Varun Beverages

Operator: Good day and welcome to the Varun Beverages Limited Q1 CY 2026 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anup Vijayvargia from CDR India. Thank you and over to you, Mr. Vijayvargia.

Anup Vijayvargia – CDR India: Thank you. Good afternoon everyone, and thank you for joining us on Varun Beverages' Q1 CY 2026 earnings conference call. We have with us Mr. Ravi Jaipuria, Chairman of the company; Mr. Varun Jaipuria, Executive Vice Chairman and Whole-Time Director; and Mr. Raj Gandhi, President and Whole-Time Director of the company. We will initiate the call with opening remarks from the management, following which we will have a forum open for a question-and-answer session.

Before we begin, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you all earlier. I would now request Mr. Ravi Jaipuria to make his opening remarks.

Management: Good afternoon, everyone, and thank you for joining us on our earnings conference call. I hope you've had a chance to review our results presentation for the first quarter ended March 31, 2026. We are pleased to report a strong performance in Q1 CY 2026, supported by healthy demand, disciplined execution, and continued progress across our markets. Consolidated sales volumes grew by 16.3% in Q1 CY 2026, driven by volume growth of 14.4% in India and 21.4% in international territories. Revenue increased by 18.1% year-over-year to Rs. 65,742 million, and EBITDA improved by 21% year-over-year to 15,289 million.

In India, demand remained encouraging during the quarter, supported by our wide distribution reach, strengthened execution, and continued investments in manufacturing capability and chilling infrastructure. We undertook targeted initiatives to drive volumes and strengthen our domestic portfolio including pack upsizing, selective price point launches in identified markets to onboard new consumers, and new launches in the energy and juice-based drink segments. The facilities commissioned over the last year have stabilized well and are expected to support growth and enhance operating efficiencies going forward.

Our international business continued to make steady progress during the quarter. We consummated the acquisition of Tiza in South Africa through Bevco, strengthening our manufacturing footprint and route-to-market capabilities in Africa's largest soft drink market. The acquisition is expected to generate meaningful operational and commercial synergies over time. We have also entered into an agreement to acquire Critically Dairy through Bevco, which will further strengthen our presence in South Africa, subject to regulatory and other approvals.

Across Africa, we continue to build scale in snacks and deepen our presence in high-potential markets, in line with our strategy of broadening the portfolio and strengthening consumer relevance. In accordance with our dividend policy, the Board of Directors has approved an interim dividend of 25% of face value, 0.50 per share, resulting in a total cash outflow of approximately 1,691 million. Looking ahead, we remain confident in the long-term opportunity across our markets, supported by favorable demography, rising income, growing urbanization, and increasing beverage consumption. With adequate capacities, a diversified portfolio, and a strong distribution network, we are well-positioned to deliver sustained growth and create long-term value for all our stakeholders. I would now like to invite Mr. Gandhi to share his highlights of our operational and financial performance. Thank you very much.

Management: Thank you, Mr. Chairman. Good afternoon and a warm welcome to everyone joining us today. Let me provide an overview of the financial performance for the first quarter ended March 31, 2026. Revenue from operations, net of excise and GST, increased by 18.1% year-over-year to 65,741 million in Q1 CY 2026. Consolidated sales volume grew by 16.3% year-over-year to 363.4 million cases, as compared to 312.4 million cases in Q1 CY 2025. This growth was supported by strong volume growth of 14.4% in India and 21.4% in international territories.

At the consolidated level, net realization per case improved by 1.6% year-over-year, supported by improved realizations in international territories primarily due to favorable currency movement. In India, realization per case declined by a marginal 1.5% primarily due to volume growth initiatives such as upsizing of packs and selected price point launches in target markets to onboard new consumers. CSD constituted 73.6% of total volumes, while non-carbonated beverages and packaged drinking water contributed 7.5% and 18.9% respectively. In line with our focus on healthier offerings, the mix of low-sugar and no-sugar products increased to approximately 63% of consolidated sales volume during the quarter.

