May 20, 2024

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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 May 13, 2024 i.e. post declaration of Unaudited Financial Results of the Company for the Quarter ended March 31, 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
Digitally signed by Ravi Batra
Date: 2024.05.20 15:14:10 +05'30'

Ravi Batra
Chief Risk Officer & Group Company Secretary

Encl.: As above

Varun Beverages Limited
Q1 CY2024 Earnings Conference Call Transcript
May 13, 2024

Moderator: Ladies and gentlemen, good day, and welcome to Varun Beverages Limited's 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 Q1 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'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 will 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 first quarter ended 31st March 2024.

In-spite of the delay in Holi festival by 17 days resulting in delayed seasonality cycle, we are pleased to report a reasonably strong overall operational and financial performance in the first quarter of the year. We achieved a consolidated sales revenue growth of 10.9% with the breakup of volume growth of 7.2% and net realization per case growth of 3.5% in Q1, reflecting an improved product mix in India and higher contributions from international markets. Overall, EBITDA increased by 23.9% Y-o-Y and PAT increased by 24.9%.

Further, our sustainability efforts, including the focus on reducing sugar content, removal of corrugated pads in packaging and light-weighting of packaging material have started showing results by increase in gross margins. During last quarter, we also published our sustainability report in accordance with the GRI reporting standards. We are committed to transparency and accountability in our sustainability reporting practices, and we believe that using the GRI standards allows us to provide comprehensive and comparable information to our stakeholders.

To fulfill our growth commitment in our core market i.e. India, we commenced three new greenfield facilities located in Supa, Maharashtra; Gorakhpur, Uttar Pradesh;

and Khordha, Odisha. This expansion is designed to meet the rising demand for beverages in India and support our long-term growth trajectory.

Our greenfield plant in DRC is expected to start by the next quarter.

A significant highlight of the quarter was successful completion of the strategic acquisition of the Beverage Company (BevCo) in South Africa. This move has notably expanded our footprint and fortified our presence across several dynamic markets in the African region.

Furthermore, Varun Beverages Morocco SA, our wholly-owned subsidiary, has entered in an Exclusive Snacks Appointment Agreement to manufacture and package Cheetos into Morocco, by May 2025. This agreement complements our existing distribution of PepsiCo's snack portfolio, marking another step forward in our strong symbiotic partnership.

In nutshell, we have additionally fuelled 3 growth engines which will gradually and consistently contribute to revenue and profitability growth in the company. First growth engine is the South Africa's combined territory with Lesotho, Eswatini, Namibia, Botswana, Mozambique and Madagascar. Second growth engine is entry into new territory of DRC where PepsiCo is not present at all as of now, the commercial production here from our new state-of-the-art greenfield plant is expected to start from the next quarter. The third growth engine is entry into snack food production by May 2025 in Morocco.

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

Raj Gandhi: Thank you, Mr. Chairman. Good afternoon, and a warm welcome to everyone joining us today. Let me provide an overview of the financial performance for the quarter ended 31st March 2024.

Revenue from operations adjusted for excise/GST, saw a healthy 10.9% Y-o-Y increase to the level of Rs. 43,173 million in Q1 of CY2024. Consolidated sales revenue reported a growth of 7.2%, reaching 240.2 million cases in Q1 CY2024, with increases of 4.4% and 21.9% in India and International markets respectively.

During Q1 of the CY2024, the consolidated net realization per case rose by 3.5% to the level of Rs. 179.7, supported by an improved product mix in India and a higher contribution from international markets, which command higher realization per case. CSD constituted 71%, Juice 7% and Packaged Drinking Water 22% of the total sales volume in the Q1 of CY2024.

Our gross margins improved significantly, rising by 385 basis points to the level of 56.3% from the earlier level of 52.4%. This increase was largely driven by our focus on reducing sugar content and the lightweighting packaging material, incidentally, also meeting our sustainability initiatives, along with the benefits from reduced PET prices, which contributed to this improvement.

