



VARUN BEVERAGES LIMITED



Corporate Off : Plot No.31, Institutional Area, Sec.-44, Gurgaon, Haryana-122002 (India)
Ph.: +91-124-4643100-500 • Fax: +91-124-4643303/04 E-mail : info@rjcorp.in • Visit us at : www.varunpepsi.com
CIN No. : L74899DL1995PLC069839

November 8, 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 November 1, 2022 post declaration of Unaudited Financial Results of the Company for the Quarter and Nine Months ended September 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

Ravi Batra
Chief Risk Officer & Group Company Secretary



Encl.: As above



Varun Beverages Limited

Q3 & 9M CY2022 Earnings Conference Call Transcript

November 1, 2022

Moderator: Ladies and gentlemen, good day, and welcome to Varun Beverages Limited - Earnings Conference Call. As a reminder, all participant lines will be in 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 “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: Good afternoon, everyone, and thank you for joining us on Varun Beverages Q3 & 9M 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; 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 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 details of our operational and financial performance for the third quarter and nine months ended 30th September 2022.

We are pleased to report yet another strong quarter, delivering a net revenue growth of 32% and a PAT growth of 53%. Our India business has delivered a solid organic volume growth of 22%, led by a favorable demand environment and strong performance of our energy drink – Sting. In addition, healthy double-digit sales volume growth of 31% in our key international markets further assisted performance during the quarter.

Post COVID-related setbacks over the last two years, we are now increasingly improving our presence by expanding our distribution reach across markets. This will help us gain a larger share in the growing market.

On the product portfolio front, we are pleased to share that Sting continues to perform exceedingly well across geographies. Similarly, our launches in the value-added Dairy segment are seeing healthy consumer response, and



we remain confident of improving contributions from these new launches going ahead.

Overall, the demand environment for the beverage industry has been robust, and we are witnessing a healthy offtake in India as well as in our international markets. The festive season in Q4 is expected to further aid consumption trends in this calendar year. We are confident that we can sustainably deliver healthy volume growth across all product categories going forward, and further strengthening our market position in the beverage industry.

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

Raj Gandhi:

Thank you, Mr. Chairman. Good afternoon, and a warm welcome to everyone for joining us today on our earnings conference call. Let me provide an overview of the financial performance for the third quarter and the nine months ended 30th September 2022.

Revenue from operations adjusted for excise / GST, grew by 32.5% year-on-year in Q3 CY2022 to Rs.31,766 million. Sales volume in India grew by 22.1% in Q3 CY2022 to 148 million cases, and in international markets grew by 31.3% to 42 million cases. Consolidated sales volume registered a solid growth of 24% to 190 million cases in Q3 CY2022 as compared to 153 million cases in Q3 CY2021.

Realization per case improved by 6.8% to Rs. 167 per case in Q3 CY2022, primarily driven by a higher mix of smaller SKUs (250ml), especially blockbuster energy drink - String, which has a higher net realization, and its mix is increasing in the sales volumes.

CSD contributed 70%, juices 5% and packaged drinking water 25% of total sales volume in Q3 CY2022.

On the profitability front, despite the inflationary raw material environment, gross margins for Q3 CY2022 increased by 90 bps to 53.7% from 52.8% in Q3 CY2021. The increase in input costs was more than offset by operating leverage and higher sales volume, leading to an improvement in EBITDA margin to 22% during Q3 CY2022 from 20.6% in Q3 CY2021. EBITDA increased by 41.3% to Rs. 6,989.9 million in Q3 CY2022 from Rs. 4,946.6 million in Q3 CY2021.

PAT increased by 53.3% to Rs. 3,954.8 million in Q3 CY2022 from Rs.4,946.6 million in Q3 CY2021 driven by high growth in revenue from operations, improvement in margins, and transition to a lower tax rate in India.

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

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 Abneesh Roy from Nuvama Research.

Abneesh Roy:

Congrats on a very good set of numbers. My first question is on the Morocco announcement. So, wanted to understand how big could be the investment

and the size of the opportunity? Is there a possibility that Lays, Doritos, and Cheetos distribution and selling can go beyond Morocco, is there any thought process from Pepsi on that?

Ravi Jaipuria: Well, I think, first of all, it's existing business there, which is about Rs.150 crore, which we will take it forward from January 1. Hopefully, in the coming time, we will start manufacturing also in Morocco, and this involves all the brands, Cheetos, Doritos, and Lays.

Besides for other countries, we can only hope so. It would depend on PepsiCo's choice. This itself is a big start, I mean normally Pepsi doesn't give distribution rights for snacks, now we have to prove ourselves, and hopefully, we will get other countries.

Abneesh Roy: On the impact of Sting, so last quarter it was around 7.2% of the sales. So, has that moved meaningfully in terms of the realization growth and gross margin expansion, which was a positive surprise, how much would have been the impact of Sting in the overall sales mix? Is around 7%-8%?

