hear about some disruptions in the northern part of India.

Ravi Jaipuria: Well, weather always plays an important role in our business, but it's like sometimes the summer is extended or little earlier. So, these things keep on happening it can only make a difference of certain percentage points up or down. So, you can never really say what would happen.

Jay Doshi: Final question is, Mr. Gandhi, what should be modeled in terms of year end net debt at the end of this year?

Raj Gandhi: We are yet to finalize the plan fully for the next year, although two plants we have already stated. One in Maharashtra, and another in UP foundation for which is already laid. And maybe third one we will be putting up in Orissa. Our Kinshasa plant in DRC is also yet to be completed. So, we will wait to share the final numbers. As stated earlier, the debt level as of now with completion of two plants at Rajasthan and MP which were planned for the current year is ~Rs. 4,000 and we can give you the number for full year maybe after a month or so.

Moderator: We have our next question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: We have started the year with about 28% volume growth in India. So, does this contain any one-off or a favorable base last year or we can expect such things to continue in coming quarters?

Ravi Jaipuria: We've always said double digit growth numbers look decent, but we cannot comment precisely. We had a good year last year and this year has started well, we hope we can end well also.

Devanshu Bansal: So, your last year base was like normal, there was no one-offs etc. because of Omicron etc.

Ravi Jaipuria: No. It was a normal year.

Devanshu Bansal: What is the revenue salience of this quarter because there has been a change in geography mix also versus pre-COVID? Q1 is what percentage of our sales?

Raj Gandhi: The first quarter is around 24% of the year. However, to start with, we take 25% in the first quarter and then we keep building on it when the plans are achieved. But broadly, if you see the longer period, it works out to ~24% in Q1, ~61% for the H1 and the balance for H2.

Devanshu Bansal: In terms of marketing, PepsiCo this time around is basically aggressive this season with several celebrity endorsements. Do we also foresee any margin impact due to this in our P&L?

Ravi Jaipuria: No, this is being spent by PepsiCo. It's not dilutive to our margins.

Devanshu Bansal: We have indicated we'll be adding about 70,000- 80,000 visi-coolers. Is it fair to assume that majority would have been added before the season itself?

Ravi Jaipuria: Mostly yes.

Moderator: We have our next question from the line of Percy Panthaki from IIFL.

Percy Panthaki: Just wanted to check the progress on the distribution, the number of retail touch points that we are catering to, currently how much have they gone up to on all India basis and how much is the universe just for me to understand what is the upside?

Raj Gandhi: We have already shared last year's number, this data does not come on regular basis from PepsiCo, we get it on annual basis. We have not yet updated but the guess is it might have gone up by around 10% because we have put about 75,000-80,000 visi-cooler.

Percy Panthaki: And that is how much in number of millions of outlets.

Ravi Jaipuria: We had about 3 million outlets. So, you can look at 300,000 to 400,000 more outlets.

Percy Panthaki: And out of these how many would you be directly going to?

Ravi Jaipuria: We don't go directly to any outlet, it's basically our distributors who go and the distributors go to 100% of our outlets directly where we serve.

Percy Panthaki: So, as we understand it in FMCG parlance, it would be called 100% direct distribution.

Ravi Jaipuria: Yes, through our distributor.

Percy Panthaki: On Gatorade, do you think it can be a big opportunity given the pricing? It's a little bit more niche or premium kind of product? And correct me if that understanding is wrong given that constraint or do you think that you would be willing to break that constraint and price it sort of more to parity versus the rest of the portfolio in India?

Ravi Jaipuria: We have brought it very close to parity, like we brought in our energy drink. We are looking to expand the market in quite a substantial way next year.

Raj Gandhi: Earlier Gatorade was available only in the packing of 500 ml at Rs. 50. Now we also have a pack of 250 ml at Rs. 20 if you compare it with PepsiCo's other products, it's well comparable with that.

Percy Panthaki: On value-added dairy what is the game plan? What do you need to do differently versus your other part of the portfolio, or you think that it can just sort of be one more product and you don't need to think too differently here?

Ravi Jaipuria: No, we don't need to think too differently. The main advantage we have is our distribution and our chilling equipment. All we need to do is make sure that our partners carry it, and we place it in our visi-coolers. The product is excellent and wherever we have been able to supply it, it has done extremely well for us.

Percy Panthaki: And what is the current market size of this product, industry size?

Ravi Jaipuria: The market size is very large and we are very small because we only have one plant which can produce it. So, it's only being serviced mainly in the north area, because it is being manufactured only in one plant at Pathankot.

