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CIN No. : L74899DL1995PLC069839

May 4, 2022

To,

National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmlist@nse.co.in **Symbol: VBL**	BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 Email: corp.relations@bseindia.com **Security Code: 540180**

Sub: Regulation 30: Transcript of Investors & Analysts Conference Call

Dear Sir/Madam,

Transcript of Investors & Analysts Conference Call held on April 28, 2022 post declaration of Unaudited Financial Results of the Company for the Quarter ended March 31, 2022 is enclosed.

The same is also being uploaded on website of the Company at www.varunpepsi.com.

You are requested to take the above on record.

Yours faithfully,
For Varun Beverages Limited

Ravi Batra
Chief Risk Officer & Group Company Secretary

VARUN BEVERAGES LIMITED New Delhi

Encl.: As above

Varun Beverages Limited

Q1 2022 Earnings Conference Call Transcript

April 28, 2022

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 Q1 2022 earnings conference call. We have with us Mr. Ravi Jaipuria, Chairman of the Company; Mr. Varun Jaipuria, Executive Vice-Chairman and Whole-Time Director; Mr. Raj Gandhi, Group CFO and Whole-time Director; and Mr. Kapil Agarwal, Whole-Time Director of the Company.

We will initiate the call with opening remarks from the management following which, we will have the forum open for a question-and-answer session. Before we begin, I would like to state that some statements made in today's call, maybe forward looking in nature and a disclaimer to this effect has been included in the results 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 hope all of you had the opportunity to go through our results presentations that provides details of our operational and financial performance for the quarter.

We have started the year on a strong note, delivering notable growth across all parameters. Robust demand in both domestic and international markets also supported by the early onset of summer in India, translated to healthy volumes during the quarter, which grew by 18.7%. This along with improved net realizations resulted in a solid net revenue growth of 26.2% in Q1 2022.

On the profitability front as well, we have delivered enhanced performance despite significant increase in input cost witnessed during the quarter. Our EBITDA grew by 39.1% and our margins improved to 18.8% in Q1 2022.

On the demand front, we are seeing a solid uptick in consumption. The summer season in the domestic market has begun well and as we enter the peak months, we are well prepared to cater to the anticipated demand by optimizing our capacity utilization across all plants and further enhancing our reach across established and underpenetrated markets.

During the quarter, the Board approved the proposal to manufacture "Kurkure Puffcorn" for PepsiCo India, as part of their network of co-packers. The commercial production is expected to begin from quarter three of 2022.

As we look ahead, on the back of an improving demand environment, we remain confident of delivering healthy volume growth in the medium to long-term. We are also happy to share that as a token of appreciation to all our shareholders, the Board today has recommended a bonus issue of one equity share for every two shares held by shareholders of the Company as on the record date. Overall, our initiatives towards improving our market share, building infrastructure, and expanding reach continue to hold us in good stead and we are confident of delivering strong and sustainable growth going forward.

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

Raj Gandhi: Thank you, Mr. Chairman. Good afternoon, and a warm welcome to everyone joining us today. Let me provide an overview of financial performance for the first quarter ended 31 March, 2022.

Revenue from operations adjusted for excise/GST, grew by 26.2% Y-o-Y in the Q1 2022 to Rs. 28,274.7 million. Total sales volume grew by 18.7% to 179.7 million cases in Q1 2022 from 151.4 million cases in Q1 2021, on account of strong demand environment across geographies.

CSD constituted 70%, Juice 7% and Packaged Drinking Water 23% of total sales volume in Q1 2022. Realization per case improved by 6.3% to Rs. 157.3 in Q1 2022 led by price high in selects SKUs, change in SKU mix, and higher realization in international markets.

On the profitability front, EBITDA increased by 39.1% to Rs. 5,310.0 million in Q1 2022. Gross margins for Q1 2022 reduced by 427 basis points to 51.5% from 55.8% in Q1 2021, primarily because of increase in preform prices by around 30% over Q1 2021. Despite the decline in gross margins, the Company was able to improve its EBITDA margin to 18.8% during the quarter because of higher operating leverage driven by strong volume growth and high realization.

