Varun Beverages Ltd.
Q1 2021 Earnings Conference Call
May 03, 2021

Moderator: Ladies and gentlemen, good day and welcome to Varun Beverages Limited Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '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. Thank you for joining us on Varun Beverages' Q1 2021 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'll have the forum open for a question-and-answer session.

Before we begin, I would like to state that some statements made in today's call maybe forward looking in nature and a detailed disclaimer in this regard is available 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. Thank you for joining us on our earnings conference call. I hope you and your families are all doing well and staying safe during this unprecedented time.

I would like to begin the call by providing you an update on the current quarter following which Mr. Gandhi will take you through the financial performance.

We have started the year 2021 on a healthy note, delivering progressive performance across parameters in Q1. The Company registered a strong volume growth of 33% YoY. The macro environment in the quarter was largely supported as consumption was almost nearing a sense of normalcy. This resulted in a healthy volume growth of 34% YoY for our India business. The growth momentum continued in our international territories, registering a 26% YoY volume growth during the quarter.

On the profitability front, we were able to sustain some of the cost optimization measures implemented during last year that enabled us to report steady EBITDA margins at 17% in Q1 2021. This, in addition to our higher operational leverage and increased profitability from our international operations resulted in improved profits in Q1 with PAT registering a growth of 128% YoY. Further the repayment of debt as well as lower average cost of borrowing translated into reduction in finance costs during the quarter.

From a demand standpoint while we saw a notable recovery in the domestic markets in Q1, the environment has evolved now with the onset of the second wave of COVID infections in the country. We are now witnessing more localized micro-lockdowns and restrictions being imposed rather than a nation-wide lockdown witnessed last year. This situation is being addressed by wider vaccination drives being carried out across the nation, which we expect will restore normalcy sooner than later.

On the operational front, in compliance with government advisories, we have temporarily closed our offices and continue to implement Work from Home protocols for all the employees. Our manufacturing facilities continue to operate at stabilized utilization levels and we are undertaking all necessary measures to ensure and maintain the highest standards of hygiene and social distancing norms at our plants.

While so far, our operations are uninterrupted and are progressing as per plan, the complete impact on business due to these disruptions is yet to be ascertained. Notwithstanding short-term non-linearity in business, we remain confident of the medium to long-term outlook of the business. Keeping that in view, the Board of Directors has recommended a bonus issue of one equity share for every two shares held of Rs. 10 each, hence indicating our belief in the continued growth trajectory for the Company.

I would also like to highlight that last year even in the face of adversity, our business model showed a strong sense of resilience and we were able to deliver steady operational and financial performance. So, we expect that once things stabilize during the current year, we should be able to swiftly bounce back.

In conclusion, we are on a strong footing and will continue to diligently work towards strengthening our position as a key player in the beverage industry. I would now invite Mr. Gandhi to provide highlights of the 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. I hope you and your families are doing well and staying safe during these unprecedented times.

Let me provide an overview of the financial performance for the first quarter ended 31st March 2021. Revenue from operations, adjusted for excise/GST, grew by 33.7% YoY in Q1 2021 to Rs.22,408.9 million. Total sales volume grew by 32.8% to 151 million cases in Q1 2021 from 114 million cases in Q1 2020, primarily on account of a supportive demand environment during the current quarter and lower base of Q1 2020 due to lockdown measures in the latter part of March last year. Our organic volume growth was 24.7% in Q1 2020 over Q1 2019 leading to a 2-year CAGR of 11.7%. CSD contributed to 70%, Juice - 7% and Packaged Drinking Water - 23% of total sales volume in Q1 2021. Realization per case improved marginally by 0.6% to Rs. 148 in Q1 2021, led by change in product mix with higher contribution from CSD and Juice.

