Varun Beverages

Operator: Ladies and gentlemen, good day and welcome to Varun Beverages Ltd. Earnings Conference Call. As a reminder, all participant lines will be in 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, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, Mr. Poojari.

Operator: Thank you. Good afternoon, everyone, and thank you for joining us on Varun Beverages Ltd.'s Q3 CY 2026 earnings conference call. We have with us Mr. Varun Jaipuria, Executive Vice Chairman and Whole-time Director, and Mr. Raj Gandhi, President and Whole-time Director of the company. Mr. Ravi Jaipuria, Chairman of the company, has had to excuse himself from today's call due to personal reasons.

We will begin the call with opening remarks from the management, following which we will open the forum for a question-and-answer session.

Before we proceed, 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 earlier.

I would now request Mr. Varun Jaipuria to make his opening remarks.

Varun Jaipuria - Executive Vice Chairman and Whole-time Director: Good afternoon, everyone, and thank you for joining us on our earnings conference call. I hope you have had a good chance to review our results presentation for the third quarter and nine months ended September 30, 2026.

We are pleased to report a strong performance in the third quarter of CY 2026. Consolidated sales volume grew 28.7%, with volume growth of 22.5% in India and 39.9% in international markets. Revenue from operations increased by 33.2% year-on-year to 66,075.6 million, while EBITDA grew 25.1% to 14,267.1 million.

Higher packaging costs weighed on margins during the quarter, although improved realizations and operating leverage from strong volume growth helped partially offset these pressures.

In India, we continued to witness healthy volume growth during the quarter, extending the positive trends seen since May. This performance was supported by our extensive distribution network, expanded manufacturing capacities, and ongoing investments in chilling infrastructure.

We also saw improved realizations supported by growth in higher-value categories such as dairy and the introduction of premium offerings, including Adrenaline Rush and the Evervess mixers range.

Our international business continued to make strong progress during the quarter, with Africa remaining a key continent for expansion. With effect from August 1, 2026, the merger of Twizza with BevCo has been completed, and we expect to unlock significant operational synergies in the

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coming quarters.

During the quarter, we also started beverage operations in Kenya and introduced two new beverage brands, {? Bolta ?} and Extreme Fizz, marking another step towards strengthening our footprint in the fast-growing African region.

We also entered into an exclusive distribution agreement with Mondelēz in Zimbabwe, further broadening our product offering in the market.

We are also taking measured steps towards diversifying our business into adjacent categories. The incorporation of Kiwa Spirits and Company Limited marks an important step in exploring opportunities in ready-to-drink beverages, alcoholic beverages, and allied products. Our approach will remain focused on pursuing opportunities that leverage our execution capabilities and offer attractive long-term growth potential.

In line with our dividend policy, the Board of Directors has approved an interim dividend of 25% of the face value, 50 paisa per share, resulting in a total cash outflow of 1,691 million.

Looking ahead, our focus will remain on driving growth across our existing markets, supported by investments we have already made over recent years. Alongside this, we will selectively pursue opportunities to broaden our business while maintaining a clear emphasis on profitability and long-term value creation.

I would now like to invite Mr. Gandhi to share the key highlights of our operational and financial performance. Thank you.

Raj Gandhi - President and Whole-time Director: Thank you, Mr. Vice Chairman. Good afternoon, and a warm welcome to everyone joining us today. Let me take you through the financial and operational performance for the third quarter and nine months ended September 30, 2026.

Revenue from operations, net of excise duty and GST, increased by 33.2% year-on-year to 66,076 million rupees in Q3 2026. For the nine months of CY 2026, revenue grew by 23.3% to 218,146 million.

Growth during the quarter was primarily driven by a 28.7% increase in consolidated sales volume to 354.4 million cases. In India, volume grew by a strong 22.5% during the quarter, while international territories recorded robust growth of 39.9%. Consolidated net realization per case for beverages improved by 2.2% year-on-year, supported by a 0.5% increase in India on account of growth in high-value categories and further launches of premium categories such as Adrenaline Rush and the Evervess mixers range, calibrated discounting, and efficient price-pack architecture. In international markets, realization per case improved on account of improved realization in South Africa and currency impact.

In terms of volume mix, carbonated soft drinks accounted for 73.3%, juice-based drinks accounted for 4.8%, and packaged drinking water accounted for 21.9% of total sales volume during the quarter.

Coming to margins, gross margin moderated by 334 basis points year-on-year to 53.1% in Q3 calendar year 2026, primarily due to higher packaging material costs, including preforms, shrink

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film, closures, and cans arising from geopolitical disruptions. Packaging costs contributed approximately 300 basis points of pressure on gross margin. In addition, sales of non-beverage products, such as preforms and caps in India, increased by approximately 104% during the quarter. Given their higher COGS, these products had an impact of approximately 100 basis points on gross margin in India.

The impact of around a 16% increase in sugar prices was largely offset by the higher proportion of low-sugar and no-sugar products in India, with their share increasing from 24% in the corresponding Q3 of 2025 to 48% in Q3 of CY 2026 in India, almost double. This is after accounting for the sharing of sugar reduction benefits with PepsiCo through concentrate costs as part of the transition to a low-sugar portfolio.

