



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.varunbeverages.com
CIN No. : L74899DL1995PLC069839

October 28, 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 |
|---|--|

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 October 22, 2024 i.e. post declaration of Unaudited Financial Results of the Company for the Quarter and Nine Months ended September 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

Q3 & 9M CY2024 Earnings Conference Call Transcript

October 22, 2024

Moderator: Ladies and gentlemen, good day and welcome to the 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 Q3 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 will initiate the call with opening remarks from the Management, following which we will 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 2024.

We are pleased to report another strong quarter despite the challenges posed by excessive rainfall in India. We achieved consolidated revenue growth of 24.1% including contribution from BevCo driven by our expanded distribution network, increased product penetration and favorable demand trends in key markets. Enhanced operating efficiencies led to an improvement of 117 basis points in our EBITDA margins, resulting in a robust 30.5% growth in EBITDA and a healthy 22.3% growth in PAT for the quarter.

On the operational front, we are excited to share the successful commissioning of our Greenfield facility in the Democratic Republic of Congo (DRC). In response to strong demand and our limited presence in this region, we have swiftly ramped up the facility to 100% utilization on a three-shift basis. This performance has encouraged us to move forward with expansion plans including backward integration and the second facility expected to commence operations in the next calendar year. Furthermore, we are making significant progress on new facilities across India, which



are on track to be commissioned before the key season next year. These developments reflect our commitment to capturing high growth opportunities and enhancing both our domestic and global footprint.

As part of our commitment to long-term growth, the Board of Directors has approved a proposal to raise funds through the issuance of equity shares with an aggregate amount not exceeding Rs 7,500 crore by QIP, subject to shareholders' approval. The capital will be instrumental in supporting our growth plans, including expansion into new territories, potential strategic acquisitions, and further strengthening of our balance sheet.

Overall, our focus remains on sustaining healthy growth in both Indian and international markets. The Indian market, with its growing consumption class and evolving consumer preference continues to offer immense opportunities. Meanwhile, our global operations, particularly in Africa, are positioned to drive further growth as we capitalize on emerging demand trends and enhance our operational capabilities. Our proven execution capabilities have been instrumental in delivering exceptional value to all stakeholders. And we remain committed to sustaining this momentum well into the future.

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

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 third quarter and nine months ending 30th September 2024.

Revenue from operations, adjusted for excise/GST, grew by 24.1% YoY in Q3 CY2024, to the level of Rs. 48,046.8 million. Consolidated sales volume increased by 21.9% to the level of 267.5 million cases in Q3, 2024, including about ~34 million cases from South Africa and DRC markets. The Indian market grew by 5.7%, primarily impacted by heavy rains throughout the quarter, while international markets grew by 7.9%. CSD accounted for 75%, Juice accounted for 4% and Packaged Drinking Water accounted for around 21% of the total sales volume in Q3 CY2024, this is at a consolidated level. Non-carbonated beverages portfolio which includes juice-based drinks and value-added dairy beverages, sports drinks, etc. in India has grown by 23.9% in the 9M CY 2024 YoY .

Our gross margins during the quarter improved marginally by 22 basis points, rising to the level of 55.5% from the earlier level of 55.3%, reflecting our continued focus on cost management. This, along with higher operational efficiencies, led to a 117 basis point expansion in our EBITDA margins, rising to the level of 24.0% from the earlier level of 22.8%. This is driving a robust 30.5% growth in EBITDA, which has gone to the level of Rs. 11,511.2 million during the quarter.

Depreciation increased by 50.2%, primarily due to the acquisition of BevCo and the establishment of new production facilities in India and the plant in DRC. Finance costs increased by 89.7%, reflecting the impact of the new CAPEX on these facilities, the BevCo acquisition and higher borrowing costs. PAT grew by 22.3% to the level of Rs. 6,288.3 million in the Q3 CY2024. This is compared to Rs. 5,140.6 million in Q3 CY2023. This is driven by volume growth and improved margins.

