Varun Beverages Limited

Earnings Conference Call Transcript
May 5, 2020

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Varun Beverages Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and 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. Thank you and over to you, Sir.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on Varun Beverages Q1 2020 earnings conference call. We have with us Mr. Ravi Jaipuria, Chairman of the company; Mr. Varun Jaipuria, Whole-Time Director; Mr. Raj Gandhi, Group CFO and Whole-time director; Mr. Kapil Agarwal, CEO and Whole-Time Director; and Mr. Vikas Bhatia, CFO 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 maybe forward looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now request Mr. Ravi Jaipuria to make his opening remarks.

Ravi Jaipuria: Good Afternoon everybody, and thank you for joining us on our earnings conference call. I hope you all had an opportunity to go through our results presentation, which provides detail of our operational and financial performance for the first quarter ended March 31, 2020.

We started the new fiscal year on a strong note with healthy demand and robust volume growth across our domestic and international markets. This enabled us to deliver our top line growth of 23%, EBITDA growth of 24%, and PAT growth of 50% during the quarter. However, a countrywide lockdown and similar restrictions in many of our international geographies during the last 10 days of March moderated both our domestic and international business performance during the quarter, which would have otherwise been even better. Total sales volume were up 26.2% year-on-year in Q1 2020. We registered double-digit volume growth in the month for January and February, however organic sales volume got severely impacted in the last 10 days of March due to the lockdown measures. As a result, organic volume for the quarter declined by 13.7% in India and 9.3% on a consolidated basis.

Over the last two months, worldwide economies and various industries across India and international markets have been facing an unprecedented situation due to the COVID-19 pandemic. Our primary focus during this challenging period has been towards undertaking all necessary measures to shore up our cash flows, ensure safety of our employees, business partners, communities, and to overall safeguard the interest of all our stakeholders. On the operational front, in compliance with

Government Authority advisories, we have temporarily closed operations at our offices across India and have already implemented work from home. As per the relaxations provided by the Government of India for essential services and particularly packaged food and beverages, VBL has got the permissions from respective State Governments to operate certain production facilities. These units are currently operational at a lower utilization level and we are undertaking all necessary measures to ensure and maintain the highest standards of hygiene and social distancing norms at our plants.

In anticipation of the favorable upcoming season, we had built up additional stock of inventory in the month of March. Encouragingly we have been able to sell most of the inventory. Furthermore with recent relaxation in lockdown measures, we have also started to see an initial recovery in demand and in sync, we have steadily started production in most of our facilities. Our teams are also actively in contact with all our distributors in order to ensure streamlined deliveries and supply. Our business model consisting of own logistics, supply chain systems, and end-to-end infrastructure facilities provide adequate cushion to our business operations despite an industry wide supply chain disruption in the country. We are also very encouraged that VBL has a healthy balance sheet and strong financial status which we believe most certainly should see us through these disorderly times.

To conclude, while we are currently witnessing curtailed demand both in India and in our international geographies as a result of the ongoing macro situation, we believe in the near-term there should be a gradual bounce back in volumes. This will be enabled by easing of lockdown restrictions and restoration of consumer sentiment as they will once again have normal access to beverage purchases, especially in a favorable summer season. Given the increasing demand that we are witnessing for our products prior to the lockdown, we are confident that once things stabilize, we will once again see encouraging growth and we will further strengthen our position as the leading player in the beverage industry. I would now invite Mr. Gandhi to provide highlights of the operations 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 of the first quarter ended March 31, 2020.

Revenue from operations adjusted for excise / GST grew by 23.3% year-on-year in Q1 2020 to the level of 16,764.4 million, EBITDA increased by 24.2% to the level of 2711.6 million. Total sales volume growth was robust at 26.2% at 114 million cases in Q1 2020 that compared to 90.3 million cases in Q1 2019. CSD constituted 67%, juice 7% and packaged drinking water 26% of the total sales volume in Q1 2020. The sales volume growth was supported by steady performance in India as well as in the international territories in the month of January and February, however, post lockdown restrictions imposed by the Government due to COVID-19 pandemic, organic sales volume got severely impacted in last 10 days of March. Resultantly, organic volumes for the quarter declined by 13.7% in India and 9.3% on a consolidated basis. Realization per case has come down by 2.3% in Q1 2020, essentially on account of lower sales realization in Zimbabwe in USD terms.