EBITDA increased by 25.1% year-on-year to 14,267 million rupees in Q3 2026, with EBITDA margin at 21.6%. The margin moderated by only 140 basis points despite higher material costs year-on-year, primarily because the contraction in gross margin was largely offset by operating leverage from robust volume growth across India and international territories.

Importantly, despite the supply chain disruptions and input cost pressures arising from geopolitical developments, EBITDA margins in India remained broadly stable on a year-on-year basis during the nine months of 2026.

PAT increased by 13.5% year-on-year to 8,306 million rupees in Q3 of calendar year 2026, compared with 7,315 million in the corresponding quarter last year.

Depreciation and finance costs grew by 34.5% and 53.5%, respectively, primarily on account of the acquisition of BevCo in South Africa and the associated debt funding.

Other income declined by 18.8%, reflecting relatively stable currency movements during the quarter.

For the nine months of calendar year 2026, EBITDA increased by 19.9% to 52,746 million, while PAT grew by 15.5% to 32,023 million.

Looking ahead, we are encouraged by the strong volume growth delivered across India and international markets. Our endeavor will be to sustain healthy growth over the longer term, supported by effective utilization of our expanded capacities and market infrastructure. At the same time, we will remain focused on managing input costs and improving operating efficiencies to support profitability as we scale our operations.

On that note, I will bring our opening remarks to an end and would now like to ask the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Operator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question, please press star and one on your touchtone phone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

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The first question is from the line of Avneesh Roy from Nuvama. Please go ahead.

Avneesh Roy – Nuvama: Thanks, and congratulations on the strong volume growth in India and overseas as well. My first question is on gross margins. What will be the outlook for next quarter and, if possible, even the March quarter? Coming specifically to this quarter, earlier the information shared was that sugar usage had changed, so very low sugar usage was there in terms of the portfolio, and in terms of packaging, a lot of the buying had been done for the September quarter. So I wanted to understand where things changed versus that initial comment. Also, on your specific comment that non-beverage has grown very sharply, including preforms and caps, what is the reason for that, and could you bifurcate how much is the packaging increase, sugar increase, and non-beverage increase? That can give us more clarity. Thank you.

Raj Gandhi – President and Whole-time Director: Avneesh, good afternoon. Avneesh, as you know, in the opening remarks we clarified that sugar has not affected us much because of the portfolio change and innovation from 24% to 48% low-sugar and no-sugar products, which has been managed very well. However, due to geopolitical factors, the cost of packaging has gone up. Your comment is correct, but that was relevant when the war started around February 28, and at that time we stated that we were totally covered for the next quarter. Last quarter, you might have noticed that there was no impact on the gross margin. But after that, all the purchases going forward were at the revised prices... [cut off]

Management: ...These enhanced prices, we stocked for a much longer period than the quarter, which we could manage last quarter, but now the prices are definitely higher.

Avneesh Roy – Nuvama: And how do you see the outlook?

Management: On the outlook, these are macro factors. Food and packaging are both macro factors, but in our case, despite that, through innovation we have been able to manage sugar very well. As far as material costs are concerned, it may not be possible to give any comment on costs. However, in terms of how we will mitigate them, we have mitigated more than half of the 3% or 4% impact through cost reductions. I think if your question is directed towards that, we will definitely be able to answer that. In terms of how to preserve our margins, that would be a more focused and easier question for us to answer.

Varun Jaipuria: I think, Avneesh, looking at the geopolitical situation, nobody really knows when this war is going to end and what is going to happen with fuel prices coming down. Perhaps only Mr. Trump has the answer. The industry has, of course, been seeing the pain of costs going up for two quarters because raw material costs have been increasing. I think there is enough discussion within the beverage association, which includes all the players, regarding the measures they will take if prices remain high, because we usually do not act so fast on price-pack architecture over two quarters. But there is a discussion that if pricing stays high, whether they will downsize certain packs, increase certain prices, or reduce trade margins. So we will have to wait and see what happens on that.

Management: Avneesh, just to add to what Varun...

Varun Jaipuria: Yes, please go ahead, Raj.

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Management: Thank you. Avneesh, just to add to what Mr. Varun Jaipuria stated, we have already reduced Sting from 300 ml to 250 ml. Depending on the market condition, competitive scenario, and other factors, the rest of the portfolio will also be reviewed from time to time.

Avneesh Roy – Nuvama: Sir, thanks. Just one quick follow-up. This is an extreme geopolitical situation that comes once in 10 or 20 years, and generally Pepsi is known to have discussions on how it can help in such situations, especially given that the new cola player has, in-house, one of the largest PET supplies, so it can absorb this cost while you and the other legacy player will have to face it. Have there been any discussions with Pepsi to provide support in this scenario?

Varun Jaipuria: I think it is too early. That is what I said just now. We are all figuring out what price-pack changes we can make. Costs are increasing not just for us; I am sure back-end costs must also be increasing for PepsiCo. Hence, costs are increasing for the industry. We are going to wait and watch. If you look at this quarter, we performed fairly well in terms of volume and negated the 400 basis points of cost increase. Going forward, if we believe that we will not be able to negate it, then the entire industry will take some action on price-pack architecture to offset it.