Approximately 46% of our consolidated sales volumes come from low sugar or no sugar products, reflecting our commitment to meeting the evolving preferences of all consumers. This strategic focus now only aligns with the consumer trends, but also optimizes our cost structure by reducing sugar costs and enhancing overall efficiency.

These efforts have had a tangible impact on our financial performance with EBITDA increasing by 23.9% to the level of Rs. 9,887.6 million Y-o-Y and the EBITDA margin improving by 240 basis points to the level of 22.9% in Q1 of CY2024. The above improvement of 240 basis points is in-spite of rise in fixed costs associated with the acquisition of the new territories and commissioning of new greenfield plants for the season. As these new capacities begin to contribute to our performance, we expect these costs to be better absorbed enhancing our financial efficiency moving forward.

Depreciation increased by 8.9% in Q1 of CY2024 on account of capitalization of assets and the establishment of new production facilities i.e. Kota and Jabalpur during the last year and Supa in the current quarter. Finance costs increased by 49.7%, primarily due to higher debt for acquisitions and CAPEX as well as increased borrowing costs. The CAPEX for these 3 plants is already done, barring a bit for DRC, which is pending. And on the other side, the cost has gone up. Last year same quarter, the average cost of borrowing was 7.7%, which this year is 8%.

On the debt front, we expect to amortize majority of the incremental debt taken during the year for BevCo acquisition as well as for CAPEX in the next couple of months. PAT grew by 24.9% to the level of Rs. 5,479.8 million in Q1 of CY2024 from the level of Rs. 4,385 million in Q1 CY2023, driven by volume growth and enhanced profit margins.

Coming to an update on our growth initiatives. We have successfully commissioned 3 new greenfield production facilities in India, significantly enhancing our production capacities: in Supa, Maharashtra on 25th January 2024, with an investment of Rs. 10,000 million; in Gorakhpur, Uttar Pradesh on 13th April 2024, with an investment of Rs. 11,000 million; and in Khordha, Odisha on 30th April 2024, with an outlay of Rs. 7,000 million. We also have set up backward integration facilities at all the 3 above mentioned greenfield plants, taking the total number of integrated plants to 13, that is the number of plants with the backward integration facilities. These investments are poised to support our long-term growth objectives as well as profitability. Additionally, the forthcoming CAPEX of Rs. 4,000 million for our DRC unit will further our expansion in the African region. Furthermore, we finalized the strategic acquisition of BevCo, expanding our footprint into new and dynamic markets. We also secured an agreement to produce and package Cheetos in Morocco.

As we move into peak season, the growth outlook stays no way different from the past few years and the performance, given the strong heatwaves prevailing across India during the summer quarters, where we are. Our strategic investment in enhancing production capabilities and making new acquisitions have significantly strengthened our global presence. These initiatives have established a solid platform for sustained growth in the foreseeable future.

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 Institutional Equities.

Abneesh Roy: Congrats on strong margins. My first question is on the outlook. June quarter, clearly, your base is quite favorable, it was soft. Plus, we also have the heat wave. And is there any benefit also from the election-related rallies? I wanted to get a sense on how you see June quarter. I understand the guidance will be difficult. But do you think that much stronger double-digit growth should come back in the Indian business, volume growth?

Ravi Jaipuria: Well, we can't tell you exactly what growth will come back because half the quarter is already over. As you see, the heats are strong and soft drink sells when it's stronger heat, and we have the advantage this quarter of Ramzan been moving towards March, which hurt us a little bit in the March quarter this year. It looks very positive, and we think we should have a good quarter.

Abneesh Roy: And one related question was on the overall market also. Campa Cola in FY24 has done around Rs. 400 crore sales. If you could tell us any market, any kind of impact or its mostly the market has expanded? And second, to your own business, if you could tell us quick commerce, e-commerce and modern trade, in March quarter, how was it this year v/s the same quarter last year?

Raj Gandhi: See, the e-commerce contribution in our category is very small. Consequently, we do not track it extensively, but yes, the growth is there. Regarding Campa Cola, we can talk about our numbers, which are looking very healthy. The reason for this is, heat wave, elections, low base from the last year, and our capacity, which we have already increased by adding 3 new plants. We are amidst actually making all the time arrangements to meet the requirements and ensure we don't go out of stock.

