



Varun Beverages Ltd. Q4 & CY2017 Financial Results

CY2017

EBITDA increases 5% YoY to Rs. 8,358 million

EBITDA margins expand 30 bps to 20.9%

Net Profit expands 346% to Rs. 2,141 million

Gurgaon, February 16, 2018: Varun Beverages Limited (BSE: 540180, NSE: VBL), a key player in the beverage industry, announced its financial results for the fourth quarter and year ended December 31, 2017.

Financial Performance Highlights*

Performance Review for CY2017 vs. CY2016

- Revenue from operations (net of excise / GST) grew 3.7% YoY in CY2017 to Rs. 40,034 million as compared to Rs. 38,612 million in CY2016
- Total sales volume were up 1.1% YoY at 278.8 million cases in CY2017 as compared to 275.8 million unit cases in CY2016
- EBITDA increased by 5.0% to Rs. 8,358 million in CY2017 from Rs. 7,960 million in CY2016 and EBITDA margins have improved 30 bps YoY to 20.9%
- PAT expanded 345.6% to Rs. 2,141 million in CY2017 from Rs. 480 million in CY2016

Performance Review for Q4 CY2017 vs. Q4 CY2016

- Revenue from operations (net of excise / GST) grew 21.4% YoY to Rs. 5,274 million as compared to Rs. 4,342 million
- EBITDA stood at Rs. 225 million in Q4 CY2017 as compared to Rs. 363 million in Q4 CY2016
- Loss during Q4 CY2017 reduced to Rs. 721 million from a loss of Rs. 1,117 million in Q4 CY2016

***Note 1:** VBL follows a calendar year of reporting (Jan to Dec); **Note 2:** Given the seasonality in the business, it is best to monitor the business on an annual basis as a significant portion of the revenues and entire profits are realized in the Apr-June quarter; **Note 3:** VBL has adopted IND-AS framework starting Q1 CY2017. Prior period numbers have been restated in compliance with Ind-AS for a meaningful comparison.

Commenting on the performance for Q4 & CY2017 Mr. Ravi Jaipuria, Chairman, Varun Beverages Limited said, "I am pleased to report we have completed our first year post listing delivering a robust performance with net profit growing 346% to Rs. 214 crore. This is despite a challenging year with the residual impact of demonetisation and de-stocking by trade ahead of GST implementation which impacted volumes. We have focused on initiatives where we can drive the outcome and improve operating parameters to create a more efficient and sustainable business and can now take advantage of the improving external conditions to accelerate growth.

We have concluded the acquisition of PepsiCo India's previously franchised territories of the State of Odisha, parts of Madhya Pradesh, Chhattisgarh, Bihar and undergoing due-diligence in Jharkhand. These are highly under-penetrated regions and provide huge opportunity for increasing volumes and gaining market share, and in line with the Company's strategy to expand into contiguous territories to garner better operating leverage and asset utilization through economies of scale. VBL is now a franchisee for PepsiCo products across 21 States and 2 Union Territories and accounts for ~51% of PepsiCo's beverage sales volumes in India from ~45% a year ago. We have also undertaken a greenfield expansion in Zimbabwe and commercial production is expected to commence shortly. This is an untapped market with huge potential and as the sole franchisee of PepsiCo, we are confident of replicating the success that we have had in Zambia, in Zimbabwe as well.

We remain agile by keeping on top of new trends and changes in consumer preferences, working closely with PepsiCo India to adjust our product portfolio and processes accordingly. After the launch of zero calorie 'Pepsi Black' and the energy drink 'Sting' earlier in the year, during the quarter, we entered into a strategic partnership for selling and distribution of the larger Tropicana portfolio that includes Tropicana Juices (100%, Delight, Essentials), Gatorade in the Sports drink category and Quaker Value-Added Dairy in territories across North and East India.

VBL has proved its resilience against challenges with its successful performance in 2017. We are present in geographies that offer great long term, sustainable growth opportunities. Average per capita consumption rates are significantly lower than global averages, in contrast to the stronger GDP growth, increasing disposable incomes and young demographics. So in a normalized year, we are confident of delivering strong growth on the back of our solid business model and expanded product portfolio."