Finance cost declined by 19% to Rs. 469.6 million during Q1 2022, primarily because of lower average cost of borrowing. PAT increased by 98.2% to Rs. 2,710.9 million in Q1 2022 from Rs.1,367.6 million in Q1 2021, driven by improvement in margins, reduction in finance cost and higher profitability from international operations.

Overall, during the quarter, we have reported an encouraging performance. We have seen a strong demand environment and are excited about our prospects going into the peak summer season and the outlook remains positive for all of our product categories over the medium to long term.

On that note, I come to an end of the opening remarks and would like to now ask the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Before Pepsi acquisition, you had shared that your market share in south and west would be around 25% and in your existing geographies, it was about 40%. Now, of course, we do not expect you to update us on this on a regular quarterly basis, but since it's been three years since then, would you give us an idea on what kind of market share it is today versus what you had shared earlier?

Ravi Jaipuria: After our acquisition, we had limited progress, since last two years' peak season was affected due to COVID. Our focus was to enhance our go-to market, increase our distribution, which we had started in 2019, but could not completely go through with it till 2021. This is the first year where we are seeing that the change happening and our distribution enhancement is starting to give us encouraging results so that is why you are seeing better numbers. We are also witnessing better results in the off-seasonal quarter, because the territories which we had acquired have started doing well.

Percy Panthaki: If I look at this quarterly result and try to calculate the organic volume growth on a three-year basis using three years, because two years also is not a normal base, because of COVID. So now we have to look at three years. So on that basis, the organic volume growth for the India business is 10.5%. I just wanted to understand whether the industry itself is growing at this rate or is it market share gains, which is leading to such robust growth because in this kind of a consumption environment, no other FMCG company is reporting a 10% kind of volume growth. In fact, most of them will report close to zero volume growth this quarter. So just understanding the source of this growth, is it broad based industry growth itself and if so, why is this industry so different from the rest of the FMCG pack? And if not, then obviously it's a market share gain for you.

Ravi Jaipuria: Well, partly the industry is growing, it is not only that we are growing. We believe competition is also growing. But We can't really be sure of market share gains because those numbers are not available. Our increased focus on go to market is giving us some results. Overall, if you look at it, the summer season started a little earlier. So I think everything put together real enhancement in go to market, which is the key issue in this trade and putting enough chilling equipment is what is helping us grow the market.

Percy Panthaki: Any data you can share on, the increase in distribution touch points, or the increase in the chilling infrastructure, that you have effected?

Raj Gandhi: We are increasing our penetration in the market, not only by increasing distribution and go to market, but also by enriching our product portfolio over last year. If you see, in the last two years, what has changed for us is Sting, which is an energy drink. Last year, the growth in Sting volume was ~440% and contributed ~5% to our mix. In this quarter it has grown ~131%. In dairy products we are already running at full capacity. In case of Tropicana there were two phases, firstly getting the franchise rights for Tropicana from PepsiCo which had never franchised it anywhere in the world. Secondly, since last 10-15 years it was getting co-packaged from third parties, whereas we put up a facility, started in-house production and made it profitable so that we could grow it profitably. We are already at 100% capacity utilization on Tropicana, and we expect to develop further capacity by next year in this segment since there is huge potential. So, other than go to market, product portfolio enhancement is another factor.

Percy Panthaki: Also, can you give us, some guidance on your CAPEX, not the total amount, but things like in the international geographies, where do you think if at all, you would require capacity enhancement and whether it can be done through a brownfield, or would you need a greenfield and similarly in India, now that you have a robust footprint, presence in almost every state, do you think that most of the capacity enhancement in India can also be done through brownfield rather than greenfield given that most of our facilities have excess land on which brownfield expansion can be done?

Ravi Jaipuria: We try and enhance our capacity wherever it is possible by brownfield expansion since we have plants in most of the States. In some of the locations, even though we can put up another line, the amount of water we draw does not allow us to put any more lines there. So, that is one of the conditions, which necessitates some of the brownfield expansion into greenfield expansion. The one large State, where we didn't have a plant was Bihar. We have just started commercial production there and that is doing extremely well for us.