Gross margin reduced by 294 basis points YoY to 55.8% primarily due to change in product mix and lower margins from our international operations. There was a marginal saving in average sugar and PET prices in India during the quarter. EBITDA increased by 40.7% to Rs. 3,816.2 million in Q1 2021 from the level of Rs. 2,711.6 million in Q1 2020. EBITDA margin improved by 86 basis points to 17.0% in Q1 2021 as a result of sustained cost optimization measures that were implemented last year. Depreciation declined by 0.3% to Rs.1,347.2 million as compared to Rs.1,351.2 million in Q1 2020. Finance costs reduced by 33.4% to Rs.579.4 million due to repayment of debt as well as lower average cost of borrowing. PAT increased by 127.7% to the level of Rs.1,367.6 million in Q1 2021 from Rs.600.6 million in Q1 2020, given by higher revenue improvement in margins and higher profitability from international operations.

Overall, during the quarter, we have reported an encouraging performance. Our operational and financial profile remains solid and stable, and our focus remains on generating strong free cash flows over the coming years. 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: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Can you just talk about the scenario in April, although you did touch upon it, but more in terms of supply chain perspective as well as from a demand perspective and how things are on the ground right now?

Ravi Jaipuria: I don't think in April we had any issues in supply chain as we were well stocked up. We faced some challenges, but we were very well covered. At the end of April month, the lockdown and restrictions were imposed by some states. As far as supplies are concerned, there were some challenges but no major issue. The impact of the lockdowns which are expected to come now is not really clear.

Vivek Maheshwari: When you say supply chain, I'm sure manufacturing side would be far more under control but let's say on the distribution side anything specific you are seeing in any of the states like Maharashtra or Delhi at the moment?

Ravi Jaipuria: At the moment of course, supply has got a bit impacted because of the lockdowns. So, we are only able to supply to few number of stores. The scenario is similar to last year, as hotels and restaurants are shut, but unlike last year with a complete nationwide lockdown, this year is much better with local and micro-lockdowns. We also have learnt a lot from last year so we have been able to manage it much better and it is not as bad as last year.

Vivek Maheshwari: In the pockets of states where it is happening, is it fair to say that versus last year the impact is rather more broad-based as against rural which did better after the lockdown was opened?

Ravi Jaipuria: As of now, rural is doing much better even in the states or places where there is lockdown because the rural lockdown is never as severe as in the main cities. Even this year, rural is performing much better for us. If we look at the first quarter, the rural performance was strong with 50%+ growth. Obviously now with the lockdown, the growth won't be close to that level but rural is still doing well for us. We are not finding any challenges as long as we are able to supply the goods.

Vivek Maheshwari: Can you just talk about the input price environment particularly on the sugar as well as PET side? I know there are questions on demand itself but from a gross margin perspective, how are you seeing the next few quarters?

Ravi Jaipuria: I think sugar is at same levels of what was last year, maybe few points up, which is not a major issue. What has really gone up in the last couple of months is the price of resin but fortunately for us we are covered for the year. This is the reason why our inventories are slightly higher as we saw that the oil prices were going up, China restrictions were happening, so we covered ourselves practically for the whole season, maybe till September-October. So, we don't see any challenge for us this year.

Vivek Maheshwari: The tax rate in this quarter is 30%, on a full year basis shouldn't it be closer to about 25%-26%?

Raj Gandhi: This is due to the impact of some provisioning made during the quarter.

Vivek Maheshwari: So, on a full year basis Mr. Gandhi, should we still be running at about 25-26%?

Raj Gandhi: Yes, that’s right.

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

Anand Shah: The volume growth even on a 2-year CAGR in any case is also quite strong in double digits. Just wanted to get some color what is driving this because it seems you clearly are outperforming most of the other categories in staples. So, is it again in terms of in-home consumption or with the HORECA revived, is it out-of-home consumption?