Avneesh Roy – Nuvama: Sure. My second and last question is on the Mondelēz relationship in Africa, in Zimbabwe. Are there any numbers you can share for the longer term, over 3 to 5 years, regarding the opportunity here? Do you see more markets or adjacent markets being added in Africa through Mondelēz?

Varun Jaipuria: It is very nascent. Mondelēz is one of the best brands you can work with, and we are very fortunate to partner with them. They already have an existing business of about $11 million in Zimbabwe. Of course, the local partner they were working with was, I am sure, not able to harness the full potential of the market, which is why we are partnering with them. Once we are in the market, since we understand Zimbabwe very well, and since it was a greenfield project for us a few years ago, we have a very high market share there and the volumes are growing. Let us get into it and get our teeth into it. We are getting the entire portfolio for distribution, and we are quite hopeful that once we understand the whole market and start the distribution properly, we can come back to you and give you some concrete answers on it.

Avneesh Roy – Nuvama: Sure. Thank you, that is all from my side. Thank you.

Management: Thank you, Avneesh.

Operator: Thank you. The next question is from the line of Vivek M from Jefferies. Please go ahead.

Vivek M – Jefferies: Good afternoon. I have a couple of questions. The first is on the competition side. One of the food companies mentioned that competition seems to be abating right now. What are your thoughts on the same issue, please?

Varun Jaipuria: [off-mic discussion] Competing would be... [trails off]

I am sorry, what is your question on competition exactly?

Vivek M – Jefferies: Tata Consumer mentioned on its conference call that it sounded far more confident about the market structure and how things are evolving. What is your view on

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competition in general? Please share your latest thoughts.

Varun Jaipuria: We had subdued quarters due to seasonality, as we had mentioned. If you look at our first quarter as well, we performed very well, with high double-digit growth. Then the second quarter declined due to seasonality, which we had clarified earlier. Now the weather has been very good. The price-pack architecture is holding up in the market, and growth has returned. There is no reason for us to believe that growth should not continue going forward.

We have mentioned many times that per capita consumption in India is still very low compared with even our neighboring countries. There is significant room for growth for both us and our competition today. Hence, even if we have grown, I am sure all our competitors are growing. Tata Consumer has also reported very good numbers in its beverage portfolio, from what I understand. So there is no reason why we should all not continue growing.

Vivek M – Jefferies: Got it. The other thing, Varun, is that when I look at your India unit realizations, there has been downward pressure over the last 6 or 7 quarters. We saw that changing in the early part of this year, and then we saw a further build-up from there. I know the raw material trends have also been difficult, which is why you explained the price, mix, and other factors. But does that also signal that, like in December last year, when unit realization was at its bottom, the worst was behind us? From a competition standpoint, does the trend in unit realization in India also signal that?

Management: Vivek, instead of giving a forward statement, I would draw your attention to this quarter. That trend has already reversed, and there has been an increase in realization per case. I think that is a good indication, and you can build on that.

Varun Jaipuria: One more thing I will add, Vivek. If you remove the raw material pressure, there is significant operational efficiency that we have built and significant operating leverage because of the growth we are achieving. Even if you look at the nine-month trend, we are tracking 16-17% growth, which is good double-digit growth.

There are also many initiatives that we have undertaken internally. These include mid-cals savings that we have brought in, larger plant operations, and significant distributor consolidation. These are routine things that we keep doing, and they provide us with substantial operational flexibility.

Going forward, we believe these routine initiatives will continue. If the raw material component declines and begins to stabilize, I think there should be no concerns regarding our margins.

Vivek M – Jefferies: Got it. The second question is on the international business. Obviously, volume growth, both organically and on a reported basis, has been very good. Given that this is a geography, or a cluster of geographies, which we do not fully understand, can you talk about your outlook for the next few quarters on the international side and anything to call out for any of the geographies?

Varun Jaipuria: We are doing very well in Africa. In most places, we are out of capacity. We are investing in capex in Morocco because we do not have enough capacity there. We are investing in Zimbabwe because we do not have capacity there. We are also putting in a line in the DRC. We are sold out in most of the places. So the outlook is very positive. There is significant room to grow in

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Africa. It is again a very nascent market. If you look at the last 4, 6, or 8 quarters, we have seen tremendous growth, and that is continuing.

Vivek M – Jefferies: Got it. Is there anything on the currency side, because that is one area where there has been some movement? It has fluctuated somewhat, but is there any concern in any of the markets on that front?

Management: [off-mic discussion] No large impact.

There is no concern, Vivek. The only thing is that last year there was a significant currency benefit, as local currencies appreciated against the dollar. This year, currencies have stabilized. There are many commodities, minerals, metals, and natural resources that are in demand, and those currencies are holding up. In fact, the South African currency has become more expensive since we acquired those businesses. So that is actually... [trails off]

Vivek M – Jefferies: Got it. Mr. Gandhi, one last point. In the earlier quarter, you mentioned that there had been some impact from regulatory issues on energy drinks, in June and, if I recall correctly, in July as well. How are things on the energy drink side this quarter?

Varun Jaipuria: Energy is coming back. I am sure you are aware of the issue with FSSAI, where it banned the use of the word "energy" because most energy drink brands in India were registered under carbonated beverages and not under energy as a category, since the energy category did not exist in India. The ruling was that the word "energy" could not be used.

