Varun Beverages
Q3 Earnings Conference Call Transcript
November 03, 2020

Moderator: Ladies and gentlemen, good day and welcome to Varun Beverages 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 of CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone, and thank you for joining us on Varun Beverages' Q3 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; 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 point out that some statements made in today's call may be forward looking in nature and a disclaimer to this effect is included in the presentation shared with you earlier. I would now request Mr. Ravi Jaipuria to make his opening remarks.

Ravi Jaipuria: Good afternoon everyone and thank you for joining us on our Earnings Conference Call. I trust that you and your families are safe and maintaining all the precautions against the spread of COVID-19. I hope all of you have had the opportunity to go through our results presentation, which provides details of our operational and financial performance for the third quarter ended 30th September 2020.

We are pleased to report steady results during the quarter supported by a higher mix of better realization products and rationalized trade promotions leading to 3.6% growth in net revenues. As the country moved into the unlock phase, we witnessed healthy recovery in demand in the second half of the financial year, especially coming in from rural and semi-urban areas. This enabled us to restrict sales volume de-growth at 6.7% year-on-year in India.

Our international territories saw faster-than-expected recovery in consumption and registered a 5.8% YoY growth during the quarter. So on a consolidated basis, we reported a marginal de-growth of 4.0% in volumes. September being the latest month of the quarter ended, just to give an idea, our business witnessed strong uptick and delivered a robust growth of ~12.0% as compared to September 2019.

On the profitability front, we were able to sustain certain cost-optimization measures implemented during the pandemic enabled us to report improved profitability and margins during the period under review.

From an operational standpoint, all our manufacturing facilities are now operating at near-normal utilization levels. Our well-oiled distribution model consisting of owned-logistics supply chain and end-to-end infrastructure facilities has also kept us in a strong footing in these challenging times. Part of cost realizations shall continue to benefit us in the coming years. We have further fortified this strength across micro-territories during the quarter. With the reopening of theaters, restaurants, mass transportation and outdoor facilities, we are seeing an encouraging revival in demand on a month-to-month basis and on the back of our solid distribution network and manufacturing capabilities, we believe, we are well-positioned to address this growth in consumption.

Looking ahead we are hopeful of that the demand momentum will strengthen in the months ahead. Buoyant rural and semi-urban demand owing to widespread monsoons should lead to broad-based economic recovery. In addition, the upcoming festivities and various support measures announced by the Government to boost consumption and spending further bode well for our product categories over the medium to long-term.

On the whole we are confident of delivering encouraging growth in sales and performance in the quarters ahead. I would now invite Mr. Gandhi to provide 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.

In Q3 2020, Revenue from operations, adjusted for excise/GST, grew by 3.6% YoY in Q3 2020 to Rs. 18,026.3 million. Realization per case improved by 8.0% in Q3 2020 essentially on account of higher mix of CSD product portfolio and rationalized trade promotions. With faster-than-expected recovery across territories, we registered a healthy growth of 5.8% in the International geographies during the quarter.

Total sales volumes were down 4.0% YoY at 119.5 million cases in Q3 2020 as compared to 124.5 million cases in Q3 2019. Sales volumes in India were down 6.7% YoY at 91.5 million cases in Q3 2020 as compared to 98.1 million cases in Q3 2019. CSD constituted 74%, Juice 6% and Packaged Drinking water 20% of total sales volumes in Q3 2020.

On the profitability front, EBITDA increased by 16.9% to Rs. 3,807.9 million in Q3 2020 from Rs. 3,256.6 million in Q3 2019. EBITDA margins improved by 241 bps on the back of sustained cost-control initiatives. Gross margins declined by 149 bps during Q3 2020 primarily due to increase in mix of promotional packs like Pepsi PET 1,250 ml, Sting PET 250ml, etc. Depreciation increased by 5.7% on account of capitalization of Slice 200ml tetra lines and lease accounting under Ind-AS 116. Finance Cost during the quarter declined by 33.2% on account of QIP concluded by the Company in September 2019, leading to repayment of debt during last year. In addition, the average cost of borrowing reduced significantly to around 7%, or marginally lower. This enabled us to register a PAT growth of 99.0% to Rs. 1,614.7 million in Q3 2020 from Rs. 811.2 million in Q3 2019.

