Varun Beverages Limited

Earnings Conference Call Transcript
February 7, 2020

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Varun Beverages Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari, from CDR India. Thank you and over to you, Sir.

Anoop Poojari: Thank you. Good Afternoon everyone and thank you for joining us on Varun Beverages Q4 and CY 2019 earnings conference call. We have with us Mr. Ravi Jaipuria, Chairman of the company; Mr. Varun Jaipuria, Whole-time Director; Mr. Raj Gandhi, Group CFO and Whole-time Director; Mr. Kapil Agarwal, CEO and Whole-time Director; and Mr. Vikas Bhatia, CFO of the company. We will initiate the call with opening remarks from the management following which we will have the forum open for 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 would now request Ravi Jaipuria to make the opening remarks.

Ravi Jaipuria: Good Afternoon and thank you for joining us on our earnings conference call. I hope all of you had the opportunity to go through our results presentation, which provides details of our operational and financial performance for the fourth quarter and year ended December 31, 2019.

I am pleased to share that CY 2019 has been a year of solid operational and financial consolidation. We have delivered a top line growth of 40%, EBITDA growth of 44%, and PAT growth of 58% in Calendar Year 2019. The performance was primarily driven by robust volumes reported in both the Indian and international markets, improved performance in underpenetrated territories acquired in 2017, and early 2018 resulted in a healthy organic volume growth of 13% in the domestic business. Our international business also registered a solid growth of 34% driven by double-digit growth in markets like Morocco, Zimbabwe, and Sri Lanka. In addition to this, the full-year performance also includes the impact of South and West India sub-territories acquisition from May 2019 onwards.

In the quarter, we have reported a robust top line growth of 55% and a strong EBITDA growth of 142%. While Q4 is typically a seasonally soft quarter, the losses were notably lower in comparison to Q4 2018 on account of better business efficiencies and integration of new territories that are relatively less seasonal. We expect this trend to sustain as we work on further fortifying our core strength and aim to improve our penetration in the newly acquired territories. On the operational front, we undertook a series of investments and strategic initiatives during the year including value-accretive acquisition, introduction of new products and expansion into new geographies. We are confident that these investments once optimally utilized will enable us to deliver substantial performance in the coming years. With respect to the recently acquired large territories, we will be consolidating and expanding deeper into these regions in order to garner a bigger foothold and improve our market penetration. These high potential markets will certainly help accelerate our growth, raise profitability, and cash flows going forward.

On the whole, development of new market and increasing presence in high potential territories will be a key growth driver for us. In sync with this approach, the company shall continue to evaluate strategic opportunities for growth and development in various markets. Going forward, we will continue to build upon our key position in the beverage industry with presence in fast growing markets, solid infrastructure and a well-entrenched distribution network. We are fully focused towards enhancing our market presence in the recently acquired territories in the upcoming year. Furthermore, we are constantly looking at opportunities to innovate and upgrade our product portfolio to tap the shift in consumer preference across existing and new markets. This along with improving demand in our core market should enable us to deliver a higher and sustained performance in the longer term. I 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. Let me provide an overview of the financial performance for the fourth quarter and year ended 31st December, 2019.

As you are aware, our business is seasonal and best monitored on an annual basis especially since Q4 is a seasonally soft quarter for us. Revenue from operations, adjusted for excise/GST, grew by 55.3% YoY in Q4 2019 to Rs. 12,202.5 million while EBITDA increased by 142.2% to Rs. 1,157.4

million. Our performance for the year has been strong with revenue growth of 39.7% to Rs. 71,295.8 million.

Total sales volumes were up 80.7% YoY at 82.5 million cases in Q4 2019 and were up 44.9% YoY at 492.7 million cases in 2019. Realization per case has come down by 3.6% in 2019 essentially on account of change in product mix in India post consolidation of South and West sub-territories, introduction of water in Morocco and lower sales realization in Zimbabwe in USD terms. The sales volume growth was supported by robust performance in India as well as in the International territories. India business recorded an organic volume growth of 13.1% in 2019 while our foreign territories reported a strong organic growth of 34%. Morocco, Zimbabwe and Sri Lanka have all grown in double digits during the year.