That created some turmoil in the market among retailers and distributors. But that applied to everyone, and we see Sting holding a very high market share in the energy segment. Sting is coming back. The volumes are looking promising, and the business is building back.

Vivek M – Jefferies: Got it. Would you be able to quantify where it is today, assuming 100 is the baseline? Your commentary suggests that it is still not up to the mark. Is that a fair understanding? Does that mean that growth in the rest of the portfolio has been faster than the headline numbers suggest?

Varun Jaipuria: Of course, that has to be the case. In the interim, people were not sure whether they wanted to stock energy drinks or not. This applied to every distributor, not just us. Competitor products and retailers were also not sure whether they wanted to stock energy drinks. Let us assume the negativity was 25%; now we can say that we are slightly positive. On a month-on-month basis and on a quarterly basis, we are moving towards the positive range compared with where we were. That puts it in the right context for you.

Vivek M – Jefferies: This is helpful. Thank you very much. I wish you and your team all the very best.

Management: Thank you. Thank you, Vivek.

Operator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in the conference, kindly limit yourself to two questions per participant. Should you have a follow-up question, please rejoin the queue. The next question is from the line of Aditya Soman from CLSA. Please go ahead.

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Aditya Soman – CLSA: Good afternoon. I have two questions. First, can you give us a sense of the volume growth that you are seeing for the non-carbonated business? Second, you indicated that you have taken a price increase or more of a volume reduction for Sting. When was this taken? Broadly, regarding the price increase that we are seeing in the portfolio in India, from a timing perspective, should we expect it to play out fully in the December quarter?

Varun Jaipuria: I am sorry, I am not clear. When you say we have taken a price increase in the portfolio, what exactly do you mean?

Aditya Soman – CLSA: We have seen net realizations improve in India, and you indicated that for Sting you reduced the grammage, or the volume. When was this taken, so that we can estimate better for the next quarter?

Varun Jaipuria: There has been no pricing taken on the CSD portfolio. The improvement has come through operational efficiencies, as I mentioned, the consolidation of distributors, larger plant production, greater operational efficiency, mid-calorie sugar savings, and some savings in trade spend. There has been no pricing on the CSD portfolio, and we have not changed the pack size in this quarter.

For Sting, regarding the reduction from 300 ml to 250 ml, I will have to get you the exact date. I think it was in May or June, around that time.

Management: It was at the end of last quarter.

Varun Jaipuria: At the end of last quarter, perhaps in July. We will have to get back to you on that.

Management: Aditya, we will come back with the exact number, but from memory, it was sometime in the last quarter. The trade spend is the other contributor. The rationalization of trade spend has contributed to much better realization.

Varun Jaipuria: [off-mic discussion] It could be across the market, right? Distributor stock and plant stock had to be used up, so...

We will get you the exact numbers on those.

Aditya Soman – CLSA: Very clear. Thanks.

Management: Thank you. Thank you, Aditya.

Operator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal – Emkay Global: Hi, Varun. Thanks for the opportunity, and congratulations on the very strong domestic volume growth. My question is to better understand how the unorganized industry is playing out. While the margin impact is significant for us, it is an even bigger impact for the smaller unorganized players. We have preserved our magic price points, so I wanted to check whether this can lead to better growth for us in the coming quarter and next year. Do you have any views that you could share?

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Varun Jaipuria: You know... [trails off]

Management: For example, if you go to the southern markets, the industry mix in the southern markets is almost 50% B-brands. In the northern markets, it is probably only 15% to 18%. But if you go there, as far as we are concerned, we are growing and they are growing. There are different markets and different consumers who are consuming our price point versus the 10-rupee-plus price point.

Of course, margin pressures are high. Our water growth is better because water is where the greatest pressure is for B-brands and local players due to the increase in availability and the increase in raw material costs. I am sure they are growing; I do not have an exact number. We are looking at good double-digit growth based on what we have delivered.

Devanshu Bansal – Emkay Global: My question was more from our growth perspective. Can this turbulent period lead to better growth for us, obviously because we are not changing our price points? Can we grow faster compared with what we were expecting earlier?

Management: My only question is this: when they are selling full-sugar products at 10 rupees, I am not sure how B-brands are able to sell them. I have no idea how they are running their business or what they are doing, so I cannot answer that. We know that our growth is coming in at more than 20%, which we are very happy about. We are hoping that we can deliver better numbers, friend.

Devanshu Bansal – Emkay Global: Fair enough. Thank you so much. Secondly, as far as PET is concerned, it is approximately 10% to 15% of your sales, right? So we have indicated a...

Management: Sorry, your voice was breaking. Could you repeat that?

Devanshu Bansal – Emkay Global: PET is approximately 10% to 15% of your sales. We have indicated a 300 basis points margin impact, while the raw material in PET is only 20% to 30%, right? Crude prices, however, are up by around 50%. I wanted to check whether this entire crude increase is already reflected in the current P&L, or whether we may see some further impact as we move forward.

Management: The 100% crude price increase is already built in because all these fresh stocks are being consumed. The prices, of course, depend on timing and on the purchases that help us. We had also invested in rPET, if you remember.

Management: Backward integration.