Moderator: We have a next question from the line of Amit Purohit from Elara Capital.

Amit Purohit: Just on the distribution side, you earlier used to provide some guidance or outline the sting versus the rest of the CSD. Has that gap further increased? I remember last were some 4 lakhs more outlets for Sting?

Ravi Jaipuria: We can't give you exact numbers, but Sting is doing extremely well for us.

Raj Gandhi: The exclusive ~ 400,000 retailers which were there, as stated earlier, we get this data from the agency once a while. We have this data only as of now, we can only do a guess work and exact data for the latest period is not available. However, the idea is to reach a bigger base, and we will always then try to cross sell our other products also. Once they come in our fold, exclusivity will go-away and they can then also carry our other products.

Amit Purohit: Just on Gatorade, would the touch points would be broadly similar kind of thing because this would be more available in gyms or currently how it is getting distributed largely when you say "A" Class outlets, is it like gym?

Ravi Jaipuria: We will expand our distribution of-course, it won't be exactly like our soft drink. It will be much less than our numbers in our soft drink but still there's enough scope and we have also brought it to the right price point.

Amit Purohit: On the region wise growth would you be able to at least give qualitatively whether Southwest has done better than Northeast or it's broadly similar?

Ravi Jaipuria: We are doing well throughout and across the country give or take one State better or worse. Our growth is quite good across the country.

Amit Purohit: Lastly you highlighted the facility in Maharashtra that would be also for dairy as well or there will be?

Ravi Jaipuria: That's right. It will be for dairy and Tropicana also.

Amit Purohit: And including the CSD?

Ravi Jaipuria: Yes, absolutely.

Moderator: We have our next question from the line of Sumant Kumar from Motilal Oswal.

Sumant Kumar: What is the net debt as on date?

Raj Gandhi: It is around Rs. 4,000 crore as on 31st March 2023.

Sumant Kumar: And the increase in interest in this quarter is combination of increase in debt and the interest rate?

Raj Gandhi: In the first quarter, these plants have not been put-to-use and it increases the borrowing but in the next quarter when the borrowings start coming down so the interest will start coming down. In the last quarter the interest cost is higher because these two plants were under implementation and the Company had to borrow.

Sumant Kumar: Can you talk about the rural growth momentum compared to urban for Varun Beverages?

Ravi Jaipuria: Our growth in urban and rural is just about the same; even though rural is slightly going ahead of the urban now.

Sumant Kumar: Currently the rural is ahead of urban, growth side?

Ravi Jaipuria: Yes.

Moderator: We have our next question from the line of Sanjaya Satapathy from Ampersand Capital.

Sanjaya Satapathy: One thing if you can just tell us that how the weather vagaries affecting your sales performance nowadays that is considering that the summer has not really started the way it used to be in the past and you have also mentioned in the press release that March was not good in terms of weather. So, will that kind of affect your growth plan this year?

Ravi Jaipuria: There's always some months which are slightly weather negative, and some month weather is slightly positive. There are also talks of an extended summer, so this makes a difference of couple of percentage points up or down. This is not really make or break unless-until something really terrible happens or something really positive happens.

Sanjaya Satapathy: The reason why I was asking is become a bit of a more lifestyle or something that it is no longer as dependent on weather as it used to be earlier because nowadays Coca-Cola etc. are talking about much better sales in mid-term.

Ravi Jaipuria: We agree with what you are saying, it is changing but it is changing mostly in the urban areas but when you start going to rural it is partly climate dependent.

Sanjaya Satapathy: You mentioned that your next key growth driver will be sports and fruit juices as well as dairy, which essentially mean Gatorade etc. Do you have to and you are putting up capacity for Tropicana and dairy but do you have to put something specially for your sports drinks or you are fully equipped?

Ravi Jaipuria: No, the same plant can make sports drink also.

Sanjaya Satapathy: But the bottling is different?

Ravi Jaipuria: Now we can make the sports drink in our existing bottling plants.

Sanjaya Satapathy: Just the last thing that I wanted to ask is that when you were saying that you will be a lot more aggressive on sport drinks, you have mentioned that you have changed some pricing but has it got something to do with the fact that the plain vanilla beverages are now seeing new entrant and the best way to really keep doing better is to have these differentiated products?

Ravi Jaipuria: We believe our basic product range will keep growing but we must keep on adding something to show you guys all good growth. So, unless we keep on adding some new things how we will grow faster than the market.

Sanjaya Satapathy: And if you can just highlight that this Rs. 1,500 crore Capex that you're talking about; is it cash outgo?

Ravi Jaipuria: It's all cash outgo.