On the profitability front, EBITDA increased by 142.2% to Rs. 1,157.4 million in Q4 2019. For 2019, EBITDA increased by 43.8% to Rs. 14,476.5 million. Even though gross margins declined by 120 bps during 2019 due to change in product mix and higher PET prices, EBITDA margins expanded by 59 bps in 2019 to 20.3% on account of operating leverage in the business.

Depreciation has increased by 45.5% during the quarter and by 26.9% in 2019 owing to capitalization of Pathankot plant and consolidation of South and West India sub-territories w.e.f. 1st May 2019. Finance cost has increased by 47.2% during the quarter and by 45.7% in 2019 as the purchase consideration for acquisition of South and West India sub-territories was funded through debt. As discussed earlier, the QIP proceeds (net of issue expenses) of Rs. 8,836 million have been utilized for repayment of debts during Q3 2019.

Losses reduced to Rs. 539.5 million in Q4 2019 from Rs. 708.2 million in Q4 2018. As shared by our Chairman, enhanced business efficiencies, cost control strategies and integration of new territories that are relatively less seasonal has enabled us to report lower losses during this quarter. In 2019, PAT increased by 57.5% to Rs. 4,722.2 million in 2019 on the back of robust volume growth.

I would like to highlight here that post changes in the corporate tax structure, the management plans to conclude its evaluation of this option in conjunction with its tax year end of 31 March 2020 as the Company carries unutilized minimum alternative tax credit and has other tax benefits available. The benefit of lower MAT has resulted in a net saving in cash flow of Rs. 194.3 million during the year.

On the balance sheet front, Net debt stood at Rs. 32,461 million as on Dec 31, 2019 as against Rs. 26,715 million as on Dec 31, 2018. Debt to Equity ratio stood at 0.97x as on Dec 31, 2019. Working capital days have remained stable at ~ 26 days as on Dec 31, 2019 on account of efficient working capital management even after consolidation of new sub-territories in India during the period. Inventory, creditor and debtor days have remained stable even with increase in net revenues and number of production facilities.

To conclude, this has been another exciting year for us. We have demonstrated strong cash flow generation, working capital efficiencies and ability to grow our market presence. In the coming year, we will be focused on generating strong free cash flows as well as leveraging upon the notable investments made by us over the past few quarters. On the whole, we look forward to delivering a healthy and sustainable operational and financial performance going 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, Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Sir, my first question is on the capex with PepsiCo that you have done this year, there was adjustment made for Rs.210, which was deducted from the payment for capex to be done in next year, what will be the total required capex on consolidated basis for CY20 including Rs.210 Crore?

Raj Gandhi: The guidance given in the past few calls still remains the same i.e. around 50% of our depreciation figure and also stated in the past that this ~Rs. 210 figure is received from PepsiCo but it has to be spent by us in reality and we will spend this amount over and above 50% depreciation figure in calendar 2020.

Percy Panthaki: So therefore, I would be not wrong if I calculate that including this Rs. 210 crore, your capex would be lower than the depreciation for CY 20?

Ravi Jaipuria: Yes, you are correct.

Percy Panthaki: Sir, my second question is just wanted to understand your strategy for South and West of India since it has been less than a year that you have acquired versus North and East where you have been sort of improving and tweaking the business model and now it is sort of business as usual. In South and West, I am sure compared to what it was previously, there are some low hanging fruit, there are some changes in business model etc. which you might have planned and it might be in the pipeline or going on as we speak, so what are those initiatives and what are you doing to really sort of increase market share in those states, where the market share is weak in South and West?

Ravi Jaipuria: The key initiative which we are going to take is to improve our go-to market and our presence because at the moment, the number of outlets is much less and we are expanding that by putting more infrastructure and improving our sales force. The key issue, which is go-to market, will be improved and that is where our expectation is that our penetration in the market will go up.

