Varun Beverages Limited

Earnings Conference Call Transcript
February 21, 2017

Moderator: Good Day Ladies and Gentlemen and Welcome to the Earnings Conference Call of Varun Beverages Limited. 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 the operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good Evening, everyone and thank you for joining us on the Earnings Conference Call of Varun Beverages Limited to discuss its Results and Developments for the Fourth Quarter and Year ended 2016. We have with us today, Mr. Ravi Jaipuria – Chairman of the company; Mr. Varun Jaipuria – Wholetime Director; Mr. Raj Gandhi – Group CFO and Wholetime Director and Mr. Kapil Agarwal -- Wholetime Director and Chief Executive Officer of the company.

Before we begin, I would like to state that some statements made in today's conference call maybe forward-looking in nature and a detail statement in this regard is available on the 'Q4 & 2016 Results Presentation' that was sent to you earlier.

I would now request Mr. Ravi Jaipuria to begin the proceedings of this call.

Ravi Kant Jaipuria: Good Afternoon, everybody. On behalf of the entire management team of Varun Beverages Limited, I would like to extend a warm welcome to all of you on our maiden earnings conference call post our listings on November 8, 2016. As you are aware, we have successfully completed our Initial Public Offering in October 2016 which received a very good response, helping us raise over Rs.1,100 crore. I would like to take this opportunity to thank all the investors for their whole-hearted response to our IPO. We have utilized the IPO proceeds to pay down the debt and strengthen our balance sheet. We have started a new chapter in our journey and are excited about the business prospects going forward. It will be our endeavor to always have best practices in investor interaction at all times.

Before Mr. Gandhi provides an overview of the financial performance for 2016, I would like to give you a brief introduction of our company and business model. Varun Beverages is a key player in the beverage industry with presence across six countries, three in Indian subcontinent – India, Sri Lanka and Nepal – contributing 90% of revenues while three in Africa – Morocco, Mozambique and Zambia – contributing 10% of the revenues.

We enjoy a strong, symbiotic and long-standing relationship with PepsiCo spanning over 25 years with their entry into India. VBL manufactures, sells and distributes products under trademark and brand owned by PepsiCo which includes Carbonated Soft Drinks (CSDs), Non-Carbonated Beverages, (NCBs) and Packaged Bottle Water. Through our extensive manufacturing facilities and well-entrenched distribution network, VBL has a unique business model with end-to-end execution capability and presence across the entire value chain - from investments in manufacturing facilities, distribution and warehousing, customer management and in-market execution to managing cash flows and future growth. Other than the concentrate and the consumer marketing provided by PepsiCo and their brands, we charter our own success with complete control over the manufacturing and supply chain process, driving market share, cost efficiencies and through judicious capital allocation strategies.

We have invested in creating a solid infrastructure with 16 state-of-the-art manufacturing facilities in India and 5 internationally. We have set up backward integration facilities for production of pre-forms, crowns, corroborated boxes, PET, plastic crates and shrink-wrap films in certain of our production facilities to ensure operational efficiencies and quality standards. We also established a new production facility in Goa this year, comprising a CSD PET line and a Packaged Drinking Water line, both of which have been operational since March 2016. In addition, we have purchased two co-packing facilities during the year located at Phillaur, Punjab and Sathariya, U.P., in line with our philosophy of having integrated facilities, operational efficiencies and control over quality.

Our supply chain is robust with 71 own depots, 2,024 owned vehicles and 1,186 primary distributors. Our experienced sales and distribution staff is responsible for consumer push management, driving growth and expanding market share across categories. Our teams undertake local level promotion and in-store activation and presently have installed 458,000 Visi-Coolers across various markets, while PepsiCo undertakes brand development and consumer marketing.

The presence of the company is in North and East India which accounts more than a third of India’s total soft drink industry volumes through our strong execution track record we have been successful in expanding our operations through acquisitions of several new sub-territories, contiguous to existing operations, offering strong benefits of economies of scale. During the year gone by, we have consolidated our operations in territories that were acquired in 2015, which included remaining parts of Uttar Pradesh, Uttarakhand, Haryana, Himachal Pradesh, Union Territory of Chandigarh and Punjab, resulting in higher cost efficiencies.