Raj Gandhi: Percy, as disclosed in our results presentation, in Sandila, we did brownfield expansion, and in Bihar where we did not have any plant, as mentioned last time the decision to put up a plant was driven by arbitrage between freight versus fixed expenses and that proved to be a good decision. This additional capacity is helping us get the growth in the region. So, it is going to be a mix of the two, at least for some more years.

On international front, last year we had doubled the water capacity in Morocco, but due to Delta variant, we could not complete the expansion during the season and it was completed in August. It is expected to give results this year. In Zimbabwe, we are adding capacity by end of May or early June this year, which is just before the season. The capacity increase in Zimbabwe is because last year Zimbabwe got support from Zambia, however, this year Zambia will be feeding DRC, where we are not going to make any investment. So, these are the international CAPEX plan.

Percy Panthaki: In terms of monetary amounts, what is the rough number for CY '22?

Ravi Jaipuria: This year it won't be very large because the water line was already put last year in Morocco and DRC is going to be fed from our Zambia plant. It's only one line, which we are adding. So about \$10 million to \$15 million in the total CAPEX we are looking at internationally.

Moderator: The next question is from the line of Himanshu Nayyar from Yes Securities. Please go ahead.

Himanshu Nayyar: Firstly, just to understand this quarter's performance, I mean, there was a commendable reduction in expenses below the gross margin line. So just wanted to understand, is this completely operating leverage or there were certain one-off benefits or cost reductions as well that we sort of saw. Just wanted to understand whether we can operate broadly at these level of employee and other expenses basically and can we benefit significantly in that case once the gross margins starts recovering again.

Raj Gandhi: Since volume has gone up and there was not much change in fixed expenses this is mostly due to operating leverage.

Himanshu Nayyar: If this sort of volume growth continues for us and once the gross margins recover, we should be looking at significant margin expansion?

Raj Gandhi: In the current quarter because the demand was quite strong and the commodity prices had gone up, we curtailed the discounts to the maximum. These discounts may come back once the price increase happens, so we don't see a big jump in the profit margin except due to operating leverage. As we have stated in our earlier call, about 23% of our annual volume, we do in the first quarter and second quarter is 1.5x equivalent of the first quarter's volume. So because of this operating leverage, the operating margin in next quarter is expected to be much better than the first quarter, while it is not true for all the four quarters. Third quarter may be similar to first quarter, however fourth quarter will be depressed

Himanshu Nayyar: In terms of gross margins, can you talk a bit about in the current quarter, how are we seeing our raw material prices, whether we might need some amount of price hikes?

Ravi Jaipuria: We have enough inventory of our key ingredients - PET resin, for the full season so we don't see any challenge on that front, even if the prices go up. Since we are already sitting on stock with us and concentrate is fixed there's nothing to worry. Sugar prices are reasonably within the same range maybe Rs. 1-2 up or down. So, we don't see any further cost escalation. The competition has taken some price increase and we have also taken some price increases, the benefit of which will come in this quarter.

Himanshu Nayyar: I think we've taken a Rs.14.5 crore write off on some plant and machinery but we don't see that, flowing through the P&L, so is it a direct adjustment from the balance sheet that has happened in that case?

Raj Gandhi: It is flowing through the P&L under other expenses. This was primarily a glass line along with a small can line. As we had already shifted the water line as part of the consolidation process to another plant and we were left only with the glass line and small can line. Since glass category is not growing, and in our experience the cost of production per case in larger plants is substantially lower, the Company took a write off of this line. In the next few years we are going ahead with the consolidation process. Therefore, you know, there can't be a straight answer like in the earlier question that will everything be brownfield, because consolidation is going to be key next few years.

Himanshu Nayyar: So, adjusting for this Rs. 14.5crore, are operating margins even higher because you're saying this Rs. 14.5 crore is a part of other expenses.

Raj Gandhi: That's right.

Moderator: Thank You. The next question is from the line of Shrenik Bachhawat from LIC Mutual Fund. Please go ahead.

Shrenik Bachhawat: Could you please explain if electricity issues are being faced in various parts of the country? So will that impact our business in any form going forward?