On the profitability front, EBITDA increased by 24.2% to the level of 2,711.6 million in Q1 2020 from Rs. 2,183.8 million in Q1 2019. EBITDA margins were steady as a major part of savings in raw material cost were offset by higher fixed cost amid negligible sales during the last 10 days of March. Gross margins expanded by 300 bps YoY due to favorable PET chips prices. Depreciation and finance cost have increased by 36.4% and 47.3%, respectively, in line with the increase in scale of business post consolidation of South and West India sub-territory, with effect from

May 1, 2019. The exceptional items in the current quarter, represents provision for impairment in the value of certain plant and equipment, glass bottles, and plastic shells amounting to Rs. 665.3 million.

I would now like to update you on the tax front. Following the changes in the corporate tax structure, we have made an assessment of the impact and decided to continue with the existing tax structure until utilization of accumulated minimum alternate tax, credit, and other tax holidays available. In according to the IndAS 12 income tax, the company is also required to re-measure its deferred tax balances for amounts that are expected to reverse in future where the company would migrate to the new tax regime. The company has revisited its outstanding deferred tax balances and written back an amount of Rs. 731.85 million through the statement of profit and loss.

To conclude, in these challenging times as an organization we have instituted some cost rationalization initiatives and optimum working capital measures to conserve cash flows and ensure steady profitability. The company has also not availed moratorium for debt repayment and has been timely servicing all its debt obligations. Overall, VBL is solid and stable and our focus remains on generating strong free cash flows over the coming years. On the whole, we look forward to delivering a sustainable operational and financial performance going ahead.

On that note, I come to an end of opening remarks and would like to now ask the moderator to open the lines for Q&A. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. The first question is from the line of Vivek Maheshwari from Jefferies India. Please go ahead.

Vivek Maheshwari: Can you give some color on April trend that we have seen on the ground and if you can quantify how much was the capacity utilization in month of April and how are we seeing situation on the ground as of now would be very helpful?

Ravi Jaipuria: It is very difficult to quantify because every day one State is opening and one State is shutting down, so to give you any guidance would be difficult. Only thing we can tell you is that all our plants are operational now and we are in a position to supply whatever the demand is, which is picking up every day as the markets are opening up. Given the current scenario we are not running the usual three shift operations.

Vivek Maheshwari: So, are you suggesting that it is not that every day is better than yesterday in that instance?

Ravi Jaipuria: Under the given circumstances every day is getting better as the markets are opening up. It is too early to say anything as markets have just started to return to normalcy from yesterday. It will take further few more days to normalize. Our volume is going up and we are quite satisfied the way it is going in the current environment.

Vivek Maheshwari: Since this is the peak time for institutional and out-of-home segment how are we looking that side of business, and how big is that for your company and for the industry as a whole? Can you share some of your thoughts on that segment?

Ravi Jaipuria: There is very little institutional sales right now because all hotels, all restaurants everything is shut, so there is no question of institutional sales happening. On-the-go has also reduced drastically because there are no people in the market. How many people are allowed to come in market and how are they going to react is what we need to monitor over the next 10 days. So, to predict anything without actually seeing what is going to happen in the market is very difficult.

Vivek Maheshwari: How big is institutional and out-of-home would be, broadly?

Ravi Jaipuria: Institutional sale is under 10%, so it is not so large for us and on-the-go is definitely large. There are some sales which are already happening on-the-go, some markets are open, some States are becoming COVID free, so it all depends how many markets can open. Government is talking of opening the markets in Green and Orange zones, so if they start opening we will see most of our sales coming back, however it may not be 100%.

Vivek Maheshwari: The other bit is on the gross margins in this quarter. With oil prices moving further down and generally a pullback in soft commodity prices, what will be your outlook on margins?