On the whole, we have reported a steady performance during the quarter. Our fundamentals remain intact and as the operating environment gradually improves, we are optimistic of reporting healthy and sustained growth in the quarters and years ahead.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: My first question is on the cost savings that you have done and the implications that it has on your margins. In the past, you had mentioned that the margins at 20%-21% are quite healthy and they should be maintained going ahead and you're not looking at any margin expansion from these levels. But given the kind of cost savings that you have shown in this quarter, just wanted to know if this is a new normal for the margins on a stable-state basis and if so, what would that number be?

Ravi Jaipuria: As we have mentioned before, in the long-term, margins around 21% are very healthy. Due to the pandemic, the travelling costs and other expenses have reduced and going forward, we hope to sustain some of these cost reductions. But we would not say that our margins are going to increase more than 21%. However, we are doing whatever we can, to do some cost-savings and make sure the business is efficient.

Percy Panthaki: Now in September, things have returned to normal and unless there is a second wave or something, we should see September trends continuing for the rest of the year as well. So if that is the case, what would you be focusing on to drive growth, is it mainly coming from market share gains? How are you looking at growth and what kind of stable state volume growth for the Indian business do you think we should look forward to?

Ravi Jaipuria: The key focus has been in-home consumption, which has shown healthy growth during the lockdown period and that is why we have launched one of the consumer packs, which can be easily accommodated in refrigerators in consumer homes, which is of 1.25 liters at a special price of Rs. 50. This has done exceedingly well for us. People have started getting used to drinking beverages at home, which was much less than what it should have been and as the go-to-market starts, wherein Metros, Buses and Railways start opening, then we expect growth across both segments to start happening instead of only in-home consumption growth, which is coming right now.

Percy Panthaki: Lastly on your direct distribution reach, are you at pre-COVID levels or are you still below that?

Ravi Jaipuria: We are pretty well there. We never stopped our distribution except in the lockdown period.

Percy Panthaki: I thought some shops might be closed and that's why you might not be reaching them.

Ravi Jaipuria: Yes, if you look at hotels and restaurants, some of them are still closed. So whenever the outlets are closed, there is no point going to them. But as they are opening, we are servicing all our outlets and we are seeing that the business is back to normal and rather more profitable. While the water sales which was consumed in hotels and restaurants is down, but our CSD volumes are actually growing. So going forward, it is looking quite positive.

Moderator: The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: One question was on the cold-product consumer behavior, so in terms of ice cream and beer, because these are cold products, consumer has cut down consumption in this segment significantly even in Q2. So how have you managed to address this push-back especially in CSD?

Ravi Jaipuria: We have not had that experience, so our consumer seems to be enjoying the cold drink and the only difference is they are consuming more at home. Our volumes have declined from crowded places like bus stations and railway stations, but everywhere else and especially at home, the consumption has gone up quite a bit. So we are not facing that challenge.

Abneesh Roy: Could you elaborate on that a bit, how much is in-home consumption versus last year, so both the segments out-of-home and in-home, how much was the growth and dip, respectively?

Ravi Jaipuria: Our in-home consumption has gone up by between 20% and 25%.

Abneesh Roy: And that could come off because now as people have started traveling again?

Ravi Jaipuria: No, we don't think so. Once people get habitual to it, the in-home consumption will stay and once people start going out, the on-the-go consumption will come back to normal levels, so that's why we are expecting healthy growth, going forward.

Abneesh Roy: Essentially in-home consumption has benefited all food and beverage companies, but Q1 versus Q2, the Biscuit segment saw significant slowdown from 24%-25% to 9%, volume growth.