Ravi Jaipuria: Couple of things which have done extremely well for us apart from the regular business growing. For our energy drink, which was launched a couple of years back, we rationalized the pricing last year which led to a more than a thousand percent growth, resulting into higher volumes. This drink is accepted by most of the states and outlets. Secondly, we launched a new variant to compete with the lemon drink of our competition. We launched Mountain Dew ICE, which is a lemony drink and has juice instead of just chemicals and carbonate. That has done extremely well since we have launched it this year. Over and above these two things, our Tropicana juices have done extremely well which we have started in a PET format which was not available in the country. Slowly, it took time for the market to accept it and now it has been very well accepted. So, apart from our regular go-to-market improvements and other things, these three specific categories of products have really enhanced our overall growth.

Anand Shah: So, essentially product portfolio expansion on the new launches side is leading this extra growth, anything on the distribution also especially in Southwest? You were looking to ramp it up post the acquisition.

Ravi Jaipuria: As I mentioned before, our go-to-market has improved and is improving every day, which will enhance our volume and the number of outlets will keep on increasing, but it is a slow process. These are a couple of things which helped us over and above what our growth would have come. That's where we are seeing the growth coming much faster. And of course, our investments in visi-coolers or freezing equipment were much higher. So, I think overall everything put together has helped and we focused a lot on the rural market, which has also helped as a strategy.

Anand Shah: April-May essentially would be contributing how much of your volumes overall for the year? It will be one third or more?

Ravi Jaipuria: It is about 27%-28%, could be a percent up or down.

Anand Shah: Has this at all changed the mix post your Southwest acquisition because I would assume they are less seasonal, so has it changed or is just a minor change?

Ravi Jaipuria: It has not changed because North is still our strong base so it will change slowly. It will start making maybe 0.5%-1% difference and over the next few years it will show a big change.

Anand Shah: Just one last bookkeeping question. If you can share the debt number? Is it possible to get for this quarter?

Ravi Jaipuria: We were able to reduce our debt by more than Rs. 600 crore from March 31, 2020 to March 31, 2021.

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

Percy Panthaki: My first question is on the acquired territories from Pepsi in South and West. I understand after acquisition, there was a pandemic and that really disrupted initiatives that we wanted to put in place. But if you could give some idea of what improvements you have put in place and how that has helped you, at least on a relative basis versus the industry growth? Has your growth been faster and if you could also share whatever data points on this in terms of increase in visi-coolers or increase in distribution points or any other metric that you deem fit will explain what you have done in South and West?

Ravi Jaipuria: The improvement is constantly going on as you already see the difference in number showing in Q1 CY21. Our biggest improvement what we needed to do was increase the number of outlets in South and West, which we were not servicing unfortunately during PepsiCo's time. That has been done by adding more people, more vehicles and more visi-coolers. All three have been done and which have started showing the results in the first quarter and hopefully will still show decent results in the second quarter. As second wave hit again in the beginning of Q2, we can't be very sure what is going to happen, but it still looks like it's going to be much better than last year.

Percy Panthaki: So, would you be able to give any flavor on how much different the growth in South and West is versus your other organic geographies? I am not looking for an exact number but any kind of input you can give on that will be helpful.

Ravi Jaipuria: Overall, we were much stronger in North and were always growing faster. Now the South and West has also started growing reasonably at the same pace. Although we were hoping South and West would grow faster but unfortunately, we have really not had one proper year to really do justice to that territory. We were hoping this year could be the year but again there are disturbances. It's very difficult to assess the growth now that West has been under lockdown from last 1 month. Overall it is clearly showing improvement and our go-to-market has drastically improved and that is what has shown the overall results because otherwise we would have never had this kind of growth. But to pinpoint exactly is difficult right now.

Percy Panthaki: If you could give some guidance on how much capex you would be doing for CY21 and also for CY22 and also within this, is there any international capex component or it's going to be mainly India?

Ravi Jaipuria: We are going to try and stick to what we had said, which is not more than our depreciation. We will have to add for certain production capabilities in certain territories, but we are not going for any major expansion which would be higher than what we have suggested.

Percy Panthaki: This formula of capex less than depreciation applies for CY22 as well not just to CY21, right?

