



(a PepsiCo franchisee)

Varun Beverages Limited

Earnings Conference Call Transcript

May 03, 2018

Moderator Good day ladies and gentlemen and welcome to the Earnings Conference Call of Varun Beverages Limited. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '**' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you sir.

Varun Divadkar Thanks Margaret. Good evening everyone and thank you for joining us on Varun Beverages' Q1 CY2018 Earnings Conference Call. We have with us Mr. Ravi Jaipuria – the Chairman of the company, Mr. Raj Gandhi – Group CFO and Whole-time Director, Mr. Kapil Agarwal – CEO and Whole-time Director and Mr. Kamlesh Jain -- CFO and 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 Q&A session.

Before we begin, I would like to state that some statements made in today's call maybe forward-looking in nature and a detailed statement in this regard is available in the results presentation shared with you earlier. I would now request Mr. Jaipuria to begin the proceedings of the call.

Ravi Jaipuria Good evening everybody and thank you for joining the call. I hope all of you had the opportunity to go through our results presentation which provides details of our operational and financial performance for the first quarter ended March 31st 2018.

We are happy to report that we have made a strong start to 2018 with robust revenue growth of 24.5% and profit growth of 186.3%. The company has undertaken several businesses strengthening initiatives in 2017, enhancing our product mix and making several value accretive acquisitions, which are now bearing fruition. Volume growth has been strong on the back of consolidation of recently acquired territories in India what is further encouraging is that the volume growth on an organic basis has also been strong and bodes well for the upcoming peak summer season sale. Further the introduction of new product categories like Tropicana and Sting has resulted in better portfolio mix and improved our realization during the quarter.

As I just mentioned, we have strengthened our presence in the fast-growing categories during last year. We entered into a strategic partnership for selling and distribution of the larger Tropicana portfolio that includes Tropicana Juices (100%, Delight, Essentials) as well as Gatorade in the sports drink category and Quaker

Value-Added Dairy in territories across North and East India. With VBL already holding manufacturing, sales and distribution rights for Tropicana Slice and Tropicana Frutz in North and East, we are confident that we can leverage our knowledge of the supply chain process, existing distribution network and chilling infrastructure to help expand the franchise for Brand Tropicana in these territories.

In addition to these new product categories, during the quarter, we have further expanded our juice portfolio with the launch of Fizzy drink in seven different flavors, leveraging the 'Slice' brand with wider recognition and strong brand value. Fizzy Slice will have ~11% juice content and will include both ethnic flavors like Jeera and Guava Chilli as well as mainstream flavors such as Apple, Orange, Lemon and Lime, Clear Lemon and Cream Soda. Further, all the drinks have lower calories and zero sugar content, in line with PepsiCo's plans to intensify focus on health and nutrition and reduction in sugar content. All flavors are available in 250 ml PET bottles at an attractive price point of Rs. 12. The introduction of all these product categories not only augurs well for our long-term growth prospects but also will reduce seasonality, enhance profitability and augment return ratios.

To conclude, we are excited about our prospects, going into the peak summer season. We will be focused on consolidation of the recent territories that we have acquired. We are confident that the learning, knowledge and mastery over the process that we have attained will help us garner market shares in these territories as we increase our penetration further. We now account for more than 51% of PepsiCo's beverage sales volume in India with presence in 21 states and two union territories. We will continue to innovate and work with PepsiCo to roll out new products staying on the path of relevance of our customer to push our strategic intent of driving profitable growth. I would now invite Mr. Gandhi to provide highlights of the operational and financial performance. Thank you.

Raj Gandhi

Thank you Mr. Chairman. Good evening and warm welcome to everyone for joining the investors call.

