Varun Beverages Limited
Q3 2021 Earnings Conference Call Transcript
October 29, 2021

Moderator Ladies and gentlemen, good day and welcome to 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 "*" 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: Good afternoon, everyone and thank you for joining us on Varun Beverages Q3 & 9M CY2021 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. Rajesh Chawla - CFO of the Company.

We will initiate the call with opening remarks from the management following which will 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 may be forward looking in nature and a detailed statement 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 and thank you for joining us on our earnings conference call. Trust you and your families are keeping safe and healthy.

I hope all of you had the opportunity to go through our results presentation. This provides details of the operational and financial performance for the third quarter and nine months ended 30th September 2021.

We are delighted to share that we have reported a robust performance during the quarter with a top line growth of 33% and the PAT growth of 60% year-on-year. The results were supported by strong volume growth of 28% driven by uptick in demand across markets. Even on a two-year CAGR basis, the organic volumes were higher by 11%. Wide vaccination coverage in the country, along with the resumption in day-to-day activities supported demand momentum in the domestic market.

On the profitability front, we were able to maintain a healthy EBITDA margin of 21% during the quarter backed by higher operational leverage, despite an increase in raw material prices. While the industry practice is that any input cost increase is passed on, we have worked on our cost efficiencies. For example, we are undertaking measures to light weight PET preforms. This will not only assist us in reducing costs in the near term, but the benefits would be structural in nature. We are continuously monitoring the input prices to sustain our margin that will enable us to further strengthen our position in the beverage industry.

In addition, we continue to reduce our debt as well as rate of interest which helped us in improving our net profit margins during the quarter.

Following easing of lockdown restrictions and improving macro trends, we witnessed enhanced traction in the domestic demand environment which exceeded pre-pandemic levels. Out of home consumption registered an uptick driven by increase in travel and resumption in offices.

On the whole, we remain optimistic on the demand environment, given improving macros, onset of festive season and a growing sense of normalcy across domestic and international markets.

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

Raj Gandhi: Thank you, Mr. Chairman. Good evening and warm welcome to everyone joining us today. Let me provide an overview of the financial performance for the third quarter and nine months ended 30th September 2021.

Revenue from operations, adjusted for excise GST grew by 33% year-on-year in Q3 CY2021 to a level of Rs. 23,981.6 million. Consolidated sales volume registered a solid growth of 28.4% to 153.3 million as compared to 119.5 million cases in Q3 CY2020, primarily on account of strong uptick in consumption and demand.

CSD constituted 70%, Juice 5% and Packaged Drinking Water 25% of total sales volume in Q3 CY2021. Realization per case improved by 3.6% to Rs.156.4 per case in Q3 CY2021, driven by higher realization in international territories despite increase in share of water in the overall mix.

While gross margins declined by 278 bps year-on-year in Q3 CY2021 primarily because of increase in PET prices, the Company was able to maintain a healthy EBITDA margin of 20.6% in Q3 CY2021, as higher volumes assisted the Company achieve better operating leverages. This resulted in increase in EBITDA by 29.9% to Rs.4,946.6 million in Q3 CY2021 from Rs.3,807.9 million in Q3 CY2020.

Depreciation increased by 2.9% to Rs.1,384.9 million as compared to Rs.1,345.9 million in Q3 CY2020. Finance cost declined by 26.4% to Rs.426.9 million from Rs.579.9 million in Q3 CY2020. The Company continues to focus on reducing its debt and lowering its average cost of borrowings and repayments. Backed by strong volume growth, higher operating leverage and reduction in finance costs, PAT increased by 59.7% Rs.2,579 million in Q3 CY2021 from Rs.1,614.7 million in Q3 CY2020. During the quarter, an amount of about ~Rs.200 million from the total foreign currency provision was reversed to other income due to corresponding reduction in the total foreign currency liability in Zimbabwe.

On the whole, the Company's financial position remains strong. We have seen a healthy month-on-month trend in sales and consumption and the outlook remains positive for all our products categories over the medium to long term. Overall, the focus remains on generating strong free cash flows over the ensuing quarters and 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.

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. Please go ahead.

Vivek Maheshwari: On the Gross Margins outlook, this quarter obviously GM contracted to almost a six or seven quarter low, what is your outlook on gross margins in the context of let's say, oil prices still moving up and your views on taking product price hikes to manage this kind of input price inflation.