Moderator: The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: I was just looking at your subsidiary sales, that is the consol minus the standalone, that has grown for this quarter roughly by about 30% Y-o-Y. So, what is leading the growth in the international? And secondly, in the international on an overall basis, what is the volume growth?

Raj Gandhi: Volume growth internationally, as stated earlier, is 21.9%. In fact, India would not have been any different. The reason for lower growth in India is because Holi was late and Ramzan was earlier.. The reporting calendar actually does not coincide with the festival calendar.

Percy Panthaki: And this 21.9% growth, any flavor on which geographies are higher than the average, lower than the average?

Raj Gandhi: Well, Morocco and Zimbabwe have led, they have already become large and good percentage increase in the larger territories makes the impact.

Percy Panthaki: Understood, sir. Also, could you give us an idea what is the CAPEX on a cash flow basis that you are estimating for CY24?

Raj Gandhi: Out of ~Rs. 3,600 crore CAPEX, which was already informed, ~Rs. 2,400 crore was already done in the last financial year. Majority of the remaining ~Rs. 1,200 crore is already done this year. Only a small portion, ~ Rs. 200 crore is left in DRC and maybe a small amount in India. Most of it is already done. Percy, now our effort is to repay the money which we have borrowed for CAPEX.

Percy Panthaki: Right, understood. So, most of your CAPEX is done? And would I be right in assuming that, let's say, next calendar that is CY25 also, our CAPEX would not be more than like Rs. 1,000 – Rs. 1,500 crore, would that be a reasonable assumption?

Raj Gandhi: Let's wait until June because the kind of growth we expect, if we get it, it has to be more.

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

Jaykumar Doshi: If I were to look at other than June quarter last year, for the remaining 3 quarters, the volume growth in India business of about 20%, whereas last year, June quarter, it was badly about 2%. So, when we look at this June, should we think about a 17% - 18% potential volume growth that you lost last June and about 10% - 20% over and above that. Is the demand environment conducive? And is your supply side, capacity expansion, was it commissioned on time for you to be able to capture what the math indicates, which is like close to 30% volume growth in June quarter?

Raj Gandhi: Jay, we appreciate the parameters, which you have defined. We no way differ from you, but let's keep our fingers crossed. It's an ongoing quarter.

Ravi Jaipuria: But our capacity is enhanced, the plants were in time, so we are okay capacity-wise.

Jaykumar Doshi: That's very helpful. Second is now that you've made some progress on the foods business. Would it be possible to give us some color in terms of at the right scale, what would be the profitability and return ratios? How would it compare v/s the beverages business on the food side?

Ravi Jaipuria: We think it's a bit too early. We are only going to start the first plant next year. But food business is as good or better than the beverage business.

Jaykumar Doshi: I'm assuming this is return on capital, right, given that CAPEX would be much lower than capital?

Ravi Jaipuria: Yes.

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

Anand Shah: The first one, you've done great work on the gross margin expansion through multiple initiatives. I just wanted to understand the sustainability of this and would you at all to sort of revise your margin guidance?

Raj Gandhi: The guidance stays the same, Anand, as we have given earlier. We have specified the reasons for one off benefits in the short run which we keep on gettingbut in the long run the margin guidance, we should take as the same because we do not know the weather conditions, the competitive scenario, etc. We think the margin guidance, which we have given in the past, for the long run, we should stay with that only.

Anand Shah: On the balance sheet side, I mean, can you share the debt numbers there for the current quarter given that you expanded on the BevCo payment and all, so that we know as to what is the repayment and how it go down?

Raj Gandhi: We have made a payment of ~Rs. 1,260 crore for BevCo and out of ~Rs. 1,200 crore CAPEX, which was to be done in this quarter, about Rs. 1,000 crore is already done, minus the profit of last quarter and 45 days in the current quarter. Exact numbers for the quarter, we will not be able to give. We also have given a guidance that in a couple of months, the additional debt taken during the year will be repaid, and it will be our endeavour to reach at the 31st December debt position.

