



(a PepsiCo franchisee)

# Varun Beverages Limited

## Q4 & 2016 Results Presentation

**Fizzy**



**Juicy**



**Packaged Water**



Certain statements in this communication may be 'forward looking statements' within the meaning of applicable laws and regulations. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Important developments that could affect the Company's operations include changes in the industry structure, significant changes in political and economic environment in India and overseas, tax laws, import duties, litigation and labour relations.

**Varun Beverages Limited (VBL)** will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.



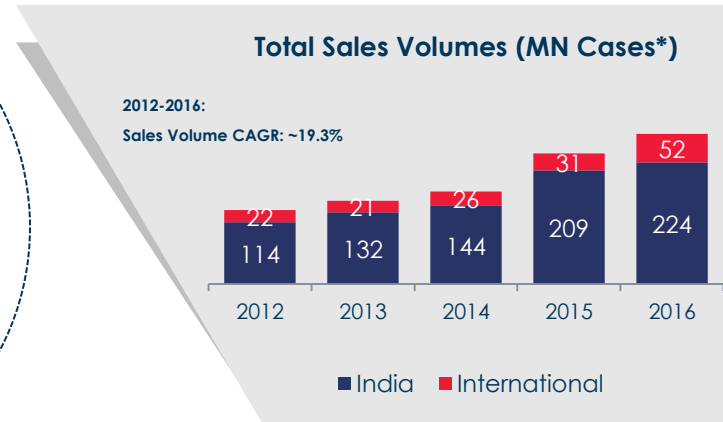
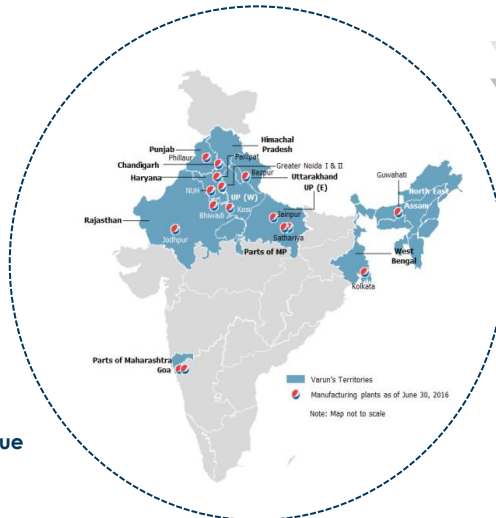
- 1 Company Overview
- 2 Q4 & 2016 Results Overview
- 3 Industry Prospects
- 4 Financial & Operational Highlights
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# Company Snapshot

**Key player** in the beverage industry

Operations spanning across **6 countries** – 3 in the Indian Subcontinent (India, Sri Lanka, Nepal) contribute ~**90%** to revenues; 2 in Africa (Morocco, Zambia and Mozambique) contribute ~10%

Over **25** years strategic association with PepsiCo – accounting for **45%** of PepsiCo's beverage sales volume in India



**Note:** 1. As on December 31, 2016

2. \*A unit case is equal to 5.678 liters of beverage divided in 24 bottles of ~ 237 ml each