The other income in India more than doubled on account of Rs. 310 million dividend received from Sri Lanka. This is the maiden dividend declared by that subsidiary. This is for the first time and is non-taxable under the Income Tax Act.

In conclusion, the company continues to maintain a solid financial foundation. Our focus on expanding into high potential markets, enhancing our product portfolio, and investing in new production facilities positions us well to drive long-term growth in both India as well as international markets. Following the integration of BevCo this year, we are also focused on driving our presence in the South African market. With efforts already underway, we are confident that this will provide additional avenues for growth in the near future.

Additionally, as covered by the Chairman, the Board's approval for a QIP of an amount not exceeding up to Rs. 7,500 crore, subject to shareholders' approval, will further support our growth plans. The funds will be raised to enable the company to repay debt and enhance profitability at PAT level. This will also strengthen the balance sheet and prepare the company to pursue strategic acquisitions. The net debt was around Rs. 6,000 crore. This was including CWIP on capacity for CY25 season, through implementation of plant at Kangra, Himachal Pradesh, Prayagraj, Uttar Pradesh and Buxar, Bihar and Meghalaya.

On that note, I conclude my opening remarks and would now like to ask the moderator to open the forum for any questions or suggestions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Two questions from me. Firstly, on the India volume growth, which has deflated sharply, are there any sort of regional or brand level nuances given the relatively sharp slowdown? While I understand obviously the rains have been very uneven in the quarter and this quarter is not very large seasonally, I just want to understand if there were any differences between different regions and secondly, just in terms of whether there's been a recovery in October.

And the second question is on competition. Now, Tata Consumer in their call indicated that they were impacted by the higher trade margins offered by Campa Cola. Have you seen any effect of this?

Ravi Jaipuria: First of all, the 2nd Quarter and 3rd Quarter normally should be looked combined together because the rains can shift one month this way or that way. Sometimes the rain becomes heavier in the 2nd Quarter and at other times the 3rd Quarter gets affected by heavy rains. Rain affects a big portion, especially the rural part of the business, and which is what has happened this year and that is one of the main reasons we see. We don't see any other major challenge in the growth in the market.

As far as competition is concerned, as we have always said before, Campa is a formidable competition. They are in the market, but we are improving our go-to market. It has not affected us at the moment and going forward, they may take a part of the share of the total market. Who is going to get affected? we are not sure. Maybe it will be the smaller B-brands, maybe the people who are stronger in cola or may be the market itself will expand.

It is very difficult to answer, but they are a formidable player, and the India growth story is so large that we think there is enough room for everyone to grow. And if we look at it, there are 12 million FMCG outlets in India, and we are only reaching out to close to 4 million outlets. So, there is so much room for everyone. There is enough room for us to grow, as well as for our competitors to grow.

Aditya Soman: Thank you, Mr. Jaipuria. No, I agree on the growth opportunity. The question was actually more with regards to sort of trade margins. Was there any change made by trade margins by us as well in the reaction to that?