Percy Panthaki: Lastly on international business, is there any sort of inorganic growth on the horizon that you can see?

Ravi Jaipuria: Well, not at the moment, unless and until Pepsi offers us and if it makes sense, but at the moment we are not looking at anything for this year.

Moderator: Thank you. We have next question from the line of Jithin John from CLSA. Please go ahead.

Jithin John: Sir, my question was on the headroom for the distribution expansion, you have been delivering strong double digit organic volumes also supported by the enhanced penetration in the acquired territories, by when do you think the new territories will reach a distribution coverage level similar to the core territories?

Ravi Jaipuria: We think that is a long process, it will take a couple of years for it to happen , so we are looking at least next two to three years to bring it to the levels where we are in our core territories, so it has a long way to go.

Jithin John: Sir, secondly it would be great if you can share how the competition is reacting to your market share gains in this new territory?

Ravi Jaipuria: We have a formidable competition; of course they are doing what they think is right for the market and we are doing what is right for us, so both the businesses are growing and so market is growing. Both of us are healthily competitors in the market and overall soft drink and beverage businesses are growing in the country.

Moderator: Thank you. We have next question from the line of Rajiv Gupta from RBC Financial Services. Please go ahead.

Rajiv Gupta: My question was on the cost of funds. Are you expecting the cost of funds to come down this year because of an improvement in your credit rating and also the benign interest environment?

Raj Gandhi: Rajiv, you are right. Actually this is one development we can proudly share. Last quarter, our average cost of borrowing was about 8.9% and as of now it is somewhere between 8.10%-8.15%, so it has come down as a result of our rating improvement and the benign interest scenario in the country.

Rajiv Gupta: Will it become effective end of this quarter or it will become effective January, would you give some indication of that or is it already factored in the last year's results?

Raj Gandhi: No, the savings are expected to flow in the current year.

Ravi Jaipuria: The full effect will be seen in this year's consolidation figures.

Rajiv Gupta: One more question I wanted to ask, you have been making some provision on Africa business have you made another provision this year and what is the status of the old provisions. If have you made the provision, what amount of liabilities was it and is there any chance of reversal of that provision which was made in earlier quarter, just a brief detail on where we are on the provisions and where do we see it going forward?

Raj Gandhi: As in the earlier calls, we had stated the total provision made over the quarters was Rs. 130 crore approximately and after that, the Reserve Bank of Zimbabwe signed a MoU with us wherein they said that about $30 million which was our liability before the changeover from multicurrency to the single currency came in. So they said that the investment came because of their promise and they will provide you the currency at the same conversion rate, which was applicable when we invested. They are honoring it and three to four installments are already released by them. However, the provision made on this, we have not yet reversed keeping in view the tight monetary position in that country. Once we cover the total dollar exposure in the company, we will be reversing this currency fluctuation provision made in the books.

Rajiv Gupta: If I understand right, your liability in Indian Rupees was about Rs.210 crore, you partially repaid 20%-30% of it and you have created a provision of Rs.130 crore on the Rs. 210 crore liability as of now?

Raj Gandhi: We paid about 10% out of total liability and we have not yet reversed the provision on that 10%; we are keeping it as a conservative policy because the balance is yet to be paid and Reserve Bank of Zimbabwe has to honor their commitment.

Rajiv Gupta: I am sorry to be persistent, you said USD 32 million debt which is Rs.210 crore and you also said the provision of Rs.130 crore, so that is about 65% of the debt?

Ravi Jaipuria: That is right, that is what we have made the provision, but out of the USD 32 million some debt has already been repaid, but still we have not reversed the provision.

Rajiv Gupta: Just one last question on the international business, if you could throw some light on the pricing and the market share and without giving numbers of course, forward-looking numbers, what is your estimate of growth in market share and pricing in Zimbabwe and Sri Lanka?