As far as international expansion is concerned, we acquired bottling operations in Zambia (60% equity) and Mozambique (51% equity) at a consideration of Rs.1.75 billion in 2016. Our focus is on our Zambia operations and we are hereby happy to report that the Board has approved to further increase our stake to 90% in the Zambia subsidiary in line with our philosophy of consolidation and presence in fast growing emerging markets beyond India. We have recorded healthy volume growth in our first year of operations and are highly profitable already with strong free cash flows generation. We are confident of our ability to drive sales and profitability higher in the future. Zambia continues to be an under-penetrated market and other significant upside potential.

We continue to leverage our ability to implement new brands and product launches for PepsiCo including in the fast-growing NCB and non-cola space to drive further growth during the year. We introduced Tropicana Frutz in various flavors – Lychee, Apple and Mango, Seven-Up Revive, Mountain Dew (Game Fuel) and Nimbooz Masala Soda, which received a strong response. Further Slice has been rebranded as Tropicana Slice to leverage the Tropicana brand with wider recognition and stronger brand value in the NCB segment.

We are on a strong footing financially and operationally. Our business is seasonal in nature with majority of our sales taking place in the summer months from April to June. Hence we recommend monitoring the business on an annual basis. We have closed the year 2016 with the robust growth of 13.5% YoY in revenues and 74% YoY in profits that further accelerates the historical trend of strong growth and margin expansion delivering by our business. Total sales volume in 2016 were up 15% YoY to 276 million unit cases as compared to 240 million unit cases in 2015. India sales volume grew 7.3% YoY while international sales increased by 67.2% YoY including the Zambia and Mozambique acquisition in 2016.

We are delighted to report that in addition to continuing growth in the Indian operations, each of our international subsidiaries have also delivered sales volume beyond the key threshold of 10 million cases which allows better sweating of assets, making the operations lucrative, self-sustaining, and will enable us to deliver higher overall profitability going forward. In addition, the proceeds from the recent IPO have notably strengthened our balance sheet, and coupled with prudent financial management and strong cash flow generation, we expect to bring debt down further and realize substantial savings in interest cost in the coming quarters.

Going forward, we will continue to build upon our strong positioning in the beverage industry with presence in the fastest growing markets, robust infrastructure and strong distribution reach. Our track record of execution and ability to grow market share and report rapid growth in revenues and profitability has been a hallmark of our Company. We are well poised to capitalize on the enormous growth potential the sector offers. We look forward to your continuing support in our journey which we believe will create long-term sustainable value for all our shareholders. We are highly optimistic about our future prospects given the huge potential of our diversified product portfolio in the various markets we are present and our ability to constantly innovate, launch new projects and stay in the path of relevance of our customers. We look forward to the future with even greater enthusiasm and promise.

I would now invite Mr. Gandhi to provide a flavor on the operational and financial performance.

Raj Gandhi: Thank you, Mr. Chairman. Good evening, everyone. A warm welcome to everyone present and thank you for participating on VBL's first analyst conference call. It gives me very great pleasure. It is an excellent platform for the management to interact with the investor community and we intend to carry out this exercise on a regular basis, keeping with our intent of establishing best practices in investor relations.

We are pleased to present our first financial results following our successful public IPO. I hope you have had the time to go through the results presentation. Let me provide an overview of the operational and financial performance. Before we delve into the numbers, it is pertinent to note that we follow a calendar year of reporting and it is best to monitor the business on an annual basis given the high seasonality in the business. Our revenues and profit follow bell curve with significant portion accruing in the quarter April to June.

Revenue from operations grew 13.5% YoY in 2016 to Rs.38,520 million driven by healthy traction in existing markets along with support from new territories in India and international markets. Revenue contribution from India stood at 76% in 2016, Rest of the Indian subcontinent – Nepal and Sri Lanka – contributed ~13% and Africa – Morocco, Zambia Mozambique – contributed 11% to total revenue. EBITDA was higher by over 25% YoY to Rs.7,952 million. EBITDA margins expanded 190 basis points YoY to 20.6% in 2016 from 18.7% in 2015. Our investments in technology have resulted in operational efficiencies and margin expansion. The consolidation of operations of contiguous territories acquired in 2015 and increased profitability and scale of international operations have further aided margins. Profit after tax and after minority interest adjustment grew 74% YoY to Rs.1,513 million in 2016 as compared to Rs.870 million in 2015 as per restated accounts.