Raj Gandhi: The cost is different in Sting, and the cumulative nine months average mix is 8.5%. In the last quarter, the mix was more than 12%. The mix changed by about Rs.8 and blended per case realization now is Rs.167; so it's substantial for us.

Abneesh Roy: Sure. Just a question about bookkeeping, so the current outlet reaches India and if you could give some details on Sting and Tropicana also in terms of the outlet reach? In terms of Capex guidance for CY22 and 23, how do we see that?

Ravi Jaipuria: Sting is reaching everywhere, which is more than 2 million outlets already. It is pretty much well close to our highest penetration of any of our products. The exact count we will have at the end of the year. Seeing the growth in Sting, it is clearly reaching everywhere.

Abneesh Roy: Similarly for Tropicana and Capex for CY22 and CY23?

Ravi Jaipuria: Tropicana is also doing extremely well. The only constraint is we have one large facility which we opened in Pathankot, because of that our distribution has gone to only about 15% of our total outlet. So, it's still not going to all the outlets because of a constraint of production. And hopefully, this will get better next year.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital. Kindly proceed.

Gaurav Jogani: Congrats on a great set of numbers. Sir, my first question is, again, with regards to the Sting. So if you can help us out, what would be the realization difference between Sting per se and for the other company products together? The reason I'm asking is we were seeing a sharp 20%-odd jump in the realization in the domestic business. So, any color on this would be helpful.

Ravi Jaipuria: There's a large difference I would say it's more than 25% to 30% difference. In Sting, our realization is more by 65%.

Gaurav Jogani: You mentioned that the contribution for this quarter was around 11% - 12% for Sting in the overall product mix in India?

Ravi Jaipuria: That's what it has been in the last quarter.

Gaurav Jogani: Between 11% - 12%, right?

Ravi Jaipuria: That's right.

Gaurav Jogani: And for the nine months, it was 8.5%?

Ravi Jaipuria: 8.5% is for the cumulative nine months.

Gaurav Jogani: Sir, my other question is with regards to because the realization is so high in Sting does it also translate to the gross margin and the EBITDA margin level as well? Or the cost there is a bit higher, leading to the same EBITDA per case?

Ravi Jaipuria: So, it definitely adds to the margin, and that's why you are seeing margins which are better than the volume growth. Even after higher resin and sugar prices, our EBITDA margins have been better than year-ago and even better than our guidance, so Sting has helped in the process.

Gaurav Jogani: Another related question with this was because if this was the realization per case on a company level basis has increased to around Rs.167 per case, so given the strong contribution from Sting and the numbers going up for Sting. So would it be right to assume that the realization per case could sustain around the current levels of around Rs. 169 odd levels?

Ravi Jaipuria: We hope so as partly its seasonal based. Sting is contributing to the higher realization. Going forward Sting's base should be somewhere close to what it is today, and we should be able to maintain it but give or take 1 or 2 points up or down.

Gaurav Jogani: Sir, just one last question from my end. In the international business, while we have seen the overall volumes have grown by 30% plus. However, the revenue growth has declined by 1%. I mean we just did a consol minus stand-alone, so there is a declined by 1-odd-percent. While EBITDA margins also have seen sharp expansion to 29%. So how should we read this thing?

Ravi Jaipuria: Our major growth has come from Morocco, where not much growth has come from CSD, but from water, where the realization is lower. But overall, the margins are good, and we are growing much faster in water in Morocco. Hence realization is much less.

Gaurav Jogani: This is expected to continue ahead? I mean this is sustainable, what we are seeing in terms of the growth?

Ravi Jaipuria: Well, growth is sustainable, we are growing in CSD as well as water, but we did not have enough capacity for water before so as we added capacity, hence our water growth has been faster.

Moderator: The next question is from the line of Yash Dantewadia from Dante Equity. Kindly proceed.

Yash Dantewadia: Congratulations on a great set of numbers. I just wanted to know what is the capacity utilization?

Ravi Jaipuria: We were reasonably fully utilized this year and also, we are adding new capacity, so we would be having good capacities for next year.

Yash Dantewadia: Also, is this the seasonally weakest quarter? Or is it the next quarter?

Ravi Jaipuria: The next quarter is the weakest quarter, i.e., October to December is the weakest quarter.

Yash Dantewadia: And could you please talk and elaborate more on your Capex plans? I'm a fairly new investor, so I'd really like to know.

Ravi Jaipuria: We are looking at about Rs. 1,200 – Rs.1,300 crore for this year.

Yash Dantewadia: Greenfield and brownfield could you give me that?

Ravi Jaipuria: Yes, both, inclusive.

Yash Dantewadia: Yes. So how much is greenfield and how much is brownfield?