Ravi Jaipuria: Changes could happen depending on product mix like our juice is doing extremely well. So we might have to expand little bit on juice capacity, because Tropicana juice is doing extremely well. So, couple of changes might happen but within the framework of less than depreciation and not trying to go beyond that in these 2 years.

Percy Panthaki: Just one suggestion if you could implement. Now you are almost synonymous with Pepsi Beverages India. There are only a couple of small geographies, which you don't cover and therefore apart from tracking your growth, it becomes very important for us to understand how the industry is growing and how your market share within that is moving. Going ahead, next quarter onwards if you can share any industry growth data or market share data that would really be helpful to the analyst and investor community.

Ravi Jaipuria: We will try and share with you whatever is available.

Moderator: The next question is from the line of from Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty: Firstly, on the South and West side, when we acquired, let's say you are talking about close to 140 million cases where we were or around there roundabouts. What would that number look like as of now if one has to annualize that number? If you could help us in giving us that? We understand there that you have not got a full year of operation.

Ravi Jaipuria: Difficult to really analyze it because the first full year we got was last year and last year was not really the correct year for us to look at it. And again as we have just started in the right format, now again, the lockdowns are being implemented. Due to restrictions whatever growth we were expecting, is not going to come in. We cannot expect that business would be 100% normal. Although we feel the effect would be much lower to us; we have been able to get away with it for at least the first 4 months and going forward also, since we have got the experience now, we know how to manage lockdowns and also manage issues which we faced last year. It's not a 100% lockdown now and the lockdowns are weaker than last year. I think we will do much better but to exactly pinpoint numbers is difficult because I don't know what the government's policy is going to be in the next couple of weeks.

Prashant Kutty: Just wanted to understand like you said North has been our territory and we continue to do well over there but more at an industry level, South and West would have been weaker in general also? Is that a fair assumption that the industry itself would have been weak?

Ravi Jaipuria: The industry was growing; I can't really tell you that if we have grown faster but overall industry has done well.

Raj Gandhi: Mix of South and West is lower than the North and East because when we acquired that territory, it constituted of 50% equivalent to our North and East share.

Prashant Kutty: You spoke about apart from your regular GTM initiative, you said three products enabled growth. Any number to put up - how much would they have incrementally added to your growth? Maybe either from this quarter's perspective or may be from a full year?

Ravi Jaipuria: The real growth starts coming in during peak season, which got disturbed. We definitely see the numbers improving with improvement in go-to-market and the number of outlets that we are reaching to is much larger. But due to second wave of pandemic some of the outlets have shutdown. It's very difficult to analyze the whole thing. As soon as it opens up yes, maybe in the next quarter or so I will be able to answer.

Prashant Kutty: What was the contribution of these three products to our growth?

Raj Gandhi: Sting, last year had grown about 2.5x over 2019 and last year's volume we have already covered in the first quarter of the current year.

Prashant Kutty: It's actually very commendable effort that given that there's been so many lockdowns and given that until last year, generally carbonated was considered to be a very impulsive and out-of-home consumption product. But I presume that a proportion of out-of-home consumption is still there. Last year, if I vaguely remember you have told a number of some 40% was out-of-home consumption; that number has now come down to something like a 20%. Just trying to understand that even after that not being there, we have still achieved a much better than expected organic growth rates. Can we actually say that once that also comes through, the organic growth rate itself would increase versus whatever we were expecting earlier? Is that the way to look at it?

Ravi Jaipuria: That is clearly showing in the first quarter. Once things were normal, although not 100% normal, still you have seen a growth which has been unprecedented. The first quarter has grown at 34%. That has happened because the demand is there. In addition, our Go-to-market strategy including the VISI-coolers and the number of trucks that we have added, the routes that we have added, all that is starting to show a positive impact. This is clear from our growth of 33%-34%.

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

Devanshu Bansal: How do we see the growth capex in terms of placement of VISI coolers in CY21? And question is to basically understand whether CY22 can be a year as if COVID actually did not happen or there is going to be some impact that we are going to see due to 2 weak years in between?