Ravi Jaipuria: Our growth in international business is about 34%, which is a fabulous growth and with this growth obviously our market share is improving, but some of these countries do not provide the exact market share mechanics, so it is all estimate which we do not want to give, but we are definitely growing at 34% in international territories. Hopefully we are growing faster than our competition.

Rajiv Gupta: How is it looking going forward, do you think we could sustain, I am not asking for exact numbers, but what kind of growth?

Ravi Jaipuria: We think so. As of now, it is sustaining and we are doing pretty well, and hopefully, we should be able to sustain it.

Rajiv Gupta: One last question, where do you see your net debt at the end of this calendar year?

Raj Gandhi: If our capex is going to be under depreciation figure, so PAT last year was Rs. 472 crore, so this year - 472 plus the growth of PAT for this year, is going to be used for reduction of debt.

Moderator: Thank you. We have next question from the line of Vicky Punjabi from JM Financial. Please go ahead.

Vicky Punjabi: Sir, just quickly on the international business, I am trying to calculate the figure by taking the difference between the standalone and the consolidated entity, it is kind of showing some deceleration in the revenue trajectory here, have you seen any kind of deceleration sequentially or are there some differential treatment that is being kind of taken for the exchange losses in the African countries?

Raj Gandhi: Vicky, there are two main contributors for this. One is as we have stated in the past, we have introduced water in Morocco. So water has grown much faster but the realization for water is much lower, so per case basis that has resulted into reduction in realization. Second is Zimbabwe, earlier we used to sell in US Dollars and then convert. So it used to be firstly recorded in our top line and then recorded as exchange loss. Since we have only one currency there, so neither that gets added to the top line nor is any provision required now. So these two changes have resulted into low per case realization but on the profitability side, it has become much healthier than the last year. It has contributed at PAT level first time on overall basis.

Vicky Punjabi: Just on this domestic side, we see some dip in gross margin on a YOY basis, what is the reason for that?

Raj Gandhi: This is a product mix with South and West territory, which is added effective from May 1st 2019, there the mix of water is higher than our earlier territory of North and East and the gross margin level that is slightly reduced, but with the operating leverage at EBITDA level, we have improved EBITDA margins over last year.

Vicky Punjabi: Secondly, I just wanted to understand the Pathankot facility, you mentioned the capex of Rs.550 crore and last year, I remember there was a CWIP mentioned of Rs. 350 crore, is this Rs. 550 crore an addition that we have spent or that includes the CWIP that was mentioned last year?

Raj Gandhi: This is inclusive of CWIP, here I would like add for the benefit of everyone when the asset is put to use we capitalize only then, so that there is no confusion and the capex gets reflected in the year when it comes in production for that season, till then any payments that have been made as advance, LC opened or by whatever means, these are parked in the books as CWIP or advances to the suppliers.

Vicky Punjabi: Sir, how is this Pathankot facilities economics look like, I mean what is the kind of production volume we are expecting from them, what is the kind of asset turns we are expecting there?

Ravi Jaipuria: The production has just recently started in the last quarter, last year and we expect full utilization of the plant this year.

Raj Gandhi: Asset turn it should be anything 1.9 to 2 it can go on the full capacity utilization, which is what we expect this year.

Vicky Punjabi: What would be the product mix in the Pathankot facility, how much would be juices and how would be CSD out here?

Ravi Jaipuria: About production wise maybe close to 50% each.

Raj Gandhi: In Pathankot, we also have backward integration pre-form machine also.

Ravi Jaipuria: We manufacture our own pre-forms there.

Vicky Punjabi: After this integration with South and West, what is the kind of benchmark we are looking at organic volume growth in the domestic territory?

Ravi Jaipuria: Well, so far, it is looking good, we have had good years and I see no reason why it should differ this year.

Raj Gandhi: Pathankot is also being used to manufacture ambient temperature, value-added milk-based beverages, the new segment which we have entered and which is really fast growing.