Ravi Jaipuria: I would say about half and half.

Yash Dantewadia: When will we see this Capex coming or getting commissioned?

Ravi Jaipuria: We are hoping that this happens before the season, which is before February.

Yash Dantewadia: Could you give me the energy drink market share of Sting, percentage, if you, have it?

Ravi Jaipuria: Now, I think we are the only one practically. So, our competition has just launched their energy drink. So very difficult, I mean we were practically the only energy drink players except Red Bull and all which was very small.

Yash Dantewadia: So do you have the market share numbers by any chance?

Ravi Jaipuria: I don't have the exact numbers because, Coke has just launched their energy drink, which is very new.

Yash Dantewadia: Okay. Also, would you be able to give margin guidance going forward? I think this quarter your OPMs are somewhere around 22%.

Ravi Jaipuria: We've always given guidance that if we can reach around 21%, we are very happy and we still want to give the same guidance. I mean, we've had a good year and even though we've been able to absorb all the higher costs, but I think the guidance that we look around is 21%.

Yash Dantewadia: Are you seeing raw material prices coming down? Commodities have cooled off

Ravi Jaipuria: Partly yes, sugar has not cooled down, but resin prices have started cooling down.

Yash Dantewadia: Okay. Also, what is the Net debt on your books?

Raj Gandhi: Around Rs. 2,300 crore.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global. Kindly proceed.

Devanshu Bansal: Congrats on great set of numbers. I wanted to check, by when do you expect the Capex in Rajasthan and Madhya Pradesh to get commissioned? Do we expect it to get commissioned before the start of next season?

Ravi Jaipuria: That's what we are trying. I hope we can do it.

Devanshu Bansal: Sir, I wanted to check on initial traction in Democratic Republic of Congo, where we have started distribution. So how is the traction in that country?

Ravi Jaipuria: I think it will take a little bit more time so, I think we will start seeing some traction in 2023.

Devanshu Bansal: Any sense that you can provide on the opportunity that Africa continent sort of offers because my analysis is that PepsiCo's penetration relative to the Coca-Cola company is lower. So, does that sort of present a good long-term growth opportunity for business in that continent?

Ravi Jaipuria: Absolutely, it does and that's why we are going one-by-one country. Once we stabilize in one country, then we look at the second country. There are lot of countries where Pepsi still does not exist, so there are huge opportunities available.

Devanshu Bansal: Sir, my question was to get a sense as in which part of the continent would we be targeting? Because I guess there are other 2- 3 bottlers that PepsiCo is engaged with in Africa.

Ravi Jaipuria: They are engaged, but they are not expanding, with other big bottlers, whoever is there, not adding new territories. So, it depends how fast we can grow and what we can do.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak. Kindly proceed.

Jaykumar Doshi: Congratulations on a very good quarter. My question is for the past couple of quarters, your growth on 3 years CAGR basis is much stronger than what we have seen in other staple semi-discretionary categories. Even if I leave aside the upside from Sting where we were like a category creator in some sense, even for the rest of the portfolio, double-digit 3-year volume CAGR looks very impressive versus what we've seen elsewhere. So, can you give us some color on what is the industry volume growth? And what is your outperformance versus industry? And second is, are you surprised by the traction or demand that you've seen during the course of the year? Or is this something that you were anyway sort of expecting or in line with your expectations?

Ravi Jaipuria: If you've been on the earlier calls, we took over the rest of territory in the country in 2019 and as soon as we took over the rest of the country, the next year, where we wanted to expand the distribution, COVID came in for 2 years, all the expansion of the go-to-market we had done, could not get any results. This is the first year we have really got results out of whatever expansion and go-to-market we have done and that is what is giving us the fruits. Going forward also, as long as we keep on growing the market and keep on adding our go-to market, there is enough room for us to grow the

market because PepsiCo had a much smaller share in most of the markets which we have taken, so the room is enough for us to grow.

Jaykumar Doshi: So reasonable to expect that this year, even if we leave aside Sting, in rest of the portfolio also you have gained market share versus your other peers?

Ravi Jaipuria: Well, I don't want to say we have gained market share, but we have grown substantially, and we have done quite well.

Jaykumar Doshi: My second question is maybe 1- 2 years back when we asked this question on the potential for Sting, your response was there is the market where the product has done well, it tends to be in 12% to 15% range. Having seen the success, you have seen so far, where do you think Sting can be in terms of its overall salience next year?

Ravi Jaipuria: Well, I can't answer you exactly, but from what we have seen, the sky seems to be the limit. It's just a question of how much we can distribute and produce. If we get the same liking of the people which we have got, it should be a good mix for us going forward.

Jaykumar Doshi: Does Coca-Cola have an offering that competes with Sting elsewhere in world? In India they have launched Charged with Thumbs Up. So just wondering if they are in other markets? How are they competing around?