Management: We have rPET as a backward integration through in-house rPET supplies. I think the exact number will be provided to you, but around 30% or more is rPET, which is much cheaper than virgin PET. That has helped us keep this pricing under control. We had a cost advantage, and if it flows back into the market, it can definitely also help in increasing our share. That net price works better, but as Varun said, we are happy with growth of more than 20%, and we will happily share any upside with you. [laughs]

Management: Very happily. [laughs]

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Management: Yes.

Devanshu Bansal – Emkay Global: That is very encouraging to hear. Thanks for taking my question. All the best.

Management: Thank you.

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

Anand Shah – Axis Capital: Hi, team. I have a couple of questions. First, is there anything you can share on expansion in existing categories and especially {? Kiba ?}? It is early days, but what kind of capital deployment are we looking at and what are the plans?

Management: It is very early days. Alcobev is an interesting space to enter, especially RTDs, given the way they are growing in India. Africa also has significant scope to grow them. RTDs are growing at about 13% to 15%. We are looking to see where we can partner and enter RTDs; that is the first thing.

Secondly, global brands such as PepsiCo, Coca-Cola, and others have entered RTDs in the United States, the United Kingdom, and Canada with their co-brands, such as Pepsi, Mountain Dew, and 7UP, because that is what the younger generation is drinking now.

Our immediate plan is to enter RTDs. We are also looking, and are currently in discussions with many global players, to partner with them and bring their products to India. Our idea in alcobev is largely that, if we undertake the entire portfolio, we would like to play in the prestige-plus segment. We are not looking at margin-dilutive portfolios. If we can maintain higher margins, work with international brands, obtain the right brands, and premiumize the portfolio, that is what we would like to do.

There is still a lot of work in progress, and hopefully in the next call we will be able to give you more clarity.

Anand Shah – Axis Capital: Got it. Would you also be open to inorganic opportunities?

Management: Of course. Of course.

Anand Shah – Axis Capital: Got it. Lastly, you called out some interim impact on Sting, and now it is coming back. Why would that have had a volume impact? It would also have had a realization impact, given its higher realization compared with the other portfolio, right?

Management: That was also neutralized because we previously had a 300 ml pack, whose costs had gone up, and we reduced it to 250 ml. So there was obviously some offset to the raw material impact when we reduced the size.

Anand Shah – Axis Capital: Got it. Beyond Sting, have you made any other price-pack architecture changes, such as from 200 ml to 250 ml, that you would like to mention?

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Management: No, not as yet. This year, what was very important for us was to maintain and ensure that we achieved high double-digit growth. Much of the pack-price intervention we undertook was based on how dynamic the market was. We wanted stability.

The earlier question from Vivek or Avneesh was about how things look going forward with all the raw material pressures. We will have to see what the industry does, friend. This is a rapidly changing industry. It is not the same as it was earlier, and we are also on our toes.

Our job is to ensure that we maintain our margins as well as we can and offset the pressure as much as possible. I think we have done a good job this quarter, and hopefully going forward we will plan according to how the industry moves.

Anand Shah – Axis Capital: Got it. That is fairly clear. One final question: is there anything you would like to call out regarding October? Are you seeing similar momentum continuing?

Management: The quarter is still in progress, Anand. I think we should wait.

Anand Shah – Axis Capital: Okay, got it. Fair enough. Thank you very much.

Management: Thank you.

Operator: Thank you. The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra – Goldman Sachs: Thanks for the opportunity. My first question is on the Africa business. Could you let us know the constant-currency growth and how much of the top-line growth was due to currency? A related question is that, as you enter the season in Africa, which is the December and March quarter period, given the capacity situation, do you think volume growth can taper off from these very high levels, or do you have enough capacity to sustain growth during the season in Africa?

Management: There are two questions. The first is currency. This year, we said that currencies are more stable, so there has been no negative or positive effect. If there is anything marginal, it is compensated between one country and another. Last year, there was a good currency benefit, which we duly accounted for.

Your second question is about capacity. We are fully preparing ourselves because the season in South Africa and the DRC is November, December, and January. We are already running our plants at full speed there. In Morocco, the season was in August, when capacity was short. Hopefully, before the next season, we will have enough capacity installed at all locations.

As far as South Africa is concerned, with the BevCo acquisition, we have enough capacity, and I do not think we will face a shortage this year. The only small gap was in Zimbabwe. Zambia had excess capacity and will support Zimbabwe on a monthly basis starting this month.

Management: For next year, we are also adding more capacity in Zimbabwe.

Arnab Mitra – Goldman Sachs: Got it. My second question is on international business margins. They seem to have held up better than the standalone business in terms of gross margin as well.

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Has it been easier to pass through pricing there, or is it more related to your own initiatives on backward integration? Will margins be better protected there even though those markets would also face the same inflationary pressures?

Management: The margin has improved slightly because BevCo had backward integration, and we have started backward integration in other locations as well. The improvement in margin is because of that. Economies of scale have also started playing a role.

As we stated in the opening remarks, BevCo was effectively integrated from August 1, and several synergies have already started showing up.

Arnab Mitra – Goldman Sachs: Just one quick follow-up. Are the input cost pressures on PET, cans, and other materials fully reflected in the September quarter, including in the international business?

Management: In international markets, the impact is 272 basis points, compared with around 300 basis points in India. India is slightly higher.