Ravi Jaipuria CY22 of course we don't know, but in CY21, as far as visi-coolers are concerned, most of them have already been placed because the season has already started. Our placement of visi-coolers for this year has already been done.

Devanshu Bansal: With COVID, do we still plan to place the similar number of visi-coolers in the market or it would be slightly lower?

Ravi Jaipuria: We have placed before the season starts. So, we have already placed the visi-coolers what we had to place for this year.

Devanshu Bansal: Second question is on standalone, other expenses front. These are up about 50% in Q1. What is the reason for this? Is there any one-off here?

Raj Gandhi: As most of the expenses are variable in nature, it has gone up due to volume growth of 34%. Apart from that because we had a good profitability, we had reviewed all our assets and there were certain molds, which were not to be put in use because the size or the design had changed so we have written off in the books. Additionally, we had one Glass line at Bazpur which may not be put to use for a little longer period as the usage of glass bottles due to COVID has come down. So we have written off in the books. These two things together of Rs. 16 crore and then pro rata the expense growth because of the volume growth has resulted in higher other expenses.

Devanshu Bansal: In terms of international profitability, there has been a healthy improvement, largely led by our Zimbabwe operations. Are these margin levels sustainable, going ahead in this year as well? And secondly, you also talked about some reversal of currency related provisions in earlier calls. When can we start seeing these reversals?

Raj Gandhi : The profitability of the international operations should keep on surprising now on a positive note. Hopefully from the quarter, which is going on, maybe we may start every quarter-on-quarter reversal of Rs.127 crore reserve for the currency for Zimbabwe.

Devanshu Bansal: This would be over how many quarters, any idea on that?

Raj Gandhi : I can only say my foreign currency exposure is reducing and to a great extent the Reserve Bank of Zimbabwe has honored the commitment and every quarter, my foreign currency exposure will get reduced pro rata, we will be taking this provision to the P&L.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Earlier we were of the view that CY21 is a year where we should be seeing a normal kind of margins. Is there any kind of change in view on that front because of the second wave or due to raise in input prices? Any comment on those kinds would be helpful.

Ravi Jaipuria: As I said earlier also that we have covered ourselves for the year, so we don't see any challenges for ourselves and sugar prices are reasonably under control. I don't see any challenges in our margin structure. We will have a decent margin.

Deepak Poddar: This 21% normal margin that we have been doing is what one should look forward to?

Ravi Jaipuria: Well, that's what our margins have been, and I don't see any major challenge, but exact margin nobody can say because it would depend on the volume also.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: If you take out the West and South acquired territory in the core markets your East and North what is the growth and the follow-up on that, if you compare the number with Pepsi coverage for West and South, what is the growth which you have achieved YOY?

Raj Gandhi: North and East, the growth is maybe 4% higher than the mean of 34% and that much is lower in South and West, because there we need a little more time as Chairman said earlier to make the corrections, which we wanted to.

Ravi Jaipuria: But it is still faster for us than South and West. So, we see a lot of headroom available for us from South and West as we keep on making corrections, we will see huge growths coming out of there.

Shirish Pardeshi: Is the shift in consumer behavior happening from juices to carbonated drink or carbonated to juices?

Ravi Jaipuria: I think it's still too small. I think Tropicana itself is doing well but is still very small. I think till it expand but it can't really change the complete scenario because Tropicana is not more than 3% to 4% of our volume. So, I think it still is a long way to go.

Varun Jaipuria: Let me answer that, essentially, we have taken over the Tropicana business recently and I think Mr. Jaipuria was sharing earlier that we actually got into PET, which is only been done in Tetra by Real - Real is the market leader. Now since we have taken over, we are expanding the distribution of this very rapidly and our distribution is much more than any other companies, especially Real. So, Real you'll find more in major metros and Tier-II, Tier-III cities but in the smaller villages and all the other places due to the strength of VBL distribution, we are able to take this product everywhere especially in PET. So, due to that expansion and the organic core markets also we are able to distribute this product in a much better way which is leading to growth coming in.