Gross margins improved by 62 basis points to 55.2%, supported by early stocking of key raw materials despite an inflationary input environment. EBITDA increased by 21% year-over-year to 15,289.3 million, with EBITDA margins improving by 55 basis points to 23.3%. In India, EBITDA margins improved by 112 basis points, supported by operational efficiencies from strong volume growth and improved gross margins. PAT increased by 20.1% year-over-year to 8,787 million, driven by strong growth across both India and international markets.

Depreciation increased by 30.9% on account of the commissioning of four new plants last year, in Buxar, Bihar, Lamtal, and Meghalaya. Finance costs increased by 18% primarily on account of the acquisition of Tiza in South Africa through Bevco, while income on surplus cash in India has been accounted for under other income. During the quarter, we completed the acquisition of Tiza in South Africa through Bevco at an enterprise value of ZAR 2,053 million. In addition, Bevco entered into a share purchase agreement for the acquisition of Quickly Dairy Proprietary Limited at an enterprise value of approximately ZAR 238 million, including net working capital, subject to regulatory approvals. These transactions further strengthen our presence in the region and support our portfolio expansion in adjacent categories.

Overall, we continue to maintain a strong financial position, supported by disciplined capital allocation, efficient working capital management, and a robust balance sheet. With the capacities commissioned over the past year, backward integration initiatives, and strengthened distribution infrastructure, we are well-positioned to support growth and drive profitability through improved operating leverage across markets. Despite the inflationary environment arising from the prevailing geopolitical situation, we remain confident in our ability to manage near-term challenges through focused execution and supply chain agility, while sustaining growth and profitability. On that note, I have come to an end of our opening remarks and would like to now ask the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Operator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Vivek Maheshwari from Jeffries. Please go ahead.

Vivek Maheshwari - Jeffries: Hi, good afternoon team. A few questions. First, Mr. Gandhi, regarding where you ended on the geopolitical bit — can you talk about the impact that you expect from a near-term perspective, especially on packaging material and anything else that we should bear in mind across different markets because of higher oil prices?

Management: I will answer this, Vivek. First of all, in our international markets, our effect on raw material will be practically zero or perhaps a couple of points, because we are well-stocked for this quarter and the next quarter as well. We normally carry six months of inventory internationally. So, our impact will be practically very low, which actually gives us an edge over our competition because I do not think competition carries anywhere close to six months of inventory. As far as India is concerned, we will have a minor effect because, again, we were reasonably covered for this quarter. For the next quarter we will have some effect, but we are covering that by reducing our discounts and becoming more efficient, which is already starting to show. We are cutting our costs wherever we can, which is already reflected in the first-quarter results. As long as the volumes continue, I do not think there will be any significant effect on the bottom line.

Vivek Maheshwari - Jeffries: Thank you, Mr. Jaipuria. Beyond packaging material, is there anything else we should be aware of?

Management: The only thing which can affect us slightly, which you cannot stock, is the transportation cost. There will be some effect, but we will be more than able to absorb it and it will not show any major issue on our P&L.

Vivek Maheshwari - Jeffries: Got it. And Mr. Jaipuria, I know you have a very strong season upcoming, but do you also worry from a consumption perspective if higher oil prices feed into higher inflation? Does it imply some pushback from consumers on consumption in general, not just in your category?

Management: I do not see it, Vivek, because consumption is very strong. We are going through a season that was terrible last year with all the rains, and with this current weather, I do not see any issues. We are very happy with what is happening right now and the sales growth levels. This quarter should be much better than what we have already had. Beyond that, I cannot speak for the weather gods, but it is looking very positive.

Vivek Maheshwari - Jeffries: Sure. One another question regarding your inventory buildup in the P&L — it does not look like it is as high compared to where it was two years back, for example, though it is higher than last year. I just wanted to be sure for the India business: are you covered for most of the season for this quarter?

Management: We are completely covered for this quarter and we are partly covered for the next quarter as well.

Vivek Maheshwari – Jeffries: In the India business also, Mr. Jaipuria?

Management: Yes.