Ravi Jaipuria: So, both the companies have energy drinks all over the world, mostly different energy drinks with different pricing and model. I mean Sting has done extremely well in this part of the world. It's doing extremely well in Pakistan, Thailand, and Vietnam. So, Sting has done very well in this part of the world.

Moderator: The next question is from the line of Sandesh Agarwal from Sahara Capital. Kindly proceed.

Sandesh Agarwal: My question is what is the market size of Lays, Doritos and Cheetos in Morocco?

Ravi Jaipuria: They have an existing business of about Rs.150 crore, and we have to take it forward from that.

Sandesh Agarwal: We are only distributing and selling this product, right?

Ravi Jaipuria: For the time being, that's what we are doing.

Sandesh Agarwal: What is the margin for this distribution and selling?

Ravi Jaipuria: No, that we can't disclose it.

Moderator: The next question is from the line of Sumant Kumar from Motilal Oswal. Kindly proceed.

Sumant Kumar: Sir, can you talk about the 22% growth in India, which geography has a higher growth contribution in the current quarter?

Ravi Jaipuria: It's very difficult to say, wherever we were weak, which are the new territories, which we have taken from PepsiCo and some of the bottlers, that's where we've had higher growth. Also, because our share was low in

the market, that's where we've enhanced our go-to-market and that has started giving us results which added to our growth.

Sumant Kumar: So as per my understanding, North is driving growth, say for Bihar and Eastern UP and the central UP also. So, can you talk about the kind of growth we are seeing in these two areas? South is also doing a similar kind of growth. Organic growth I'm talking about.

Ravi Jaipuria: Well, I don't know if I want to give the exact number, but Bihar and MP have been seeing growth of over 50%.

Sumant Kumar: Okay. So, these 2 geographies are outpacing other markets?

Ravi Jaipuria: Well, a lot of markets are outpacing. You asked for these 2 markets, and I've given you the answer.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand. Kindly proceed.

Sanjaya Satapathy: So, my question is that in Sting you are starting to see competition. How do you really plan to counter this?

Ravi Jaipuria: Well, they are countering us right now, I think energy drink is a large market, and there's enough room for both players, and we will always have a first-mover advantage, which we are seeing. Our product is very good, and it has been liked by the market, so we just have to keep on expanding our distribution, and I'm sure we will grow, and I'm sure the competition will also do well.

Sanjaya Satapathy: So, can you just tell us how much is the overall beverage industry growth during this quarter on a year-on-year basis? I mean, the same question I can ask in another way that while in the South and many other places where you are growing much faster, in your established market is your growth far lower than this 20%-22% that you have reported?

Ravi Jaipuria: Well, there are some territories which are growing slower than 22% because we are growing 50% in some other territories. Overall, it's been a healthy growth overall. Due to rains, some territories growth has been a little less as compared to others. So overall, we've grown at close to 48% in the first nine months, which is more than healthy growth, hence all are territories have grown.

Sanjaya Satapathy: Earlier you used to give a guidance that your sustainable volume growth was some 13%-14%. Considering the success that you are seeing in new territory as well as in the success of Sting and your dairy product where you are optimistic about, will you look forward to a much higher growth rate to sustain going forward?

Ravi Jaipuria: Well, we don't like to comment, but we are definitely trying, and we've had good success this year. We hope we can do well next year also. The only thing we can say, we are expanding our distribution, and that is what helps. We are also adding more chilling equipment, which should help us next year.

Sanjaya Satapathy: If I can just ask a last question, can you just give us the details about your expansion plan both in Tropicana and in the dairy product?

Ravi Jaipuria: The Tropicana and dairy are both done from the same plant, we are adding one more plant next year. So that will double our capacity in dairy as well as Tropicana.

Sanjaya Satapathy: By when?

Ravi Jaipuria: I think by June or July it should be ready.

Sanjaya Satapathy: Okay. And whereas the other soft drink factories will be ready by?

Ravi Jaipuria: We're trying to get it ready before the season.

Moderator: The next question is from the line of Jenish Karia from Antique Stock Broking. Kindly proceed.

Jenish Karia: So, the first question is with regards to dairy products. So how has been the distribution and performance of the dairy product segment during the quarter? And how do you see it for the first half of CY24 considering the new capacity will come in the second half?

Ravi Jaipuria: In this season we could not supply because we ran out of capacity and hopefully, as I said, even next year we are going to be constrained because our capacities are only coming after the season. We had a good quarter, with strong growth, and going forward there will be healthy growth in the peak season.

Jenish Karia: So, it's majorly restricted towards the North region if my understanding is correct

Ravi Jaipuria: That's right.

Jenish Karia: Second question is with regards to the joint venture investment that we have done. We have increased our stake in the joint venture with IDVB to 50%. So any color on what future investments we'll be doing with regards to Capex because setting up a recycling plant and the JV system will require some Capex in the next 2 to 3 years. So, any color on that front?