# Key Player in the Beverage Industry – Business Model

VBL- END-TO-END EXECUTION ACROSS VALUE CHAIN

<p style="text-align: center;"><b>MANUFACTURING</b></p> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; background-color: #fff9c4;">Concentrate (PepsiCo)</div> <div style="border: 1px solid black; padding: 5px; background-color: #fff9c4;">Other Raw Materials</div> <div style="border: 1px solid black; padding: 5px; background-color: #fff9c4;">Bottling</div> </div>	<ul style="list-style-type: none"> <li>▪ 21 state-of-the-art production facilities</li> </ul>	<p style="text-align: center;"><b>SOLID INFRASTRUCTURE</b></p>
<p style="text-align: center;"><b>DISTRUBUTION &amp; WAREHOUSING</b></p>	<ul style="list-style-type: none"> <li>▪ 71 owned depots</li> <li>▪ 2,024 owned vehicles</li> <li>▪ 1,186 primary distributors</li> </ul>	<p style="text-align: center;"><b>ROBUST SUPPLY CHAIN</b></p>
<p style="text-align: center;"><b>CUSTOMER MANAGEMENT</b></p>	<ul style="list-style-type: none"> <li>▪ VBL - local level promotion and in-store activation</li> <li>▪ Installed 458,000 visi-coolers</li> <li>▪ PepsiCo - brand development &amp; consumer marketing</li> </ul>	<p style="text-align: center;"><b>DEMAND DELIVERY</b></p>
<p style="text-align: center;"><b>IN-MARKET EXECUTION</b></p>	<ul style="list-style-type: none"> <li>▪ Experienced region-specific sales team</li> <li>▪ Responsible for category value/volume growth</li> </ul>	<p style="text-align: center;"><b>MARKET SHARE GAINS</b></p>
<p style="text-align: center;"><b>COST EFFICIENCIES</b></p>	<ul style="list-style-type: none"> <li>▪ Production optimization</li> <li>▪ Backward integration</li> <li>▪ Innovation (packaging etc)</li> </ul>	<p style="text-align: center;"><b>MARGIN EXPANSION</b></p>
<p style="text-align: center;"><b>CASH MANAGEMENT</b></p>	<ul style="list-style-type: none"> <li>▪ Working capital efficiencies</li> <li>▪ Disciplined capex investment</li> <li>▪ Territory acquisition</li> </ul>	<p style="text-align: center;"><b>ROE EXPANSION / FUTURE GROWTH</b></p>

# Symbiotic Relationship with PepsiCo

## VBL – Demand Delivery

- Investment in Production Facilities – manufacturing plants
- Sales & Distribution – Vehicles
- In-outlet Management – Visi-Coolers
- Market Share Gains – Consumer Push Management



## PepsiCo – Demand Creation

- Owner of Trademarks
- Investment in R&D – Product & Packaging innovation
- Concentrate Supply
- Brand Development – Consumer Pull Management



**Commenting on the performance for 2016, Mr. Ravi Jaipuria, Chairman – Varun Beverages Limited said,**

*"We are pleased to present our first financial results following our successful public listing. We have closed the year 2016 with robust growth of 13.5% YoY in revenues and 73.8% YoY in profits that further accelerates the historical trend of strong growth and margin expansion delivered by our business.*

*We are delighted to report that in addition to continuing growth in the Indian operations, each of our international subsidiaries have also delivered sales volumes beyond the key threshold of 10 million cases, which will enable us to deliver higher overall profitability going forward. In addition, the proceeds from the recent IPO have notably strengthened our balance sheet. Along with prudent financial management, we expect to realize substantial savings in interest costs 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, solid infrastructure and well-entrenched distribution network. We are well-poised to capitalize on the enormous growth potential the sector offers. We look forward to continued support from our new shareholders in our journey which we believe will create long terms sustainable value for all our stakeholders."*

# Key Developments

## New Product Launches / Innovations

- Introduced new brands / flavours in fast growing NCB & Non-cola space
  - Tropicana Frutz (Lychee/Apple/Mango) - Seven-Up Revive - Mountain Dew (Game fuel) - Nimbooz Masala Soda
- Slice has been rebranded as Tropicana Slice
  - Leverage Tropicana brand with wider recognition and stronger brand value in the NCB segment

## Capacity Expansion / M&A

- Purchased assets of two co-packing facilities located at Phillaur, Punjab and Sathariya, U.P.
  - In-line with strategy to have integrated operations
- Established new production facility at Goa
  - CSD PET line and a Packaged Drinking Water line operational since March 2016

## Rating Upgrade

- Long Term Debt: CRISIL A/Positive to CRISIL A+/Positive
- Short Term Debt: CRISIL A1 to CRISIL A1+
- Commercial Paper: CRISIL A1 to CRISIL A1+

## Consolidation

- Acquired bottling operations in Zambia (60% equity) and Mozambique (51% equity) at a consideration of Rs. 1.75 billion
  - In the process of increasing holding in Zambia to 90% from 60%
- Consolidating operations of territories acquired in 2015
  - Scale achieved in contiguous territory to benefit operations leading to higher cost efficiencies



## Revenues

- Total revenue grew 13.5% 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
- Contribution from India is 76%; Rest of Indian Subcontinent (Nepal & Sri Lanka) is 13%; Africa (Morocco, and Zambia) is 11%