- Ravi Jaipuria:** The results are self explanatory, our EBITDA has actually gone up.
- Moderator:** Our next question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.
- Abneesh Roy:** I have two questions. First is on the QIP, Rs. 7,500 crore. Will it be largely used for acquisitions and if possible mostly Africa or will it be for debt reduction given Rs. 6,000 crore debt is there? Historically, you have been much more focused on the expansion part of the business. So, will it be half-half or any clarity if you can give on how you think in terms of use of the QIP?
- Ravi Jaipuria:** It will be used for both. It will be for a reduction of debt as well as we are looking for acquisitions. We are always open to acquisitions. We have been getting opportunities in the past and hope we will keep on getting new opportunities. We want to have a war chest available with us so that when the opportunity is available, we can raise debt at that point of time instead of carrying the debt when we can pay it.
- Secondly, we are also looking at expanding our snack business in Africa, which we see has a huge potential. Also, we are expanding our capacities in India. It can be partly used in different, different areas.
- Abneesh Roy:** My second question is on the India business. Of course, this quarter almost every beverage company was impacted because of the rain. My question is, would you need some inventory correction? If you see, Dabur saw very sharp inventory correction because for them 2 back to back quarters was on the higher side. Your volume growth in the previous quarter Q2 was 22% and now 5.7, and your base is quite high. Your base is almost 19% in December quarter. If you could comment on how you see the December quarter, no specific guidance, but given La Nina effect and given high base, and would you need some inventory correction given the kind of scenario current you have?
- Ravi Jaipuria:** We don't carry that much inventory, and we can correct our inventories any time we want within 30 days, it is not something that we have to hold for 6 months or 8 months. Sometimes when we see a favorable pricing in a raw material or a category which can be stored, then we pre-buy it and store it. Otherwise, we can correct our inventory any time. We don't have an issue.
- Abneesh Roy:** And the last quick question on Campa Cola. In terms of Rs. 10 pricing, in how many States would you have that in terms of your key products?
- Ravi Jaipuria:** We don't sell at Rs. 10. We are not selling anything at Rs. 10 except glass bottles.
- Abneesh Roy:** Given Campa Cola's entry, at some stage, would you need to shift to Rs. 10 pricing also, and from glass to pet, how do you see the customer preference? Because pet bottle, obviously you can carry it, obviously much cleaner option. Glass also would have some advantage. Could you share your thoughts?
- Ravi Jaipuria:** Glass sells mostly in restaurants and eateries. Eateries and restaurants prefer to carry glass where they can make better margins, while PET sells more on the go. We have our products which are differentiated totally from what Campa is selling. As we said, you know, they will help expand the market.
- Abneesh Roy:** And your pet will be Rs. 15 - Rs. 20, right? Currently?
- Ravi Jaipuria:** Our PET bottle pricing is at Rs. 20.

- Moderator:** Our next question is from the line of Jay Doshi from Kotak Institutional Equities. Please go ahead.
- Jay Doshi:** Could you give us some more color on what's your, based on the early success you have seen in DRC, the roadmap ahead, I know you have shared some details in the presentation, but I want to broadly understand how big the market is and what is a reasonable market share to have in a market like DRC, that is one. And second is, I think in the six months so far, you have clocked about 60 million cases, 58-60 million cases in South Africa. What is the seasonality in that market? Because the next six months will probably be the peak season there. And hence, what should we expect from the first 12 months from the operating perspective, from July to June, if you were to think that way?
- Ravi Jaipuria:** In our first 6 months in South Africa, we were primarily focused on fixing our backend, and it was the low season, similar to our winters here. From October to March, it is peak season in South Africa, and we have now corrected most of our backend. We expect reasonable growth moving forward and we are improving our go-to market strategy for the same. It's a bit early to say because October has just started, but we definitely believe we should do a reasonably decent job. As far as the DRC is concerned, the capacities we put are sold out. We are expanding our capacities, with part of the expansion happening in early January and February, and the balance will be in July and August.
- Jay Doshi:** This is a doubling down of capacity at the current plant will happen in Jan-Feb and the new plant that you are opening in the other part.
- Ravi Jaipuria:** Overall, it will be more than doubling the capacity.
- Jay Doshi:** And currently it is a nameplate capacity is 25 million cases, right? While you are operating three shifts, you may be doing more.
- Ravi Jaipuria:** No, it is about ~35 million cases considering three shift operations for full year.
- Jay Doshi:** By this time next year, your capacity for DRC will be 70 million cases or more than double what you indicated.
- Ravi Jaipuria:** Yes, it should be.
- Jay Doshi:** And just to follow up there, in India, typically the seasonality we see is that this first half tends to be a little over 60% of annual sales. Is that something we should expect in South Africa as well, that the next 6 months should be more than 60%-65% of annual volumes?
- Ravi Jaipuria:** This is our first year and we can't give you the exact details yet. We need a little more time as we are making the necessary changes to enter the markets which were not entered properly. Hopefully, the seasonality will follow 60-40 as you have said.
- Jay Doshi:** And just one question more if I may ask. You know, lately we are seeing this Jeera Masala Soda seems to be doing quite well in many markets and we see it in some small retail outlets as well in Mumbai. What are your thoughts on the opportunity in some product like that and whether there is a case for you to have something?
- Ravi Jaipuria:** We hope to have something by next year. We are in discussion with PepsiCo, and hopefully we should have something soon. We already have Nimbu Masala Soda, which we are relaunching and hope to have something with Jeera also. However this depends on when PepsiCo is ready.