Ravi Jaipuria: One immediate step we have undertaken in consultation with PepsiCo is that we have decided to make PET bottles lightweight, which will help in mitigating the cost increase. Secondly, as we have said that normal industry practice is to pass on the increase to the consumer and when needed, we shall pass it on, so we don't think it is going to affect our margins materially.

Vivek Maheshwari: That comment is at a gross margin level or at an EBITDA level because you have managed your EBITDA margin well in this quarter, but gross margins this quarter reflects the bottom or there is still more pain?

Raj Gandhi: Yes, Vivek this explanation is for gross margin. As far as EBITDA margin is concerned, we are already operating on improved EBITDA margin. If there is no change in the gross margin, EBITDA shall continue its growth journey.

Vivek Maheshwari: Got it. Second question, can you elaborate on the rationale on putting this Bihar unit, what is the capacity utilization levels and let's say in the adjacent plant, and what was the thought process?

Ravi Jaipuria: We bought the Bihar territory without manufacturing plant. This is one of the large Indian States with a population base of over 110 million, where we don't have a plant. We have been supplying into Bihar from our neighboring territories leading to additional freight cost. Our market share in this State is relatively low and to grow our market share to the national average, we need to have a plant in territory.

Raj Gandhi: This is an underpenetrated State and as per our estimates, per capita consumption is around 8-9 bottles per annum as against 24 bottles in the country. Setting up a plant will help us not only grow the market but also increase our market share. In addition, the growth in the five States of MP, Odisha, Bihar, Jharkhand, and Chhattisgarh during the 9M CY21 has been around 60%.

Vivek Maheshwari: Interesting and Mr. Gandhi. What is the capex and the timeline that you are looking at?

Raj Gandhi: For Bihar, the capex is expected to be around Rs. 285 crore. We are targeting to get this plant ready prior to our next season, which is less than six months from now.

Vivek Maheshwari: Okay. So, Rs. 285 crore gets spent in next six months, that's what you mean?

Ravi Jaipuria: Part of it is already spent and the balance will be spent in the next six months.

Vivek Maheshwari: Got it and two small bookkeeping questions, first is this GST impact of Rs. 40 crore where is it accounted in the P&L?

Raj Gandhi: Our revenue is recorded net of GST and the same practice has been adopted for this.

Vivek Maheshwari: What is the debt as of 30th September, if you can help me with the debt at Varun Beverages level as well as at RJ Corp level?

Raj Gandhi: Our debt in VBL is approximately Rs.2,400 crore, which is Rs.600 crore lower than the corresponding figure at the end of last year. At the Group level, excluding VBL, which includes all the operating and non-operating companies, holding company and subsidiaries in India and overseas, the net debt shall be around Rs. 200 crore.

Ravi Jaipuria: So, fundamentally apart from Varun Beverages, the net debt level is very low and less than Rs.200 crore in all our entities.

Vivek Maheshwari: Sorry, just a follow to that so, at the peak of the pandemic, if I recall correctly, you had called out about Rs.1,200-1,300 crore, debt at RJ Corp level if I recall correctly So, you're saying now, what is left is about Rs.200 crore?

Ravi Jaipuria: About Rs.1000 crore has been paid off.

Moderator: Thank you. The next question is from Chirag Shah from CLSA. Please go ahead.

Chirag Shah: Unfortunately, we have not had a normal season since we acquired South and West territory. But now that things are normalizing, can you just give us a context of the growth differential that we had between South and West and how is our level of preparedness to gain market share in these territories?

Ravi Jaipuria: Our execution plan for the South and West never fructified completely because of the Covid impact. However, our organic growth in South and West is reasonably high, we are growing at about 37%. Once we have a normal year, our growth should be much higher.

Chirag Shah: Just on that, can you just give us a context of from where you started to now, what has been the change in terms of the distribution infrastructure that we have put on ground?

Ravi Jaipuria: When we took over the territory, the distribution system was quite weak and unfortunately, for us, we could not even face one normal season. We took over the territories in May 2019, however both in 2020 and 2021 our peak season, which is April – June got spoiled because of pandemic. Despite this we continued to implement our go to market strategy and added vehicles and distributors which has led to a growth of 36%- 37%. We feel if we have one normal season, we could have shown more confidence to the distributors and we could have progressed much faster than this.