Let me provide an overview of the financial performance for the first quarter ended 31st March, 2018. As you are all aware by now that consequent upon introduction of the GST with effect on July 1st, 2017, Central Excise, Value Added Tax, etc. have been subsumed into GST. In accordance with Indian Accounting Standard 18 on revenue and Schedule III of the Companies Act, 2013 unlike excise duty, levies like GST, VAT etc. are not part of revenue. To facilitate comparison, we have provided the adjusted revenue calculations on slide #16 of our presentation.

Revenue from operations (adjusted for excise/GST grew) 24.5% year-on-year in Q1 CY2018 to Rs. 10,947.7 million. Total sales volume was up 19.7% year-on-year at 80.4 million cases in Q1 CY2018 as compared to 67.2 million unit cases in Q1 CY2017. Further the introduction of higher realization products has driven ~4.8% value growth during the quarter. We have seen strong organic volume growth in India at 12% year-on-the year in Q1 CY2018 which augurs well for our peak season sale. Organic volume growth on a consolidated basis was at 9.8% year-on-year for the quarter.

Enhanced portfolio mix coupled with cost efficiencies brought in through strong volume growth, consolidation of contiguous territories and robust backward integrated infrastructure has led to a 61 basis points expansion in our gross margins during the quarter. The increase in PET prices has been offset by moderation in sugar pricing. Average price of other raw material has remained stable during quarter. We have seen an increase in our freight cost this quarter. We got the approvals for the commencement of operations of the acquired plants in a particular sub-territory towards the end of the quarter and the new sub-

territories without plants led to this increase. Till then we were servicing these from our existing facilities in neighboring states.

EBITDA increased by 25.8% year on year to Rs. 1,747 million in Q1 CY2018 from Rs. 1,372 million in Q1 CY2017. EBITDA margins have improved by 16 basis points to 15.8% in Q1 CY2018. The robust volume growth in India and gradual turnaround of loss-making foreign subsidiaries has resulted in PAT growth of 186.3% year-on-year to Rs. 197 million in Q1 CY2018 from Rs. 69 million in Q1 CY2017. Depreciation and finance cost have increased during the quarter on account of inorganic acquisition primarily funded through debt.

To conclude, the year has started on a positive note and we remain enthused of our prospects, going into the peak season for our products. We are excited about the potential of our business and are confident of further accelerating the momentum in line with the historical trend of strong growth delivered by our business.

On that note I come to an end to the opening remarks and would like to now ask the moderator to open the lines for the Q&A.

Moderator Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Bhavesh Shah from CLSA. Please go ahead.

Bhavesh Shah Sir, 12% organic volume growth is certainly very impressive, just wanted to understand is there any base effect here or are we witnessing a strong start to a season. Essentially, I'm trying to understand underlying demand trend during the first quarter.

Ravi Jaipuria We have had a good first quarter and this is on top of a good first quarter which we had even in 2017, so a double digit growth is looking very positive and there is no reason why going forward it should be any different.

Bhavesh Shah What is the contribution from the new territories in terms of million cases during the first quarter in terms of absolute million cases?

Raj Gandhi Around 6 million cases in the first quarter.

Bhavesh Shah You also mentioned that during the quarter you serviced some of your new territories from the existing plants, so when do you expect the overall situation to normalize? When can we expect the efficiency levels for the new territories to improve from the current levels?

Ravi Jaipuria It is already normalized. By the end of March most of the territories have normalized. The last one got normalized in the first week of April. Now, the new plants are fully operational. Post acquisition, we have to apply for the new licenses, new FSSAI number, etc. All those changes have now been made, so everything is on stream now during the peak season. Only two sub-territories which have come without the plant, Bihar and Chhattisgarh, we will be servicing from our plants in the neighboring sub-territories.

Bhavesh Shah Any plans of getting new factories or new plants in some of the territories or still you would be servicing?

Ravi Jaipuria At the moment, we will be using our surplus capacity in the adjacent sub-territories and this will also help in better utilization of our capacities. As and when the

business grows, the volumes grow and when we need more capacity then we may enhance and put up a plant in Bihar but there are no plans at the moment.