Jay Doshi: These will be basically under PepsiCo portfolio?

Raj Gandhi: Yes, the Jeera flavour was not allowed earlier by PepsiCo as they have been doing R&D to arrive at a healthier formulation. They are working on it.

Jay Doshi: And how big is the Jeera market today?

Ravi Jaipuria: The Jeera market is expanding and is doing well. As a lot of people are looking at this category and we are also seriously looking. We are hopeful that we will come up with something by early next year before the season.

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

Devanshu Bansal: First question is on India's gross margin, which has dipped about 120 basis points in this current quarter. I wanted to check if this is due to raw material or inferior revenue mix, if you could just highlight.

Raj Gandhi: Water cost, which was previously accounted for at the other expenses level but has now been classified under COGS from last quarter onwards. This reclassification has made a difference.

Devanshu Bansal: That 1% has actually shifted upwards from the earlier expenses.

Raj Gandhi: Yes, that's only a shifting.

Devanshu Bansal: And within South Africa, that seems to be doing pretty well for us. What are the few initial steps that we have taken in the market? That is number one. Secondly, is the existing distribution network for food businesses for PepsiCo in that geography also helping us? Just wanted to check on that geography separately.

Ravi Jaipuria: PepsiCo's food business is completely separate from our business. We are doing our own, we are improving our go-to-market, which has been our key focus. We are doing similar to what we did in India over the last few years. That's what we are focusing there also. We have also corrected the back end, so the previous inefficient lines have all been corrected and now they are running reasonably efficiently.

Devanshu Bansal: Last one bookkeeping question. Till June, our CWIP was about Rs. 1,200 crore. What is the number at the September-end?

Raj Gandhi: Our CWIP at September end was around Rs. 400 crore.

Moderator: The next question is from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah: Just on the international margins, basically I wanted to know they have improved actually QoQ and both YoY. And if I even look at the realization per case, it's gone up. My understanding was South Africa was slightly lower margin at 12%-13% when you acquired it and even realizations were much lower than the average international realization margin. Have you already started seeing the improvement there?

Ravi Jaipuria: Improvements will come gradually. The lines which were running at 50% efficiencies have already been corrected and are now running efficiently. We are making sure that cost efficiencies will start materializing, including the advantage of bulk buying, as we now make purchases together as one group, those advantages will soon start to show.

The key issue is that the sales need to go up, which ties with our go-to market strategy. We have already started working on this and have seen improvement in the month of September. Now when the peak season is starting, we expect to see noticeable difference from the coming quarter onwards. We are very hopeful and are expecting a reasonable bump in South Africa. As for DRC, as we said, in the first 4 weeks we have been sold out. That was unexpected and has performed better than what we had expected.

Anand Shah: On DRC, can you break up what was the volume between 34 million? How much did DRC do this quarter?

Ravi Jaipuria: 5 million. It was only about one-and-a-half months operation.

Anand Shah: On the other parts of the international business, Zimbabwe and all, you have had that transition of that sugar issue and all, that is now completely behind, you are already back with good growth.

Ravi Jaipuria: Absolutely, Zimbabwe did not show growth this year due to the transition to low sugar. However other international territories like Zambia, Sri Lanka, Morocco are doing a very healthy growth for us. Zambia grew close to 30% for us. We think overall, international business is doing well for us.