To quickly summarize the performance for the quarter ended 31st December 2016, Q4 is usually a soft quarter for the company and November-December are the weakest months in the year. But as mentioned earlier, our business is seasonal and best monitored on an annual basis. Revenue from operations grew 9% YoY to Rs.4,249 million in Q4 2016 as compared to Rs.3,909 million in Q4 2015. Sales volumes were flat YoY. Demonetization impacted sales volumes in India barring which we would have reported a superior performance. The impact of demonetization has been transitory and we have already seen volumes steadily returning to normalcy in the current quarter. Q4 being a small contributor to annual numbers meant that the impact on the full year financials was minimal. EBITDA for the Q4 2016 stood at Rs.200 million as compared to Rs.33 million in Q4 in the previous year 2015, showing a healthy improvement.

Our balance sheet has been significantly strengthened post the IPO. The net worth of the company stands at Rs.18,939 million as on 31st December 2016 as compared to Rs.6,723 million as on 31st December 2015. Please note, that historically till 2015, CCDs issued to private equity investors of Rs.4,150 million were considered as equity and deferred acquisition consideration to PepsiCo was excluded from the debt. From the year 2016, CCDs to private equity investors are converted into equity and interest-free deferred acquisition consideration payable to PepsiCo has been considered in total debt. The IPO proceeds of Rs.6,675 million has been used to repay debt and to cover issue expenses. Net debt to the equity stood at 1.2x as on 31st December 2016 as compared to 1.5x as on 31st December 2015. Our working capital cycle has improved to 29-days on the back of economies of scale achieved through the acquisition of contiguous territories. We have seen robust cash generation to the tune of Rs.5,236 million in 2016. We are confident of seeing further reduction in debt going forward, resulting in substantial interest cost savings. We are also happy to announce that CRISIL has upgraded our credit rating from CRISIL A/Positive to CRISIL A+/Positive for long-term debt and from CRISIL A1 to CRISIL A1+ for short-term debt.

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

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Saket Narang from Steinberg Asset Management India. Please go ahead.

Saket Narang: My question was regarding the capex plans for the next couple of years. So if the management could elaborate a little bit on that?

Ravi Kant Jaipuria: Our capex, as we have said earlier, would not be more than our depreciation which we are showing on a year-to-year basis unless until we have a major acquisition or there is a new country we are acquiring. So we are not going to increase our capex more than the depreciation which we are showing.

Saket Narang: Given our current sort of infrastructure, do you think there is a possibility to improve the asset turns of the business going forward and how much can they improve by?

Raj Gandhi: There is definitely a scope because our asset utilization is still very low because of capacity which we acquired from PepsiCo or capacity we have created in the past to take advantage of tax benefits, etc. We can derive a live example from Nepal where we are able to rotate our assets at 4x, which presently is at 1.2x in India, leaving huge potential for the asset turnover to be increased.

Saket Narang: We have seen some increase in commodities like sugar, etc., So in terms of margins we have reported fairly a good margin this year. Can we expect to deliver similar margins going forward in calendar year 2017 and '18 both on the gross margin and EBITDA margin level?

Ravi Kant Jaipuria: It looks like we should be able to deliver very close to what we have delivered this year because of our consolidation and because of our territories being enhanced, our utilization will become better and our manpower costs are being reduced. So I think though the sugar prices have gone up, we should be able to give you pretty close to what we have shown now.

Raj Gandhi: To supplement the answer given by the Chairman, yes, sugar is the major component for us which contributes about 14% of our cost and the price is definitely going up, although we have covered up to June to some extent, but if we are not able to pass it on to the consumers through price increase which we normally take every year, to that extent some impact may come.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: I am sorry, I just missed that capex number. You said it will be not more than depreciation. Is it the right number?

Ravi Kant Jaipuria: That is right.

Prashant Kutty: Just wanted to clarify over here because if I am not wrong, if I look at the current depreciation number it is somewhere about close to ~Rs.375 crore for the entire business. So you are trying to say that will probably be the kind of range that we are looking at incrementally?

Ravi Kant Jaipuria: That is right, so approximately Rs.375-400 crore is the depreciation and any investment we would be making sure that it could be around that figure only unless and until as I said it is a new acquisition or a new country we are getting into.

Prashant Kutty: This is largely going to be maintenance capex which you are referring to?