- Bhavesh Shah** One more question on contribution of Tropicana volumes, so what was the contribution from this portfolio during the quarter?
- Raj Gandhi** It was about 400,000 cases. Actually, the distribution got streamlined and was started only from 1st March 2018, so in the first month it was ~ 400,000 cases.
- Ravi Jaipuria** We've only had one month, and I think in that month we had just started distribution which is about 400,000 cases as Mr. Gandhi said but going forward of course it will be the volumes which PepsiCo was doing earlier and the growth which we will get because of our distribution system.
- Bhavesh Shah** Coming back to Tropicana, what kind of volumes can we expect from this portfolio from the full-year perspective in CY18?
- Ravi Jaipuria** Pepsi Co was doing volumes of close to about 7.5 million cases and we hope to do at least the same or better with our distribution enhancement.
- Moderator** Thank you. The next question is from the line of Pritesh Chhedda from Lucky Investment Managers. Please go ahead.
- Pritesh Chhedda** Just wanted to seek your comment when you said 12% organic volume growth in India. Tropicana started in Quarter 1 is part of that 12% organic volume growth or it is outside that 12% organic volume growth?
- Ravi Jaipuria** That's part of it.
- Pritesh Chhedda** If you assess the carbonated soft drink side what kind of volume growth carbonated soft drinks would have done?
- Raj Gandhi** That is about 11.4%.
- Pritesh Chhedda** This is organic?
- Ravi Jaipuria** Other than Tropicana that's organic growth.
- Pritesh Chhedda** My second question, the previous participant asked about normalization of operations of the acquired businesses, so I see margins on combined basis also being about 16% for the whole company, so just wanted to understand these assets when they were acquired a quarter back what margins they were operating at and now what margins are they operating, some ballpark for all assets put together.
- Ravi Jaipuria** As we have always said that any territory which we are acquiring which is contiguous to our territory, the margins will gradually become the same. It's just that initially when we are going into a territory it has its own challenges, so it takes between 3 to 6 months to stabilize that territory. Once stabilized, our margins would be the same what we have been enjoying in our existing territory. There is no reason for it to be any different.
- Ravi Jaipuria** Actually, in the first three months, when it was a low season, we have been able to consolidate the new sub-territories and we are already seeing growth in those territories which we have acquired.

Pritesh Chhedda Just understanding your business model a little bit better; now we have products other than the carbonated soft drinks which are also getting material. There is Tropicana, there is Water, on the EBITDA per case side it's the same facility, so you sell water or you sell carbonated soft drinks, how will the profitability per case differ amongst all these product lines?

Ravi Jaipuria The per case profitability will always differ in each product. But as a percentage, we are trying to maintain approximately the same profitability for water, juices or CSD because of the value being higher or lower, per case value keeps differing but percentage is not differing much.

Pritesh Chhedda I want to check the volume growth outlook that you would have on organic basis for the calendar year '18?

Ravi Jaipuria I can only tell you the first quarter which was on a high base of Q1 CY2017, we have grown in double digits and the business is looking robust, there is no reason why we should look any different in rest of the year. But more than that I cannot tell you but it's looking very positive.

Pritesh Chhedda CAPEX numbers for CY18?

Raj Gandhi CAPEX numbers as given in the last call stays the same. The first part is the organic CAPEX which is ~Rs. 150 crore and we are well within that number and second is for new territories which we have acquired and the two new plants which have come up, one in Zimbabwe, another in Nepal. So we are well within those numbers which we have given. Apart from that there is no CAPEX plan for the current year 2018.

Pritesh Chhedda Which new plant is this?

Raj Gandhi One in Zimbabwe and other in Nepal. Nepal in fact came into production yesterday itself.

Pritesh Chhedda So your India CAPEX you need not do any CAPEX barring the maintenance?

Ravi Jaipuria No, we have not planned any CAPEX and we don't need any CAPEX for this year.