Ravi Jaipuria: Margins are definitely looking much healthier, the only thing is volumes and top line is not in our hands, but we are still trying to maintain our margins even with lesser volumes. We can expect to maintain our margins because resin prices have come down drastically, sugar is also down comparatively and it makes a big difference to our performance.

Vivek Maheshwari: Lastly, Mr. Gandhi what would be the repayment in 2020 on the debt side and current debt and current cash position on the balance sheet as of March 31st?

Raj Gandhi: As the Chairman pointed out, we have a very healthy balance sheet and with a strong cash flow we were focused on repayment of debt obligations. Today 100% of our cash credit limits are available as undrawn limits and with opening up of new territories and the cash flow coming in, we have started asking banks if they can accept the prepayments. As we got the interest arbitrage in January and we had prepaid certain term loans, by availing short term loans, some of which were due for repayment even in 2021. We are now considering availing again long-term loans to square off short term loans. So after that conversion, we would have broadly repaid 90 plus percentage of current year's obligations by this month itself.

Second, on the margins we will have certain advantages as there will be softening of commodity prices, but on the other hand the absence of operating leverage on a higher volume, which is normally available to us in the busy season of quarter ending April to June, we will see a partial dip. Our marketing spends will be less as today people are happy if the material is available with them. So if we are able to ensure delivery to them when they need it, we do not have to spend much to push the products.

On the revenue front, in the given situation it is very difficult to comment on capacity or the sales or demand as it is beyond one's control. We would be rather happy, if we maintain our margins and effectively manage our debt obligations.

Vivek Maheshwari: Could you quantify the debt number, please?

Raj Gandhi: Debt repayment obligation of term loans was ~ Rs. 4,760 mn out of which while some prepayments happened yesterday some are going to happen this week. There are some small short-term loans also which again to a large extent have provided for repayment by this month end.

Vivek Maheshwari: March '20 debt? How much gross debt and cash?

Raj Gandhi: Gross debt was around Rs 32,000 -33,000 mn.

Moderator: Thank you. We will move onto the next question that is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Sir, you explained about the improving demand incrementally. While it is difficult to quantify, but subjectively given that people are wary of drinking cold things at this point of time, is it looking like a tough situation for volumes for next three months altogether because this is an important season for us?

Ravi Jaipuria: It is not looking great but at the same time we are reasonably in good shape. Since territories are gradually opening and looking at the initial response, we do not think people are shying away from drinking cold drinks and the demand is improving on a day-to-day basis. Our volumes are going up since the Government is opening up the territories and with additional margins because of cheaper raw materials we will not be in a bad shape & our margins should be healthy.

Prashant Poddar: Sir, since the business is very distribution intensive, I think even distribution at this point of time would be impacted. So from both perspective the financial health of your distributors versus your competitors and your ability to reach to your distribution point or your distributors ability to reach the market, is there any difference between you and your competitor at this point of time?

Ravi Jaipuria: Well, we do not want to answer for our competition, but we are able to reach the market, we come under essential commodities and we are able to reach through our distributors except in containment zone which are completely under lockdown. It is only that the number of outlets, which used to be there, many of them are not open, so we are servicing whatever outlets are open. As more outlets are opening on a daily basis, our sales are going up.

Prashant Poddar: You made a passive comment about the working capital requirement that you are servicing faster, and therefore, probably working capital requirement, the inventories are getting drawn down, but have you seen any demand from your distributors or any working capital support, have you extended any of that?

Ravi Jaipuria: They have not asked for anything and we are supporting our distributors wherever we feel it is necessary. It is not looking so challenging because the volumes are dropping, but the dip is not that bad that will cause a crisis.

Prashant Poddar: Okay, and what is the typical inventory that your distributors would have at any point of time?

Ravi Jaipuria: Normally, distributor carries between five to seven days inventory.

Prashant Poddar: On cost savings that you talked about, which are the areas of large cost savings and if you could talk about the raw material decline that has happened, typically what happens is that whenever there is a cost decline, we start seeing more offers in the market, but this time the situation is different, everyone is struggling, is it likely that the gross profitability would actually be improved to take care of the challenging times by the industry altogether?