Vivek Maheshwari – Jeffries: Okay. Lastly, on the realization bit — last quarter, the realization in India was down about 4%. This time around it is down 1.5%. I know the seasons and the quarter context are very different, but can you elaborate on this? Because I was thinking that with the new launches you have done, like Rs. 10 price points and higher volumes, this number has actually gotten better. Can you elaborate a bit on this?

Management: Well, Rs. 10 packs are a very small part. We only use them where we feel it is necessary. It would be less than 5% of our total volume, or maybe even less than 2%. So, practically it would not impact realizations much. We are using it only to make sure our distributors remain with us when there is huge stress. We are not really pushing the Rs. 10 packs. We have the products ready and if we ever need it, we can use it, but we are not using it extensively.

So the Rs. 10 effect is not going to affect us. Also, as I said, once the season is reasonable, we have consolidated and cut some costs. All our new plants have also come into effect, which further cuts our costs as all the new plants coming up are much more cost-effective. These are large plants where our production levels are much higher.

Vivek Maheshwari – Jeffries: That is interesting, sir, because I always thought you were already very efficient. I understand the new plant angle, but that still would not show up on the realization side. Realization was minus 4% last quarter and minus 1.5% this quarter. There were worries that this number could actually be worse than what it was in the December quarter. What explains this delta then?

Management: Vivek, in fact, we have premiumized a lot of products. For instance, in our dairy business, which grew by 70%, the realization is 3 times higher than the normal portfolio. So, the focus is to compensate from within the system itself for the major part. Secondly, the tax cut on September 22 on GST is also going to help us. Although we had reduced prices previously, with costs going up, it will not be felt as much by the consumers, so I do not think the end consumers will be that much affected by this.

Management: And also, as I said, we are running operations more efficiently and making sure discounting is reduced slightly.

Vivek Maheshwari – Jeffries: Got it. Thank you and wishing you all the best.

Management: Thank you.

Operator: Thank you. Next question comes from the line of Avnish Roy with Nuvama Wealth. Please go ahead.

Avnish Roy – Nuvama Wealth: Yes, congratulations on a very good set of numbers. My first question is on aluminum cans. You have tied up your inventory for PET and most packaging quite well, and I understand your salience to aluminum cans is much lower than the other large national player. Can you tell us if you are facing any shortage, and what your salience is in terms of percentage for aluminum cans?

Management: Well, first of all, our aluminum can sales are less than 2% for us. It is very small. Secondly, we have tied up a reasonable quantity to more than cover our 2% volumes and maybe a little more. We will be able to get cans. They are slightly more expensive, but as I said, wherever we are finding a large cost increase, we are cutting discounts in the market because there is a shortage for everyone and costs are going up for everyone. So, if the demand is there, we are making sure that overall our bottom line is not getting affected.

Avnish Roy – Nuvama Wealth: And customers must be shifting, right? If there is a can shortage, a section of customers will not sacrifice their consumption; they will switch to other formats.

Management: Absolutely. If you cannot get a can, then you go for PET or you go for glass, but mostly PET.

Avnish Roy – Nuvama Wealth: My second question is on water. If I see the Reliance presentation, they are saying that they are now India's third-largest branded water player. Can you comment on your standing within the top players? Secondly, the volume growth initiatives in carbonated have done quite well. In water, would you eventually need volume growth initiatives there as well?

Management: No, we do not over-push water. We try to make sure our basic margins remain and we want to make sure our monopoly customers and our Visi Coolers — of which we have close to a million plus in the market — are serviced properly with our water. But water integrated into the portfolio is like a commodity. You can increase your sales as much as you want if you just give a discount, which is not a game we are in. That is why we can sustain our margins.

Avnish Roy – Nuvama Wealth: Last question on the energy drink portfolio. How has Sting done? You mentioned previously that you were expanding that portfolio, including scaling up the mid-price Adrenaline Rush. How have Sting cans done, how has the overall Sting portfolio performed, and how was Adrenaline Rush?