Moderator: Thank you. We have next question from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: My question is on the operating margins, this year despite the fact it was a year of integration, we have seen improvement in the margins on yearly basis, going ahead since the integration is ongoing process and as you said that you will take another two to three years for some of the new territories to get in line with some of your existing territories, but in terms of margins, once this territories are getting scale, should we expect our margins to be better in CY 2020 and 2021 compared to that in CY 2019?

Ravi Jaipuria: Our margins are already one of the highest in the industry and we would not like to give any guidance on better margins, but if we can maintain this and maybe slightly better, we will be very happy.

Kaustubh Pawaskar: Sir, my second question is on the tax, as you have changed to the new corporate tax, the tax rate in India and the international operations would different, so for CY 20 and 2021, what kind of tax rate we should assume?

Raj Gandhi: We should assume the same taxation as far as the provision is concerned like the last time because we have not yet opted for the new tax regime. There is about 4% to 5% saving in cash flow because of MAT, which is reduced. We have already started availing the same and we have got Rs. 194 million savings in tax payments.

Kaustubh Pawaskar: Sir, I just missed out the capex figure because my call got disconnected, what is the capex looking for next two years?

Ravi Jaipuria: This year capex figure will be less than our depreciation according to the guidelines given earlier, so we are maintaining the same

Moderator: Thank you. We have next question from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: Sir, this is more like a long-term question, in terms of health concerns surrounding soft drink, what is the kind of product profile going forward to counter these health issues, which is surrounding soft drinks?

Ravi Jaipuria: Our new product launches include Tropicana in PET bottles, we have also launched ambient temperature value added dairy beverages, all these are perceived to be healthier than our core products. Also, going forward, we will be reducing sugar content in our core products, so we are moving slowly towards the healthier portfolio. We are actually supplying whatever the market is demanding and the market is still interested in the core products with existing levels of sugar content.

Dipan Mehta: Any idea what percentage of sales would be from healthy products?

Ravi Jaipuria: It is very small at the moment, but juices mix is about 7% and water is about 22%, so between the two, you can say about 30%.

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

Pritesh Chheda: Sir, how much of the consolidation of Pepsi will flow in CY 20 if you could tell us in cases, so how much is consolidated this year and how much is to be consolidated?

Ravi Jaipuria: We consolidated from May 1st 2019, so the first four months obviously will further get consolidated and any growth that we can get over and above that, is what is going to be consolidated.

Raj Gandhi: Typically number wise, total we paid for 135 million cases and 40% of that is in first four months which will be inorganic and would be coming in first four months in the Calendar Year 2020.

Pritesh Chheda: So, what 54 million cases will flow to CY 20 as well?

Raj Gandhi: Yes.

Pritesh Chheda: Let us say hypothetically assuming that in absence of an inorganic growth, is this calculation correct that you will be able to repay your debt in three years' time; the entire Rs. 3,000 crore debts is repayable in three years?

Ravi Jaipuria: If the growths are not happening, yes. If the growths are happening then some capex will be needed, so if our growths are going to be substantial, then our EBITDA will go up and our capex will also go up.

Pritesh Chheda: Actually, I did not understand that, you have Rs. 250-300 crore CAPEX plan the number is half the depreciation?

Ravi Jaipuria: For this year that is what we have plus what we received from PepsiCo, so it will be less than our depreciation, it is not Rs. 250 crore, it will be close to a little less than Rs. 500 crore, because we had received Rs. 210 crore from

PepsiCo which was reduced from the purchase price and has to be used for capex for the territories which we have received from them and plus 60% of depreciation that is what is going to be our capex.

Pritesh Chheda: So, it is Rs.200 crore plus half the deprecation is the capex next year?

Ravi Jaipuria: That is right.

Pritesh Chheda: Even considering these what should be the situation where you would be able to repay your debt in three years' time even if we consider that?

Ravi Jaipuria: It all depends if our growth is high, then we will have incurred some more capex and our PAT will be clearly available to reduce debts but as our guidance, we are not planning to invest more than our depreciation, so we will stay within that range as our PAT and EBITDA goes up .