Anand Shah: And one last question from me for the India business, what would be your market share overall in the carbonated space? And let's say, I mean, some percentage change, let's say, over five-year period since you acquired Southwest now. I mean, can you share any market share change that would have happened on an overall basis?

Ravi Jaipuria: We are doing reasonably well.

Anand Shah: Would it be fair to say over the last 5 years since South, West acquisition, you would have gained a decent market share?

Ravi Jaipuria: Yes, we have gained a decent market share.

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

Percy Panthaki: My question is a little bit hypothetical, but I guess now we might have to start thinking along those lines. In a situation where, let's say, Campa is able to make inroads and is, let's say, gaining a share, what would be our response and what would be our priority? Would we sort of prioritize a sort of market share and therefore try and come lower in the pricing or would we prioritize our margins given that there are other brands also at a lower pricing and we would just probably treat Campa in the same bucket? What would be the top-down thought process on this?

Ravi Jaipuria: We believe the first thought process should be to expand the market. As we continue to grow, we are adding 300,000 to 400,000 outlets every year, and Campa has just entered the market. For Campa to reach a significant portion of the market, it will take some time, just as it has for us. There is enough room in the market, out of ~12 million retail outlets, we are currently reaching out to only ~4 million. We are sure there are enough outlets available for Campa to target. We have our products, our go-to-market and our brands, that are different. We are pursuing our go-to-market strategy and if necessary we can create a product range that competes on pricing also.

Percy Panthaki: Because see one major difference between a Coke and a Pepsi v/s a Campa is that they don't have to pay any sort of concentrate charges, which is like a form of a royalty. They don't have that cost. So, they save on that.

Ravi Jaipuria: That's not a large component. That cannot change the pricing so much.

Percy Panthaki: Sir, next, just wanted to understand the South Africa ramp up. I believe when we took over the Pepsi market share was a low single digit. And they had some private labels and the total market share of that company was I think in low double digits, if I am not mistaken. Has there been any ramp up to those numbers? I know it's very early, but like in DRC, we saw even in the first month, a very big, sort of very material ramp up. Just wanted to understand, have you seen any kind of ramp up in South Africa v/s the situation when we took over?

Ravi Jaipuria: Absolutely, we are ramping up. PepsiCo share is increasing. But it's still an early stage. Last quarter, we have grown at ~12% already and if you look at September month, we have grown at ~20%.

Percy Panthaki: And this is on a YoY basis, right?

Ravi Jaipuria: Yes, it will take some time as we are ramping up our system, September has given us the go forward to what is possible, and we are very happy with the ~20% growth and the season has not even started yet.

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

Sumant Kumar: Can you talk about the overall growth we have seen 6% volume growth? How is the Tier 2 - Tier 3 cities and rural doing compared to urban?

Ravi Jaipuria: When there are heavy rains, the rural areas are always affected first. This quarter has witnessed a lot of unprecedented rains. The rural got disturbed during this quarter, however in the 2nd Quarter, rural grew faster than the urban. That's why we mentioned that these 2 quarters should be considered together and not in isolation. Because in India specifically, the soft drink business is influenced by the rains, it plays a bit of a role.

Sumant Kumar: And when we talk about the margin expansion, the operational efficiency we are talking about, in the last couple of quarters we have seen the benefit of low sugar usage and also the thickness of bottle. How currently we have said 49% low sugar and also in bottle size, we are also reducing the weight of bottle. Till what quarter can we see this kind of improvement in margin from these two activities?

Ravi Jaipuria: We will keep on seeing improvements because all our new plants, large plants which are coming up, are much more efficient than the older plants. Secondly, we have now tried to do a complete backward integration in our bigger plants. There are freight savings on preforms, on caps, boxes. These are though small savings, but when you add up, it all starts becoming a large number. We are trying to do whatever is practical.