Management: Adrenaline Rush has done phenomenally well. We are feeling some pinch from a shortage of cans because we had not expected Adrenaline Rush to do as well as it is. So, there is some slight pain there. Also, we have Sting energy drink in cans with our new Sting Classic — the gold and black version — which has been launched and is doing extremely well. Again, the demand is much higher than the supply of cans we can get, but it is much better than what we had planned. We will be performing better than our initial plan, though there will be some crunch on cans. We have also put the Sting Classic in PET bottles, which is doing extremely well, but that only entered the market in April. You will see a big response for that in this quarter.

Avnish Roy – Nuvama Wealth: One last follow-up. Based on your understanding, would you say overall consumption trends are accelerating?

Management: There is definitely an uptick. Campa is in the market and they are very aggressive and growing volumes, and even Coke is growing. The overall industry is growing. I do not know if we are growing faster, but Campa is definitely growing as they add capacity. The market is growing at a huge pace. With this level of competition, everyone is active in the market, placing more chilling equipment and opening more outlets. I am very bullish on the Indian market and I believe this double-digit growth should continue for at least the next 5-10 years.

Avnish Roy – Nuvama Wealth: Thank you, that is all from my side.

Operator: Thank you. Next question comes from the line of Aditya Suman from CLSA. Please go ahead.

Aditya Suman – CLSA: Hi, good afternoon and thanks for the opportunity. Two questions. Firstly, in terms of new products, can you give us a sense of how the new launches have done, particularly Nimbooz and the juice-based drinks? Also, regarding milk-based beverages, what is the contribution and growth there? Secondly, regarding the summer, is there any risk from unseasonal weather in specific parts of the country, or do you expect the summer to be very strong?

Management: What we are hearing is that the summer looks very good. As for the fear of rain, I cannot answer that, but if the weather gods are with us — which they were not last year — the trends are looking very good. One month has already passed, and if the weather remains like this, there is no reason why we should not do extremely well. Our products are performing very well. Our dairy business is growing at 60-70%. Nimbooz is growing at 50-60%. Tropicana PET is growing at more than 100%. The new energy drink we launched at a mid-price point, Adrenaline Rush at Rs. 60, is doing extremely well. Sting in cans is performing great, and the new launch of Sting Classic, which started only a few weeks ago, has seen a fabulous initial response. We hope it becomes another Sting; at the moment, it looks very positive.

Operator: Thank you. The next question is from Devanshu Bansal from MK Global. Please go ahead.

Devanshu Bansal – MK Global: Hi, congratulations on a strong set of numbers. First, I wanted to check the base quarter. Was the rain disruption last year spread across all three months, or was it more towards the second half?

Management: It was mainly from the end of April to the end of June for sure, and even continuing into the third quarter. For this specific quarter last year, May and June were really a disaster, and the end of April was not great.

Devanshu Bansal – MK Global: And regarding supply chain issues that might have impacted the opening of new plants for the competition — since we have sufficient capacities, can we benefit from this, or is the competitive intensity what you were anticipating?

Management: I think competition is there, but there is enough market for everyone. Between Campa, Coke, and ourselves, I think we are adding close to half a million or more Visi Coolers to the market. Plus, individual outlets are buying an additional 400,000 to 500,000 units. So, there are a million refrigerators going into the market annually, which is expanding the market drastically. It will come down to who has the best go-to-market strategy and who can expand distribution. We are expanding at about 300,000 to 400,000 outlets every year, and this year we might expand by half a million outlets. That is what is giving us the growth.

Devanshu Bansal – MK Global: Sir, a couple of bookkeeping questions. For Tiza and Quickly Dairy, what are the revenue and margin run rates for CY 2026? Also, what is the expected consolidated CAPEX?

Management: Revenue for Tiza was 800 crores and about 169 crores for Quickly Dairy. So, between the two, consolidated revenue might be close to 1,000 crores. Regarding margins, it is a bit too early as we have only held them for about a month. We intend to correct the margins. Our CAPEX is not going to be very large this year because we have enough capacity. We are likely going only to have one new plant, so our CAPEX will be less than 500-600 crores this year. It will be very low as we have enough capacity.