Raj Gandhi: Major component in the raw material cost is the commodity prices, which are softening. Secondly, the focus is more on availability of goods, than in getting any scheme or promotion. Third, since our plants and offices are shut, all the administrative overheads starting from power, conveyance, etc. is totally absent, so all those things are becoming part of savings and that is helping us.

Prashant Poddar: Last question on the EBITDA margin outlook that Mr. Jaipuria gave that would be protected despite drop in volumes because of cost savings, so we are talking about EBITDA margins here being stable?

Ravi Jaipuria: We are trying to make sure that our EBITDA margins in percentage terms remains protected because of advantage in commodity prices and raw materials. Volume of course, there will be a gap which we cannot determine right now, but EBITDA margins in percentage terms should be at a similar level.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Sir, there was an exceptional item of Rs. 665 million, we mentioned this is with regard to the provision impairment, could you probably cite a little more on the same thing, what is it regarding?

Raj Gandhi: In fact, there are three such items. Firstly, in accordance with Ind AS 12, we have re-measured outstanding deferred tax balances and written back ~Rs 732 mn; this has been taken into account as we expect to migrate to the new tax regime in future.

Second exceptional item is the impairment of glass bottles and certain plant & equipment. The mix of glass bottles in the COVID-19 environment had reduced, so we used this opportunity, and as a prudent policy, we decided to take an impairment. Also, in Orissa, while we need only one plant we had two plants at Cuttack and Bargarh. The plant at Bargarh had two lines - a glass line and a 60 BPM PET line. All our new lines are of 600 BPM, because of the operating benefit, so for these two lines, we have taken an impairment. The idea is to reduce the fixed cost of that plant going forward. The land & building are absolutely in order and they can be used either for warehouse or other purposes, so that has not been impaired, but the plant and equipment, glass bottles and half depth plastic shells have been impaired in the books.

The third exceptional item is related to our intimation to stock exchanges on 21st December, 2019 when we had informed that there was a report in Nepal local newspapers regarding certain merchandise vendors of Varun Beverages Nepal who had not deposited VAT over a period of six years amounting to Rs. 58 mn. The investigation Department in Nepal had found this and served them notices and subsequently filed a charge sheet including the company as a party, apart from those vendors. The charge sheet stated the total amount including tax, interest and penalty at about Rs. 400 mn, which became a substantial amount. Hence, even before we are serviced any demand, which has not come even till date, however, since there is a charge sheet and we got a copy of that, we have created a provision for this amount although on the auditors insistence last year we had showed it as part of contingent liabilities. So these are the three exceptional items in our accounts in the current quarter.

Prashant Kutty: This exceptional which you told Rs.665 million would also include this provision for this charge sheet filed as well, right?

Raj Gandhi: Rs. 665 million is only for the impairment. The provision for Nepal is separate.

Prashant Kutty: So that has not been taken in this particular quarter?

Raj Gandhi: Nepal provision has been provided for in the current quarter. About Rs. 200 mn has been provided before EBITDA, about Rs. 100 mn in finance cost and the balance in tax.

Prashant Kutty: Sir, moving onto other question one is basically like you said as part of essentials, I believe juices and packaged water will be essentials, to that extent how would have April and May be in terms of until now terms of activities on packaged water concern?

Raj Gandhi: Prashant, packaged water is essential no doubt but the water sales mostly come from on-the-move, in the events or parties or the institutional sales. Unfortunately, all these were absent during this pandemic, so the mix of water you will find is coming down and as this is a low value item in absolute terms, it will help us in protecting our margin profile, which is one of the comforting factors other than the commodity prices and the marketing or promotion expenses coming down.

Prashant Kutty: Sir, at a company level one has to probably assume that the April and May in terms of obviously this is a quarter in which you almost do about 45% to 50% of business, so typically?

Raj Gandhi: Precisely on global basis, we do 39% volumes in this quarter and 41% in India.

Prashant Kutty: In that case Sir given how your production facilities have been operating, Mr. Jaipuria said that he is operating one shift as well, on an average what is the utilization levels?