Raj Gandhi: Pritesh, how we calculate is - our debt to EBITDA as of date is around two, so basically if there is no capex we can repay debt within two years, however, there is going to be some capex on an on-going basis because we need to grow and it depends upon the situation. We need to evaluate this every year so we have just given guidance on how much out of the depreciation, our capex, normally, we would like to spend and we are likely to spend.

Pritesh Chheda: So, this actually does not include the capacity expansion related capex, why I am asking because in your past calls we have said that your peak month capacity utilization is 60%-65%, so automatically there is room for 30%-35% extra volumes there because your peak capacity is 65%?

Ravi Jaipuria: As our volumes are going up, that gap is narrowing. Every year, if we are growing at 15% then that gap has narrowed by that much.

Moderator: Thank you. We have next question from the line of Udit Bokaria from Catamaran Ventures. Please go ahead.

Udit Bokaria: Sir, wanted to understand what would be the distribution reach for your juices category and what was the volume growth last year?

Raj Gandhi: Juices, last year, we have grown by about 17% in India and its mix from 6% has increased to 6.7% on a consolidated level, further penetration is going on. As far as distribution reach is concerned, the ready –to- serve drink like Slice is sold in a normal distribution channel.

Ravi Jaipuria: This year we are expecting the juice to become larger because our new facility at Pathankot only started production in the last quarter of 2019, so this year we will have full year production, so we expect juice growth to be quite substantial during CY20.

Udit Bokaria: Are you seeing increased competition in the 1 Liter Tropicana categories?

Ravi Jaipuria: There is competition but we are having very healthy growth. This is a category where every few years you will see a new entrant coming in, so we are not really concerned about competition.

Udit Bokaria: How do you view the dairy sectors, what would be the potential you see in the next few years?

Ravi Jaipuria: We see huge potential in it. We have had a resounding response on our products. Now, we have to just muster and increase our capabilities of backward integration and production capability, so as we will ramp it up our volumes will start showing significant numbers in that and we feel that is one more category apart from our Tropicana juices which can really make us grow faster in this country.

Udit Bokaria: Any challenges which you are facing on the procurement side and managing the cost inflation for dairy category?

Ravi Jaipuria: No, not at the moment, because we have priced our products in such a manner that we are not playing in pennies.

Moderator: Thank you. We have next question from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Sir, my question was on the penetration front in all the four regions which we operate in, so can you give us some idea be it qualitative or quantitative as to the level of penetration in all the four regions and at what level we want this penetration to go?

Ravi Jaipuria: Firstly we are hoping that our penetration in newly acquired territories comes to the level of our original territories, there is a huge gap and it will take us couple of years to level up these territories. Once we can penetrate to that level, we will see good growth and potential for the next couple of years.

Devanshu Bansal: Sir, just to get some quantitative outlook, so we are expecting about 135 million cases to be sold in the South and West region newly acquired, so can you give us some idea as to what is the number of cases it can go up to in the next 2-5 years?

Ravi Jaipuria: We cannot give exact numbers, the only thing we can tell you is that the same territory with PepsiCo three years back did 205 million cases, so there is huge opportunity and growth potential which is available. It will all depend on how fast we can ramp up our distribution and penetration.

Devanshu Bansal: Out of the 13% growth in India this year, can we break it into how much came from penetration and elsewise?

Raj Gandhi: 13% basically is the organic growth and it is difficult to split it how much because of penetration and otherwise. Normally, we target about 4% growth in distribution network every year and about 40,000 Visis are added every year. We had a population of 775,000 visi-coolers, which we have placed in the market, so those are the places where we definitely reach and equal number you can say is where we reach out, but we are yet to place our visi-coolers. More than 1.5 million dealers / retailers carry our product and this number goes up around 4% every year. The category-wise break-up of 13% overall organic growth is about 12% carbonated, about 17% this year juice has grown and water has grown about 14.9% for us, so this all weighted average basis, about 13.1% roughly organic growth during the year we have got. I hope this should give you enough insight.