Chirag Shah: My question is, just continuing on the gross margin front, last quarter we mentioned that we have covered a lot of the PET for the full season. So, far as Q3 is concerned, did we have the full impact of higher PET prices flowing through the P&L or was there any low-cost inventory covered that was still left from Q2 and correct me if I'm wrong, but we normally have higher stock of PET inventory going towards the end of the year, so what is the impact on the raw material price volatility going forward?

Ravi Jaipuria: Well, the increase in the PET price in this quarter has already been taken into account. We usually buy a large quantity of stocks of PET during the offseason, which is when the best pricing of raw material is available to us and that's why our inventory levels go high during the end of December.

Chirag Shah: Can you give us some feedback on the dairy portfolio launch that we have done in North India?

Ravi Jaipuria: Dairy is doing extremely well, however we had the same problem as we launched the product, we could not really spread it properly, because we lost the peak season. While our Tropicana growth has been close to 40% our dairy beverage has grown at 57%. We expect if 2022 is a normal year, we should have a very healthy year for the dairy business. We have launched two new flavors, which will further add to the growth of the dairy business.

Chirag Shah: I know it is early day, but are there any learnings that we have and do we have to go back to the drawing table in terms of the dairy portfolio that we have launched?

Ravi Jaipuria: The only learning we had because of the pandemic was that whenever you are launching new products, if you can't distribute it properly it affects the growth. As the market has started opening it is showing good traction, 57% growth is a significant growth number. We expect it to get much better than this going forward.

Chirag Shah: We have a large exposure to the Sri Lanka market as well, given the fact that the country is facing a lot of FOREX issues, is there any risk that we have to our business?

Raj Gandhi: Sri Lanka territory is very small within our total portfolio in terms of volumes. Based on our past learning we have made all our subsidiaries debt free. So, the only effect will be at foreign currency translation of whatever is already invested and capitalized. But this effect is not going to be large because our investment in that country is one of the lowest as compared to other subsidiaries.

Chirag Shah: And can you guys just give us a sense of where we see the promotion activities today and is there a big bounce back that we are seeing on the promotion, activity side?

Ravi Jaipuria: The promotional activities have been slightly reduced and discounting will be reduced slightly depending on the prevailing conditions, so that we are competitive. However, we have to be careful on the balance between margins and growth. Please note, cost escalation is for everybody including the competition.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Sir two questions from my side on the volume growth side. Recently, obviously we used to break the business in terms of out of home and now in-home has transferred specifically during COVID. Now, given the strong organic volume growth that we've seen, is it right to say that out of home is basically back to the pre COVID level and in-home has sustained and that is what has led to this 11% CAGR, is that the right way to break it up if we could just get some more color around it?

Ravi Jaipuria: Absolutely. Before the pandemic we used to have a major portion from out-of-home and in-home consumption used to be much less. While the in-home consumption went up during the pandemic, on-the-go market is coming back. So, that's why we are seeing such robust growth as both in-home has grown and is sustaining and out-of-home is again coming back to normalcy.

Nihal Jham: A related question to that is that, for this 11% number, is that the exit number in September was much higher or this was more or less similar through the quarter?

Raj Gandhi: This is the CAGR over 2019 for Q3.

Ravi Jaipuria: So, what we are actually showing is that even after we went through the pandemic in the peak seasons, we have still grown over a non-pandemic year.

Nihal Jham: What is it that say the number must have been 7%- 8% for the month of July, August and specifically September would have seen a growth of 14%-15%?

Ravi Jaipuria: All the three months of July, August, and September were pretty good for us that's why we are showing about 11% growth over 2019 for Q3.

Nihal Jham: Understood, that makes it clear. The other question was that, again looking at the volume growth category wise, are there any specific brands or categories, which have done much better. We see a lot of the growth that has come in the CSD segment is it that as you've discussed about Sting specifically in the past, is it the one that is adding a lot of incremental growth or if you can add more color to this?