Anand Shah: You had indicated during the acquisition, you may explore some structure sort of to work out in South Africa in terms of the payment and all. Is that something which is ongoing?

Raj Gandhi: The structure is such that 100% equity is with us, minus the ESOPs, which we had to allocate to the eligible staff. To partly fund the acquisition, we have taken some borrowing at the local subsidiary level as the cost difference between India and borrowing in the local currency in South Africa was not much, only a 150 basis point difference, which in turn gives us a big insurance on exchange rate fluctuations and in managing our balance sheet.

Anand Shah: And one last if I may. I mean, are we starting to see Rockstar in your presentation, a new drink. So should we expect the launch this year?

Raj Gandhi: Anand, this is what we got in South Africa because they were doing a small portion of Rockstar there. It was good when we are making a consolidated brand presentation to include that. For India, we will have to wait for some time.

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

Devanshu Bansal: Congratulations on good margin execution in the past quarter. Sir, you indicated that summer season has started off well. I wanted to check if you can call out the utilization levels of your plants for the month of April as in how are we trending on that front?

Raj Gandhi: We were running at close to 100% in April. However, please note that the two out of the three new plants have come into operations only towards the later half of April month.

Devanshu Bansal: Okay. That's really encouraging to hear, sir. From a depreciation perspective, Mr. Gandhi, as some of the plants were commissioned during the quarter, what is the expected run rate for depreciation going into the coming quarters, if you can help us?

Raj Gandhi: Basically, how we measure it is as a percentage of revenue, if you see the percentage year after year, full utilization basis is coming down. We expect the same trend to maintain, and the depreciation as a part of revenue, we don't think will change much this year also.

Devanshu Bansal: Got it, sir. And lastly, from my end, what is the expected contribution from South African market in terms of Revenue, EBITDA for this year? Is it like broadly similar to the metrics shared during acquisition? Or we are seeing some improvement there?

Ravi Jaipuria: It's too early for improvement. We think we've just taken over, and off season in South Africa has already started. Give us a couple of quarters before we can start giving you numbers for South Africa, but it's a great acquisition. We think we'll do well, just give us a little bit of time.

Moderator: The next question is from the line of Aditya Soman from CLSA.

Aditya Soman: Two questions. Firstly, can you tell us a little bit more about the increased capacity and your plans for Gatorade and Cream Bell? And secondly, again, in terms of South Africa, any sort of color in terms of the numbers for the next year will be super useful.

Raj Gandhi: In Gatorade, the focus has come after the price and pack size correction and also we got the approval from PepsiCo to produce from more than one plant. The efforts are on, but we're still at a very niche stage. And at this moment, a small change will not make a difference. Also Gatorade is in zero cal in the new packs. It's a very promising product, but we'll have to wait for this. Same is true for Cream Bell as well.

Ravi Jaipuria: But it's doing well, and we are seeing good growth and whatever capacity we are able to produce, we are able to sell even with the enhanced capacity.

Raj Gandhi: Aditya coming back on BevCo, there are 5 plants, which are already operational and working, by September-October when the season starts, we have to make certain improvements to enhance the capacity. In the meantime, the focus is also on increasing the share of PepsiCo brands, which is a better contributor to top line and bottom line. So interchanging the share from our own brands to PepsiCo will enhance profitability. And then, once we are ready, we will increase capacity by adding new lines or plant and act accordingly.

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

Onkar Ghugardare: My question was regarding, I know it's been only few months you have taken out on BevCo. But could you share some vision on that where you want to take it? What kind of size it can become in terms of overall portfolio for Varun Beverages?

Raj Gandhi: South Africa is a huge market, with one of the highest per capita consumption rates of about 250 servings per person. However, PepsiCo's market share is very meagre at 1.8%, and even when comparing PepsiCo and Coke, the global brands, the relative share is only 2.7%. This presents us with a huge upside for growth. In the past, our track record has been good with Zimbabwe, Zambia & Morocco. PepsiCo had no share in the past in Zimbabwe, but as we've mentioned in past calls, we achieved 71% market share. Similarly, we've made strides in Zambia, and in Morocco, we've repeated this performance. You have to give us some time to get our act in order. And make it grow few folds, at least.