Ravi Jaipuria: Well, we are not facing any major electricity issues anywhere, but if there is any electricity issue it doesn't affect our business, because we are fully backed up with generators. So with respect to overall production, there will be no constraint. It might be that if there is less electricity, the cost might go up slightly because of generators, but it's not very significant.

Shrenik Bachhawat: I mean to say from the distribution side, the retail outlets and will they be affected?

Ravi Jaipuria: We are not seeing any challenges of now.

Shrenik Bachhawat: Could you share the utilization level currently and previous year, if I am not wrong, it was around 60% - 65% in the peak season?

Ravi Jaipuria: Due to COVID we didn't have a peak season in last two years, however, this year we are trying to utilize our lines as much as possible.

Shrenik Bachhawat: Could you share the volume growth expectations and EBITDA margin expectations for CY22?

Ravi Jaipuria: Well, we have just said that, our first quarter is about 23% of the yearly mix, so hopefully the volume should be based on that and EBITDA margins are always higher in the second quarter because of the growth in volume. So it's looking quite healthy.

Shrenik Bachhawat: Now, on full year basis. CY22 full year margins, what can we expect?

Ravi Jaipuria: We did ~21% in 2019, which is our normal margins. For us, it'll be a little difficult to give any guidance beyond that.

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

Dhruv Bhimrajka: What would be our volume split between domestic and international market for the first quarter?

Raj Gandhi: Out of 180, 147 is India, balance is international.

Dhruv Bhimrajka: As of the quarter ending Q4 CY21 we had a net debt of approximately Rs. 3,005 crore. So in these four months, what is the debt that we have repaid, if any, and what would be a net debt as on date or as the end of the first quarter.

Raj Gandhi: Our Net debt as on 31st March was approximately Rs. 3,100 crore and that includes additional financing for inventory, which we created for PET stocking.

Dhruv Bhimrajka: Okay. So there's no debt repayment as such in the first quarter?

Raj Gandhi: Yes, because in this first quarter we have paid for the CAPEX for Jammu plant, which is for backward integration, for, Sandila plant, which is a brownfield expansion and for Bihar plant, which got implemented in this month. So we have incurred CAPEX without raising any additional debt.

Dhruv Bhimrajka: In CY22, you said for international markets, there would be a \$10 million to \$15 million CAPEX. So how much would it be for the India market then?

Raj Gandhi: Up to May 2022, \$10-\$15 million, has been paid already from the internal accruals, so there’s no debt increase. For India, what we are saying is that capex incurred will be equal to the depreciation for an organic growth of approximately 12%, however if we grow, say 1.5x of this growth then the capex will be 1.5 times depreciation and if we grow 2x then it will be two times depreciation figure. We have given a guidance through this formula and projecting future is a little difficult. By June end we will know broadly in which direction we are going ahead and we'll be firming up our CAPEX plans and we'll be able to share.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: My first question is 16%- 17% volume growth in India is very impressive in context of what we are seeing in FMCG as well as, you know, alco-beverages company that has recently reported. So is this growth, broad based across geography and is the environment conducive for you to grow double digits in north and east markets as well?

Ravi Jaipuria: This has been broad based, so it's not only the south and west. The growth has been reasonably good throughout the country, depending on the rains and the weather, but mostly it's been broad based.

Jaykumar Doshi: So from south and west, when will we see accelerated growth in this season or you think that it'll be next season?

Ravi Jaipuria: Well, we believe we are already seeing accelerated growth from south and west and all the territories, which we have acquired. So wherever there are very weak territories, we are seeing additional growth coming in.

Jaykumar Doshi: So it just started to contribute?

Ravi Jaipuria: It has started.

Jaykumar Doshi: On international markets 30% volume growth is very good. Other than Sri Lanka, are you seeing any kind of operating challenges or currency related issues in any market, or do you see any risk in context of inflation?

Ravi Jaipuria: No not really. Even in Sri Lanka, business wise we are still doing all right. We would be one of the few companies, which is continuing to grow in Sri Lanka. Obviously, the foreign exchange challenges are there, which we are managing but it's a small part of our overall business. And actually, if you look at the first quarter growth, Sri Lanka has grown at 37%. So Sri Lanka is also growing for us.