Ravi Jaipuria: Yes, energy drink Sting has really outperformed the market and our own portfolio. Sting has grown at 672% over last year. We expect this growth to continue because this is mostly in small pack which is consumed out of home that was impacted because of pandemic. The other product which grew well for us was Tropicana, that grew at about 40%, Gatorade also grew at about 53% and dairy beverages grew at 57%. So, all our new launches have grown tremendously well including our core portfolio which has grown at a healthy rate.

Nihal Jham: Just one last question to my side, considering the new plant capex, how to look at capex for the coming two years?

Ravi Jaipuria: It will partly depend on the growth, if the growth is accelerated then there will be some more capex which is a very positive sign. But otherwise, the guidance for capex is close to the depreciation value. Only if we go to a new country or a new product like dairy or Tropicana expands exponentially, then we will have to expand through a greenfield plant.

Raj Gandhi: But the guidance for the long run remains that our capex is going to be equal to the depreciation figure.

Nihal Jham: So, this capex also will be equal to depreciation?

Raj Gandhi: In the longer run, yes. It may vary year on year, but the long term average will be equal to depreciation.

Moderator: Thank you. The next question is from line of Dhruv from Monarch AIF. Please go ahead.

Dhruv: Sir, if you can tell us what would be the capacity at the Bihar Greenfield plant?

Ravi Jaipuria: We are putting up four lines in Bihar facility which will be able to service the complete Bihar territory and maybe the outskirts of West Bengal. The break-up is, a CSD PET line with capacity of 720 bottles per minute, a juice PET line of 300 bottles per minute, a packaged drinking water line of 300 bottles per minutes and a CSD glass line of 600 bottles per minute.

Dhruv: What could be revenue contribution from this plant?

Raj Gandhi: Because the penetration in this area is very less this plant will help us expand our growth and penetration. Normally the revenue to fixed asset ratio is about 2.5 times for our mature plants, which of course takes few years, so ultimately it will be 2.5 times of Rs. 285 cr.

Ravi Jaipuria: We may reach this ratio much faster than what it takes normally in a place like Bihar because it is very under-penetrated and we believe once we have the plant there our growth will be much faster.

Dhruv: And also, I wanted to know about this Kathua facility that you are putting up for the plastic preform closures. So, what would be your capex over there and the timelines for commissioning this plant and also, I assume this will be close to your Pathankot plant. So, there would be some savings in our logistics cost as well?

Ravi Jaipuria: The expected capex amount will be approximately Rs.190 crore and we expect this to be operational by next year. The biggest advantage we'll have is that this will take care of the backward integration across our new plants.

Dhruv: Sir commissioned by next year any particular month first half, second half if you could?

Ravi Jaipuria: It will be before the season so we are looking to start by March.

Dhruv: Okay. So, again less than six months' time?

Ravi Jaipuria: Yes.

Dhruv: I remember in the last call you had said that debt was reduced by Rs.625 crore. So, in these three months any debt repayment that you have done?

Raj Gandhi: Our net debt was ~ Rs. 2,550 crore at the end of Jun'21 quarter and it is at ~ Rs. 2,400 crore at the end of Sep'21 quarter. During this period, we also made some payments related to capital work in progress, dividend and tax.

Ravi Jaipuria: Please note that part of this expansion what we have discussed in Bihar and Kathua has been already paid out during this quarter without increasing our debt.

Dhruv: And sir just lastly on the average cost of debt, what could it be currently versus say December ending in 2020?

Raj Gandhi: It is around 5.5% right now and last year it was around 6.5%.

Dhruv: Okay, so almost a 100-bps cut?

Ravi Jaipuria: Our average borrowing cost is about 5-5.5% but marginal cost of borrowing for short term loans is at ~ 4.2%.

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

Devanshu Bansal: Sir, we have seen a 10% increase in international realizations so far in nine months. So, firstly, what has led to improvement in realizations in these markets despite higher share of water?

Raj Gandhi: Per case realization has increased primarily because of the currency translation as the currency in Zambia has improved and realization per case in Morocco, with the reduction in the discounts, has gone up.

Devanshu Bansal: Sir, can we assume that these levels are sustainable as in, what is the viewpoint that you guys are having as of now?

Ravi Jaipuria: Our expansion lines in Morocco only came into production in end of June. So, they should be much better actually next year.

Devanshu Bansal: Sure, that's encouraging. Secondly, we book about Rs. 90 to 100 crore of the operating revenues in the top line as rebates from State Government. What is the run rate that we should assume for this going ahead?