## Volume

- Total sales volume were up 15% YoY at 276 million unit cases as compared to 240 million unit cases in 2015
- India sales volume grew 7.3% YoY – International sales increased by 67.2% YoY (including Zambia and Mozambique acquisition)

## Operating Margins

- EBITDA margins expanded to 20.6% YoY from 18.7%

## Working Capital Cycle

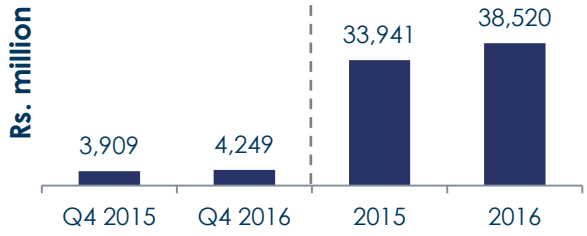
- Improved to 29 days on the back of economies of scale achieved through acquisitions in contiguous territories

## Balance Sheet Strengthened Post IPO

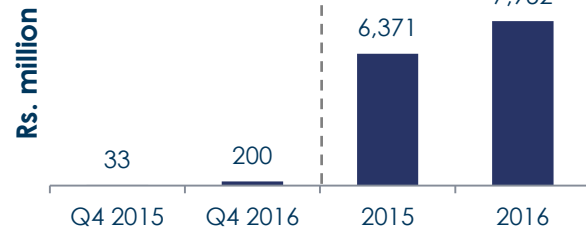
- Successfully completed an IPO in October 2016
- Comprised a fresh issue of 15 million shares and an Offer for Sale of 10 million shares by the promoters
- IPO proceeds utilized to pare down debt – full benefit of interest savings to be realized in the upcoming quarters
- Net debt to equity at 1.2 as on 31st December, 2016

# Performance Highlights

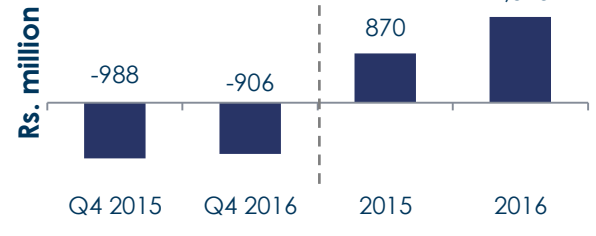
### Revenue



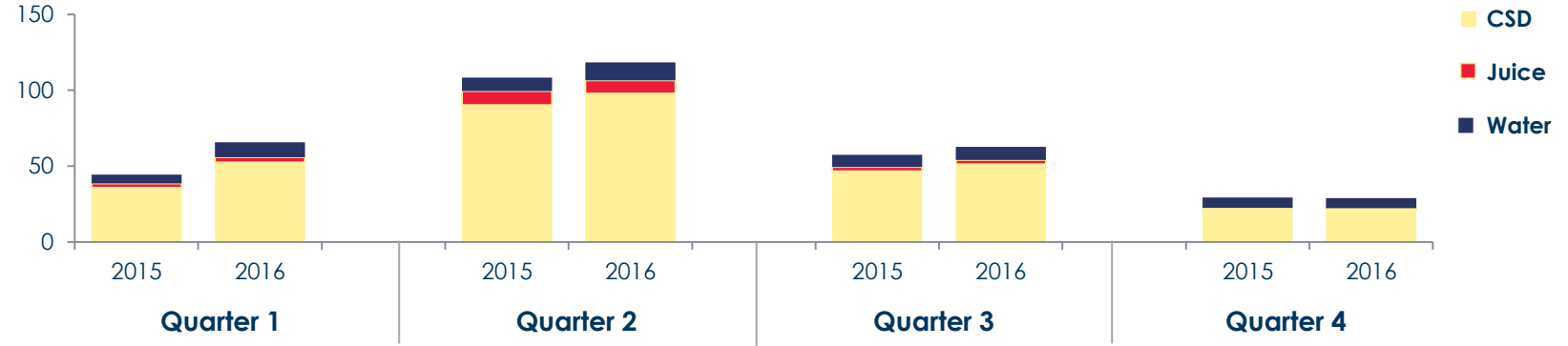
### EBITDA



### PAT



### Sales Volumes



Note: Given the seasonality in the business, it is best to monitor the business on an annual basis as a significant portion of the revenues are realized in the Apr-June quarter