Ravi Jaipuria: We believe, for Biscuits, people bought ahead of the curve. We think with soft drinks, it has not happened that way. As things are opening up, our business is coming back to normal.

Abneesh Roy: Large packs because it's in-home consumption and people are buying it in bulk, so any number you can share there, how much is the percentage or how much is the growth?

Ravi Jaipuria: It has grown faster and in double-digits. I don't have the exact percentage right now, but off-line, we can give it to you.

Moderator: The next question is from the line of Chirag Shah from CLSA.

Chirag Shah: My question is little structural, if you look at the last few years, you have done a great job in terms of cost cutting, especially of the acquired territories as well. I was wondering if there is also an opportunity to improve working capital, we had close to about Rs. 900 crore of inventory as on December 2019 and that increased to about Rs.1000 crore in June 2020, I understand the context of lockdown. But on a slightly more structural basis, is there opportunity to improve the inventory turns?

Raj Gandhi: When the listing happened, the working capital was about 30 days which is now 14 to 15 days, so improvement is coming on the working capital side, in-spite of new territories coming. It has not gone up much. December is the off month, when we have to prepare for the season. That's a one-off kind of a thing but presently inventory levels are at Rs. 848 crore, so it's not Rs. 1000 crore anymore.

Chirag Shah: If I have to look at a slightly longer-term view, how do you plan to reduce inventory and how do you improve the turns on a 2-3-year view?

Raj Gandhi: What happens is during the off-season, based upon the batch size, number of days are high because the sale is very less. But during the season, our inventory with any distributor or at our warehouses is not more than 3 days, because it sells the moment it's produced. So less than 3 days will become always a challenge during the season, which according to us, is at the best possible level.

Ravi Jaipuria: Also there is one more thing, PET resin prices are always the lowest in Q4 and we try and buy little extra to take benefit of the pricing, because the cost of carrying is much lower than the change in pricing.

Chirag Shah: Just the second question on the Kerala plant, is there any write-downs that we expecting from the shutdown that we have taken over there?

Ravi Jaipuria: No, there is no write-down at the moment.

Moderator: The next question is from the line of Vivek Maheshwari from Jeffries India.

Vivek Maheshwari: September volumes, you mentioned are in double-digits in India. Is there a base angle to it or this is on like-to-like basis and is the trend continuing in October?

Ravi Jaipuria: July onwards, as the unlock-down started, the volumes kept going up and if you see, in July we were negative 20% and in August it came down to negative 6-7% and in September when everything had opened up, we became positive by 12%. So fundamentally, unless and until we see a second wave or something, there is no reason why this should not continue and we should be back to normal business.

Vivek Maheshwari: By any chance would you be able to comment on October's number?

Ravi Jaipuria: October is pretty good and it's continuing with the growth.

Vivek Maheshwari: If I look at your other expenses in this quarter, they are down 11%, I know there is a bit of anomaly in India versus outside India and the product mix etc., but on the margin side, are you being a bit conservative on the margin outlook, can you just elaborate a bit on that aspect?

Raj Gandhi: Yes, there is a possibility of reduction of costs but it's better to be conservative than being extra bullish. If there will be any savings, then it will reflect in the P&L. But 21% margin is a comfortable level, beyond that because there are commodities which are consumed, such as PET prices or sugar prices or pulp prices, movement in their prices is very difficult to predict. So at this moment, giving guidance on the improvement in the margin is very difficult. Whatever we had been doing prior to the pandemic, we are back to that and will be able to maintain that.

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

Devanshu Bansal: 9M 2020 margins are at 20% and with Q4 being a seasonally low margin quarter, are we still sticking to maintaining margins in CY2020?

Raj Gandhi: On a YoY basis, this quarter we have shown an improvement in margins. At least the trend will continue but of course with the fourth quarter being a weaker quarter, it will not be matching to the third quarter.