Key Developments – CY2017

Acquisition of new territories

- Concluded the acquisition of PepsiCo India's previously franchised territories of the State of Odisha and parts of Madhya Pradesh along with two manufacturing units at Bargarh (Odisha) and Bhopal (Mandideep, MP) w.e.f. 27th Sep 2017
- Concluded the acquisition of PepsiCo India's previously franchised territory of the State of Chhattisgarh w.e.f. 11th Jan 2018

- Acquired franchisee rights of PepsiCo India's previously franchised territory of the State of Bihar w.e.f. 17th Jan 2018
- Acquired a manufacturing unit at Cuttack (Odisha) w.e.f. 19th Jan 2018
- Signed BTA for the acquisition of PepsiCo India's previously franchised territories of the State of Jharkhand along with a manufacturing unit at Jamshedpur on 20th Dec 2017 (due-diligence process ongoing)
- Total consideration for above acquisitions is ~Rs. 2,550 million and further we expect to spend ~Rs. 350 million in upgrading the plant & machinery and marketing assets in these territories
- Above acquisitions will help in garnering incremental PepsiCo India's volumes of 6% and further providing access to an additional consumer base of ~21% of India's population
- VBL is now a franchisee for PepsiCo products across 21 States and 2 Union Territories in India and accounts for ~51% of PepsiCo's beverage sales volumes in India

New product launches

- Launched Pepsi Black, a zero calorie cola flavor CSD product currently available in 250ml cans and 250 ml non-returnable glass bottles
 - Launch is part of PepsiCo's plan to intensify focus on health and nutrition, reduce sugar content in beverages
- Launched Sting for the next season, a carbonated energy drink available in 250ml cans and 250 ml PET bottles with a highly competitive price point as compared to other brands in the segment
 - The energy drinks contains approx. 50% less sugar than the regular CSD products and 70 calories per 250ml serving
- Entered into a strategic partnership for selling and distribution of the larger Tropicana portfolio that includes Tropicana Juices (100%, Delight, Essentials) in territories across North and East India
- Entered into a strategic partnership for selling and distribution of Gatorade and Quaker Value-Added Dairy in territories across North and East India

Ratings upgrade

- Company's credit rating for long term debt of VBL got upgraded by one notch and short term debt rating continued to remain at top notch
 - Long Term Debt: CRISIL A+/Positive to CRISIL AA-/Stable
 - Short Term Debt / Commercial Paper: CRISIL A1+

Capacity expansion / rationalization

- Set up a new unit for manufacturing of Pepsi range of products at District Hardoi, Uttar Pradesh; commercial production / operation started with effect from May 3, 2017
- Goa operations got consolidated into a single larger facility to bring in operational efficiencies
- One CSD glass line each from Sathariya-1 and Bazpur plant shifted to Nepal and Zimbabwe respectively
- Shut down 4 depots in India as part of rationalization exercise post GST implementation
- Capex for CY17 is in line with depreciation and to substantially reduce going forward

Expanded presence in Africa

- Increased stake in Zambia subsidiary, Varun Beverages (Zambia) Limited, to 90% from 60% at reasonable valuations with an attractive payback given growth prospects and promising earnings potential
 - Enables VBL to consolidate a higher share of profits from the subsidiary going forward (2017 sales volumes of ~10 million cases; 2017 EBITDA of Rs. 275 million and 2017 PAT of Rs. 178 million)
- Established a greenfield production facility in Zimbabwe, an untapped market with huge potential, and as PepsiCo's sole franchisee will sell and distribute PepsiCo's products

Divestment

- Divested 41% stake in its Mozambique subsidiary, Varun Beverages Mozambique Limitada in view of limited opportunity to scale-up operations to turnaround the loss making subsidiary
- Subsidiary contributed only 0.6% to the net revenues from operations in 2016 and recorded a loss of Rs. 135 million in 2016

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About Varun Beverages Limited:

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, Sting and Evervess. PepsiCo NCB brands produced and sold by the Company include Tropicana Slice, Tropicana Frutz, Tropicana Juices (100%, Delight, Essentials), 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 December 31, 2017, VBL has been granted franchises for various PepsiCo products across 21 States and two Union Territories in India. India is the largest market and contributed 76% of revenues from operations (net) in Fiscal 2017. VBL has also been granted the franchise for various PepsiCo products for the territories of Nepal, Sri Lanka, Morocco, Zambia and Zimbabwe.

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Varun Beverages Ltd (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.