Management: With the consolidation of both Bevco and Tiza, we have enough room and they have enough production capability, which we were struggling with in Bevco previously. This will help us drive growth going forward without putting in too much CAPEX.

Devanshu Bansal – MK Global: Thank you so much for answering my questions.

Operator: Thank you. Next question comes from the line of Anand Shah with Axis Capital. Please go ahead.

Anand Shah – Access Capital: Hi sir, congratulations on the numbers. First, can you give some granular details on how international business has grown? You have grown almost 21%, which is quite strong. It seems South Africa would have driven the bulk of this, but can you provide more detail?

Management: It is not only South Africa; actually, all our international businesses have grown. For instance, Zimbabwe has grown.

Anand Shah – Access Capital: Previously, excluding South Africa, growth was in the mid-single digit to high-single digit range. Has that now come back to double digits?

Management: Absolutely. Average international growth is 21%. All international markets are contributing; otherwise, we would not be able to average 21.4%. Morocco was the only one that was weak last quarter because Ramadan was preponed.

Anand Shah – Access Capital: Got it. And on food distribution, the branded snack numbers in Africa have moved from 52 crores to 112 crores in Q1. How do you see that scaling up this year?

Management: Snack foods in Q1 this year was 112 crores compared to 52 crores in Q1 last year.

Anand Shah – Access Capital: So, you will see a consistent further ramp-up as well?

Management: Absolutely, because the Zimbabwe plant only came up at the end of last year. So, the consolidation and growth are coming now.

Operator: Thank you. Next question comes from the line of Harshit Kapadia with Nirmal Bang. Please go ahead.

Harshit Kapadia – Nirmal Bang: Good afternoon. Given the availability issues you have managed to navigate, do you see opportunities for market share gains because other players might not be as well-prepared as you?

Management: I cannot answer for other people. The only thing I can say is that we are fully prepared and have enough capacity that even if we get 50% growth, we can comfortably manage it without adding new capacity. We have the raw material and back-end coverage. We only hope for good weather to deliver good results.

Harshit Kapadia – Nirmal Bang: And on distribution, are you consistently planning on that 8-10% addition to outlets?

Management: Yes, as I said, this year we have already added more than 10% in outlets. We are hoping to add close to half a million outlets reaching a total of 4 million. We are aggressively increasing our go-to-market and that is what is giving us the results.

Operator: Thank you. Next question comes from the line of Latika Chopra with JP Morgan. Please go ahead.

Latika Chopra – JP Morgan: Hi, two follow-up questions. One was on the availability of raw materials, particularly PET. Have you started to see any visible signs of challenges for the smaller unorganized players? Second, do you see potential for price increases ahead as the industry tries to offset inflation?

Management: I see the B-brands and other players selling water have already reduced their discounts, even if they have not increased the headline price. We are seeing that in the market because costs are rising. I feel that will continue once gasoline prices go up. There will be some pain, but we are hopefully reasonably covered. For this quarter, we are covered with raw materials. Gasoline prices are the only vulnerable part, and that is not such a large part of our total scheme. If it goes higher, we will further reduce our discounting to manage. If our volumes are good and the weather remains favorable, I am not worried about a few rupees.

Latika Chopra – JP Morgan: Regarding the 1.5% decline in India realization — is that a level we should build in for the rest of the year, or will it fluctuate with the season?

Management: It might even become a lower decline depending on how strong the season is. As I said, if the numbers happen, our costs reduce drastically and efficiencies go up. We can cover a 1% or 2% realization impact easily if the volumes are right, and we feel the volumes are going to be good this quarter.

Operator: Thank you. Next question comes from the line of Percy Panthaky with IIFL Securities. Please go ahead.

Percy Panthaky – IIFL Securities: Congratulations on a great set of numbers. I am looking at the standalone P&L, where you have done 11% sales growth on a high base of 14% two-year CAGR. The two-year CAGR has accelerated sharply from about 8% to 14% this quarter. Is it just the summer season being better, or has the market share gain by the new incumbent slowed down?