Onkar Ghugardare: Okay. So, like volume-wise, it is lesser than India, but the realization will be much higher, right?

Raj Gandhi: Realisation per case in India is much higher.

Ravi Jaipuria: We think, it is still too early for South Africa answers. Give us a little bit of time to understand the full market, a quarter or 2, let's then give you the right answer but it's a huge market with a huge scope, and we are working on it.

Onkar Ghugardare: In terms of the Indian growth this season, you said that Holi festival was delayed by 17 days, that's why there was some loss or delay.

Raj Gandhi: 17 days delay was for India for Holi.

Ravi Jaipuria: That was for the first quarter because Holi was late this year, and Ramzan was earlier, so it affected the season partly, that benefit we will get in the next quarter.

Onkar Ghugardare: So there was delay of sales, in the current quarter

Raj Gandhi: Yes. Basically, the calendar doesn't coincide, summer calendar v/s the reporting quarter. Yes, there will be some shifting from last quarter to this quarter because summer is shifted towards April.

Onkar Ghugardare: Okay. Just wanted one clarification that all the 3 plants, which you just told, all of them were working, operating in the last quarter?

Ravi Jaipuria: They are all operative from April onwards.

Onkar Ghugardare: And what was the utilization in the last quarter, Jan to March, for all 3 of those?

Ravi Jaipuria: Two of them have started operating only in April.

Onkar Ghugardare: And the one remaining, which started in January, I think?

Raj Gandhi: The one which started last quarter, January, February are not season months, those are part of the off-season. But as we are heading towards the season, every plant is being utilized more or less around 100%.

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

Sumant Kumar: The first question is when you talk about the low or lightweight packaging. Can you talk about how much percentage of total portfolio is lightweight packaging currently? And how much it is going to increase from current level? And the second question is for the low sugar content, we are talking about 46% of the total consolidated sales volume is from low sugar content. Can you talk about from here, can you increase this percentage?

Raj Gandhi: Well, it's difficult to give a futuristic number. But for the past, if you are interested, we have worked in detail and compared it from 2010 to 2023 in Page number 15 of our quarterly result presentation put on website, and we have also given this for various SKUs 600 ml, 750 ml, 1 litre, 1.25 litre and 2.25 litre as well as reduction in the grammage for the closures. So these two things are already provided in much detail in Page number 15. And the scope for future basically will depend upon the technology changes, etc., which will support the rate reduction.

Sumant Kumar: And what about the sugar content, 46% portfolio?

Raj Gandhi: As we stated in the opening remarks, currently ~46% of our total portfolio consists of either zero sugar or low sugar products. South Africa will significantly add up to this achievement, with approximately 90% of our portfolio being comprised of low or no sugar products in that country. Another country following suit is Morocco. In India, we are also making considerable efforts. Our recent launches include Mirinda, 7UP, and other products by PepsiCo, such as Pepsi zero sugar and low sugar Sting. We are continuously developing more options. For instance, Gatorade, which PepsiCo has provided us with a formulation containing zero sugar, is a recent launch. Our efforts to reduce sugar content remain constant.

Sumant Kumar: And this will help our gross margin going ahead?

Raj Gandhi: Yes, to some extent, it is helping us also in the gross margin.

Moderator: The next question is from the line of Karan Gupta from Varanium Capital.

Karan Gupta: My question is regarding the capital structure, how we are looking forward for the next 3-4 years, how much debt we are including and how much equity you are putting up. Over the years, our debt is increasing. If you just see the last 2 to 3 years, debt is increasing significantly. And I understand this thing that we are entering into the market, where the opportunity is very huge. So, the expansion part is must. But over the next 2 to 3 years, how we are looking forward to raise the debt as we are also putting up expanding our capacity. How much the cash flow we are generating? Just the estimation that we will not add much debt in our capital structure. Is there any benchmark, any structure you have prepared for the next 2 to 3 years that, let's say, 30%-40% will include from our internal accruals, and then the rest will be from debt? So, that's something kind of question I had.