Shirish Pardeshi: I think consumer has clearly upgraded from 500 ML to upwards of a liter or 2 liters. So, would you be able to share what kind of contribution upwards of 500 ML the company enjoys at this time in the PET bottle space?

Ravi Jaipuria: We do not have the exact numbers handy, but you can take them offline. The biggest difference what has happened is the in-home consumption because of lockdown last year, a lot of people have started consuming these products much more at home than they used to and which I think will continue. Additionally, we have witnessed higher growth due to combination of on-the-go market which started and the in-home consumption which did not stop. Both of them have made the market grow much faster and that is why you see such a huge growth of 32%-34%.

Moderator: The next question is from the line of Suvarna Joshi from Axis Securities.

Suvarna Joshi: You talked about rural market growing better or ahead of the urban market, but we have been reading in newspaper that some Gram Panchayats have kind of put a ban on sale of soft drinks and ice creams, for the fear that it may spread the COVID for known or unknown reasons. Do you think that this can challenge the rural growth if it becomes more stringent?

Ravi Jaipuria: It has not really happened in any of the towns or the villages, which we are serving. Maybe couple of panchayats in some villages have taken this decision and somebody has picked up in the media, so it's still not happened. Let's hope that it stays like that. I don't want to comment more than that, but it's not a serious concern for us. The rural is still growing much faster than the urban.

Suvarna Joshi: Would you be able to share the contribution of rural versus urban in terms of our volumes or revenues?

Ravi Jaipuria: We do not have the exact numbers handy, but you can take them offline.

Moderator: The next question is from the line of Siva Kumar K from Unifi Capital.

Siva Kumar K: One question with regards to the new territories of South and West, are you done with the market level interventions which you had in mind in terms of establishing new visi-coolers or increasing the penetration?

Ravi Jaipuria: Well, we keep trying and before we start, something or the other keeps coming. The same thing happened last year before we could really do justice to the market a complete lockdown came. But this quarter we managed to increase penetration in South and West territory which is showing the results. But again to assess the 100% impact unless and until we go through at least one full year of normal year is very difficult. We are really happy that we are seeing results in the positive side, but I think still there is a lot more to be done and in the disrupted state unfortunately you can only push people to a point and especially in today's market where our own staff and the distributors are falling sick. You have to let the natural thing go by and fundamentally, we are on the positive side. Things are improving, but if you really asked me, have we done everything we would have liked to do? No. And I think it would take a year or two minimum for us to really start feeling that we have done what we wanted to do.

Siva Kumar K: From your own sense of the markets, now you have seen them for almost more than any year. Are these markets do they hold the same growth potential as what the North and East markets, or these are more mature markets?

Ravi Jaipuria: Well, they're slightly more mature than North and East because, one the population is much higher in North and East. Second, I think, the weather is much more different there, so it's a year-round business there and the penetration was there. Whereas in the North and East especially because of power situation, is a very low penetration in the rural market and the per-Cap in East was specially low. I think the same growth might not come in South and West, which can come in North and East but at the same time for us, the growth will come because our share is very low as there is a smaller number of outlets. So, as we penetrate and keep going to the right number of outlets, I think our growth will be also high for the next couple of years and then they will start stabilizing.

Moderator: The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: Two questions from my side, you obviously alluded to the growth of Sting, which I would assume is more of an urban product portfolio specifically for your rural market which has grown at 50%. Are there any specific brands, which have driven this growth, if you could highlight that specifically?

Ravi Jaipuria: Well, I think Sting, has grown everywhere, so it's not an urban market drink. I think you're seeing more truck drivers and the youngsters all over the place having it. It's not really an urban drink, it's been taken as a regular drink all across. Anybody who wants an Energy drink and who could not afford Red Bull is now having Sting and it's just expanding. So, we see huge potential, and this will become an important part of our portfolio.

Nihal Jham: You mentioned about launching the Tropicana PET bottles also similar to your competitor, is that also one of the key reasons?