Management: It has all been accounted for in the quarter.

Management: Yes, it has all been accounted for.

Arnab Mitra – Goldman Sachs: Got it. That is all from my side. Thanks, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi – Kotak Securities: Thanks for the opportunity. I have a few questions. The first is on international operations. This year, you have managed to deliver more than 20% organic volume growth every quarter. Can this momentum continue for another couple of years? Should we consider this the new normal run rate for international business volume growth?

Management: In the world we live in today, who knows what will happen tomorrow, but we hope to continue delivering the numbers we have been delivering quarter-on-quarter.

What we normally say is that if per capita consumption in India is very low because penetration is low, then in Africa we believe penetration is even lower. The more investment we make and the more countries we enter, the greater the opportunity.

There is an example my father always gives. When we entered Zimbabwe as a market, the entire market was 35 million cases. Now, after 6 to 7 years, we are doing almost 75 million cases, and our competition is doing approximately 35 million. It depends on how many players there are and how much investment we make. There is no reason why growth should not continue.

Jay Doshi – Kotak Securities: Understood. So basically, this is a structural pickup in growth and not related to seasonality, favorable weather, or anything like that?

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Management: I will answer that by saying that we look at the business quarter-on-quarter, and I do not believe that is the right way to look at any business of our scale. Penetration is very low in India and in most of our markets. There is population growth in all our markets.

When we compare the first quarter with the first quarter or the second quarter with the second quarter and say that performance did not go well, we have to look at the business on a long-term, consolidated basis. If you look at our history over 5 or 6 years, every year there has been double-digit CAGR growth, profit growth, and EBITDA growth.

This is a long-term business, and we are here for the next 5, 10, and 15 years. This is a story that is going to play out. The India consumption story is going to be significant, and Africa is going to be significant as well. Hence, we are very bullish and are committed to continuing to invest in both Africa and India at the same time.

Management: We have consistently delivered growth in the 20% range over the last 30 years.

Management: There may be raw material prices going up, weather deteriorating, or competition taking some action, but consistent delivery of shareholder returns and profitability has continued along with volume. So yes, we believe in the business and remain very bullish.

Jay Doshi - Kotak Securities: Thank you. My next question is about consumer acceptance and repeat purchases for low-sugar variants of Mountain Dew and Pepsi across markets and states in India.

Management: They have been largely accepted. I would say that there is significant acceptance in 85% to 90% of locations. Of course, in certain places consumers prefer a high-sugar profile, and we face challenges there. But we do not segment the business by state or district to see what is happening. As long as the overall brand is growing and doing well, we are very happy.

Jay Doshi - Kotak Securities: My third question is about the beverage association considering price increases if inflation remains elevated. Is the new entrant also a member of this association?

Management: No. When I said “beverage association,” I meant that there is discussion among the competition and within the industry that everybody is under pressure and is trying to figure out how to offset the costs. There was no common conversation in a room. I am simply saying that this is the general discussion because there is margin pressure due to raw material prices.

Jay Doshi - Kotak Securities: Understood. My last question is about the level of AI adoption in the organization at this point. Do you have any efficiency or productivity targets from a medium-term perspective? Where do you score versus other PepsiCo bottlers globally and perhaps other Coca-Cola bottlers in India and in your sector, in your assessment?

Management: We have done a lot of work in this area over the last few years. According to PepsiCo, we are doing a good job. We cover more than 4 million outlets, and all the outlets are now geo-latitude-and-longitude mapped. All our distributors are mapped.

Management: This covers every part of India and all the thousands of distributors we have. All our route operations, route sizing, time to delivery, and speed to delivery are mapped through the AI

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tool we use. This tells us which distributor should serve which part of the outlet base and what the distance should be.

Once we put all of this in place, it reduced distributor attrition in the market. We have also started having larger-scale distributors because distribution has become more stable. That is one major thing we have done.

The second major thing is our order management system, which we developed with EY. For every distributor, we have visibility of how many SKUs they are picking up, how often they are taking the truck, how often the load sizes are moving, which brands are moving, and what we want to push with them.

Every day, we receive a push report. This makes things much easier and clearer by providing control-tower visibility that we did not have earlier. It also helps us increase our range and flavor profile in the market.

A couple of other things that we have done and are working on include a B2B app called Bandhan. Sometimes the PSR or sales representative is not present in the market, so we asked how a retailer could place an order. We launched the app less than 6 months ago, and we now have half a million retailers ordering through it every month.

Our first goal is adoption. Once people adopt the app, we will gamify it and see how we can engage them more with the app and provide personalized service. That is another major initiative we have undertaken, and it appears to be working.

Another very important area is that we now have more than 1 million coolers in the market. We also have an app that provides us with almost half a million images every month. We want to know the purity of the cooler and how the cooler is performing. All that data has started coming in.

We are working with different companies and AI labs because the amount of data being generated is so large. Our first task was to clean the data and ensure that the right data was available. There is a great deal of work still to be done, and much of it is benefiting us by increasing our distribution and ensuring that a wider range is available to consumers in the market.

Jay Doshi – Kotak Securities: Thank you for the detailed response, and I wish you the very best. Thank you.