Devanshu Bansal: Just to understand our preparation for the upcoming season, so what is the expected number of Visi coolers that we shall place in CY20 and in CY21?

Ravi Jaipuria: It's going to be consistent with what we have been placing up to now. So it would be similar number. We are not drastically going up or going down, so we are consistently going to maintain what we have been doing and will continue maintaining that for the next few years.

Devanshu Bansal: In CY20 also, we added around 40,000 Visi coolers?

Raj Gandhi: Due to the lockdown, going to the market was prohibited, so there is some carry-over for this year. But for CY 2021, there may be additional Visi coolers so that if you combine both the years, the average will be addition of 40,000 Visi coolers per year.

Devanshu Bansal: Can you also quantify in terms of new distributor additions that we have done in preparation for the new season?

Ravi Jaipuria: We are now preparing our AOPs because the markets have just opened up everywhere, so I think it's a bit early. But there will be quite a few new distributors because of the new territories, which we wanted to enhance and we couldn't do it properly this year. So there will be large enhancements but the exact number, it's a bit too early. We will know it by most probably before the end of the year.

Devanshu Bansal: What is the current level of debt and what has been the free cash flow generation in 9M CY20?

Raj Gandhi: Debt level is at ~ Rs. 2,840 crore, Rs. 758 crore is the cash profit and capex of roughly Rs.400 crore, so balance Rs. 360 crore maybe the free cash flow before interim dividend.

Moderator: The next question is from the line of Shantanu Basu from SMIFS Limited.

Shantanu Basu: Can you give an idea as to the percentage of institutional sales in India that happened in Q3 CY20 and what was the on-the-go consumption in Q3 CY20 and what are their positions in October?

Ravi Jaipuria: Our institutional sales is quite low. It's about 5% only for us. It's not very large if you talk of specific large institutions. Modern trade, eateries and go-to-market form big chunks of our total sales.

Shantanu Basu: And what about on-the-go consumption in Q3 CY20?

Ravi Jaipuria: It's about 15% now.

Shantanu Basu: Is the same trend getting reflected in October as well?

Ravi Jaipuria: Yes, October is about the same, slightly getting better depending on each State and how it is opening up. So people are moving out, metros, buses are running and in the next 1 or 2 months once everything is opened up, the whole trend will change back to normal.

Shantanu Basu: With respect to the total India sales, how much percentage is rural and how much is semi-urban in Q3 CY20?

Ravi Jaipuria: Rural is about 30%.

Shantanu Basu: And semi-urban?

Ravi Jaipuria: Semi-urban is also close to 30%.

Shantanu Basu: Based on your commentary, one can assume that in-home consumption has not picked up that much in urban market, which is somewhat contrary to demographic trends and fashion.

Ravi Jaipuria: In-home consumption has picked up everywhere because on-the-go is down and as our volumes are very close to last year, then the balance has been picked up by in-home only.

Shantanu Basu: But what was rural and semi-urban consumption in the pre-COVID times?

Ravi Jaipuria: The above figures are as per the normal data. This year specifically, our rural market has gone up from 30% to close to 40%, so this is a one-off. How long will it continue is not very clear and the increase has come off from basically urban. That's the basic change that has happened.

Shantanu Basu: One last question with regard to your capex, so how much have you spent till now and what is the cumulative capex that you intend to spend for the whole year?

Raj Gandhi: We have spent around Rs 400 crore, as we have stated in our calls earlier. This includes, ~ Rs. 200 crore which PepsiCo had given us last year for some equipment to be purchased. Majority of our capex for the year has already happened.

Shantanu Basu: So, no more capex in last quarter?

Ravi Jaipuria: Yes, practically very low if there is any.

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

Bharat Shah: This must be remarkable quarter in VBL's history, where third quarter in a calendar has exceeded the numbers in the second quarter.

Ravi Jaipuria: And I hope our second quarter is always much better than the third quarter.