Moderator: We have our next question from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: We mention that the Capex is Rs.1,500 crore? And if it is so then have, we changed our policy where the Capex will be more than depreciation now here onwards? My second question is for the movement in EBITDA per case which we have seen in the last four-five quarters from the 30s or 32 to about 35-36 today. Lot of it seems to have come from operating leverage. So, are we at the situation where the assets are fully utilized, and this is the upper end of the EBITDA per case?

Raj Gandhi: Firstly, on the depreciation, the policy remains the same, but it must be read in totality. For getting a growth of low double digit 10% to 12%, the policy of capex equal to depreciation remains the same and that's very sacrosanct. Now say instead of 12%, if we have organic growth expectation of 24%, then the capex must be equal to 2 years' depreciation. This is what is happening, because we are growing, we are in the investment phase as of now. The earlier policy still stays the same.

Secondly, on EBITDA per case, the percentage stays the same and the economies of scale start playing. The realization goes up due to change in mix and on account of higher revenue from smaller packs, the absolute margin is higher. The realization is higher so naturally they will contribute more towards profit margins. We always had been telling that water realization is about one-third of the CSD, so, if CSD mix increases by 1%, the revenue increases by 3x. So, when we divide this by the number of cases, it's bound to give a much higher per case realization and if EBITDA percentage is applied to enhanced revenue, the profit kitty also goes up. This is a brief answer to both of your questions Pritesh.

Pritesh Chheda: Just a follow up here. Incrementally this will be valid even when the mix is moving for juices, sports drink and dairy.

Raj Gandhi: The realization in those two cases is even higher, so this will continue much faster, the realization is higher than CSD also; you take it whether Gatorade, dairy or juices. If we sell these at Rs. 30 per serving as against Rs. 15 or Rs. 20 in case of CSD and the tax structure is favorable at 12% so definitely yes to your question.

Moderator: We have our next question from the line of Onkar Ghugardare from Shree Investments.

Onkar Ghugardare: My question was regarding the targets which you have set, since we are growing this much from last 3-4 years consistently. Just wanted to know your targets in terms of ROE and ROCE for the next couple of years?

Raj Gandhi: Our ROCE so far has been growing in range of 200 to 250 bps every year and now we have reached a level around touching 30% ROCE in CY22. So, our guidance is 100 to 125 bps increase going forward; we still have a scope to improve for another couple of years.

Onkar Ghugardare: So, 100 to 125 bps every year you are saying, right?

Raj Gandhi: Every year for a few more years and then we'll keep on reviewing this target going forward.

Onkar Ghugardare: So, you are expecting around say 34%-35% kind of ROCE in next 3-4 years, right?

Raj Gandhi: It is possible, we are saying this as out of our six territories, two-three are already doing even higher than 35% ROCE. Therefore, we feel it's achievable but how much we can achieve, how much turns into reality; we will wait and watch that at appropriate time.

Onkar Ghugardare: So, in terms of distribution reach, you have said that you have 2,400 distributors. Is there any target in mind for say next couple of years again just like the ROCE?

Raj Gandhi: See with the more visi-cooler, more spreading and going deeper into the market and urbanization; this will keep on growing with the economy.

Onkar Ghugardare: Yes, but internally you must have set some target that we want to reach at this particular point?

Ravi Jaipuria: As we are looking at increasing 10% to 12% of the outlet base so we must keep on increasing our distribution in parallel.

Onkar Ghugardare: So around 10%-12% growth you are expecting on the distribution front as well, every year?

Ravi Jaipuria: Mostly yes.

Onkar Ghugardare: If I can ask one question you have said that dairy, sports drinks and other juices segment I mean all these products commands same margins as of the base category?

Ravi Jaipuria: That's right, if not better.

Onkar Ghugardare: And what are your plans in terms of debt for say next couple of years as you will be expanding more and more and you have been expanding?

Ravi Jaipuria: It depends on growth levels. last year we have grown more than 40%. For this type of growth, we have to expand. If our growth comes down to what we've been saying in double digits, which is 10%-12%, then we don't need to expand and then we don't need debt. And it will depend on where we are and how we grow.

Raj Gandhi: See our debt-to-EBITDA is 1 or a small fraction of more than 1, 1.1 or so. So basically, if in any year if we are not expanding, it's equal to ~ 1-year's EBITDA.

Onkar Ghugardare: Another question is I wanted to know is the size of opportunity in all the business you are doing and another thing is that what kind of more products you can launch in these segments, all the segments you are catering to?

Ravi Jaipuria: We believe we have enough products and there's enough room to grow in these products for the time being as we keep on growing and expanding. Once we start getting saturated, we will look at more products.