Further, 17 of our plants are now backward integrated. With these new plants coming up, our cost of production is much lower. The same lines which used to produce at 100-200 bottles a minute are now producing 800 - 900 bottles a minute. However, the number of people required is the same.

- Sumant Kumar:** And many beverage companies have seen subdued performance and some companies we have seen the beverage industry de-growth also and we have grown 6% volume growth in domestic market. What differentiation we have seen in our company and our business model?
- Ravi Jaipuria:** We think the main thing is that a lot of people may not be investing enough money in the backward integration or in expansion of plants. When we open a new plant, our distances from market come closer, we save on freight. As we said, we don't transport preforms and caps from other plants at the same time, our new plants are larger in size with much higher production efficiencies.
- Also, we are adding close to 300,000 to 400,000 outlets every year. We are expanding our go-to-market reach, which is the main game in the soft drink industry. If we could reach to 8 million outlets instead of 12 million outlets, then our sales would at least go up by 50%. The question is how fast we can ramp up the system.
- Sumant Kumar:** And lastly, the rPET size, the industry it is a mandatory to use 30% rPET. So, what is the status on that?
- Ravi Jaipuria:** Our first plant will be operational by the 2nd Quarter of the next year and we will be producing enough rPET to meet the government mandatory requirements before deadline.
- Moderator:** The next question is from the line of Nihal Jham from Ambit Capital. Please go ahead.
- Nihal Jham:** Sir, I had a couple of questions on the food business. If we look at the food arrangement that we have say for Zambia and Zimbabwe where we do the manufacturing and distribution, would the business model and the weightings will be similar to how the India beverage business operates?
- Ravi Jaipuria:** Yes, it's a franchise. Like we pay for concentrate we will pay for seasoning for our snacks. The same arrangement will apply for Morocco, Zimbabwe and Zambia. Morocco would be the first plant to come up.
- Nihal Jham:** And the second question is Pepsi's food portfolio obviously is present in much lesser number of countries v/s beverages. When we are looking at incremental opportunities as part of the QIP and potential food expansion, would it primarily be focused only in countries where Pepsi has a food portfolio, we could be entering countries in the food or Pepsi is not present with food at this point in time?
- Ravi Jaipuria:** In Africa, we understand that PepsiCo doesn't produce snack foods anywhere except South Africa. All the other countries are open technically, and you cannot transport air as the distances are too far. That's why PepsiCo decided to give us the rights to manufacture because it doesn't work to import or to bring it from one plant to the other. It is too expensive. Gradually, wherever we can ramp up, we will try and ramp up.
- Nihal Jham:** With the manufacturing and distribution and not maybe only distribution because of the limitation of transporting food.
- Ravi Jaipuria:** Only distribution doesn't work. It's too expensive. You can do a niche product. We can go to the modern trade and just sell basics and only the rich people can have it, but that doesn't give you the scale.

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

Sanjaya Satapathy: Sir, a couple of things. One is that this fundraising that you are doing, is it essentially to complete this transaction that is South Africa ready to fund this transaction and are the companies kind of looking at some more transactions or very lastly like the company looking to become a debt-free kind of a company?

Ravi Jaipuria: Regarding fund raise, we are looking at partly reduction of debt and partly expansion, we are always open to new acquisitions if anything comes in our way. We want to have our war chest ready.

Sanjaya Satapathy: And sir, my last question is that, though I understand that the company has done great things in terms of expansion as well as cost rationalization, anything big like Sting, which can be expected in the next couple of years?

Ravi Jaipuria: We will let you know as soon as it comes out.

Sanjaya Satapathy: How do one think about it?

Ravi Jaipuria: We have enough things to play with, enough things to work with and PepsiCo is always innovating new things.

Moderator: The next question is from the line of Onkar Ghugardare from Shree Investments. Please go ahead.

Onkar Ghugardare: My question is regarding what could be the CAPEX for the next upcoming year?

Raj Gandhi: During the last call we stated ~ Rs. 2,400 crore which is primarily for the implementation of our facilities at Kangra, Himachal Pradesh, Prayagraj, Uttar Pradesh, Buxar, Bihar and in Meghalaya.