Ravi Jaipuria: As of now, we have not invested anything. It's in the process, as we are waiting for the government policies. So, we have agreed on an understanding between IDVB that we will have a 50-50 joint venture when the recycling plant will come. We are still waiting for all the approvals and some policy changes in the government.

Jenish Karia: Can we see it materializing in the coming year? And in CY24, no Capex yet committed on that front, right?

Ravi Jaipuria: We can't comment now because we're waiting for certain government policies.

Jenish Karia: Sir, just one last bookkeeping question. So we have shifted to the new tax regime from the second quarter of this year. What would be the average tax rate that we can assume for the CY23 and going forward? So, what would be the tax rate? If you can help with that.

Raj Gandhi: For India, it is going to be 25%, blended with international something 22.5%-23%. Going forward, it will bring an advantage of 3% in the overall tax rate for the company.

Moderator: The next question is from the line of Prateek Rathi from Soul Caps. Kindly proceed.

Prateek Rathi: Congratulations on a great set of results and big thank you to the management for consistently delivering that from past 6-8 months. So, I just have a few questions. If Capex comes off before the peak period next year, what kind of revenue guidance we have for the next calendar year?

Ravi Jaipuria: We first want to make sure of the equipment supply as there is a huge challenge getting the supplies in time. We are then trying and expecting reasonably good growth next year. Because even this year, we ran short of product in the peak season. So hopefully we can make up for that and get reasonable growth. But it's still a touch-and-go, and we are not 100% sure if we'll be able to get all our lines operating before the season.

Prateek Rathi: I just wanted to understand, like we got the rights of Kurkure Puffcorn business in Feb or March this year. So what kind of revenue have you seen in this quarter from that business? And how do you see this going ahead?

Ravi Jaipuria: This is still very small; it is something we wanted to learn and understand. It's a small investment from our side, and it will not be large revenues. With proper learning, we will understand the business. And hopefully, like in Morocco where we have got the distribution right, we will try and want to take it in a much bigger business.

Prateek Rathi: So this paves the way for, say, future snacking businesses.

Ravi Jaipuria: We need to understand any new business. For us, this was more for a learning curve analysis.

Prateek Rathi: Recently Reliance acquired this Campa Cola business and bestowed their interest in starting into beverage industry. So, any comments or any competition that you see from the line for the industry?

Ravi Jaipuria: I think Reliance knows better what they are doing, it's a large company.

Prateek Rathi: So, from a competition perspective, do you feel that it would be a threat?

Ravi Jaipuria: There's enough room for everybody to complete and the business is growing, and I am sure they will do a good job.

Prateek Rathi: Okay. And just one last question, if you allow me. So, I just wondered, I just saw that one of the Whole-Time Director has resigned with immediate effect. So is there any reason for, specific reason for this.

Ravi Jaipuria: He was the CEO, and he had retired from us. After retiring, he was a board member because of being the CEO. Now as his age has passed, he is retired in normal course.

Moderator: The next question is from the line of Aarushi Lunia from Hem Securities. Kindly proceed.

Aarushi Lunia: Congratulations on a good set of numbers. I just wanted to get an idea on the Zimbabwe plant that you recently set up, and you have mentioned in the latest concall that the peak season in Zimbabwe is August. So, has it reaped some benefit for the peak season?

Ravi Jaipuria: Zimbabwe is doing extremely well for us. Peak season is October to December. The peak season is going to come now starting from August, the sales increase, but peak season is October to December. This quarter is the peak season.

Moderator: The next question is from the line of Faisal Hawa from H.G. Hawa & Company. Kindly proceed.

Faisal Hawa: So sir, a lot of distribution has been now disrupted by Reliance and B2B models like Udaan or even D-Mart. Are we in touch with any of these for even doing some kind of third-party contracting or some private labels for them? And do you see even this as a very big revenue stream going forward? That's one. And secondly, sir, is there any way that we could expand our distribution model to more FMCG brands also for more African countries or for Indian foods or even frozen foods, etc? Because then you will be just leveraging the same platform or the same setup for more products to be distributed?

Ravi Jaipuria: It is, we are expanding so many new products every time, like we added the value-added dairy, Tropicana, and energy drinks. So, there is enough in our palette and then we are now looking at somehow to start snacks with Pepsi, which they have given us the first opportunity in Morocco. So, there is enough for us to expand and there is enough room for us to expand in the categories which we have. I think that itself is going to take us a long time before we can saturate the market. The Indian market is growing at such a huge pace, the number of outlets which are being added, if we can meet that also itself, we'll see double-digit growth.

Faisal Hawa: And sir if you could have some comments on the private labels contracting opportunities.