Ravi Jaipuria: Our facilities, which manufactures Tropicana right now is only one or two. We are expanding and as we keep expanding, that will also grow at a huge pace because we were practically running out of capacity in the one plant in the peak season this year.

Nihal Jham: Just one last question, in the recently acquired South and West territory you mentioned about reaching majority of the outlets. Currently at present, what proportion of the outlets you think we are reaching and how much more can we increase our footprint in acquired geography?

Ravi Jaipuria: We are not even 50%-60% there. We have a long way to go. So, I think it will take us a long time to reach there, but we hope in the next two to three years we will be there. It's a long-drawn battle. It requires a lot of investment, a lot of manpower, visi-coolers, which we are putting at a reasonably fast pace and we are improving our reach quite rapidly, but it will still take us at least two years.

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

Sumant Kumar: Can you talk about the semi urban and urban growth and the demand scenario over 15 to 20 days? I'm talking about last week of April and first week of May.

Ravi Jaipuria: It depends on which city was under lockdown and which was not. Some big cities like Mumbai, Jaipur, Rajasthan or Delhi, business has suffered. So, wherever there is no lockdown business was fine. It would depend on city to city and as the lockdowns are more prevalent in the urban towns, it further takes a hit. The soft-drink market is ready to take a big leap and jump which had happened in the first quarter. So, in-home consumption is happening, that's why you don't see the sales dropping so much even though when there are lockdowns.

Sumant Kumar: Also, in semi-urban market because there is a partial lockdown, so is there any demand impact?

Ravi Jaipuria: Not as severe as in the major towns, even though there is lockdown in rural it's not so effective. So, some of the rural markets are still open

Sumant Kumar: How is the ramp up of Pathankot facility?

Ravi Jaipuria: Pathankot as I said, Tropicana is doing pretty well. We are up to on full capacity utilization. So, we can collectively do better, maybe if we had more facilities which we have to seriously look at now.

Moderator: The next question is a follow up from the line of Devanshu Bansal from Emkay Global Financial Services.

Devanshu Bansal: Just wanted to pick your thoughts on the product pricing front as recently we took a price cut in December-January period on select SKUs and I recently happened to see some MobiKwik cash back also on the larger pack. So, what is the strategy and how long do we plan to keep this packing differential vis-a-vis competitor?

Ravi Jaipuria: There is no price differential between the competitors. We are practically in the same price unless until they have some specific agenda, or we have some specific agenda.

Devanshu Bansal: Just to highlight as on 1.25 liter and 600 ml, we did some promotional pack at least in Mumbai.

Ravi Jaipuria: That's the initiative we took last year, and it has really worked for us. So, now it is up to the competition to decide what they want to do. We believe that's the right price point for that category, and it has done extremely well. Especially when your in-home consumption and people don't have so much money it's a right pack for a family to be able to drink and enjoy the product and that has shown us huge success. So, we don't want to change it.

Moderator: The next question is a follow up from the line of Suvarna Joshi from Axis Securities.

Suvarna Joshi: Just wanted to understand in the in-home consumption space, would the growth rates have been similar to what we clocked in Q4 CY20, or they would have shown more improvement because of the season that we have been in?

Ravi Jaipuria: No, of course seasonality makes a difference. I mean, once summer comes the consumption totally changes, but overall, as a percentage if we look at the in-home consumption has gone up drastically because lot of people were staying home, not going out as frequently as they used to. Even when the markets were open, and they have got used to staying at home, they are used to drinking at home also.

Varun Jaipuria: I just wanted to add this that 1.25 liter, we have priced at 50 rupees and we were the first ones to do this in the industry and since larger gatherings are not happening, that means people in major cities if they going to buy the 2 liter they are going to go for 1.25 liter and looking at the price point as well what we were able to offer, so that's been one of leads in terms of getting the in-home consumption growth as well.

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

Raj Gandhi: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification 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 to join us on this call. Look forward to interacting with you soon. Thank you very much.

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