Onkar Ghugardare: Now considering you have approved the fundraising; would that change anything?

Raj Gandhi: It's a little early to predict for next year. First, we are awaiting the resolution to be approved by 8th November, then moving to the market. As the Chairman said, we always keep analyzing opportunities.

Onkar Ghugardare: And you have mentioned that debt reduction is one of the things which you will be doing with the QIP proceeds. At what debt-to-equity level you are comfortable with? Right now, I believe you are at 0.7x.

Raj Gandhi: That's right, if there is a possibility of M&A, we would like to have a max of 1.0x debt-to-equity level. As the chairman mentioned, we want to create the war chest so that in case anything comes, we can raise debt at that point of time instead of carrying the debt when we can pay it.

Onkar Ghugardare: Sorry, I missed the number which you just said.

Raj Gandhi: We said that debt-equity max in case good opportunity comes, we can go up to 1.0x But in the meantime, proceeds of the QIP shall be used for the reduction of debt so that we are able to create war chest to grab the opportunity whenever it comes on our way.

- Onkar Ghugardare:** And in this presentation, you have not mentioned anything about the food and snacks business. What do we see about that?
- Ravi Jaipuria:** Three plants are going to come next year in Zimbabwe, Zambia and Morocco. Further, we are looking at more opportunities from more territories in Africa. But at this moment, only three have been agreed and that's what the plan is for the next year.
- Onkar Ghugardare:** The plant would be commercializing the operations next year, right?
- Ravi Jaipuria:** Yes, by next year.
- Onkar Ghugardare:** All the three plants, right?
- Ravi Jaipuria:** One plant could spill over to early 2026.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Just two questions in the beginning. In this past comment, there is no mention of sting. So, I was more curious if you can break this 5.7% volume growth carbonated soft drink v/s non-carbonated specifically for India. And maybe if you can give little more color of each segment, how the growth has happened in Quarter 3.
- Raj Gandhi:** In fact, incidentally, all the three segments in India, CSD, Juices and Water have grown equally, there is not much difference.
- Shirish Pardeshi:** Largely, you are saying that our growth is similar because we are now expanding our distribution in south and that's why the growth is normalized?
- Ravi Jaipuria:** We are expanding the number of outlets in various areas, not just south but also in the north, east and west also. There is still lot of room everywhere, as we said, 4 million retail outlets to 12 million retail outlets, there is a huge scope everywhere. The focus on south and east is because of the fact that before the acquisition, these regions had very low penetration. Even Gujarat had low penetration for us. Those territories which were not penetrated properly, we are growing faster, on the other we are adding outlets everywhere, including north.
- Shirish Pardeshi:** Actually, you are pushing me to ask a little bit different question. This penetration led growth will last for next 4-5-6 quarter, because I think in India we have enough supply.
- Ravi Jaipuria:** It should last for the next 5-10 years. The numbers are in front of you. We can only add 300,000 - 400,000 outlets. Whatever we add, the market goes by that many outlets. We are still minus 8 million outlets.
- Shirish Pardeshi:** The reason why I am asking for you, rather than putting our vehicle on street, the distribution led model is quite penetrated in the beverage industry if I go back when we worked together in the slurry. I think there is a good amount of distributorship which is happening, because high throughput is happening. Is it that difficult why we cannot grow maybe 5x in one year?
- Ravi Jaipuria:** No, you can't, because it's not easy to add so many outlets. You need visi-coolers, people, trucks. It's a full gambit and not just one thing. Additionally you need

capability of production to serve added 400,000 outlets, you would need 3,000-4,000 people being added and trained.

Shirish Pardeshi: My second question is on BevCo. We also had the non-Pepsi product there. I just wanted to understand, in the new outfit, how those businesses will get scale up?