Jaykumar Doshi: I would assume its local currency; it must be local currency 37% growth.

Raj Gandhi: This is actual volume growth.

Jaykumar Doshi: The partnership with Pepsi in foods business and starting as a co-packer, so are their other players globally in other markets where this model has evolved? And the idea of asking is, beverage is a well-established model of bottling all across the world and it's a very high margin business as compared to foods business. So are there similar partnerships that have evolved which where we can look and get a better understanding?

Ravi Jaipuria: Not to our knowledge, we might be the first to foray. We are also learning from it that's why it'll be an interesting start and let's see where it takes us.

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

Nihal Jham: If you had to compare say from three years back, has there been any significant change in the product mix other than say the Sting being added versus CY19?

Ravi Jaipuria: All the three categories Sting, value-added dairy and Tropicana juice has done extremely well for us. Sting has been a very strong performer for us apart from our core business, which is CSD, juices and water.

Nihal Jham: Would it be possible just to give an approximate proportion of what these three specific products would make up at this point of time of total volumes?

Ravi Jaipuria: Sting is about 6%-7% of our mix, Tropicana is 2% and dairy is about 0.5% for the time being..

For value-added dairy and Tropicana, we ran out of capacity and are producing 100% to what our capacity is. And it'll not show a seasonality dip or jump because we'll continue producing 100% of our capacity. That's basically the capacity of the unit, which we had put up in Pathankot. Since Tropicana and dairy both are fungible on the same equipment, which together is giving us about 2.5% mix and about 7.5% Sting. So, between the three products, the mix is ~10%.

Nihal Jham: Which you can say would be close to a negligible at least two to three years back.

Ravi Jaipuria: Which was practically not there.

Nihal Jham: That is very helpful. The second question was on this Puffcorn arrangement. I know we've answered. But just at this point in time while the current arrangement is a co-packing, is there a discussion on the table that you take up the distribution similar to the beverage business, and would this also require a manufacturing setup?

Ravi Jaipuria: We believe it's a bit too early, let us start with the first unit. Let us understand this and right now it's a co-packing arrangement only. So we think we'll stick to that for the time being and understand it before we can talk anything more.

Nihal Jham: My last question was on the debt side. You've obviously given a strong run rate and performance. There will be significant cash generation that will accrue in second quarter and for the year. Is it fair to assume that most of this will be used for say debt repayment or, how should we look at it?

Ravi Jaipuria: We believe part of it will be definitely used for debt reduction and some of it will be used for CAPEX enhancement because with the run rate, the growth, which is happening, we would have to spend some more money on CAPEX.

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

Devanshu Bansal: Sir, to build on the question asked earlier on international deals. The base quarter was also quite strong here and, on that base, we have grown about 30% in volumes. So just wanted to understand the drivers of this strong growth as well as any outlook here that you can give us for the coming years would be helpful.

Ravi Jaipuria: If you look at Morocco, by the time we were able to put up our additional line, it had passed the season because of COVID. So that enhancement of the additional line has started giving us results now. In Zimbabwe as well, the addition that we did last year has started giving us results. Sri Lanka has also done very well. Morocco has given approximately 50% growth for us and Zimbabwe has done well for us. Actually, all the countries have done well for us. The overall business has improved and we expect some good results going forward.

Devanshu Bansal: Sir, going ahead, any outlook you can provide as in if Morocco now CY22 would be a good base and upon that what is your outlook on growth in these geographies?

Ravi Jaipuria: Well, Morocco has become a reasonable sized business for us and because of the growth in volumes, it has become a profitable and good business for us.

Devanshu Bansal: How is the traction for our other new launch Mountain Dew Ice and are there any marketing plans that we intend to launch going ahead?

Ravi Jaipuria: We think we have got our hands full this year with Sting and Mountain Dew Ice, which was already launched last year. It is doing extremely well for us. With value added dairy as well as Tropicana we have got enough. Products like Gatorade are also doing extremely well this year for us. So we think we have enough products apart from our core business, which is growing at a very healthy rate.

Devanshu Bansal: Sir, I was specifically asking for Mountain Dew Ice, not a new product.