Ravi Kant Jaipuria: No, partly is maintenance, partly is new products or some new additions have to be done, some places like Nepal capacities have run out now, so we might have to put up another unit, Sri Lanka, part of the capacity had run out on one specific category, so that had to be added. So minor tweaks keep on happening in different territories and our business is that within the framework of a certain area we have to have capacities. So certain territories sometimes grow faster than other territories. So some small capex has to be undertaken and also further capex which every year we have to undertake is for visi-coolers for our chilling equipment.

Prashant Kutty: Incrementally, you just spoke about the capacity utilization could probably see an increase. Could we know what are the current asset utilization level and what could be the scope of utilization increase over here?

Ravi Kant Jaipuria: At the moment we are at about 67-70% of our capacity utilization and going forward we are hoping for healthy growth this year and as the growth happens then our capacity utilization will grow.

Prashant Kutty: Typically, at what level can the capacity utilization actually go up to?

Ravi Kant Jaipuria: It can go up to comfortably 100% because if you look at a country like Nepal where we are using our capacity 110% and that we do by storing some of the products slightly ahead of the peak season because our capacities are all based on month of May which is our peak season. So sometimes if we feel we are running short of capacities, we temporarily do it although we cannot bank on that, so, we can definitely go up to 100% of our capacity.

Prashant Kutty: But I am asking on a sustainable level on a full year basis, are we trying to say that probably we can be at about 100% capacity?

Ravi Kant Jaipuria: That is what I said, Nepal, we are running at 110%. So it is doable because our capacities are all based on our peak sale which is May. So if sometimes we feel we are going to be short, then we produce more goods in March and April, we have to hire warehouses and we store it. But that is not a normal practice, we do not like to do it but if we feel one year we are stuck with, we cannot add capacity that fast, then we do it.

Prashant Kutty: But ideally 70% capacity utilization is pretty much the kind of…?

Ravi Kant Jaipuria: No, rationally, we could comfortably go up to 90-95% without too much of pain and 100% would be of course optimum, I am talking mainly India business.

Prashant Kutty: Also, you just spoke about the newer production of the non-cola business, could we just know what is the current share of the non-cola space and the NCB portion and what is the kind of growth that we are foreseeing as far as the business is concerned going forward?

Ravi Kant Jaipuria: 81% is CSD which is the soft drink, 6% is Juice and about 13% is Water.

Prashant Kutty: So obviously the largest part is still going to be the CSD part incrementally…?

Ravi Kant Jaipuria: Yes, I think going forward also the largest part will definitely be CSD at least for the next 5-10 years, I do not know after that.

Prashant Kutty: The RM costs have been moving up actually. Do we see a significant cut over here because sugar is a very important proportion, again, is there a fear of our margins probably being under pressure as far as the next year is concerned purely because of the input costs have actually been moving up?

Ravi Kant Jaipuria: No, I do not see big pressure on our margins but if we ever feel that our margins are really coming under pressure, then we will pass on the price to the consumer.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: Just following up from the previous question, so when you are saying your capacity utilization can go even up to 90-95%, so what kind of impact possibly we could see on EBITDA margin in that case?

Raj Gandhi: It will definitely have a direct impact on our ROCE but only slightly on EBITDA margins. If the assets are used properly, sweated to the maximum, some impact on EBITDA also it will bring. We have to understand when we talk of 70-100% capacity utilization, we say this on three shift basis for the month of May. Because of seasonal business if we have taken care of the peak month, rest of the months when we say 100% capacity utilization, we do not need because those months sales as it is a much lower.

Ravi Kant Jaipuria: 100% capacity or 95% capacity when we talk is fundamentally for the month of May which is our peak month for the year and that is how we base it. Actually throughout the other 11-months our capacity utilization is lower. But if the capacity utilization goes up, your fixed costs practically remain the same, so there will be that advantage but that percentage does not change that large, but of course ROCE will change drastically.

Shaleen Kumar: Sir, if we want to look at the growth drivers of your businesses, so it will be an organic demand for the soft drink per se or Juice for that matter, is there any other growth driver which we should look into it in terms of geographical reach or something like that?

Ravi Kant Jaipuria: Organic growth would be the key, but last year we have gained share over our competition, so we always try by better distribution and better marketing to gain share over our competition and now even the local products are coming in the markets, so how much share we can maintain, and new products which we launched like Nimbooz Masala Soda in 2016, gave us 1% share. So there are more new products coming in this year. So these are the things through which we hope to gain market share, with the growth of the product.