Raj Gandhi: In the past, any time for the last 3-4 years, you must have noticed that our Debt-to-EBITDA is around 1 - 1.25 and Debt to Equity is 0.5 - 0.7. After the season ends in 1 or 2 months, these ratios will be at the same level. When we made this statement, in a couple of months, we'll be amortizing debt, which we have taken in the current year, for setting up 3 new plants and for acquisition of BevCo. By the year end we shall be at the same level as of December 2023. In return, what we get is perpetual increase in EBITDA and equity, including retained earnings. Yes, we had to take on this debt in the interim, but it has helped us in enhancing the return for our stakeholders with a very healthy ROI. And we are conscious of the fact that it should not go beyond comfortable levels.

Karan Gupta: And with these 3 greenfield expansions, what's the estimation of your cash flow submission from this, how we are looking forward around Rs. 5,000 crore of cash flow in terms of cash flow from operations? We are currently hardly Rs. 1,500 crore. So, that the cost reduction will be there.

Raj Gandhi: Well, it's a little difficult to calculate that way. These are integrated plants with backward integration, and 2 out of these are with the aseptic packaging line, which are capable of producing Tropicana as well as Cream Bell VAD. So all these are slightly difficult to explain at a granular level on the phone. However, we can only say that debt levels are well within the norms.

Karan Gupta: Further for expansion, as you said, for a CY25, you said June will be the time you will announce some CAPEX for the CY25. What's the plan for again, same question, for the better structure? If you're raising anything or there will be internal accrual?

Raj Gandhi: Well, all the all expansion from 2019 to 2024 in last 5 years had been only from internal accruals and the ratios of debt equity and debt EBITDA remained more or less at the same level and have shown improvement only. But however, sometimes in the short run, this maybe supported through the borrowing because you have to incur the CAPEX first and then from the very first year itself from April, May, June, you start realizing and brings us to a comfortable level. We study our balance sheet in 2 parts, actually. One, is when we incur the CAPEX, the asset are put to use that's around December and June is when it is actually put to use and we amortize part of debt.

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

Sanjaya Satapathy: So my question is that in the Cream Bell, you were kind of giving some color that there was some delay in starting the factory. Can we just complete that part?

Ravi Jaipuria: No, the delay was because of the global supply chain issues. Instead of starting in January, it started in April. But this is still before the season, and it's running very well, and we are practically doubling our capacity.

Sanjaya Satapathy: Sir, the South Africa plant, which will be completely merged and the full impact of it will come from the June quarter. Have you kind of given any idea about how much your depreciation, amortization costs and other costs will go up by?

Raj Gandhi: In South Africa, the acquisition cost for franchise rights essentially balances the asset value, so depreciation costs will not increase significantly. Depreciation ideally has to be seen on the consol level, where in the last 5 years, balance sheet, if you'll see, as a percentage to revenue, the percentage is coming down. Last year it has come as low as 4.2% as a percentage of our top line, which in earlier years used to be 7% - 9%. So this improvement is very healthy, and it's a good percentage. We have consistently delivered on this parameter in the past.

Sanjaya Satapathy: Sir, will the amortization go up a lot? Or I mean I just wanted to understand the cost impact of South Africa, if at all it is there.

Raj Gandhi: No, it will not have a significant impact because it will contribute maybe anything with Rs.1,800 - 2,000 crore top line. It will have its own EBITDA. It's a positive profit-making operation with a huge top line. So, it will not increase as a percentage.

Sanjaya Satapathy: And last thing, if I can ask that you mentioned that you have no plan to immediately use brands like Rockstar that is there in South Africa in India. Just trying to understand what all synergy benefit that you're really looking at? I believe that you are saying that it will give us 2 quarters, but just understanding the thought process.

Raj Gandhi: The Rockstar brand belongs to PepsiCo, we have to align with them to get their strategy to launch it in India. Basically, this is an energy drink category to address the premium category, which is very niche.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers.

Bharat Shah: CY25, barring any acquisition really speaking, that you should mark the beginning of a very favourable operating and financial leverage for us. Is that right?