Pritesh Chhedda Until what time would you have a maintenance CAPEX in India?

Ravi Jaipuria No, maintenance CAPEX we have every year and that we charge in our P&L, so it doesn't go in our capital expense. It goes under the repair and maintenance head under the other expenses line item in P&L.

Pritesh Chhedda My question was when would you need fresh capacities in India?

Ravi Jaipuria Fresh capacities as we said, would depend on how the sales growth come. If we have couple of years of double-digit growth we will need it very soon. But if we don't have double-digit growth then we don't need capacity at the moment. Also, part of our existing capacity will get used in the two acquired sub-territories where we don't have plants i.e. Bihar and Chhattisgarh. And as we are saying that we are growing in double-digit this year, so reasonable portion of our capacity will get utilized this year but we don't need any immediate capacity expansion.

Moderator Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta Firstly, on the organic growth that you have seen basically at 12%; just want to understand what has changed because not only due to demonitization/GST you saw some sort of an effect but even before that I believe organic growth for the last 4-5 years average would be about 6%-7%, so what has changed there? Secondly, on realization you have seen in India about 6%-7% increase. I believe there is a mix effect. But excluding that also I mean what would be the price increase actually on the MRP level and at the net sales level in case both of them are different? And also just wanted to understand for Tropicana and Gatorade etc. what would be the CAPEX required and whether it will be split over two years or whether it is coming only in CY18 or CY19? That's it from me.

Ravi Jaipuria First of all, double-digit growth was a reality for a long time for us during the last 25 years. So it was actually abnormal for us to not to grow in double digits in the last 2-3 years. So I think we are back on track to the growth levels which we have been enjoying for the last 25 years and we are making sure that we are making the changes in our portfolio, adding products which the market is looking for. If they are looking for less sweeter products or if they are looking for more juices, so we are making sure. we are making the changes and adding the new products which are required. We feel going forward there is no reason that these numbers cannot be achieved or should not be achieved. The proof of that is the first quarter growth, although it is one of the weakest quarters for us. But if the growth has come now, in the peak season we don't see any reason why we should not be growing similarly.

Your second point; the realization has increased because of launch of new products which are of higher value like Tropicana and Sting which is our energy drink. So the realizations in both these products are significantly higher than CSD or Water and that is giving us the value proposition.

In CY2018, we are not putting any further CAPEX. Going forward in CY2019, if we will be required to set-up a facility for Tropicana, we will discuss the same in the next Board meeting and take it forward.

Sameer Gupta Just wanted to clarify on this, when you say 6% this is entirely coming from mix?

Ravi Jaipuria We did not increase prices.

Sameer Gupta MRP level there is no price increase?

Ravi Jaipuria There was no increase in MRP.

Sameer Gupta On this plant in Pathankot that you're planning, it's still just in the envisaged stage and there is nothing on the ground?

Ravi Jaipuria There is nothing on the ground at the moment and it won't be for this year.

Sameer Gupta All the sales on Tropicana, Gatorade would be from third party?

Ravi Jaipuria That's right.

Moderator Thank you. The next question is from the line of Rohit Chordia from Kotak. Please go ahead.

Rohit Chordia Just trying to understand if you can give us a ballpark number here or some understanding on what would be the share of PepsiCo in Varun Beverages markets versus other markets? So you are now controlling around 51% of

PepsiCo's volumes in India, what would PepsiCo's market share be in your markets versus where someone else was running the show?