# Profit & Loss Statement

Particulars (Rs million)	Q4 2016	Q4 2015	YoY(%)	2016	2015	YoY (%)
Revenue from operations (gross)	4,784.96	4,481.34	6.78%	45,222.86	39,058.94	15.78%
Less : Excise duty	535.99	572.77	-6.42%	6,702.78	5,117.45	30.98%
<b>Revenue from operations (net)</b>	<b>4,248.97</b>	<b>3,908.57</b>	<b>8.71%</b>	<b>38,520.08</b>	<b>33,941.49</b>	<b>13.49%</b>
Other income	44.28	56.84	-22.10%	347.77	142.81	143.52%
<b>Total</b>	<b>4,293.25</b>	<b>3,965.41</b>	<b>8.27%</b>	<b>38,867.85</b>	<b>34,084.30</b>	<b>14.03%</b>
Cost of materials consumed	1,879.88	1,384.40	35.79%	16,767.95	14,253.08	17.64%
Purchases of stock in trade	127.53	486.29	-73.77%	911.04	3,201.51	-71.54%
Changes in inventory	-268.32	-42.72	528.09%	-315.91	-289.85	NA
Employee benefits expense	1,019.00	823.50	23.74%	4,263.56	3,237.51	31.69%
Other expenses	1,291.22	1,224.12	5.48%	8,941.31	7,198.63	24.21%
<b>Total</b>	<b>4,049.31</b>	<b>3,875.59</b>	<b>4.48%</b>	<b>30,567.95</b>	<b>27,600.88</b>	<b>10.75%</b>
<b>EBITDA</b>	<b>199.66</b>	<b>32.98</b>	<b>505.42%</b>	<b>7,952.13</b>	<b>6,340.61</b>	<b>25.42%</b>
<b>EBITDA Margin (%)</b>	<b>4.70%</b>	<b>0.84%</b>		<b>20.64%</b>	<b>18.68%</b>	
Depreciation and amortisation	925.80	886.22	4.47%	3,723.64	3,174.09	17.31%
Finance costs	498.94	495.34	0.73%	2,147.90	1,687.91	27.25%
<b>Profit Before Tax</b>	<b>-1,180.80</b>	<b>-1,291.74</b>	NA	<b>2,428.36</b>	<b>1,621.42</b>	<b>49.77%</b>
Tax Expense	-289.24	-301.01	NA	828.50	766.21	8.13%
+/- Share of profit/loss in associate / transfer to minority interest	-14.50	3.22	NA	-87.30	15.17	NA
<b>Profit After Tax</b>	<b>-906.06</b>	<b>-987.51</b>	NA	<b>1,512.56</b>	<b>870.38</b>	<b>73.79%</b>
<b>Profit After Tax Margin (%)</b>	<b>-21.32%</b>	<b>-25.27%</b>		<b>3.93%</b>	<b>2.56%</b>	

Note:

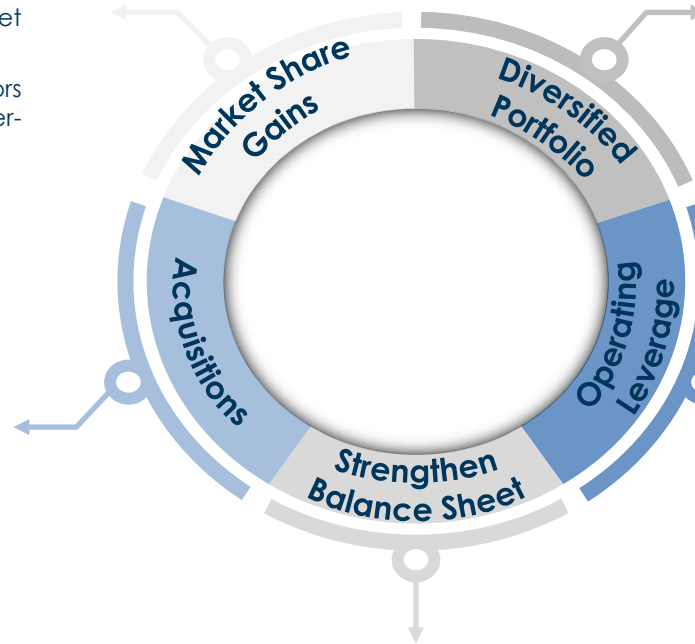
- Given the seasonality in the business, it is best to monitor the business on an annual basis as a significant portion of the revenues are realized in the Apr-June quarter
- Financials for CY2015 are as per the restated consolidated financials as reported in the IPO Prospectus.