Raj Gandhi: We are using our production facilities selectively. We are not running regularly. All plants have got approvals to operate, we are organized, we have followed the protocol to start and as and when wherever from there is a need from freight angle and the demand angle, we start the production. Further if we don't see any more demand coming in or need of product, we do not run it, as we do not want to pile-up the finished goods inventory.

Prashant Kutty: Last question from my end, Sir, between urban and rural, what is your urban-rural split, and secondly, how rural has been doing as compared to urban which is rural somehow I believe the extent of COVID impact is far more lower, so how is that trend be, could you just give us some color?

Ravi Jaipuria: Again, it is very difficult to ascertain the COVID impact because each State is in a completely different situation. In some States rural is open, while in some States they have completely locked down. Although, rural market comparatively is more open, but we are actually just making sure because of our vast distribution that whichever outlet is open in rural or urban, we are making our products available and because of that we are getting reasonable volumes of sales now. Everyday sales are improving slightly and I hope in the next couple of days we see some major improvements.

Prashant Kutty: How much would be rural, Sir, for us?

Ravi Jaipuria: It is very difficult to say right now. Normally, it is about 30%.

Prashant Kutty: In terms of realizations, in terms of EBITDA per case while you spoke about that your EBITDA margins on a percentage wise will remain, but in terms of EBITDA per case or realization per case, what is your take on that, how do you see that moving?

Ravi Jaipuria: Realizations per case should improve because our discounting has come down drastically. Main reason being as of now the supply of products is the main issue, availability is the main concern. People are not looking for discounts right now, they are more looking for availability of products, so we are also going on that basis and making sure our products are available and our marketing or discounts have reduced.

Prashant Kutty: Sir, if I look from an EBITDA per case, the volumes are down we just assume that the EBITDA per case will definitely be far more impacted especially this quarter?

Ravi Jaipuria: EBITDA per case would be better.

Raj Gandhi: Prashant, you are right rationally in the normal circumstances, but this is what we have actually worked up and taken extra effort to maintain our performance in spite of lower margins and where we will be affected by the economies of scale, but still we are able to maintain margin percentages, that had been our endeavor.

Moderator: Thank you. We will move onto the next question that is from the line of Varun Goenka from Nippon Mutual Fund. Please go ahead.

Varun Goenka: Sir, my question was just answered actually, but what I was looking for was maybe our top 10 cities of sales or not entire India operation maybe however we define internally top 30 cities or beyond that, so urban, semi-urban, rural, if you have any thoughts on that?

Ravi Jaipuria: Top 30 cities would be all urban and in urban areas it all depends which city is in Red zone or Green or Orange zone.

Varun Goenka: I was asking on a CY ’19 basis, not the current or a normal CY ’19 basis for the entire VBL, West, South, and North of course put together, what would be our distribution of sales between let us say top 10 cities, the next 20 or top 30 cities and the rest of India?

Raj Gandhi: We have classification under three heads: urban, semi-urban, and rural. Rural is about 30%, another 30% is semi-urban. Semi-urban classification for us is, an area which is urban but a population of less than five lakh and the balance 60% is the urban.

Moderator: Thank you. The next question is from the line of John Kum from Amiral Gestion. Please go ahead.

John Kum: You have been talking about poaching distributor of other franchisees and other large distributors who might not be as capitalized as part of business?

Ravi Jaipuria: We have not lost any distributor of ours to competition and we are pretty well present all over the country, so at the moment we have not had a problem like that.

John Kum: What is your level of current inventory how long could they last in the warehouses as you alluded in the commentary like three to six months, is that correct?

Ravi Jaipuria: Three to six months is the shelf life of the product, but normally we do not carry inventory for more than 30 days and that is also in the beginning of the season. Otherwise, we carry inventory of less than 15 days. We are not facing any challenge on inventory being stuck with us. If there is some movement required from one State to the other, we are doing that to make sure that none of our products become stale. In fact, all our plants are now in production, so we are manufacturing fresh goods.