Ravi Jaipuria: Mountain Dew Ice is doing well for us, with whatever limited capacities we have, we are producing it and it is selling to the capacity actually.

Devanshu Bansal: In terms of PET stocking that we did in December 2021, what would be the crude price levels at which we stocked PET in December?

Ravi Jaipuria: That's very difficult for me to, but we bought it at a reasonably cheaper price because we bought it mostly at the end of the year.

Raj Gandhi: Apart from price, the second reason was de-risking against the logistics issues and we still have enough for the whole season.

Ravi Jaipuria: We're pretty well covered, may be little more than H1. So maybe even the third quarter is reasonably covered.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Can you talk about the out of home consumption trend and how is the contribution in this quarter?

Ravi Jaipuria: The biggest growth is coming from out of home consumption now. Since people are outside, there has been significant increase. Till last year, in - home consumption was major contributor, but now in-home consumption is about 30%- 35% and on the go is about 65%.

Sumant Kumar: Okay. So, the major volume growth happened in this quarter is due to 60%- 65% volume growth from out of home consumption?

Ravi Jaipuria: Out of home is more because there are no more restrictions, so everybody is going out unlike before which was mostly at home.

Sumant Kumar: 6% realization growth can this trend continue for the coming quarter?

Ravi Jaipuria: Looks like.

Sumant Kumar: What is the CAPEX number for CY22?

Ravi Jaipuria: If it is about 10% growth, our CAPEX would be approximately similar to our depreciation level. If this growth doubles, then our CAPEX would approximately, in line with the growth, be double of our depreciation level.

Moderator: Thank you. The next question is from the line of Rakesh Roy from Indsec Securities and Finance Limited. Please go ahead.

Rakesh Roy: Can you highlight on international business, especially in line with the Sri Lanka and Nepal issues? In Nepal, they are trying to restrict some import from other countries.

Ravi Jaipuria: They are not restricting manufacturers. That is for luxury goods basically for traders. It's not for manufacturers, and it's not impacting us at all. In Sri Lanka, we all know there is a foreign exchange crisis, which we are managing. The business is doing extremely well we are managing with it and it is a small part of our total business. I think we just need to wait and see what happens, we feel they'll come around, it may take three to six months, we don't know but we are managing and our franchisor is also supporting us.

Rakesh Roy: Out of India total volume, how much is the South-west volume?

Ravi Jaipuria: About one-third.

Rakesh Roy: Can you give me the idea how much is geography-wise mix?

Ravi Jaipuria: Every quarter is a different mix because seasonality is different for every quarter. We've not had a proper full year, which we hope we'll get this year. So we think you should give us this year to really find the real mix of each geography. It won't be right to give the mix for summer, April, May and June is always higher in North, while in South and West months like October, November, December, or January, February and March would be better. Every quarter is a different mix.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: I just wanted to confirm this Rs. 15 crore in WDV that you said, so we should reduce our other expense and see the normalized margin by adjusting that, that is what you said, right?

Raj Gandhi: That's right.

Sanjaya Satapathy: Yes. So that is 19%.

Sanjaya Satapathy: Typically this quarter one is 23% of your sales volume. Am I right sir?

Ravi Jaipuria: Approximately.

Sanjaya Satapathy: This 25% CAGR over a two-year period that we are seeing, so is it sustainable because historically you have been saying that this beverage business will grow at about 10% to 15% volume growth annually. So, are you saying that this kind of a growth is bit of a one off and it will come back to that level pretty soon or you are saying that, because of the initiative that you have been taking, you've been getting some kind of market share and that is why one can look for not 10%, but rather 15% of a sustainable growth in future?

Ravi Jaipuria: Well, we've always said the market should be growing at 10% to 15% and we will always keep trying to do better than that, but will we succeed or not we don't know. Our job is to keep trying.

Sanjaya Satapathy: If at all, you will be successful that will be due to this foray into south, which will turn around and also these factories that you are expanding, right?

Ravi Jaipuria: We hope so.

Sanjaya Satapathy: I am seeing that between your different categories, this juice segment is kind of relatively subdued. And is there any explanation for that in terms of the outlook and how it'll kind of also clock growth which is similar to the other segments?