Raj Gandhi: The current rebates will continue for some time ranging from next 4 to 8 years. There are a few select plants which are entitled to these rebates, for rest of the plants there is no such exception.

Devanshu Bansal: Okay. Lastly sir, our business shall generate a lot of cash going ahead, can you suggest as to how you plan to utilize this cash generating in the business post three-four years?

Ravi Jaipuria: So, we are hoping to get some additional territories and we are working with PepsiCo for the same. But we are going slow because in India we have already got almost everything. So, the territory which is left for us is mostly Africa where will be expanding steadily.

Devanshu Bansal: So, carbonates category grew faster than water and juice category. So, if you look at this 11% CAGR number carbonates have grown at 12% and water, juice have on a two-year basis has grown at 7% to 9%. So, general, in terms of trends, if we see focus on hygiene and health, ideally should lead to higher growth in juice and water. Can you help us understand, how do you see growth trends in these two segments going ahead?

Ravi Jaipuria: This year is not the right year to judge anything as on-the-go consumption had reduced in the peak season. So, obviously, as people were not going out, they were not drinking packaged water. Our population doesn't drink packaged water sitting at home. And, as I said other products like the smaller pack energy drink or dairy packs, what we call our flavored milk grew slower than what we had anticipated. So, we are expecting good growth in the non-carbonated products next year, with on-the-go consumption increasing.

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

Pritesh Chheda: This time, in your opening comments you mentioned that the two-year volume organic growth was 11%. Now it's been about a couple of years before which we did the acquisition and two years were fairly difficult. And considering that this year also we missed the season. Is it fair to assume that incrementally considering the whitespaces that you have in South plus, the normal growth we should register a fairly significant double digit organic volume growth on our total portfolio in India is my first question? My second question is, until a couple of quarters back we were mentioning that we did not require capex and a lot of the capex would be maintenance, just wanted to understand this Bihar capex, what is the reason for coming up with Rs.300 crore capex and lastly on the operating area.

Ravi Jaipuria: We never had a plant in Bihar which is a large territory with low penetration. We were servicing the territory from plants based out of UP. However, it is difficult to service the territory properly when you're bringing the products from other States, especially for a large State like Bihar. With our market share in Bihar being low we saw a large growth opportunity which would not be possible to service until and unless we put our own plant within the State. Being a 110 plus million population State we want to increase our focus. So, that is one of the key reasons why we are putting up a greenfield plant.

Pritesh Chheda: Okay. On the volume growth outlook where do we see cases going?

Ravi Jaipuria: If you look at the volume growth post pandemic and during the last quarter also, it's clearly showing what the growth is looking like and we hope we can maintain this. We can't say that it will be as robust as this, but we feel the market is ready and there is enough demand in the market and I hope we should do extremely well next year.

Pritesh Chheda: Sir the question on operating leverage, this EBITDA per case we were always of the opinion that considering the fact that we have spare capacities everywhere. This Rs. 30-32 EBITDA per case should move higher. Is there any change in the thought process there or what are we doing to improve the profitability of the business?

Ravi Jaipuria: See we have always said that about 21% EBITDA margin is one of the highest in industry, we can always keep trying to do better than that. But to really say that or assume that we will do much higher than 21% is going to be very tough, because every year there is some new challenge like this year, the PET prices are higher, but we are taking corrective actions to make sure to maintain our 21% margin. This year, we have taken the initiative of reducing the weight of PET bottles. Now this weight reduction is going to be permanent, as the petroleum prices rationalize this will definitely add to our margins, but we never want to say that we will do better than 21% because as it is 21% is a very high margin. So, if we can keep increasing our top line with the growth what we are seeing, the 21% margin will be very reasonable.

Pritesh Chheda: And sir last I wanted to check a bookkeeping question. I was searching the presentation I couldn't get what is the nine-month India volume growth and what is the nine-month international volume growth?

Raj Gandhi: India volume growth in 9M CY21 is 36.4% and international is 29.7%.