Moderator: Thank you. We have next question from the line of Rakesh Roy from Indsec Securities. Please go ahead.

Rakesh Roy: Sir, can you share the domestic or international volume during the quarter, in India business how much the volume from the South-West?

Raj Gandhi: During the quarter, in India, organic volume is 32.43 million cases and overall including inorganic, India is 62.21 million cases. International is 20.25 million in Q4.

Rakesh Roy: Sir, my next question is regarding any price hike in near future for the next financial year?

Raj Gandhi: Actually, price hike invariably we take to pass on any input cost. As of now, inflation is not high, so there is not much of the necessity to increase prices.

Rakesh Roy: Sir, regarding your dairy product, last quarter, you launched three products, this year do see any addition of any product in dairy business?

Ravi Jaipuria: We might launch two more flavors, but with our production capacity, we do not think we will do anything beyond that because we will already be running at full capacity.

Rakesh Roy: Sir, is it possible to share the volume from dairy business?

Ravi Jaipuria: It is too early, we have just started last year and it only came in the off-season last year, so we need to have one year before we can really start projecting numbers. Give us a quarter or two, we will have much better insight.

Rakesh Roy: Sir, my question any target for CY20 for dairy business in terms of volume?

Ravi Jaipuria: No, our belief is we will be able to sell the complete output we can make, the question with us is how much juice we produce and how much dairy we produce because it is the same line which produces both the products.

Rakesh Roy: Sir, how much is the realization in the dairy business?

Ravi Jaipuria: Value added Dairy business is even more premium than the juice; it is about 40% higher than the juice category.

Moderator: Thank you. We have next question from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Sir, this is my first call and you may have answered this before, I wanted to understand the dynamics of your relationship with PepsiCo, does Pepsi have a certain level at which they would want to cap the return on capital you make on the business via Pepsi or there is no such cap on the return on capital you can make in terms of operating efficiencies that you bring in over a period of time?

Ravi Jaipuria: There is no cap, PepsiCo has a clear standard of what they would charge us for concentrates and the rest of the profits depends on our efficiencies and the price we can get from the market. No limitation on what our margin has to be or what our profit has to be.

Manjeet Buaria: Sir, in terms of the pricing for the concentrate which Pepsi has, is there any defined path as to how they increase it every year or over a period of time, so how does that work in terms of the concentrate pricing they charge?

Ravi Jaipuria: It is a clear path that they take percentage of our net realization and which has been standard for the last 25-30 years and we have an understanding and agreementfor the same.

Manjeet Buaria: So, it should stay at the current level basically?

Ravi Jaipuria: In percentage terms, yes. As we keep increasing prices, the value keeps going up but the percentage does not change.

Moderator: Thank you. We have next question from the line of Devang Patel from Crest Wealth. Please go ahead.

Devang Patel: Sir, you gave the organic growth for the full year, can you also give it for the fourth quarter overall and for India?

Raj Gandhi: India, Quarter-4 was around 10% and overall for the company on consolidated level was at 15.5%.

Devang Patel: I did not understand when will you be shifting to the new tax rate?

Raj Gandhi: We are evaluating because we have un-availed MAT credit and certain benefits of 80IE on the new investments. We have already started availing the benefits on the MAT basis, now the only thing left is the reversal of the deferred tax liability, which could have happened in this quarter, but have deferred it on conservative basis to make more assessment, but having said that we will again be reviewing in the tax year, which is March 2020 and with something definite we will come back.

Devang Patel: Sir, the question on the organic growth for the full year is 13%, you said for Q4 is 10% for India, so did we start the year on a higher rate and then are we exiting at a lower rate, are you seeing this?

Raj Gandhi: For Q1 in 2019, organic growth in India was 1.6% as against we ended 10.1% in Q4, however, our biggest quarter of Q2 was 18.5%, so sometimes there is extended winter or there is extended summer which can shift results from one quarter to another, that is why we always say that we monitor our business on annual basis.