Shaleen Kumar: So who all do you consider your competition?

Ravi Kant Jaipuria: Key competition is of course Coke but apart from that depending on the categories, Juice would be Frooti, would be Maaza, Real and in Water it would be Bisleri and Kinley, there are so many other players.

Shaleen Kumar: These are like Tier-I players. So what I wanted to understand from you do you see a Tier-II players, probably regional players also as your competition or what kind of market dynamics do you see?

Ravi Kant Jaipuria: I do not think at the moment regional players are playing a major role for us. It is national players which we have to be really concerned with which is Coke, predominantly in the CSD and of course in the Juice it is Dabur, Parle and Coke, all three put together.

Shaleen Kumar: How about somebody like Manpasand Beverages?

Ravi Kant Jaipuria: I do not think they play any significant role at the moment. What they will be five years from now, I cannot answer, but at the moment they do not play a significant role for us.

Shalin Kumar: No risk as such for us from them?

Ravi Kant Jaipuria: Not from people like Manpasand at the moment I can tell you.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: I have a couple of questions: Sir, if you look at your capacity utilizations, your second quarter is big and rest of the quarters are smaller, obviously because you can say strong summer in Q2. But if we look at the sales mix, Water and Juice are not that big a component although seasonality in them should be as such lower. So are you having any definitive plans to boost the sales of Juice and Water which are currently roughly around say 19% of the business or some other steps which would reduce the seasonality in your sales?

Ravi Kant Jaipuria: We are trying but as India is a growing market, so as you keep on penetrating more and more, fortunately or unfortunately more people get added in the summer season only, who is not drinking soft drink today is basically drinking in the month of April, May and June. So one side with the new visi-coolers, with the innovations, we are adding more things by which we can get more seasonality curve reduced but at the same time when you are penetrating more deeper into the rural markets, there are newcomers who fortunately or unfortunately come up in the peak season only and the first time he is going to try a soft drink or our products, is not going to be in the month of October, November but also only going to be in April which sort of partly neutralizes ours. So it is going to be an ongoing journey but hopefully after GST comes in, after our price is stabilized we should be able to. Also, I think once the power situation in the country improves, when we are able to penetrate deeper into the rural market with our visi-coolers, we expect that the seasonality would slightly come down.

Amnish Agarwal: Have the sales growth in Juice and Water been higher than CSD in the past few years?

Ravi Kant Jaipuria: In the last couple of years, yes, and that is why from a year back when we were 82% in CSD and 18% in Juice and Water, it has gone up to 19% and CSD has come down to 81%.

Amnish Agarwal: Sir, on the other income which we have reported, this year the other income has jumped from Rs.14 crore to Rs.34 crore. So is there any particular reason why it has happened?

Raj Gandhi: Actually the Zambia we consolidated to our accounts from this year we had certain provisions in that opening balance sheet which were no more required and has been reversed to the P&L.

Amnish Agarwal: So it means that this kind of other income is not going to be there in future?

Raj Gandhi: Yes, other income by name itself is going to vary year-to-year, these are not from operations.

Amnish Agarwal: Regarding the capacity utilization, you stated that you calculate your capacity based on the May numbers because May is the peak. So what my understanding is that for example, if you are having 1 million cases hypothetically per month capacity and if we multiply by 12, okay, then it means annual capacity is 12 million, although you might be running your units by three shifts in May, so annual production divided by the total monthly capacity this is how you calculate your utilization or in some other manner?

Raj Gandhi: What we do is, we take the capacity, the equipment from the OEM suppliers are Bottles Per Minute (BPM), so that we calculate for minute, daily and monthly. So in the month of May, for example if my capacity is 1 million and if I am using 700,000, that means 70% of the capacity utilization we save, we do not multiply it by 12 or first calculate annual and then divide by 12, just for one month sales and one month production capacity.

Ravi Kant Jaipuria: We treat our capacity based on the highest month utilization and in that month what capacity we are able to utilize. That is the base of our capacity utilization.

Amnish Agarwal: If you are saying 70% utilization for the full year it means the capacity utilization….?

Ravi Kant Jaipuria: We are saying our capacity is 70% utilization in May, not for the full year.

Amnish Agarwal: But for rest of the year it means it would be considerably lower?