Bharat Shah: It's a tribute to VBL that in the third quarter it has raised the bar and in the second challenging quarter, it still tried to manage situation lot better so much so that finally third quarter has ended up better than the second one, which was unthinkable.

On the expense's discussion, I always thought VBL strives for operational excellence, this is a business of execution and a business of managing operations very efficiently. VBL has always been a cost warrior and is a very efficient operator in running the day to day business, so I really wonder how much scope there is for any dramatic economy of expenses?

Ravi Jaipuria: As we have said, further reduction of costs is going to be very difficult. Whatever we could, we have squeezed ourselves looking at the pandemic and our main quarter getting hurt. So we have become even much more cost effective than we used to be. But we don't want to guide any numbers better than 21%, because we are already one of the most profitable company in soft drinks industry and amongst the top large companies in the world. So we want to keep it at that and then it would depend on the oil prices and the sugar prices, those are the two main commodities we have, so at the moment the oil prices are quite favorable for us so that would also help. But, sometimes the sugar goes down, sometimes the oil prices go down, so we would not like to predict.

Bharat Shah: In other words, the costs, which are within your jurisdiction, I suppose you have tried to control everything that you can.

Ravi Jaipuria: Whatever was possible, I think we have done pretty well there. Now our only thing is not to let the costs go up and the volumes should keep going up.

Bharat Shah: Is it likely that CY 2021 would be as per our original plans as if CY2020 disruptions and challenges did not occur?

Ravi Jaipuria: It should be very close. We hope we can actually do better; we expect the numbers to come back to some reasonable reality and the cost cuts which we have done would help us going forward and specially for next year, we don't see the oil prices going up at the moment and if the oil prices don't go up that will help us.

Raj Gandhi: Also, PepsiCo and VBL jointly are also working on the activation plan for season 2021, which normally starts in January, but this time, we are preponing it to November itself as the warmer territories of South and West India have come to us, so preparation for next year will start from next week itself, such as infra purchase, infra placement etc.

Bharat Shah: That means 2021 in all probability should represent a year as if our normal long term plan would have rolled it out for us? And on the cost side, we will get some extra which means in all probability, 2021 is conceivable that it can be better than our original plans in 2019?

Ravi Jaipuria: We hope so and we are trying for that.

Raj Gandhi: We will try for both, if there are some shortcomings in one, hopefully may get compensated by the other and the end net result should be quite near to as you are saying.

Bharat Shah: Given the nature of the business, seasonality is deeply embedded and is structural. Given the unusual event that interrupted your most important quarter, so going forward can we strategically on a long-term do something whereby at least at margin levels, some amount of intensity of the seasonality can be dropped down?

Ravi Jaipuria: What we are doing, it's like a chicken and egg story actually. As we grow the market, the new comers we add are normally added in the peak summer season. So on one side, we are making our seasonality flat by giving more products to the same customer. On the other side, the new customers we are adding, it is only coming in the month of March-April-May-June. So we keep on going back and forth as the volumes keep increasing and there is such a huge rural market opportunity in India, where we potentially could go deeper and deeper for the next few years. So, on one side we'll flatten the urban curve but rural market will keep on developing in the peak season. Earlier, we were more skewed in North, which was very seasonal. Now with South and West coming to us, which is much less seasonal, it will start showing change and also juices are doing well even in the off-season, so that will also help.

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

Deepak Poddar: On the medium-term, if you set aside this year, what sort of volume/topline growth we are looking at in terms of next 3 to 5 years, which we can grow consistently given our focus on new territories, new products?

Ravi Jaipuria: Our guideline was clear before also that after this year, we hope to come back to our normal growth levels. We have to treat that 2020 did not exist, so we will take growth from 2019, skip 2020 and go to 2021. So we don't see any reason why the growth will not come in the next 3-4 years

Deepak Poddar: So what is that normal rate of growth?

Ravi Jaipuria: We are fundamentally looking at double digit growth, which we believe should happen.

Moderator: The next question is from the line of Vidhi Dedhia from Radian Securities.