Moderator: Thank you. We have next question from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Sir, if you can share some qualitative idea on this volume growth whether it is driven more from the smaller SKUs or it is driven by larger SKUs?

Ravi Jaipuria: It is both actually, as we are penetrating deeper and deeper, the single serve SKUs are increasing and as we are going more in modern trade, the larger size SKUs are growing. Also, in the urban market, the larger SKUs are growing, so both are growing practically at the same pace.

Saurabh Ginodia: I would like to understand what efforts are we putting as a company in the plastic collection?

Raj Gandhi: Thank you for asking this question, in fact in the last call also we had said that we are working on this and we will be coming out with some very definitive plan. I will draw your attention to our quarterly results presentation on page number 18 where we have stated the efforts taken by the company as a responsible organization and how much we have already collected for recycling and what is the target etc..

Saurabh Ginodia: Sir, broadly speaking if you can help us giving some idea on business which we are getting from glass bottle versus plastic?

Ravi Jaipuria: Glass is slowly reducing, so it is about 15% of total volumes as of now.

Saurabh Ginodia: In volume terms, and rest would be plastic?

Ravi Jaipuria: Rest would be plastic and cans.

Moderator: Thank you. We have next question from the line of Parth Kejriwal from Narnolia Financial Advisors. Please go ahead.

Parth Kejriwal: If you could give the realization per case for different segments, say soda versus juice versus water?

Raj Gandhi: Broadly, if CSD is 100, you will see water is around one-third of that and juice maybe 120 of that, broadly this is the guideline.

Moderator: Thank you. We have next question from the line of Rajiv Gupta from RBC Financial Services. Please go ahead.

Rajiv Gupta: Just to reconfirm my understanding that the Reserve Bank of Zimbabwe honors its commitment in the next couple of years, you will reverse about 130 crore of provision which will come back to your bottom line, that was one question? The other one was in the new territories and in the international business on existing products, what kind of a cushion do you have where you do not require more capex for the next how many years, and the third question was more something for consideration, the VBL stock is very ill-liquid have you ever considered splitting the face value or something for to increase liquidity in the stock?

Raj Gandhi: Let me answer you one by one, first of all your first assumption is correct. If we get the Reserve Bank to honor then we will be reversing our Rs.130 crore.

Raj Gandhi: On the capex side, as far as glass capacity is concerned, we are having excess capacity. And in PET there are certain territories where we can further go up by 20%, however, the challenge may come in the fastest growing juice category, where we will have to be on our toes and keep on looking at the capacity on absolute periodical basis. Also, for backward integration, , we may have to spend as early as possible and the question on the splitting of the stock, I think that actually does not make any difference as far as the investor is concerned, it is only a perception. Moreover, as a management, we focus more on delivering the results and things like liquidity we will leave it to the markets.

Rajiv Gupta: This thing on capacity was more targeted towards the new territories and the international territories?

Ravi Jaipuria: We have enough capacities, but it depends on certain time, certain territories grow faster than the existing capacity in certain categories. There we have to keep tweaking to meet like the PET business is growing much faster than the glass business, so the glass capacities will always be there which is more than substantial, but maybe in certain territories the PET capacities will start getting choked, so we will have to do the overall tweaking.

Rajiv Gupta: I am talking about the new territories and the international territories; overall in existing products you are not expecting major substantial capex?

Ravi Jaipuria: Not major, but some capex will keep coming and especially for juice and dairy, we will have to enhance our capacity, going forward.

Rajiv Gupta: Which is always good news and what about the international business?

Ravi Jaipuria: International business we are right now having reasonably sufficient capacity except in Zimbabwe, the way it is growing, we may have to add something going forward, but nothing of any major consequence.

Moderator: Thank you. We have next question from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Sir, I have only one question, will we be incorporating Ind-AS 116 starting next quarter?

Raj Gandhi: That is right, that is mandatory, and we have no choice, we are evaluating and we will be coming up with required set of adjustments as needed.

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

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

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