John Kum: One last question, have you spoken to Pepisco and how are you working together on anything and what is their thoughts on the environment maybe in India and other countries in like Africa itself, how are you guys working together?

Ravi Jaipuria: We have spoken to PepsiCo, but environment in each country is different. Some countries in Europe and USA have a lot of modern trade sale which is all open. Lot of their consumption is at home and modern trade, so their effects are much lower. Africa is also not affected much, it has come down but very slightly because none of the markets have complete shutdown, so each country is completely different. PepsiCo is there with us and they are fully wanting to support if we need their help.

John Kum: Are they offering any support, maybe you do not need it if they are offering?

Ravi Jaipuria: We are assessing the impact right now. Being one of the largest bottlers in their system, we are sure they will come and support if we ask for something.

Moderator: Thank you. The next question is from the line of Jeremy Sutch form Matthews Global Investor Ltd. Please go ahead.

Jeremy Sutch: Thanks for taking my question, just one from me, you have indicated thus far that it is more an issue of ability to supply as opposed to maybe demand, but I am just wanting to get a sense, I am not really clear or have a handle on the affordability of your products, you know to what degree it is essential, I mean it is obviously more of a discretionary but it is small ticket discretionary item, so given potential demand damage, unemployment, income loss, so to what degree should we be worrying or you are concerned about potential demand destruction?

Ravi Jaipuria: We do not believe that in the long term demand will come down as our products are available at such a small ticket size, you are talking of Rs. 20 and Rs. 30 products. The spend which the person is going to cut first is that for houses, cars, white goods, expensive air conditioning, but we don't think people are going to start cutting on Rs. 20 products, of course unless and until the whole country becomes unemployed. We have not seen actually the demand going down, wherever the shops are open, they are all selling our products and people are enjoying our products. It is just the question of making the product available because there are a limited number of outlets which are open and of course the hotels, institutions are all shut and that demand has come down. However, as it starts opening up, people start coming to the market, I think we will be able to capture most of our demand.

Moderator: Thank you. The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management. Please go ahead.

Rahul Ranade: Just one clarification on the EBITDA margin, so are we saying that EBITDA margin will be protected for the Calendar Year '20?

Ravi Jaipuria: We were talking of EBITDA margin being protected in percentage terms.

Rahul Ranade: That is right, but is it for the year or for the June quarter, since the June quarter is exceptionally big for you, so I do not think?

Ravi Jaipuria: In percentage terms our EBITDA margins should be protected for the full year because even though the volume will be lower, our conservative cost cuts and also the raw material prices being softer will help.

Moderator: Thank you. The next question is from the line of Vikas Shah from Ostrum Asset Management. Please go ahead.

Vikas Shah: Most of the questions are answered, but one question I had on the distribution side, you mentioned that you have not lost any of the distributor, but my question was are you looking to acquire distributors from the competition which is not as organized as you are, most of the people work with multiple franchise?

Ravi Jaipuria: Not really, because we have good distributor base who have dealt with us for a long time and unless and until any distributor leaves us, we are not looking for acquiring any new distributor. As there are so many distributors, some changes happen, but not too many major changes.

Vikas Shah: On the global side, any particular challenges that you see which would be, balance sheet challenges, currency challenges which will be far more severe than India?

Ravi Jaipuria: No, they are much better than India right now because Africa has not shutdown much.

Vikas Shah: Last question, in terms of do you see a possibility of stock return because of expiry issues or likes of that from the areas which are largely Red?

Ravi Jaipuria: We do not take any goods back and there is no expiry position because wherever there was extra stock in one State, we have moved it to the other States, so that there is no chance of any expiry.

Moderator: Thank you. The next question is from the line of Aman Rathi from Morgan Stanley. Please go ahead.

Aman Rathi: Sir, my most of the questions have been answered, if you could give some quantification based on the new business plan for this calendar year, what is the growth target you have, and secondly, how do you see the logistics business maybe utilization of pallets in the business over the coming quarter?

Ravi Jaipuria: We believe this is a question which nobody will be able to answer because we don't know how bad COVID is going to be, how many people are going to be tested, for how long the country is going to be in lockdown, very difficult to answer this question at this stage because it will be all theoretical whatever answer.