Ravi Jaipuria: We are scaling up the whole portfolio in South Africa. PepsiCo brands are growing faster than our own-brands portfolio, but we are scaling up the whole portfolio. We have grown 12% in the last quarter but PepsiCo brands have grown at 20% over the last quarter. Mix is about 20%

Shirish Pardeshi: And this last question in India, what would be the contribution for Sting as of 9 months?

Raj Gandhi: It's slightly more than 15%.

Moderator: The next question is from the line of Vismaya Agarwal from Citi. Please go ahead.

Vismaya Agarwal: I had two questions here. One is more strategic when you talk about the opportunity of expanding territories and growing and whether you have maintained that as a key growth lever. Now, in that front, which is a bigger priority? Is it expanding new territories into beverages like that you have done in Africa or do you think that the India business itself has some white spaces in adjacent categories that you could look at? And I am mentioning adjacent because again, you have always maintained that we are not getting into any category that competes with PepsiCo's portfolio here. More separate from beverages. Just your thoughts on that, please.

Ravi Jaipuria: If you look at it, we are expanding as fast as we should in India. We need to ensure that we continue delivering returns for our investors as we grow. Similarly, there are opportunities outside India, particularly in Africa, which is the next horizon for growth. Looking ahead over the next 20 years, Africa appears very bullish. There are some challenges, but that's why we don't put all our eggs in one basket. We are going into different countries. Each country might represent 2%, 3%, 5% of our turnover. If one of the country has an issue, it will not affect us.

Vismaya Agarwal: If I may follow up on that. What I understand is India, you are happy with the portfolio here, while yes, you didn't mention earlier on the call that Jeera is, say, a subcategory that you could look for, but nothing beyond beverages at the moment in India, right? It's predominantly Africa.

Ravi Jaipuria: We will not do any beverage which competes with the PepsiCo portfolio.

Vismaya Agarwal: And sir, secondly on profitability in India, now in the past nine months, margins have been well ahead of something that you have done historically well ahead of the guidance that you have maintained always. So, just a question there, like, is it a time where you probably look at revising the guidance upwards or do you see some risk in on the RM side, like we have seen this quarter?

Ravi Jaipuria: We have never given guidance upward of that. In soft drink industry, 21%-22% margins are the best that you can get. We are always trying to improve ourselves and we will keep on doing that.

Vismaya Agarwal: But sir, do you see any risk on the RM side? Because we just saw this quarter, the gross margins dip a bit in the India business. Is there something?

Ravi Jaipuria: We have not seen any major dip. However, we are not guiding any upside as oil prices could rise, or there could be a drought causing the sugar prices to go up. These factors are beyond our control. We are mitigating these risks as our portfolio is becoming less dependent on sugar, 49% of our portfolio is low sugar. We are covering ourselves from every side. That's why we don't give you a guidance on margins more than 21%-22%.

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

Jay Doshi: You know, the 3 snacks plants that you are setting up in Africa, what will be the turnover at full capacity that you expect to do from these 3 units?

Ravi Jaipuria: About \$100 million.

Raj Gandhi: This is a potential, Jay, going forward. In our presentation, we have included the country-wise industry size in US dollars. We have also provided the data on the investment, and in a couple of years, once these plants are operational, there is a potential for about \$100 million in revenue from these three plants.

Jay Doshi: Second is, can you give us some indicative sense of how would margins in snacks business at optimal scale compare v/s beverages and what about return ratios? Because I assume that asset turns will be much higher in that business. How would return on capital employed look?

Ravi Jaipuria: Only thing we can tell you, that's the only reason PepsiCo doesn't give snacks business to other people. This is less CAPEX, more turnover business.

Jay Doshi: ROCE will be better, even though margins could be a little lower.

Ravi Jaipuria: Yes, ROCE should be better.

Moderator: Thank you. Ladies and gentlemen, we would take that as a last question. I would now like to hand the conference over to the management for closing comments.

Raj Gandhi: Thank you very much. We 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 soon. Thank you very much once again. Thank you.

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.