# Balance Sheet Perspective

Particulars (Rs million)	31-Dec-16	31-Dec-15
<b>Equities and Liabilities</b>		
Fully Paid up Share Capital	1,823.13	1,337.66
CCPS	-	4,500.00
Reserves and surplus	17,115.54	85.30
	<b>18,938.67</b>	<b>6,722.96</b>
Minority Interest	0.58	-
Term Loans	8,572.30	10,596.13
Compulsorily Convertible Debentures (CCDs)	-	4,419.98
Deferred Value added tax / excise duty	1,060.44	1,049.08
Deferred acquisition consideration to PepsiCo	3,000.00	6,230.00
Other non-current liabilities & provisions	3,304.47	2,084.36
<b>Non-current liabilities</b>	<b>15,937.21</b>	<b>24,109.55</b>
Short-term borrowings	4,055.71	2,524.12
Trade payables	2,745.92	1,845.55
Current maturities of long-term debt	2,558.16	2,454.14
Current portion of Deferred acquisition consideration to PepsiCo	3,235.00	3,000.00
Other current liabilities & provisions	4,819.93	3,718.18
<b>Current liabilities</b>	<b>17,414.72</b>	<b>13,541.99</b>
<b>Total</b>	<b>52,291.18</b>	<b>44,374.50</b>
<b>Assets</b>		
Fixed assets	38,457.19	35,275.16
Goodwill on Consolidation	2,132.08	95.41
Long-term loans and advances & Other non-current assets	2,957.78	1,299.57
<b>Non-current assets</b>	<b>43,547.05</b>	<b>36,670.14</b>
Inventories	4,899.25	4,246.61
Trade receivables	1,303.15	979.10
Cash and bank balances	657.02	580.73
Short-term loans and advances & Other current assets	1,884.71	1,897.92
<b>Current assets</b>	<b>8,744.13</b>	<b>7,704.36</b>
<b>Total</b>	<b>52,291.18</b>	<b>44,374.50</b>

- ▶ Well-positioned to leverage PepsiCo brand to increase market penetration in licensed territories
- ▶ Consolidating existing distributors and increasing distribution in under-penetrated regions

- ▶ Penetrate newer geographies – to compliment existing operations in India
- ▶ Identify strategic consolidation opportunities in South Asia/Africa



- ▶ To periodically launch innovative products in select markets in line with changing consumer preferences
- ▶ Focus on non-cola carbonated beverages and NCB's
- ▶ Bottled water provides significant growth opportunity

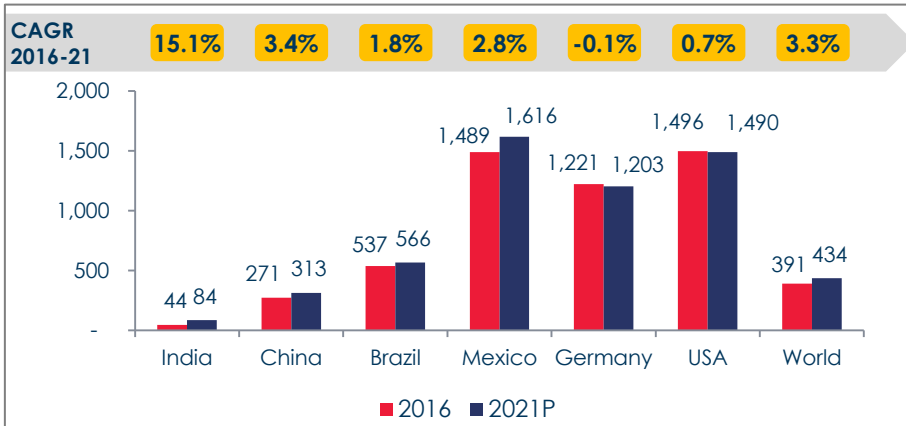
- ▶ Contiguous territories/markets offer better operating leverage and asset utilization – economies of scale
- ▶ Production and logistics optimization
- ▶ Packaging synchronization and innovations
- ▶ Technology use to improve sales and operations processes