Operator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra – J.P. Morgan: Thank you for the opportunity. My first question is to clarify your comments on margins. Given that you said the full cost for both the Indian and international businesses is now reflected in the September quarter, and that you will look for more efficiencies and hopefully pricing as well, is it fair to assume that gross margins troughed in this quarter?

Management: Latika, based on the present price trends, we can broadly say yes. I hope there are no further surprises on the macro factors. Given the situation today, the answer is yes. There may only be upside as we initiate price-pack architecture changes, such as the one we have implemented for

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Sting. The question is how much and how quickly we can roll this out to the other packs. That is the correct understanding.

Latika Chopra – J.P. Morgan: My second question is on price-pack expansion ahead of the upcoming season. How are you thinking about the 10-rupee price point, given that volumes in that pack have come down to 150 ml? Would you view this as a viable opportunity to drive penetration, or would you avoid pushing this price point because of the margin perspective?

Management: As I mentioned earlier, the 10-rupee price point was never part of our larger portfolio strategy. Even this quarter, our 10-rupee price point would account for only 0.2% or 0.3% of our overall volumes.

I do not think we are focusing on the 10-rupee price point because we believe that the pricing and offering we have, along with the current consumer profile, will continue to give us very good growth, as it has this quarter.

We are not looking to pursue it because even if we reduce the pack to 150 ml, the pricing and unit economics simply do not make sense. We would not like to build a business that is not sustainable in the long term. With our current portfolio, which includes dairy, energy, and CSD, we see all of these categories growing at strong double-digit rates.

Latika Chopra – J.P. Morgan: The last point is whether you could share some information on your investment and capex plans for CY 2027, where you expect capex for CY 2026 to land, and the breakup between India and overseas. Please also clarify whether this includes any investments planned for the new businesses.

Management: As far as 2026 is concerned, the capex is already over. The focus is now on 2027. As we mentioned, in the international markets we had to add lines in South Africa, Zimbabwe, Morocco, the DRC, and Zambia. The combined capex for all these locations is under $100 million, perhaps between $90 million and $100 million, for the international markets.

As far as India is concerned, total capex, including one greenfield plant at Suratgarh, Rajasthan, and one PET line, is around 1,000 crores.

Management: It is about 1,000 crores in India and about $90 million for international operations.

Management: That is right.

Latika Chopra – J.P. Morgan: Sure. Thank you, gentlemen.

Management: Thank you.

Operator: Thank you. The next question is from the line of Bhavya Gandhi from Bajaj Alternate Investment Management Limited. Please go ahead.

Bhavya Gandhi – Bajaj Alternate Investment Management Limited: Thanks for the opportunity. I wanted to understand the rPET side. You said that the cost is currently lower. What is the rPET mix in total packaging as a percentage of total volume? Please provide some number on that.

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My second question is about gross margins structurally. As you enter newer products during the interim period, can we expect gross margins to soften during the interim period until you scale those brands and newer product categories? Please share some thoughts on that.

Management: Our rPET mix, Bhavya, has been close to 25%, which is helping reduce the overall resin cost that we were discussing earlier.

Regarding your second question, for new product launches within the beverage portfolio, we are not seeing any margin dilution from the launches we have undertaken, the launches we are doing, or the products we will scale up. The rest of the businesses are too early to comment on. Once we have a concrete plan, we will come back to you.

Bhavya Gandhi – Bajaj Alternate Investment Management Limited: Is the entire rPET volume sourced internally? Before the West Asia crisis, rPET used to be available at a higher rate, and given that the rPET regulation is in place, can we expect packaging costs to remain structurally higher assuming that the war ends one day?

Management: We use a large part of it internally, but we also purchase some from outside. At the moment, given the price of oil and virgin PET, rPET is much cheaper than virgin PET.

Bhavya Gandhi – Bajaj Alternate Investment Management Limited: On a longer-term basis, assuming that the war is no longer in place, what would you expect, given that the rPET regulation is in place?

Management: This will definitely increase. Our next plant will be operational in 1 or 2 quarters, and this number will definitely go up.

Bhavya Gandhi – Bajaj Alternate Investment Management Limited: Thank you very much.

Management: Yes, please go ahead.

Bhavya Gandhi – Bajaj Alternate Investment Management Limited: Did you want to say something?

Management: No, please go ahead. That is fine. Thank you.

Operator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra – Motilal Oswal Asset Management: Good afternoon, and thanks for the opportunity. From a longer-term perspective, if you look at our history, there has been significant evolution in terms of the initiatives we have undertaken, and even now you are entering new categories. How do you envisage the company looking 5 or 10 years from now? Thank you.

Management: The first starting point is that our core business is the beverage business that we are already operating. That will inherently remain a large part of the group, both today and in 5 or 10 years. Hence, driving growth in this business, our core business, has been the highest priority. We are very happy to say that this quarter has delivered that result, and performance over the nine-month period has also been very good.

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Broadly, we will be an F&B company. Alcobev is another area that we have entered, and we believe there are synergies between what we do today at a Varun Beverages Ltd. level and what we would do at an alcobev level. We have a large number of outlets, including off-premise outlets where Varun Beverages Ltd. operates, as well as restaurants and bars. We already go there with a complete portfolio of mixers, CSD, and energy products.