Ravi Jaipuria: So, we don't do private label. I mean we only do our own brands. So, we don't do any private label. We sell through Udaan and Reliance, but we don't do any private label for anybody.

Faisal Hawa: But you are not open to do that kind of business also going forward?

Ravi Jaipuria: We are not looking for a private label.

Faisal Hawa: Any improvements in manufacturing or processes that we could really get into, and which could improve our margins going forward ever?

Ravi Jaipuria: I think we have one of the highest margins in the world. I don't know what else I can do. I'm trying our best to get whatever best we can do.

Faisal Hawa: Shop floor improvement and cost efficiency from shop floor is always an infinite task.

Ravi Jaipuria: So, if you look at it, our margin has been the highest. And the only reason they have been highest is we have been doing some of the right things, some right decisions and some of the best practices which are possible. I wouldn't say we are the best, but we are trying to do whatever best is possible.

Faisal Hawa: So basically, we always trying to better our margin each year as it goes by.

Ravi Jaipuria: We are trying, it's not easy when you are at 20%- 22%. I mean, there is a limit to how far you can go. If we can maintain this, we'll be happy.

Moderator: The next question is from the line of Sudarshan Mall from Dhunseri Investments. Kindly proceed.

Sudarshan Mall: Congratulations on a great set of numbers. Sir, my question is the plant capacity which we are trying to get before season, if that fructifies, by what percentage will your volumes grow?

Ravi Jaipuria: I can't answer that because I'm not sure if we'll be able to get everything going before the season. We are adding reasonable quantity so that we can grow in double digits.

Moderator: The next question is from the line of Smitesh Sheth from Raedan Securities. Kindly proceed.

Smitesh Sheth: Sir, congratulations for one of the finest performances. Can you quantify some data points about whatever we expect to grow in terms of number of the data points or in terms of the distributor reach or chilling machines what we intend to install. Just some data points as for the next year CY23?

Raj Gandhi: We are adding 40,000 to 50,000 chilling equipment each year. In the past two years, we had reached about two million dealers, which now have reached to about three million. Every year, we expect this to go up by ~10% as far as the dealer's reach is concerned. The carrying size also with these dealers is going up another 5%- 7%. These are some statistics on the distribution side.

Smitesh Sheth: So, I mean, what's the total India dealer reach what we can have. Like, what is the maximum saturation point or a near logical distribution outlets what we can cater to over next 2-3 years, sir?

Ravi Jaipuria: Well, as per our information, there's 11 million outlets in India. Now the question is, we are reaching close to 3 million now and to add more, we are looking to add between 10% to 12% every year. And that is what we'll be able to practically reach every year.

Moderator: The next question is from the line of Yash Dantewadia from Dante Equity. Kindly proceed.

Yash Dantewadia: Sir, have we taken any price hikes? And do we plan to take any price hikes in the coming quarters? Could you talk about that?

Ravi Jaipuria: We has taken some price increases during this year. We have not decided on any price increase now, and we hope we don't have to take any price increase.

Yash Dantewadia: Also, sir, one more question back to the Capex. We are planning an approximate Capex of Rs. 1,200- 1,300 crore, out of which 50% is brownfield and 50% greenfield. Could you please tell me what percentage of capacity this adds to our existing capacity?

Ravi Jaipuria: I have said that we are not sure how much of it will be available before the season.

Yash Dantewadia: No, I'm not asking regarding the time, sir. I'm asking by how much is our capacity going up? By what percentage point is our capacity going up?

Ravi Jaipuria: It's very difficult to say because our overall capacity is based on PET, cans, and glass. Now the capacity mostly which we are adding is all PET. So, on what context do I add the capacity, that makes it very difficult.

Yash Dantewadia: On the total existing capacity, so combined of everything, PET, and cans.

Ravi Jaipuria: Maybe about 20%.

Yash Dantewadia: And so basically our capacity is going to go up by 20% in the next 1 year, right?

Ravi Jaipuria: That's what we are trying to do it before the season.

Yash Dantewadia: And in this, could you give me a breakdown of what is coming in Sting, what is coming in milk-based products and what is coming in the other products?

Ravi Jaipuria: As I said, our dairy line will not be ready before the season, so it will be coming only after season. The rest all the lines are interchangeable with any other products or Sting.

Yash Dantewadia: This is the first year that everything is functioning normally after COVID. So pre-COVID to post COVID, have you seen any demand trends changing?

Ravi Jaipuria: Well, the biggest change has been the go-to market has opened up. So single-serve started selling, which was not selling because it was mostly home consumption. Of course, you have seen the big jump in the energy drink, which was not there so these are the 2 major changes which have happened.

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Kindly proceed.