Ravi Kant Jaipuria: It would be definitely much lower; for December it could be 5% for example.

Amnish Agarwal: But are you exploring any other means by which you can better utilize the capacity in addition to …?

Ravi Kant Jaipuria: The only way as I said to you is more penetration in the rural market as the power situation is getting better, putting more visi-coolers in the rural market, because per capita consumption of products in the urban area is much higher than rural. So we have to go deeper and deeper into the rural market and try and increase the per capita consumption there. That is the only way forward.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is on the volume. Incidentally, demonetization happened at the time which was the lean season for you, but a lot of commentary that we have heard from various management, the next few months could be somewhat challenging. So what is it that you are expecting for calendar 2017? From a medium term perspective what is your outlook for each of the segment, CSD, Juices and Water from volume growth perspective?

Ravi Kant Jaipuria: Our year has started well, we are growing with double digits at least in the first month as we have started and there is no reason for us to believe that going forward it should be any weaker than that. Definitely, Water and Juices are growing faster than CSD. So again we expect this year more growth in Water and Juices compared to CSD. But the year has started well, the first 1.5-months are very positive and going forward I do not see any reason why we should not be looking at healthy numbers.

Vivek Maheshwari: Is it fair to say in that context demonetization perhaps for your category was almost non-event because we are getting conflicting news from different companies, different categories at the moment?

Ravi Kant Jaipuria: No, I would not say it was a non-event, the only positive thing for us was it came at a time when it was a very low season for us, otherwise, demonetization did hurt us for that November and December but overall it did not put a big dent on the company because our overall seasonality was so low at that time and fortunately from the start of 2017 the impact has totally gone and we are not feeling any further pain from the demonetization.

Vivek Maheshwari: On the distribution bit, could you give some numbers on where we are on the distribution right now and what is the plan over the next few years in terms of adding incremental distributors or incremental outlets?

Kapil Agarwal: Currently, our numerical distribution is 83% and we are planning to take it to 87%.

Vivek Maheshwari: At this moment I know early days but any visibility or any thoughts on GST because that will be another one which should come about hopefully by July?

Raj Gandhi: GST from the media we are coming to know it should be from 1st of July and for the GST we are preparing ourselves long back and the rates of GST are 6%, 12%, 18% and 28%. So even if we are at the highest we are paying higher taxes as of now than the highest rate given in the GST. So we do not see much risk as far as the GST is concerned or much impact on our profitability or on our margins.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: I had three questions; when we look at the similar businesses in other countries, the competitive dynamics between Coke and Pepsi play a larger role in the profitability of the business. So could you give us a sense of how you view the competitive dynamics in India and how they have an impact on the profitability of the business? The second question is you mentioned about the fact that Juices and Water business have been growing at a faster clip. Could you give us a sense of what the CAGR have been over the last few years both for the carbonated and the non-carbonated category? I just wanted to get a sense, so in some of the other countries we have seen that carbonated drinks have started to decline in terms of volume growth. What is your sense of that phenomena playing out in India and when do you expect that whether it is due to health consciousness or people becoming more aware of other issues and where the impact on volume growth starts to happen in India?

Ravi Kant Jaipuria: I think first of all most of the countries we are in, are at such low per capita that there is only chance of going up not coming down at the moment. The countries where you are talking where health reasons or carbonated soft drinks are starting to look negative are really well developed countries which are US and Europe. So I think we are so off from that most of the countries we are in, either it is Africa, Nepal, Sri Lanka or India, the room for growth is still so high that at least for the next 5-10 years I do not see growth coming down or growth not happening. It might change slightly the proportion to Water and Juice from CSD but overall growth will continue at robust pace.

Raj Gandhi: To supplement the answer I would like to say that this information are also substantiated by the latest report from Euromonitor, giving projections from 2016 to 2021, in the countries we operate in. Also, for the health reasons, Pepsi is quite conscious of this fact and they have already come out with 30% less sugar product in Seven-Up brand, test marketing in Gujarat is successful and will be rolled out in other parts of the country soon. To your other part of the question which is the growth CSD, BSD and Water, definitely Water is growing faster than the Juices. Juice is yet to pick up and Juice unfortunately has same seasonality it has like CSD. So the growth in Juices had been same as of CSD.