- ▶ Repayment of debt using IPO proceeds and through strong cash generation
- ▶ To enable significant interest cost savings

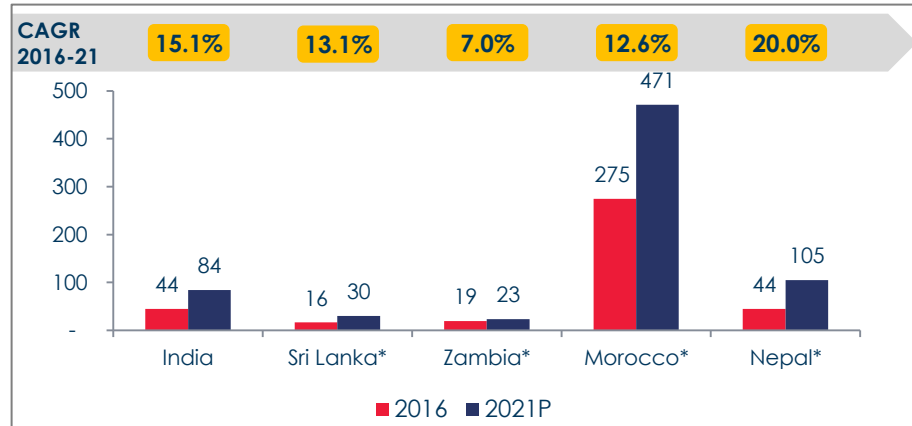
# Broad-based Growth To Continue Across Soft Drink Categories in India...



## Global Markets - Per Capita Soft Drink Consumption (Per Capita bottles)



## VBL Markets - Per Capita Soft Drink Consumption (Per Capita bottles)



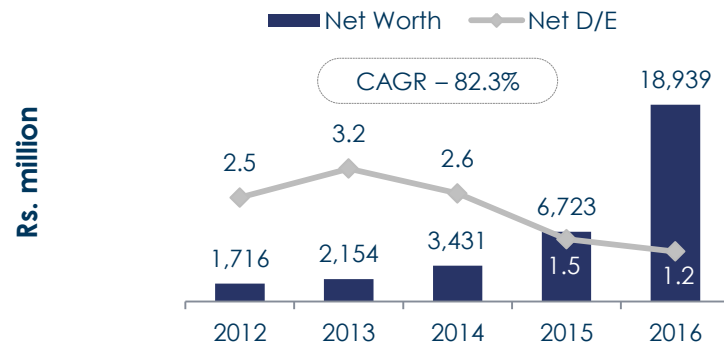
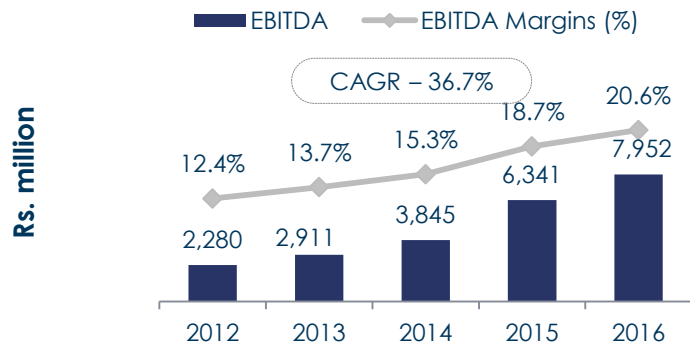
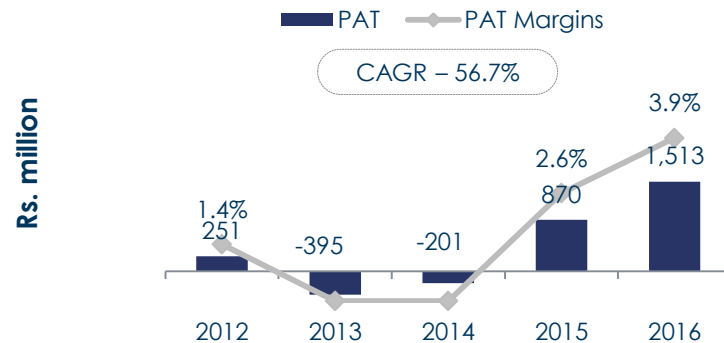
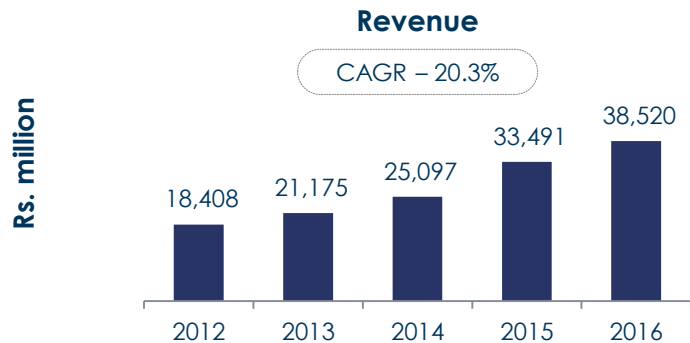
## Soft Drinks Industry - India