Arpit Shah: Yes, just wanted to understand, we have acquired a lot of territories from Pepsi and other bottlers in the last couple of years. So, what kind of distribution you would say that you need to build or there have been lot of gaps which have been there in the market. And what kind of scope that you can build in the next couple of years which would add to your growth? Because right now your growth is largely led by volumes. And at some point, in time that volumes would actually saturate. So, what kind of headroom you have to grow in terms of distribution in some of the states that you've acquired?

Raj Gandhi: As we had been saying in the past calls, first is the distribution network we had to strengthen and enroll more distributors, enhance the reach, and strengthened go-to-market. It starts with the distribution network, then adding more dealers in those territories, then ensuring the product availability at the point of sales on a regular basis, no stock-out situations. Adding retailers by adding more chilling equipment and adding more vehicles in the market so that the product reaches the market. Matching this in the season month, 24/7, like the phrase is 24/7, but in our trade, it gets modified, 24/90, 3 months is 24-hour basis like, all these things if we follow helps us in improving the distribution network market share and the sales growth. I think we are trying to fire all these engines from all sides continuously.

Arpit Shah: Got it. So, what would be that number? Let's say you started at X number when you acquired a territory from Pepsi or some other bottler. So, what would that number be today, X going to 1.3x, 1.4x in the last couple of years?

Raj Gandhi: Well, this is a journey, it's not something based on a number or for one day it is done. This is what Chairman said that during the past 2 years, although the results immediately were not coming, we never stopped putting in efforts to grow.

Ravi Jaipuria: Yes, we have to keep on expanding our distribution. This distribution was very weak there, and it's a long process. It's not an overnight process, as Mr. Gandhi is saying, we will keep doing it. It will take us a few years before we can reach distribution to the level we would like.

Arpit Shah: Got it. And the dairy products which we have launched, those are products not by PepsiCo, right?

Ravi Jaipuria: That's right.

Arpit Shah: Those are Varun Beverages products, right?

Ravi Jaipuria: That's right.

Arpit Shah: Okay. And what is the share of those products in the revenue right now? Or that will be very small?

Ravi Jaipuria: It will be very small because there's only 1 plant which can produce it. We are doubling our capacity next year. Currently, we are only distributing in the North.

Arpit Shah: So, are we looking to add more products in the Varun Beverages portfolio where it's a non-PepsiCo product?

Ravi Jaipuria: Right now, we are not even able to supply the products we have, once we have additional capacity of production and then we will add more flavors, but not right now.

Arpit Shah: No other category of product. Right now, you started dairy, you wanted to start with like some other kind of product.

Ravi Jaipuria: We've added the dairy already, we do Tropicana in that. So that will automatically get added. The same line does dairy as well as the juices. And we've started energy drink in a big way. And so that itself is taking enough room right now. And once we can get these established properly, then we look at some of the products which if need be.

Arpit Shah: Got it. And given the current territory that we have and the current headroom that we have, do you believe that 15% to 17% volume growth is sufficient for us in the next, let's say, 3- 5 years?

Ravi Jaipuria: Well, I don't want to give exact numbers, but we believe double-digit growths are possible.

Moderator: The next question is from the line of Dhruv Bhimrajka from Monarch. Kindly proceed.

Dhruv Bhimrajka: I wanted to know the debt reduction that you have there in these 9 months, sir.

Raj Gandhi: Yes. As we mentioned, we are at Rs. 2,300 crore and we were Rs. 3,000 crore-plus last year as on 31st March.

Dhruv Bhimrajka: Okay. So basically, in the 9 months, we have reduced the debt by Rs. 700 crore?

Raj Gandhi: That's right.

Dhruv Bhimrajka: Okay. And sir, what was our Capex in this quarter for the third quarter?

Raj Gandhi: Third quarter Capex is very less, but very little capital work in progress or some plots for future which we might have purchased and paid for, including installments for those. Towards Capex normally major portion happens in the H1 of the year.

Dhruv Bhimrajka: Yes, because as Ravi mentioned, that Rs. 1,200 crore to Rs. 1,300 crore Capex you have planned from Jan 2022 up to 2023. So, wanted to know that so in these 9 months, how much Capex we have done, sir?

Ravi Jaipuria: About Rs. 950 crore. This is cumulative in the current financial year.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak. Kindly proceed.

Jaykumar Doshi: My question is, sir, you talked about shortage or delays in equipment supplies. And I believe you have placed orders well in advance. Could you expect some kind of competitive advantage versus the rest of the industry going into next year, the kind of advantage you had this year because of procurement of PET inventories well in advance.

Ravi Jaipuria: Well, I don't know if we have an advantage. I mean, I'm sure our competition has also placed orders. So, it all depends on who is their supplier and who is our supplier. So, whoever is able to get the equipment in time will have an edge.

Raj Gandhi: Beyond this, I think it will only be speculation. Let's try what we can.

Ravi Jaipuria: We are trying our best to be in time. Let's see what happens. It's still not 100% clear, but we will have enough lines operated.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital. Kindly proceed.