Aman Rathi: Secondly, how do you see an impact of COVID on the logistics front in the coming quarters or year?

Ravi Jaipuria: We are not finding any logistical challenges, so we do not see any issue.

Raj Gandhi: Here, I think we need to divide it, one what happened in April when the lockdown was put in place or post-lockdown. Post-lockdown broadly the situation is going to be normal. 300 odd districts out of 733 are already in the green zone. We believe top eight States are contributing about 90% of the new COVID cases. So there it will take much longer to normalize and all questions whatever you are seeing are applicable to those States, but for the balance 20 States and 9 Union Territories, I think life should come to normal sooner than later.

Aman Rathi: My question was more on the side of are your facing any challenges related to truck availability, driver availability, etc.?

Ravi Jaipuria: We are not having a problem, we did not have it even when there was a complete lockdown and even now we are not having.

Raj Gandhi: That is the advantage of owning 2,500 trucks in the company.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just in our category what would be the extent of on-the-go consumption, contribution to the category and what would be the extent of out-of-home consumption of the category?

Ravi Jaipuria: Last year 30% to 40% of consumption was on-the-go.

Pritesh Chheda: My second question is that for April there was virtually none of the plants operational, right for us or were there any?

Ravi Jaipuria: Some of the plants became operational by April 20th.

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

Anand Shah: Just few questions, firstly if you can break down the 114 million cases that you did in terms of domestic and international as to what was the number?

Ravi Jaipuria: India was 94 million and balance was international.

Anand Shah: Within this you did I know despite Jan-Feb being double-digit to March of this year was a drag and hence there was a 14% odd organic would that equal to what 60%, 70%-80% decline in March and would that be even pre-COVID before the 10-day lockdown?

Ravi Jaipuria: March was negative by 31% in India on total basis and negative by about 50% on organic basis.

Anand Shah: The skew within the quarter itself March would be more like 40%-50% perhaps within the quarter I am saying?

Ravi Jaipuria: Close to it as actually the business starts after holi.

Anand Shah: That is why the bigger impact on 10-day lockdown also?

Ravi Jaipuria: Yes.

Anand Shah: If you can give any color prior to the COVID-19 I mean in terms of Jan-Feb how Southwest was playing out, I mean in terms you were investing in terms of scaling it up, kind of traction that you are seeing in the business, share gains or any initial signs of business getting strengthened there?

Ravi Jaipuria: If you look at January and February, we grew at over 100% in each month in India.

Anand Shah: The Southwest business category?

Ravi Jaipuria: Overall we grew and organically we grew at about 14% in January and about 42% in February.

Anand Shah: Lastly, the organic growth in the international business, how much was that?

Ravi Jaipuria: International organic growth was 8% during the quarter.

Anand Shah: So that clearly is tracking much better there, so I mean are you seeing at least similar traction there in terms of the lockdown not being as stringent as India in terms of the markets?

Ravi Jaipuria: Unfortunately, April lockdown is severe, in Nepal and Sri Lanka it is as bad as India, so that will pull down slightly, but Africa has not been locked down completely, so the numbers are not affected that much. Also, in Africa, this is winter season for us, it is the opposite season so our volumes are anyways much lower right now.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Sir, in terms of going forward, utilization at which the plants are operating right now, so let us say for what would be the plant or what you are looking at in terms of capacity utilization or what was it for April?

Ravi Jaipuria: It will all depend on how the Government decides to open up the country, so the plant utilization will be based on the opening up of the country.

Aniruddha Joshi: In terms of March, we have seen that there was a 31% volume drop, so are we saying that the situation in April and the situation in May is relatively better than what we had seen in March?

Ravi Jaipuria: April could not have been better because April was shut down for the first 15-20 days completely, but hopefully May would be better. It all depends when they are going to open up, we are all hoping and if they open up, yes, it will be better.

Aniruddha Joshi: Sir, in terms of driving the sales are we having any additional schemes etc. for the dealers to push the sales to gain market share?