Ravi Kant Jaipuria: To your third question, if you look at over the last 10-15-20 years, minor tweaks happened and it can happen in a specific territory that one player is more aggressive than the other but overall it falls into the same bucket in the margins unless and until you have a year where all your raw materials go up drastically and then you have some squeeze on margins. But fundamentally because what happened was their structure is similar to ours except that our cost is considerably much lower than most of the other people because we are completely backward integrated. So if for anybody else to further reduce price or go more competitive would hurt him much more than it would hurt us. So I think we are in a reasonably safe zone as far as the margins are concerned.

Anuj Sehgal: Two follow up questions; how does the pricing dynamic play as you mentioned if sugar prices go up, do you usually take the lead in increasing prices and then competition following suit or?

Ravi Kant Jaipuria: If it goes up considerably then I guess we normally pass it on to the consumer. But if it is within the couple of percent points, then either we absorb it or we get the benefit of it.

Anuj Sehgal: From your presentation I see that the India volume growth was about 45% in 2015 and then it obviously tapered down to 7% in 2016. Any specific reason for the sharp volume growth in 2015?

Ravi Kant Jaipuria: Because we had acquired the large territory from PepsiCo, so we acquired six states as I had mentioned in my opening remarks, so that was added to the volumes from 2014 to 2015.

Anuj Sehgal: But on a normalized basis, would you say that 7-8% is the normalized volume growth for the carbonated drink category?

Ravi Kant Jaipuria: We believe more but that was what has been last year, so hopefully if you look at last 5-10 years, we have been growing in double digit, but depends on the government position and how they take it, going forward also we are quite positive for it.

Moderator: Thank you. The next question is from the line of Ganesh Jain from Grant Thornton. Please go ahead.

Ganesh Jain: Sir, as you mentioned GST, GST would soon be a reality and chief economic advisor has recommended 40% thing of the demerit tax. So how do you see that impacts the current business in terms of pricing as well as sales for the time to come?

Ravi Kant Jaipuria: We are already at the peak of what they are talking of charging for soft drinks in GST. Our excise and VAT is pretty close to what they are looking at. So for us hopefully there will be some benefit from GST, not negativity and especially in our transportation, warehousing, every other costs will come down for us. So overall I believe that there will be much more beneficial for us once GST comes in than negative to us.

Ganesh Jain: Are we in the process of liasoning with government with respect to the additional GST cess per se?

Ravi Kant Jaipuria: We are putting our points of view forward and we are going with PepsiCo people also, now of course it is up to the government to decide what is the right extra tax slabs they want to put us in.

Moderator: Thank you. The next question is from the line of Prince Singh, he is an individual investor. Please go ahead.

Prince Singh: You have got Board resolution from the directors to increase your stake in Zambia unit, right?

Ravi Kant Jaipuria: That is right.

Prince Singh: How much additional money will be required for that purpose?

Raj Gandhi: We will need around US$ 10 million for 30% stake in the company. This year that company recorded an EBITDA of Rs. 46.7 crore and there is going to be healthy PAT.

Prince Singh: As you have been saying that the seasonality want to reduce by increasing your share more in non-carbonated (NCB) section right, so any more new product line you are in process of rolling out this year?

Ravi Kant Jaipuria: We are always adding new products. This year, we are looking to add flavored Water. So that is one of the new lines which will be added but there is always going to be new products which are going to be added. So every year if you look at it at least 3-4- new products are added and we keep on enhancing our portfolio.

Prince Singh: From your business model usually you keep around 6-7-months sugar inventory. So what is the price actually you are planning to pass on to the customer?

Ravi Kant Jaipuria: We normally do. Overall what happens sometimes is sugar might go up, the resin price comes down. So we try and balance overall cost of raw materials and if we feel the overall raw material costs have gone up drastically then of course we have to pass it on to the consumers.

Prince Singh: I have seen that your inventory cost has gone up from Rs.350 crore to Rs.360 crore only. In the stock quantity you have increased the inventory or is that just because of price?

Raj Gandhi: Inventory management definitely is improving post consolidation of the territories which we acquired.

Ravi Kant Jaipuria: Even if you look at that our inventory overall has not gone up but our territories have expanded drastically. As a percentage if you look at it, our inventory has come down.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Raj Gandhi: This has been a memorable year for the company with the successful IPO and listing. Thank you once again for all 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 On behalf of Varun Beverages Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.