Ravi Jaipuria: Well, as we had said, the juice is not really subdued. It's done extremely well, but we have run out of capacity on Tropicana. As soon as our second facility will be ready we expect to see a 100% growth on that when the facilities are ready.

Sanjaya Satapathy: And when will that be ?

Ravi Jaipuria: Hopefully, it should be next year sometime.

Sanjaya Satapathy: In terms of margin, while gross margin has gone down, you have done some operational savings. I thought that you were talking about some kind a 21% kind of EBITDA margin.

Ravi Jaipuria: Our first quarter is a subdued quarter and our EBITDA margins are always lower in Q1. If you see our second quarter, you'll see our margins much higher. So on an average throughout the year, it averages out to about 21% and that's the guidance we have been giving basically.

Sanjaya Satapathy: Despite the raw material prices going up so much.

Ravi Jaipuria: That's right.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: With respect to the Kurkure Puffcorn, what is the kind of investment that you're looking to make?

Ravi Jaipuria: It's a very small investment. We are testing it out. So it's about Rs. 20-23 crore,

Alisha Mahawla: Okay. And this is only for co-packing. We are not going to be doing any manufacturing.

Ravi Jaipuria: We will be producing and co-packing for PepsiCo.

Alisha Mahawla: Do we have selected geographies?

Ravi Jaipuria: No, it's their choice wherever they want to take it. We just have to produce it and give it to them and where they will sell it, is their call.

Moderator: Thank you. The next question is from the line of Suvarna Joshi from Quantum Adviser. Please go ahead.

Suvarna Joshi: What is the mix between price hike and the product mix which is contributing to the 6% odd kind of a realization improvement on a Y-o-Y basis? The second question is, I wanted to understand the mix in terms of SKUs. Now, when we were in the COVID period and in-home consumption was very high. We had seen that larger pack sizes were doing much more sales and now with out of home consumption being the driver, I'm certain that it is more to do with the smaller ones. So can you just indicate as in what kind of pack sizes are doing better for us and how do we stand over here despite the gross margin pressures that we are seeing?

Ravi Jaipuria: See, fundamentally you are absolutely correct that as the market has opened up the small size SKUs, 250 ml bottles, single serve bottles have started doing extremely well. The major growth is coming in that pack and as far as the margins are concerned, partly due to the increment in pricing which has been very small, but what we've been able to do is reduce our discounting as the demand is high and we've been able to convince the distributors and retailers that the costs have gone up. So we will not be able to give that kind of discounting.

Suvarna Joshi: So, it is not the effective price hikes that we have taken which has led to this

Ravi Jaipuria: Partly, I would say, with the 6%, maybe 1% or 2% is pricing and the balance is efficiency and of course cutting discounts.

Suvarna Joshi: And how much of it would be from the product mix?

Ravi Jaipuria: Product mix, I don't think has made that big a difference. It's basically minor difference, of course, single service is more profitable, because it's on the go pack. So all the things mixed together has given us a 6% improvement.

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

Devanshu Bansal: Sir, continuation with the earlier question, I just wanted to understand are in-home consumption trends sustaining or you are sort of seeing a decline with on the go picking up?

Ravi Jaipuria: We would not say declining, but the major growth is coming from on the go. People are going out they're drinking out. The restaurants have opened, hotels have opened, cinema halls have opened, people are traveling from one place to another. So railway stations, bus stations, all that has opened up so that is where the major growth is coming. But we don't think the habit which has been formed by drinking at home has come down.

Devanshu Bansal: Sure. If I understand it correctly, the distributor commissions or discounts that you used to sort of account for have now been moved below gross margin level, so is this understanding, correct?

Ravi Jaipuria: The commissions have not been changed. It's just that, because of the cost, all the beverage companies that were giving more discounts in the market have felt the pain. So we have curtailed part of the discounting and partly it has got covered up by the extra volume which we are doing.

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

Raj Gandhi: Thank you very much. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarification or would you like to know more about the Company, please feel free to contact our Investor Relations team. Look forward to interacting with you soon. Thank you very much once again.

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