Ravi Jaipuria: We are rather cutting schemes, not giving additional schemes because right now the dealer is more interested in making sure the product is available more than the schemes.

Aniruddha Joshi: Lastly, if you can just re-discuss the Rs. 400 mn tax provision, sorry I could not hear it properly but that is provided in this quarter, is it correct and as we move from 35% tax rate to 25% tax rate, so the deferred tax adjustments needs to be done that is also done in this quarter, is it correct?

Raj Gandhi: The provision with reference to Nepal, the reversal of deferred tax liability as per the Accounting Standard 12 of the Ind-AS and the other exceptional item we mentioned was about the impairment. All these have been implemented in the Q1 CY20.

Aniruddha Joshi: So that Rs. 400 mn liability is in a way we have accepted that whenever if the demand comes, we would be paying that liability, is it correct?

Ravi Jaipuria: We have not accepted the liability, we have just provided.

Raj Gandhi: One option is that we do not provide and go ahead. Another is, we provide, we keep the provision in our books, and we move ahead. The payments will actually happen once demand is raised, and we exhaust the rights under the prevailing law, which are available to us to defend our case then only liability will arise.

In Zimbabwe also, there was a foreign exchange liability every quarter we were providing, and we hedged the provision for the exchange variation over two quarters totaling to something like Rs.1,300 mn. Later on, the Government of Zimbabwe, has committed to honor the repayment at the original rate and we are keeping the provision till it actually materializes. So these are the few things we go by prudent policy and has been provided, although they have not been accepted for payment.

Aniruddha Joshi: Sir, lastly is the impairment of the asset plans that we have done, is it over or do you see some more write-off in June Quarter-2?

Ravi Jaipuria: We have already done the impairment. We do not think there is anything further.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Sir, March 2020 gross borrowings are Rs. 32,000 mn, what is the current figure?

Raj Gandhi: Current figure is the same as on the March 31st, today's figure maybe same or maybe slightly lower.

Bharat Shah: What is the level of cash on the balance sheet?

Raj Gandhi: We do not have cash, but we have cash credit undrawn limit of Rs. 4,760 mn.

Moderator: Thank you. The next question is from the line of Kunal Shah from Camelian Capital Advisors. Please go ahead.

Kunal Shah: Sir, as far as the cash credit limit of 4,760 mn goes, just wanted to understand have we utilized anything or this is something which is completely available, nothing utilized as of now?

Ravi Jaipuria: This is completely available to us.

Kunal Shah: Sir, the other part of the question you answered before, but just wanted to confirm we do not see any balance sheet risk or and the operations are very small when it comes to our international operations, is that understanding correct?

Ravi Jaipuria: We do not see any risk at the moment.

Moderator: Thank you. The next question is from the line of Nikunj Gala from Principal Mutual Fund. Please go ahead.

Nikunj Gala: Sir, my question is our employee expense of approximately Rs. 8,000 mn in CY '19, how much would be the temporary or contractual labor expense and how much would be the permanent employee expense?

Raj Gandhi: Around 60% workforce is permanent and the balance is the third-party or distributors.

Nikunj Gala: Sir, secondly ex-employee cost, how much would be our fixed overheads per month?

Ravi Jaipuria: About Rs. 750 mn including employee cost.

Nikunj Gala: Lastly Sir, just wanted to understand from the capacity perspective, last time when we acquired two territories in Southwest, can you just help us with the breakdown of the capacity, CSD, and water and juices segment?

Raj Gandhi: Basically, the Southwest was about 50% of our existing footprint of India.

Ravi Jaipuria: The capacity utilization was quite low, so there is enough headroom there.

Nikunj Gala: Sir, no utilization, I am just asking from the absolute capacity perspective, how much would be the Southwest?

Raj Gandhi: If you contact off-line, we will be able to provide you, We do not have it now.

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

Raj Gandhi: Thank you once again for your interest in call. We will continue to stay engaged, please be in touch with our Investor relations team for any further details or discussions, look forward to interacting with you soon. Thank you very much. All the best.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Varun Beverages Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