Million Cases	2016	2021P	CAGR
Carbonates	868	1205	6.8%
Juice	373	816	16.9%
Bottled Water	1,132	2,795	19.8%
Others**	18	23	5.1%
<b>Total</b>	<b>2,391</b>	<b>4,839</b>	<b>15.1%</b>



Source: Euromonitor Report; Note: \* denotes Modelled Countries: Data for modelled countries is created by pegging countries outside Euromonitor's research programme to those we do research, linking together those with a similar consumer culture and development level. \*\*Others = Concentrates, RTD Tea, Sports/Energy Drinks

# Financial Highlights (2012-16)



Note: Historically, till 2015, in debt equity ratio calculation, CCD's issued to Private Equity Investors were considered as Equity and deferred acquisition consideration to PepsiCo was excluded from the debt. From the year 2016, CCDs of private equity investors are converted into equity and interest free deferred acquisition consideration to PepsiCo has been considered in total debt.

## Varun Beverages Limited (VBL) Q4 & 2016 Earnings Conference Call

**Time** • 4:00 pm IST on February 21, 2017

**Conference dial-in Primary number** • Primary number: +91 22 3938 1071

**Local access number** 3940 3977  
Available in - Gurgaon (NCR), Ahmedabad, Bangalore, Chandigarh, Chennai, Hyderabad, Kochi/Cochin, Kolkata, Lucknow, Pune (Accessible from all carriers)

**International Toll Free Number**

- Hong Kong: 800 964 448
- Singapore: 800 101 2045
- UK: 0 808 101 1573
- USA: 1 866 746 2133



Varun Beverages Limited (VBL) is a key player in beverage industry and one of the largest franchisee of PepsiCo in the world (outside USA). The Company produces and distributes a wide range of carbonated soft drinks (CSDs), as well as a large selection of non-carbonated beverages (NCBs), including packaged drinking water sold under trademarks owned by PepsiCo. PepsiCo CSD brands produced and sold by VBL include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Seven-Up Nimbooz Masala Soda, Seven-Up Revive and Everess. PepsiCo NCB brands produced and sold by the Company include Tropicana Slice, Tropicana Frutz, Nimbooz as well as packaged drinking water under the brand Aquafina.

VBL has been associated with PepsiCo since the 1990s and have over two and half decades consolidated its business association with PepsiCo, increasing the number of licensed territories and sub-territories covered by the Company, producing and distributing a wider range of PepsiCo beverages, introducing various SKUs in the portfolio, and expanding the distribution network. As of March 31, 2016, VBL has been granted franchises for various PepsiCo products across 17 States and two Union Territories in India. India is the largest market and contributed 80% of revenues from operations (net) in Fiscal 2016. VBL has also been granted the franchise for various PepsiCo products for the territories of Nepal, Sri Lanka, Morocco, and Zambia.

*For more information about us, please visit [www.varunpepsi.com](http://www.varunpepsi.com) or contact:*

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**Thank You!**

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