Assuming no significant acquisition occurs in 2025 and we will be digesting the current acquisition of BevCo that we made, assuming no further acquisition in 2025, then 2025 onward should offer a period of, once again, very favourable operating and financial leverage to us is where acquisitions will get digested and we'll scale them.

Raj Gandhi: Very rightly put up by you. In fact, very true. And this resonates with our earlier answer that in a couple of months, the CAPEX made by the company in this current year plus debt for BevCo acquisition will already be amortized. After that, any addition in the debt is going to be for the CAPEX of CY25 only. Without any new M&A for CY25, the debt should not substantially change from CY2023 end to CY2024 end. Also, EBITDA coming from these 3 plants and coming from 5 plants of South Africa should start contributing and DRC should also start contributing.

Bharat Shah: In a way, kind of flow-through model, very favourable virtuous cycle that we witnessed earlier, with top line to operating profit to after the financial leverage into the cash profit due to depreciation, kind of a favourable virtuous cycle, what we witnessed for preceding period of 2-3 years, something like that, hopefully should begin in next year onwards.

Raj Gandhi: In fact, this is what we are demonstrating for the last several years. And this is what we always plan. But in the short run, a little variation is always possible. See what happens if there is a demand growth in the market, we must prepare and make every endeavour that we don't lose our share by advancing the CAPEX. At the same time, if internationally some opportunity comes up, we should not delay the M&A and temperately support the cash flow through the borrowing. But of course, we have to be very cognizant of the fact, one, that we do not spoil our leverage ratios. Secondly, we are confident in a period of 12 to 18 months, we are going to come back to the original strict levels.

Bharat Shah: Without doubt. I think what has been achieved so far has been really commendable on each acquisition in each move, but always the heart is greedy, Yeh Dil Mange More. So it only from that point of view.

Raj Gandhi: Mr. Jaipuria is smiling. He is amused from the statement and adopting our tag line. Thank you very much.

Moderator: The next question is from the line of Ruchita Ghadge from I-Wealth Management LLP.

Ruchita Ghadge: My question was mainly on the line of DRC. Just wanted to understand, what kind of volumes can we potentially do in that region? And how big is that market?

Ravi Jaipuria: That market is quite large. But unfortunately, the numbers are not very clear in that market, it's more than 100 million population and warm climate. We have put 2 large lines and our capacity is about 35 million cases. We hope to do well and as soon as our plant starts by the end of this quarter, we will really see how well we do and how fast we can grow that market.

Ruchita Ghadge: And sir, similarly, the South Africa, sorry if I missed it, but how big is that market? And how much volume can we do there potentially?

Ravi Jaipuria: South Africa is close to 1 billion case market. It's a huge market, and our PepsiCo share is only ~2% practically, there is huge room there, although we have our own brands where we are doing well and another ~10% market share is that. But as a market, it's a very big market, and we have huge scope to grow, and we have 5 plants.

Ruchita Ghadge: And sir, can you give me the capacity of these plants all together?

Ravi Jaipuria: Well, there is enough capacity, but they were not maintained very well. So we are correcting them. And by September before the season starts, we will have enough capacity to grow the market. And whatever corrections are needed, we will do it before the season starts.

Moderator: Ladies and gentlemen, we will take this as the last question for today, which is from the line of Saket Mehrotra from Tusk Investments.

Saket Mehrotra: Sir, could you give us any sense on how much contribution in our sales is right now coming from quick commerce, if you could just like give us some understanding about how that channel is evolving?

Raj Gandhi: In fact, the quick commerce or e-commerce is still not very prominent in our segment. It's very little, and we have not tracked it that minutely, but as and when some more data on this is available, we'll share.

Saket Mehrotra: And any sense in terms of growth, while I understand maybe the contribution right now is insignificant, but if you can give us a sense on what kind of growth is coming from this channel?

Raj Gandhi: Yes. Once we get the more data at that level, we will definitely be sharing.

Moderator: As that was the last question, I would now hand the conference over to the management for closing comments. Over to you, sir.

Raj Gandhi: Thank you. We 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 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.