Management: We have never had only 6-8% growth except for last year when the weather was bad. We have been average growing at a CAGR of 23%. Last year was the one exceptional year. Otherwise, on average, we have always grown in double digits and with some new acquisitions, we have grown at more than 20%. We still believe we will grow in double digits for at least the next 5-10 years. Our business is partly seasonal, but the overall CAGR will definitely be higher.

Percy Panthaky – IIFL Securities: Understood. On international business, there has been a significant acceleration this quarter. What is the reason for that?

Management: Everywhere we enter a new territory, it takes a little time to stabilize. Last year we had just taken South Africa and DRC had just started. We had some challenges, including some related to the conflict in Gaza. Last year was a tough year for us internationally as well. But without external issues, our growth should comfortably be in double digits.

Percy Panthaky – IIFL Securities: If crude remains at high levels for several more quarters, do you think you can hold your margins?

Management: It is difficult to answer, but I can tell you that we might be the only company holding six months of inventory. Other people will blink before I do. Either everyone will take prices slightly up to cover costs or take a hit. I do not see us taking a hit because our competitors have much bigger issues than we have.

Operator: Thank you. Next question comes from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi – Kotak: Congratulations. With the upsizing of packs from 250 ml to 400 ml, are you seeing more consumption in liters, or are consumers just buying fewer units of larger packs?

Management: Consumption is going up in liters as well as in unit numbers. Both are happening, and that is why you are seeing such large growth. We report in 8-oz equivalent cases, which is the best way to measure it.

Jay Doshi – Kotak: Do you expect any more changes in your pack-price architecture?

Management: We will see what the market requires and play with that. Even if I had something specifically in mind, I would not be able to divulge it now.

Jay Doshi – Kotak: Should we expect you to broadly maintain margins in the India business? The 250 ml to 400 ml upsizing has not had a negative impact on margins in the March quarter. Can we extrapolate this for the full year?

Management: We had the upsizing for the full quarter, so whatever effect there was has already been absorbed. Our volumes and efficiencies have absorbed all that. Our larger plants are much more cost-efficient and our cost of production there is considerably lower than in our smaller plants. Scale is what is giving us the strength, and we are able to consume minor cost increases.

Operator: Thank you. Next question comes from the line of Robert Marshall Lee from Kusana Capital. Please go ahead.

Robert Marshall Lee – Kusana Capital: Just regarding the new plants — what are the utilization rates and the fixed cost leverage? Secondly, is falling global sugar prices having an impact in India?

Management: Sugar prices are reasonably consistent here; they have not gone up, which is positive. In the international market, we have definitely seen a gain as sugar costs have come down significantly. In India, it has been reasonably constant. Utilization is definitely helping as volumes go up. We are using the bigger plants more and we have shut down a couple of small, old, high-cost plants. Overall efficiencies and cost-cutting are helping.

Operator: Thank you. Next question comes from the line of Arjev Jain with Systematics Group. Please go ahead.

Arjev Jain – Systematics Group: I just have a quick question on the sales mix of the new products compared to traditional beverages. Where do you see this in a few years?

Management: Our mix keeps changing year-over-year. Energy is becoming a big part of the portfolio, as are dairy and hydration. It is difficult to say because the consumer is always asking for something new. We have the capability to support whatever is required because we use the same machines; we just change flavors or packaging.

Arjev Jain – Systematics Group: You mentioned new plants are more efficient. What is the expected payback period for these?

Management: We need capacity to back up the sales increases. Our larger plants are much more efficient. For example, if we move from a 200 bottle-per-minute line to a 1,000 bottle-per-minute line, the manpower is the same. That is five times more production with the same manpower. Normally we work on a 3-4 year payback period.

Operator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Management: Thank you. I hope we have been able to answer all your questions efficiently. Should you need any further clarifications or would like to know more about our company, please feel free to contact our investor relations team. Thank you once again for your interest and support. We look forward to interacting with you soon. Thank you very much.

Operator: Thank you. On behalf of Varun Beverages Limited, that concludes this conference. Thank you for joining us. You may now disconnect.