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

Bharat Shah: Varun Beverages has been a phenomenal execution machinery. We have put out different products, we have diversified into categories. We have both territories and now we have to think of plants at locations which will help us, which were not penetrated well. Now, if we look at 2019 calendar year, the peak season turnover was Rs.2500 crore that is April to June. In 2020 clearly because of the challenge it slumped to Rs.1400 and 2021 again unfortunately the same challenge, but we still did better at about Rs.2000 crore. A very hypothetical question I want to ask, given our preparedness, given our strength of the manufacturing, distribution, product portfolio, diversity of the category territory acquisition and everything, if supposing in the current calendar year, these wave two were not to occur that Rs.2500 crore in 2019 would it have looked like Rs.3500 to 4000 crore?

Ravi Jaipuria: Well, technically, yes. If we can grow at around 25% after the pandemic in July, August, September over what we have done in 2019 there is no reason why we should not have grown in the second quarter when the pandemic happened. So, theoretically yes, what you're saying, can happen and should happen.

Raj Gandhi: This should not be taken as a forward-looking statement, but what I can draw is, if I extrapolate the Q3 growth of this year which is 11% CAGR over 2019 and apply the same for next year, it leads to about 35%-36% growth over Rs. 2,200 cr. So, automatically we reach to the levels mentioned by you and as rightly pointed out by you that our execution is one of the best and our margins is one of the best, I think we can definitely reach that and meet your expectation.

Bharat Shah: So, Ravi let me take that hypothetical conjectures a little further, to repeat Rs. 2500 crore in 2019, Rs. 1400 crore in 2020, Rs. 2000 crore in 2021 and if you look at the other periods, once we leave out the challenge of calendar 2020, but given the way we are doing it in 2021, if 2022 season is normal, would it be fair to say that 20% compounded growth from 2019 till 2020 should take us actually closer to Rs. 4000 odd crore in the April to June season of 2022. Is that possibility or it’s a wild guess on my part?

Ravi Jaipuria: It's a possibility but a wide possibility and I'm sure if we have a decent season, and we don't have any pandemic, there is no reason why we can't especially after increasing and expanding our go to market in South and West and in the East and with our plants coming up in Bihar, which was one territory which was being under serviced and is a decent sized territory. There is no reason why we should not be able to expand in a very healthy way. But the exact numbers obviously we can't tell you. But if we can grow in the other months, there's no reason why we should not grow in the peak season. We have enough capacities.

Bharat Shah: No, so I am just thinking the same kind of growth rate, that we are now clocking, when we still don't have full normalcy, but our growth rates are reflecting very healthy robustness. So, if I am saying, even if we do supposing from 2019 12%, 13% kind of compounded growth in the three-year period, that should take us to Rs. 3500 crore and if we are talking of something like 16% compounding in these three, it should take us to Rs. 4000 crore. So, I'm saying about 12%, 13% to 16% compounding if pandemic is not to intervene in 2022. In your opinion, it's not a wild conjecture it is a possibility?

Ravi Jaipuria: Absolutely. we hope what you are saying we can make that happen.

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

Aniruddha Joshi: Sir just one question. We are having a pretty strong revenue growth and it's likely to continue in coming quarters so how do we see the investment in distribution expansion because the retail touch points has remained at around 2 million for almost couple of years. I agree COVID may not have allowed the opportunity to expand the distribution, but what is the plan on that and is the Company working with any distribution expansion plan or lastly is the 2 million count in a way sufficient to drive the growth in coming quarters?

Ravi Jaipuria: We are expanding our distribution but unfortunately because of COVID a large number of stores shut down. So, going forward definitely if next year is a clear year, there will be expansion of number of outlets, because without expansion, it can't work and we are targeting to increase between 10% to 15% of the total number of outlets, which would be close to about 300,000 outlets.

Aniruddha Joshi: And so, these would be in any particular region you're looking at?

Ravi Jaipuria: It will be in the regions where we are very weak obviously, have less penetration. As we mentioned the newly acquired territories and the markets where we have been weak which are East, West and South, we will have to expand our outlet base much faster and we have already started expanding but obviously couldn't do justice because of the two bad years in the peak season. That is why you are actually seeing the growth coming even after the peak season is over.

Aniruddha Joshi: Right. And lastly, what will be our e-commerce plus modern trade contribution and how it would have changed Y-o-Y?

Raj Gandhi: It's about 5.6% including quick service restaurant chains and the modern trade.