Onkar Ghugardare: And any more products from Pepsi's front?

Ravi Jaipuria: Yes, it will be mostly from PepsiCo's front. Only the dairy is our own product.

Onkar Ghugardare: So, like for example, just to take the example of main business of Pepsi, how many products are there and how many products are currently available here?

Ravi Jaipuria: There are hundreds of products. There's no end to it, their portfolio is in hundreds of products.

Onkar Ghugardare: But all the products are not available here so that's what I am asking, how?

Ravi Jaipuria: It depends on what suits this market we can keep picking from their portfolio. There's nothing which stops us.

Moderator: We have our next question from the line of Grenesh Sirwani an Individual Investor.

Grenesh Sirwani: How are you going to compete with the competition in the category of energy drinks, compare and now seeing that Thumbs Up has come up with their charged drink which also cost the same pricing?

Ravi Jaipuria: They were always there so it's not that they have come up with something new this year. They have been there after we launched Sting, they launched their product maybe a year or 2 years later, so they have been in the market. So, they have their share and we will have our share. The market is large enough.

Grenesh Sirwani: They must have been gaining, their customer base for them has been gaining rapidly?

Ravi Jaipuria: They may be gaining and we are also gaining. Energy drink is a big market so there is scope for both of us to gain.

Grenesh Sirwani: Could you please share some light on how the snacks sector performance in Morocco is going on considering you started the distribution this year?

Ravi Jaipuria: Well, it's too early because we have just started towards the end of January early February and then Ramzan had come in March and April. We are confident that it will do well but it's still too early.

Moderator: We have our next question from the line of Nikunj Gala from Sundaram AMC.

Nikunj Gala: My question is on the dairy product. So, what were the volume contribution in CY22 for us from the dairy products?

Ravi Jaipuria: It's still small because only one plant is servicing the whole country. It is maybe 3-4 million cases.

Nikunj Gala: And in case of aggression here in terms of expansion, how the procurement we have tied up with anyone or farmers or how are we looking here in case of the?

Ravi Jaipuria: Availability of milk is not a problem because we are not fighting for pennies here. Our product is not plain milk. Ours is a value-added product so even if we get milk Rs. 1 more expensive, it really doesn't impact the overall portfolio. So, we have no shortage of getting the raw milk.

Moderator: We have our next question from the line of Mitul Shah from Reliance Securities.

Mitul Shah: I have a question on this media reports on sugar availability, as sugar production this time very low and prices are also lower. So, any direct-indirect impact in terms of procurement as well as on the gross margin side?

Ravi Jaipuria: There is enough sugar in this country so maybe they will export less this year. Otherwise, the sugar production is much higher than the consumption in the country so there is no problem or any shortage. So maybe you know as a commodity it can go up by couple of percent or come down so that much effect it will have.

Mitul Shah: Similarly, second question on the PET bottle. Compared to price trend during the last quarter, what is it during April and May trend?

Ravi Jaipuria: Similar, very little difference.

Raj Gandhi: In fact, in both the commodities, sugar and PET, in the last two-three quarters the prices have remained broadly the same.

Ravi Jaipuria: Not any major difference, minor tweaking it keeps happening.

Mitul Shah: Lastly on any update on this recycling which we were planning?

Ravi Jaipuria: We are in the process; we are finalizing land and hopefully we are targeting that we should be in production by 2025.

Mitul Shah: But any permission and approval which we were seeking is we already received or still it's under process?

Ravi Jaipuria: It's a national policy which has to be framed. So right now, they are not allowing recycled PET for food grade. It can be exported or recycled but cannot use it for food grade.

Moderator: We have our next question from the line of Saket Mehrotra from Tusk Investment.

Saket Mehrotra: Any color on the snack portfolio that we have got for the India portfolio? You mentioned about Morocco but the Puffcorn contract manufacturing and any developments or updates you expect for this year?

Ravi Jaipuria: We are doing co-packing for PepsiCo and we are practically getting complete utilization of our plant but nothing beyond that. Marketing and selling is PepsiCo's call. We are just producing for them.

Saket Mehrotra: The other question I had you know you mentioned about Gatorade scale up. So just wanted to get an understanding as to what in terms of our strategy is here with this product because it's been around in our portfolio for quite some time so?

Ravi Jaipuria: It was a niche product in our portfolio and it was only for certain exclusive locations. Now we want to mass market it and make it available at much more number of outlets which we plan to do from early next year.

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

Raj Gandhi: 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. Look forward to interacting with you all soon.