- Ravi Jaipuria** In our markets, it's little above 40%.
- Rohit Chordia** And overall number is in the low 30s, is that correct pan India?
- Ravi Jaipuria** I think, very close to it.
- Raj Gandhi** Last we checked Rohit it was coming around 38% but it may be something different because different research reports are giving different numbers.
- Ravi Jaipuria** 38% was coming nationally but if you take out our territories since we are at about (+40%), the other territories would be in low 30s.
- Rohit Chordia** 35-36?
- Ravi Jaipuria** Or maybe even couple of points lower.
- Rohit Chordia** Good to see speed of new launches from you and I am sure that is contributing to growth. I mean one has also seen Coke being a little active on new launches, would you say that the underlying demand environment is now more conducive for new launches after last couple of years were slow on this front?
- Ravi Jaipuria** I think the market is looking very positive and I think all the negatives pretty well are over with the demonetization, with excise going up every year, with GST being stabilized, I think we are much more stable and all the past kneejerk reactions are all over, so we are more stable and we have not changed any pricing also. So we are getting a reasonable growth and I think it should continue.
- Rohit Chordia** Do you sense a need to take a price increase at some point of time this year, how is the RM basket in terms of inflation?
- Ravi Jaipuria** It's looking okay even though the crude price is going up. Our raw material price for resin has gone up but luckily the sugar has come down, so it has balanced out and we don't see any reason for us to take any price increase.
- Rohit Chordia** So unless oil goes up further you're not looking at...
- Ravi Jaipuria** Even if it goes up a little more, I don't think we will be negative on our RM. Fortunately, sugar is coming down so we are in good shape and sugar is a much bigger component than resin.
- Rohit Chordia** Does your backward integration help on the resin's front, are you more competitive than others?
- Ravi Jaipuria** We are, there we have extra edge of about 4% points more than anybody else, so that will continue. That doesn't change, those are conversion costs.
- Rohit Chordia** My question is does your advantage go up in inflationary environment?
- Ravi Jaipuria** I'm not so sure but I think it will maintain.
- Rohit Chordia** Have you seen any thought process at the PepsiCo level in getting into dairy based drinks? Coke has entered this category.

Ravi Jaipuria We are also discussing with them and we are all working together. Hopefully, as we have developed new products, I am sure we will develop dairy products also.

Rohit Chordia You are also having, outside VBL, a dairy presence. You think it's an opportunity worth pursuing for PepsiCo in India?

Ravi Jaipuria Absolutely, it's an opportunity and we are looking forward to it and discussing with PepsiCo on how to take it forward.

Rohit Chordia Do you think over time the new products that you're launching are going to be margin accretive or you think it will be margin neutral, more or less?

Ravi Jaipuria They will be about neutral. We are making sure wherever there is juice content and wherever we get benefit of GST we are passing it on to the consumer so that we are competitive but we are keeping and maintaining our margins.

Rohit Chordia So fair to say right now your primary focus is volume growth and with sustainable margins being the secondary target?

Ravi Jaipuria Absolutely.

Moderator Thank you. The next question is from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah Can you give any commentary on the international business, how has it done?

Ravi Jaipuria International business is doing very well for us. We were short of capacity in Nepal; our second plant has started just yesterday, so we hope to get reasonable revenues and growth from Nepal. We entered a new territory of Zimbabwe where we believe we will exceed our targets and doing extremely well. Our Zambia plant is also doing well. Internationally, I think, most of our plants are doing well. We see positive growth like in India.

Anand Shah What would be the volume growth for international business this quarter?

Ravi Jaipuria Zimbabwe for example is a new territory, so this was being serviced out of Zambia before. But now we have put up a greenfield plant there. So the growth and the numbers are going to be different. In Nepal since we were short of capacity and now our capacity has become operational. So the growth we are expecting is much higher than normal growth which we have got in Q1CY2018.

Anand Shah My question essentially was on this quarter. I mean what would have the international business growth on volume side look like this quarter?

Ravi Jaipuria This quarter was only 2.7%.

Anand Shah Any specific drag there?

Ravi Jaipuria Nepal plant has just started, so it has no effect and Zimbabwe also only started in March, so it has very little effect.

Anand Shah And any specific targets for Zimbabwe, let's say in million cases as to what would be your target for this year or so?