Vidhi Dedhia: From Q1 CY18 through Q4 CY18 result presentations reflected carbonated juice base variants of Slice, the flavors were guava, chilly, apple, orange and succeeding presentations for CY18 no longer have these brands listed. So could you cite the reason for the discontinuation of this product as we personally believe the off-take would have been great? How is the off-take for our dairy based products?

Ravi Jaipuria: Our dairy-based products had started doing extremely well but it was a new product and we had planned proper marketing and proper expansion of the product but unfortunately as COVID happened, we semi-withdrew the products and we will again launch it properly in the starting of the next year, even though we are still selling it but we slowed it down and now again from January-February 2021, we will put it across the country. So the product was liked and it did extremely well but during pandemic, we withdrew it for some time.

Raj Gandhi: And the other part of your question on the Slice juice-based products, these were launched at low-cost for the rural areas. Because these products were without sugar, the results were not very good. So for the time being we are not producing those.

Moderator: The next question is from the line of Varun Goenka from Nippon Mutual Fund.

Varun Goenka: Just your thoughts on our e-commerce sales, where they are, how are we approaching that, are we approaching a 1P model or a 3P model where we use the distributors to do the fulfillment?

Ravi Jaipuria: We are present on all e-commerce platforms which is being serviced through our main distributors or directly from ourselves, either from the plants or from our large warehouses. So we are mainly in the major towns and on e-commerce platforms, we are activated and we are supplying to them and we are of course looking at it in a much bigger way going forward.

Varun Goenka: What would be our sales today just on an annual basis, percentage of sales or anything?

Ravi Jaipuria: It's very negligible for the time being. This channel has just started for us and it's not large.

Varun Goenka: Just a more macro question, going forward, are we looking at much larger plants and scaling down the smaller plants?

Ravi Jaipuria: Could be ultimately because smaller plants are much costlier. So as we open any new plant now, it will be much larger than what it is. Slowly the very small plants, which we had acquired, we might either replace them with larger plants or shutdown, which is not needed if we have another plant close by.

Varun Goenka: You would need a large plant in South, right?

Ravi Jaipuria: No, we have enough plants in South. In South, the capacities are more than comfortable right now, we don't need anything. South and West both we have enough plants.

Varun Goenka: Even Tropicana we have sufficient capacity?

Ravi Jaipuria: Tropicana is the only thing when we launch, we will need extra capacity. Right now we are transporting so we are bearing the cost but ultimately for Tropicana we will have to open another plant.

Varun Goenka: That would be what kind of an investment?

Ravi Jaipuria: That would be about Rs. 200 crore specifically for Tropicana, but it won't be for the coming year at least.

Moderator: The next question is from the line of Rakesh Roy from Indsec Securities.

Rakesh Roy: Can you highlight performance on international business, especially in Africa region?

Ravi Jaipuria: International business was much better than domestic, as they opened up much faster than the India region, so that's why you are seeing a growth in this quarter and it will continue to be similar. So there is very little lockdowns anywhere in international markets, so the markets are doing pretty well for us.

Rakesh Roy: India volume is nearby 91.5 million cases, out of this, domestic volume how much is from South-West India, new territories?

Raj Gandhi: In 9M CY2020, it is about 77 million out of 274 million.

Moderator: The next question is from the line of Manjeet Buaria from Solidarity Investment Managers.

Manjeet Buaria: When Tropicana looks to scale up the juice segment, how do we fight other brands? Do we offer the channel better terms and working capital or margins and from the customer perspective, what do we do to make the consumer shift from the existing brands to Tropicana?

Ravi Jaipuria: The distribution network we have is much stronger than Real or anybody else. So we are going to leverage on our distribution system and that is why you are already seeing growth coming in the juice segment and secondly, we have a huge number of Visi coolers in the market, which our competition does not have. So those are the two things we are going to leverage and with that, we believe our volumes in juice category will steadily keep going up.