Gaurav Jogani: Sir, just one last question on the terms of margins. Sir said that we are trying to maintain the EBITDA margin at around 21% odd and even that we are steadily increasing the mix of Sting in the overall mix, which is margin accretive. So, are we really being conservative here in terms of the margin guidance around 21%-odd?

Ravi Jaipuria: Well, as I said before, I think the margins are more than healthy. If we can sustain this, we'll be very happy. And we've seen a slight growth in our margins this year because of the mix of Sting. I think our guideline has always been 20%- 21% and that is a very healthy margin, the highest in the world. So I don't think we should guide or suggest anything beyond that.

Moderator: The next question is from the line of Mitul Shah from Reliance Securities. Kindly proceed.

Mitul Shah: Sir, I have a question on your recycling investment. Can you give more details that how it's going to shape up going forward? And the granules after recycling, are we using it directly or what is the process there? And secondly, a follow-up on that is that it will be only for the VBL rates, or we are going to expand it for non-captive also?

Ravi Jaipuria: We are looking for our own sales, but I think it's still very early. We haven't even started the project, it's still waiting for government clearances and understanding what it will be used for because until it is approved for food grade, we are not going to be getting into it.

Mitul Shah: By when do you expect it to be operational?

Ravi Jaipuria: I wish I could answer that.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global. Kindly proceed.

Devanshu Bansal: Sir, you touched upon the realization part, but I still want to understand it better. So, realizations for India has improved from about Rs. 145-odd to about Rs. 165-odd so far in this calendar year. You indicated that Rs. 8 to Rs. 9 benefits have come from Sting. So, wanted to check what is contributing to the rest 5%, 6% improvement that we have seen in the realizations?

Ravi Jaipuria: Well, I think it's the mix, the water mix has come down slightly, which has helped. Overall mix, as I said, single serve is selling more, which gives us better value. Our dairy sales have improved, even our juice sales have improved, which has a little slightly higher value and some price increases which we have taken.

Devanshu Bansal: Okay. And the small SKU mix, is this a trend that you expect to continue or that can sort of see some reversal towards larger packs as well?

Ravi Jaipuria: Well, I think both the markets will grow. So, it's very difficult to say, but I think the smaller single-serves will continue to grow faster than the multi-serve, the way it looks right now.

Devanshu Bansal: Got it. Sir, lastly, for international also, we were sort of closer to Rs. 190 to Rs. 200. But now we are in the range of Rs. 170. You indicated it is because of higher water share in Morocco. Wanted to check, is Sri Lanka depreciation also impacting the realizations? And once that economy sort of recovers, we can see an improvement there?

Ravi Jaipuria: Absolutely.

Devanshu Bansal: Can you sort of quantify as in what sort of an impact, positive impact it can have?

Raj Gandhi: Sri Lanka is not a large business for us, but the main difference in the realization is because of water. The mix of water has gone up in Morocco to a large extent and it's a large territory for us.

Devanshu Bansal: Okay. Is it a quarterly thing or for annual base is also that?

Ravi Jaipuria: Annually, water is selling throughout the year. Last year we didn't have capacity but now we have the capacity, so we are seeing growth at a much higher pace.

Devanshu Bansal: Okay. So, this Rs. 170-odd is sort of sustainable, you are saying?

Ravi Jaipuria: Yes. That's right.

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Kindly proceed.

Arpit Shah: Just wanted to understand, this year we will probably be generating, let's say, cash flows of more than Rs. 2,000 crore, Rs. 2,200 crore in December 2022. So, what kind of reinvestments are we looking at other than the Capex? Because our Capex would be around Rs. 1,200 - 1,300 crore. And we still have another Rs. 600 crore, Rs. 700 crore to be reinvested somewhere. So, what kind of reinvestment we are looking at? Are we looking at some higher dividend payout? Or are we looking at some other kind of inorganic investments or where you can acquire more global territories from PepsiCo. What kind of reinvestments we're looking at?

Ravi Jaipuria: We are always looking at new territories like DRC is going to be one of them, which we have already said. We will be putting up a plant there next year. There will be Capex going in as the growth is happening at a higher pace here, the Capex will increase slightly here also.

Arpit Shah: So that would happen in the continent of Africa largely?

Ravi Jaipuria: Not Africa alone, DRC would be the investment in Africa, whereas in India if the growths are higher than planned, then our capacities will have to increase here. So, there will be more Capex here going forward next year.

Arpit Shah: Do you see increased dividend payouts?

Ravi Jaipuria: We have not decided yet, so I don't want to say anything.

Moderator: As there are no further questions, I would now like to 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 you like to know more about the company, please feel free to contact our Investor Relations team.

Thank you once again for your interest & support and for taking the time to join us on this call. Look forward to interacting with you soon.

Disclaimer: This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.