Ravi Jaipuria: There was a lot of reduction in the number of outlets in restaurants, half of them have still not even applied for licenses. If you read in the newspapers a lot of individual restaurants could not even apply for relicensing. So, there has been a big jolt in this category. It's basically the fast food which is really growing fast, which are large and big brands, but a lot of small restaurants have shut down.

Aniruddha Joshi: Okay. Sir, e-com number if you can share?

Ravi Jaipuria: It's part of the modern trade. In the overall volumes the traditional trade is where the majority volumes come from. Contribution from e-commerce and modern trade are still very low.

Moderator: Thank you. Next question is from the line of Vicky Punjabi from JM Financial Services. Please go ahead.

Vicky Punjabi: Sir firstly, just trying to understand the capacity utilization here. So, when the IPO happened, there was a thought process that capacities were underutilized. We've seen capex over the years and there is always a tussle between optimizing freight cost and expanding capacities or increasing utilization. So, if we were to understand, these limitations what's the kind of optimal capacity utilization that the Company can target and versus that where are we currently?

Ravi Jaipuria: The expansion you are seeing is either for backward integration, which we did not get when we acquired PepsiCo plants, or in a territory which we bought without the plant. So, Bihar was the only territory we bought without the plant. We did not pay for it and our cost to acquire the territory was very low. So, both the things are not related to our existing capacities, but for an additional territory which we had bought or the backward integration. We want to invest in backward integration plant because if we don't have this next year, a lot of locations may have trouble getting the backend support as the logistics are becoming a nightmare. So, we want to foolproof ourselves and make sure that we are not lagging.

Vicky Punjabi: Sir, my question is a little on the side of what do you think would be the optimal capacity utilization and where are you currently, and once possibly that optimal capacity utilization is reached will that capex guidance of equal depreciation actually go higher?

Ravi Jaipuria: If we are growing faster than a certain pace, then we'll have to keep building new capacities, it doesn't have to be Greenfield, there can be Brownfield as well. So, if the margin and the volume grow faster than what our anticipation is, then of course, our capex will also go up.

Vicky Punjabi: Sure. I was just thinking from the perspective of the cash utilization in the business, I just wanted to understand when we would be reaching optimum capacity utilization.

Raj Gandhi: The elaborate guidance is that we are incurring capex when we are entering a new territory or in a territory without plant or as we grow, we want to maintain 100% backward integration to ensure maximum margin. However, in territories like South and West, where the seasonality is lower, lesser capex is needed than North. There is an additional angle with the juice or dairy which require special kind of equipment. With the current growth that we are witnessing in these products including Sting where we have grown 100 plus percentage we may have to set up plants for these products in South and West also. So, it becomes very difficult to project at this moment. However, on a quarterly basis we keep on evaluating the demand and capacity utilization and disclose capex plan.

One more thing is that earlier 100% of the mix used to be glass which came down gradually and today glass mix is about 15%. The capacity at the time of IPO was mentioned on overall basis, however, now you have to dissect that for glass line which cannot be interchanged with PET line. PET is growing like anything whereas, glass for last five years has not grown at all and the glass capacity cannot be used for PET. Same way capacity for dairy or for Tropicana is not fungible with carbonated juice. So, these differences have to be considered. Some capex may be done in advance or some may be done at a later stage, however whatever is invested sooner or later in the vast country gets utilized. So, we have to be broadly on track. The overall guidance that I can say is that the capex is going to be around depreciation figure, which if we see for the last 5, 7, 10 years analysis holds true.

Vicky Punjabi: And just one more question. I wanted to understand, while South and West territories have been impacted during the peak season, in the non-peak season, in this quarter, you've done something like a 37% growth. Would you have any idea on how the territories have themselves grown and was there any kind of market share gains here?

Raj Gandhi: We can't talk about the market share, but as Chairman had initially said that South and West territory has grown at around 37% in the current year.

Vicky Punjabi: Yes, and how has the market grown?

Ravi Jaipuria: We don't have the exact figures and on a quarterly basis we don't get that figure.

Moderator: Thank you very much. I will now hand the conference over to the management for closing comments.

Raj Gandhi: Thank you, everyone. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the Company please feel free to contact our investor relations team. Thank you once again for your interest and thanks for taking the time to join us on this call. Look forward to interacting with you soon. Thank you very much and wish you Happy Diwali.

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