Manjeet Buaria: Could you give me a sense of how the retail market share is in the juice industry as of now between the top 3 players?

Ravi Jaipuria: We have grown 19% in the last quarter so we are growing even in the pandemic and that is basically on the strength of our distribution network and chilling equipment and we expect, going forward to grow at an even faster pace than this.

Manjeet Buaria: Does Tropicana have 35% market share in the juice industry?

Ravi Jaipuria: We are not sure, we don't have the exact numbers.

Manjeet Buaria: Regarding the concentrate pricing which Pepsi has, how often does that get re-negotiated?

Ravi Jaipuria: No, it's not re-negotiated, it is a fixed percentage of our selling price and it will not change. We have an agreement for 20 years.

Manjeet Buaria: So post 20 years is when you again have to kind of sit across the table and figure it out.

Ravi Jaipuria: It's based on our selling price, what we call our net realization value, so our price is based on that and it will continue to be based on that.

Moderator: The next question is from the line of Sunny, who is as an individual investor.

Sunny: My question was regarding the cash accretion in this quarter. So what I remember is that the net debt of the last quarter was somewhere in the range of Rs. 2,900 crore and what I see is that in this quarter, the cash profit is around Rs. 300 crore but the net debt is Rs. 2,800 crore. So how has the cash generated this quarter being utilized?

Raj Gandhi: We can divide it in three parts. Rs. 100+ crore is the reduction in the debt, about Rs.85-90 crore is towards distribution of the dividend, and third, in the last quarter there were certain benefits of deferment of GST, PF, tax, which in this quarter we have paid around Rs. 100 crore, which includes some capex, which altogether will make up to this total of about Rs. 300 crore, which is sum of the PAT and of the depreciation during the quarter.

Moderator: We will move to the next question which is a follow-up question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: We have seen a very strong rebound in international margins. We were operating around 12%-13% earlier and now we are almost approaching 20%-21% in nine-months. So what is leading to this strong improvement in margins in international operations?

Raj Gandhi: Morocco, which took off in the last 2-3 years, has built up good portfolio of its own with water and other new launches. In Nepal, we increased the capacity with the second plant, which is fully operational. Zimbabwe, we added pre-form manufacturing, canning line and water line we are currently adding. Every year, one or the other expansion had been happening and all these things combined have started showing results.

Ravi Jaipuria: Even Sri Lanka has done extremely well for us. They have shown good growth and everywhere as we had said we have tried to cut wherever we could cut some cost and so there has been a cost reduction everywhere at the same time the volumes have come back so the margins are good and oil prices were down so that also partly helped us.

Devanshu Bansal: Do we expect to sustain these levels of margins in international operations because in India we were already operating at 22%-23% margins, and in international operations if we get back to that level then shouldn't our company level margins also move towards 22%-23% level?

Ravi Jaipuria: We hope we can but we don't think we want to give that guideline at the moment. We are trying everywhere, wherever we can improve our margins and which is happening so whatever we are learning from each country and understanding it, we are making the changes to make it more profitable and some of the countries when you enter, the margins are low because you are just entering the market. So it takes time but now most of these markets have become mature for us. So, going forward it should be good only. Moreover, the season in Zambia and Zimbabwe is during October-November-December, so this quarter is the best for these two countries.

Moderator: The next question is a follow-up question from the line of Vidhi Dhedhia from Radian Securities.

Vidhi Dhedhia: Out of the 91.5 million cases of India business, could you give us a zone-wise breakup if possible?

Ravi Jaipuria: We don't have the zone-wise breakup right now but off-line if you want to know you can call us and we will give it to you.

Moderator: Thank you. Ladies and gentlemen that would be the last question for today. I now hand the conference over to the management for their closing remark. Thank you and over to you.

Raj Gandhi: Thank you once again for your interest and support. 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, have a nice evening. Bye.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Varun Beverages Limited that concludes today's call. Thank you all for joining us and you may now disconnect your lines.