To increase our portfolio, if we are able to add alcobev products, we can offer a concerted portfolio. We already have relationships with most of the outlets where we operate, so alcobev fits into the overall strategy.

Secondly, alcobev is a fast-growing category, as mentioned earlier. Apart from that, we are looking at other expansions that we can undertake in the food and beverage space. Once that becomes clear, we will come back to you.

Atul Mehra – Motilal Oswal Asset Management: That is helpful. Thank you, and all the best.

Management: If you have any ideas, please let me know. [laughs]

Atul Mehra – Motilal Oswal Asset Management: We will catch up offline.

Management: Done. Thank you.

Operator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor – Investec: Good afternoon. I have one question on advertising and marketing spend. You mentioned rationalization of trade spend. In the current context, with costs being high, I know that a large part of advertising spend does not sit in your books, but how does the advertising market spend play out? How does your relationship with PepsiCo work in periods of high inflation? Does the advertising and marketing spend undertaken by PepsiCo remain at normative levels?

My question is based on the fact that if those levels remain high, that would be a source of competitive advantage. I wanted to understand how this works during periods of high inflation.

Management: It depends on how the industry is moving. If, for example, we can rationalize trade spend by Rs.5, we would not do so if the competition is not doing it, because there are certain price points from which we cannot move away.

There is a 10-rupee price point that we largely do not play in, along with 20-rupee, 50-rupee, and 100-rupee price points. These are inherent price points from which you cannot move away.

The only lever we have is that, in the industry in which we operate, we provide some of the highest margins compared with any other CPG group. We have 16%, 17%, and 18% margins in terms of MRP margins on many of our packs.

I assume, although we do not micromanage this, that PepsiCo has a full-year marketing calendar covering its marketing spend and how it views the business. If the industry is rationalizing or growth is not at the level expected, I am sure PepsiCo also looks at its books and P&L and manages the spend accordingly.

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Harit Kapoor – Investec: The second point is that earlier this year you mentioned that you had undertaken distribution expansion in CY 2025 but did not receive the full benefit because it was a difficult year. This year, you will probably deliver mid- to high-teen volume growth for India. Will your distribution expansion plan start to take effect again next year, or do you still see significant scope within the current 4 million-plus outlets? Do you need further numeric distribution? How are you thinking about this?

Management: We are looking at both, Harit. After September, we already start working toward our distribution plans for the next year. 2025 was not a great year, and consequently, in 2026, the investments made by distributors were less aggressive because they already had the vehicles and warehouse investments in place.

Given our performance in 2026, in 2027 we are planning numeric distribution aggressively, while also planning weighted distribution.

Harit Kapoor – Investec: In your opinion, does the 4 million-plus number still have room to increase?

Management: Absolutely. We are already at approximately 4.2 million based on our latest rate, and we are hoping to add a couple of hundred thousand outlets every year.

Harit Kapoor – Investec: Got it. I wish you all the best. Thank you.

Management: Thank you.

Operator: Thank you. The next question is from the line of Anurag Dayal from PhillipCapital. Please go ahead.

Anurag Dayal – PhillipCapital: Thanks for the opportunity. I have one clarification on gross margins. We had a 100-basis-point impact because of the sale of non-beverage products, including {? treat ?}

Anurag Dayal – PhillipCapital: There is a constant gap. Do we expect this impact to continue next quarter as well? Secondly, why are we selling so much of it? Do we have an agreement with a third party to sell it? If it is inflationary, would it not be better to consume it internally instead of selling it outside at a higher price?

Management: This is over and above what we use ourselves and for other purposes. It is only a marginal amount and helps us amortize part of our fixed expenses. This is additional contribution coming to us. If we sacrifice this, we will not recover that amount of fixed overhead.

Anurag Dayal – PhillipCapital: Do you think the impact will remain at 100 basis points, or will it ease from here? I am referring to the overall impact.

Management: It depends. If the material is available and we capture it, this will help the absolute figure increase. As a percentage, it may have a slight impact, but as long as it contributes to the bottom line, I think we should continue doing it. {? for it ?}, the estimated figures may look like the numbers up to February 28 because of the pre-war versus post-war comparison. Perhaps it could

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be one or two months further because we had inventory up to June, actually.

Anurag Dayal – PhillipCapital: Secondly, regarding the Campa launch, where do things stand? Are you planning to do it in the second half of the year?

Management: We are still working on the marketing plans for Campa, and we will be ready around December or January to launch the brand.

Anurag Dayal – PhillipCapital: Do we have any initial clarity to share on how we are going to launch it, or is it still under development?

Management: It is largely under development because we usually align it with a marketing calendar. Even with PepsiCo, the entire marketing calendar is usually finalized around December.

We are looking to launch in certain key markets across India where we have production capability and test different regions to see the consumer taste profile and how the product performs. Then, of course, we will finalize the marketing calendar, which usually begins around late February or March. So we still have some time.

Anurag Dayal – PhillipCapital: That is all from my end. Thank you very much.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Thank you, and over to you, sir.

Management: Thank you. I hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or wish to know more about the company, please feel free to contact our investor relations team.

Thank you once again for your interest and support and for taking the time to join us on this call. We look forward to interacting with you soon. Thank you.

Operator: Thank you, members of the management. On behalf of Varun Beverages Ltd., that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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