Raj Gandhi At the beginning of the year, this being the first year, we had a target of 4 million cases. But 25% of that we have achieved in the current quarter so it will not be appropriate to give you the number. But on overall basis it looks we will have to revise this target upwards by 50-100% for that country.

Anand Shah So you are looking at a much higher growth there?

Ravi Jaipuria That's right.

Anand Shah And Nepal also as you indicated because of the plant commencement now you should look at much higher growth?

Ravi Jaipuria That's right.

Raj Gandhi Nepal is one of the very profitable territories for us, so any growth there really matters for us.

Anand Shah This domestic growth trajectory that you have achieved in the double-digit essentially that should accelerate given last year was GST per se and you had a tough 2Q quarter there, should we be looking at higher growth rate there?

Ravi Jaipuria We should definitely be looking at growth levels similar to what we have achieved in first quarter, higher or not we would not like to comment on it at this point. But the growth is looking positive and things are looking good.

Anand Shah I had just missed this year contribution for new territories that you had acquired during the quarter in terms of volumes, what was it?

Raj Gandhi Those territories we did ~6.2 million cases in Q1 and we have already stabilized as far as the P&L is concerned, the margins from those territories are as good as VBL's existing territories are doing. So that's already done. Now the next thing in hand is to enhance the volume because there is a huge potential, we are sitting on a very small existing base. So that's an upside which we have to gradually capture.

Anand Shah On a total basis for the full-year incrementally what would be the volumes that these new territories would contribute?

Raj Gandhi You are asking percentage of the overall basis?

Anand Shah No, total million cases for the India acquired territories that you acquired over the last 1-2 quarters.

Ravi Jaipuria About 12%-13% of our original.

Anand Shah 12%-13% incrementally to the original volumes for India business?

Ravi Jaipuria That's right.

Anand Shah The current quarter volume from the new territories doesn't capture the complete picture?

Ravi Jaipuria No it doesn't because they came in bits and pieces, the plants were not started so there were lot of disturbances, the deliveries were not happening. Going forward this quarter you will see the full potential of it coming.

Anand Shah This plus Tropicana essentially will reflect in the current quarter?

Ravi Jaipuria That's right. This quarter both Tropicana as well as the new territories will reflect their actual number.

Anand Shah This Tropicana plant that you're putting up when do you target to commence it?

Ravi Jaipuria We are not sure at the moment. It is definitely not in CY2018, so we are still working on the technical aspects and hopefully by the next board meeting we will have some clarity as to how long it will take and when it would come up because this is the first time a Tropicana plant is being put by a franchisee. It has never been put by a franchisee.

Anand Shah And once it commences it will improve your margin profile for Tropicana?

Ravi Jaipuria Absolutely.

Moderator Thank you. The next question is from the line of Pritesh Chhedda from Lucky Investment Managers. Please go ahead.

Pritesh Chhedda I have a follow up. Just wanted to know when in Q1 where our volume growth was about 12%, what would have the market grown at the same time and what would have Pepsi overall grown in India at the same time?

Ravi Jaipuria We don't have the exact numbers at the moment as it takes a month and a half before the numbers start coming in. I would say we have definitely not lost any market share. I'm not sure if we have gained market share but I think we are pretty well what the market has grown, so we should be the same.

Pritesh Chhedda When you say market here Coca Cola plus Pepsi put together?

Ravi Jaipuria No, Pepsi is not fighting with me. I'm talking about in my territory i.e. Coke versus us. I think we have had approximately same growth.

Moderator Thank you. The next question is from the line of Harsha M from Forton & Co. Please go ahead.

Harsha M So the new plant that you have put in Nepal, what is the capacity and what is the revenue potential?

Ravi Jaipuria We have put three lines, one is glass line (CSD & Juice), one is the PET line which makes CSD which is carbonated beverages and then we have a water line. So juice and water are two new products which we were not doing in Nepal up till now and they will only go into production by most probably pretty close to the end of this quarter, so their contribution will not reflect even in the second quarter which is going to be April-June. But our CSD which we were short of capacity will reflect from April 1st so that will show in our volumes in this quarter.

Harsha M Any idea on the revenue potential from this water, juice and incremental CSD?

Ravi Jaipuria I think we are not ready to answer that question at the moment. We have not done the full working but it will be quite lucrative and quite large. But, we will lose this full season, so it will actually reflect mainly in our next year's volumes.

Harsha M Suppose you want to is add capacity two years down the line, so how much of capacity per million liters, what is the CAPEX required to put incremental capacity of say 100 million liters?

Ravi Jaipuria It's not in million liters, it's based on million cases. But it would depend, is it a brownfield or is it a greenfield. When it is a brownfield, when we are adding lines, the CAPEX is much smaller but if we are doing a greenfield plant then the CAPEX becomes much larger and it depends which area and how much capacity we are adding. If we are putting new lines now, anywhere, we actually don't put any more small lines even though we run short of product. So sometimes that new line takes 2-3 years for it to get absorbed. So that's why we are now mostly going to use brownfield plants instead of putting greenfield. Nepal was an exception as we were not allowed to add any more lines in our Kathmandu plant because of pollution and environmental issues being in the city. So we had to put a greenfield plant in the downhill region and it would also give us major cost saving in freight. But otherwise we are going to avoid greenfield plants now.

Harsha M How will it work I mean what will be the asset turnovers, so if you put Rs. 100 crore of CAPEX, how much of incremental revenue can you generate in Brownfield plant?

Ravi Jaipuria About 2x to a greenfield and maybe more for a brownfield.

Harsha M What is the margin that you are doing right now in Tropicana, you are just not manufacturing, so what is the EBITDA margin?

Ravi Jaipuria We are making sure that our margins don't come down even though we are not manufacturing. We are going to maintain the margins which we are doing in our CSD and juices and water and obviously our margins would improve once we start manufacturing.

Harsha M And it will be similar to what you are doing right now?

Ravi Jaipuria Yes.

Moderator Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta Just a small follow up from me, the Tropicana, the juices, part which you said the margin profile will be similar once you set up your own plant and manufacturing, what would be the margin while currently of this product that you are only distributing?

Raj Gandhi We are just doing the trading here in this case, so we are getting something like very small margin to take care of primary freight, secondary freight and fixed selling and distribution expenses. And it maybe some percentage points, low single-digit and one complete quarter we have to see but in our projections we are taking additional revenue but with very little margins. We are not considering anything at this moment. Whatever comes will be only upside.

Sameer Gupta And this would be the case for the whole of CY18 I would assume.

Raj Gandhi That's right because the volumes as of now are so small and we are putting in place the organization, etc. Our focus at this moment is not to calculate margins on this incremental activity but just to establish it with a strong base and then get into manufacturing franchise with PepsiCo, followed up with the production facility.

Once that is established, as Chairman said, to have the margin profile something equal to the CSD and we would definitely like to invest our time and energy into this because this is something of future and comes with a huge potential.

- Sameer Gupta** You mentioned about how low sugar cost, there are rumors about sugar cess being imposed, any thoughts on that how would you tackle that?
- Raj Gandhi** That news was very scary and you must have seen that some representatives from the Big Four, have said “.....the basic spirit of GST was that about 12 or 14 different acts which were subsumed in GST. The basic concept of selling GST to the nation gets vitiated if we start introducing cess again and you have to just start once and then there is no end.....”. It was also stated in the same news item that it will be very difficult to approve this and they will have to pass the special resolution, take a vote in the parliament. Let's see what actually happens, let's keep the fingers crossed.
- Ravi Jaipuria** For us, it won't matter anyway this year because we are pretty well covered for our season, so we have already bought in the sugar.
- 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** Thank you once again for your interest. 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. Thank you very much.
- Moderator** Thank you. On behalf of Varun Beverages Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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