Management Discussion & Analysis

Indian Economy

India demonstrated exceptional economic resilience in 2023, emerging as the world's fastest-growing major economy. With a growth rate of 6.3%, the country continues to attract investment underscored by its ability to offer large-scale operations to multinational corporations, a vast pool of skilled professionals, and its excellence in technological and innovative advancements. Despite global economic headwinds, inflation, and rising interest rates, India's economic performance was supported by strong domestic demand, substantial public infrastructure investment, and a strengthening financial sector.

As 2024 approaches, India is poised to maintain its position as the fastest-growing major economy. With a positive outlook for the future, the country's economic prospects remain bright, laying the groundwork for further acceleration in the coming years.

Source: IMF – World Economic Overview

Soft Drinks Market Overview & Outlook

In 2023, Indian soft drinks industry encountered a challenging yet progressive year. Following substantial growth in 2022 attributed to the resurgence of out-of-home consumption, the industry confronted unseasonal rains that disrupted sales during the critical summer season. Nevertheless, the sector adeptly adjusted to evolving consumer preferences and maintained a steady growth trajectory. This resilience was particularly evident in the energy drinks segment, which, after emerging as a growth category in 2022, continued its expansion through 2023.

The broader soft drinks market, encompassing carbonates, juices, and bottled water, also sustained growth during the year. Carbonates retained their position as the largest category in terms of volume as much as value, reflecting their enduring popularity among Indian consumers. Industry growth was fueled by expanding demographic profiles and burgeoning middle-class population. These demographic shifts, coupled with increase in disposable income, spurred higher demand. Urbanization played a pivotal role as well, with more individuals relocating to urban areas, leading to greater exposure to and demand for diverse soft drink options.

Moreover, the advancement of electrification and improved electricity supply, especially in rural areas, contributed significantly to the industry's growth. Enhanced infrastructure facilitated better cold storage and distribution capabilities, crucial for the beverage industry, and enabled broader market reach and product availability in under-penetrated markets. This amalgamation of infrastructural advancements and demographic shifts bodes well for the future prospects of India's dynamic and growing soft drinks industry.

Soft Drinks – Key Growth Drivers and Opportunities

The soft drinks market in India is poised for substantial growth, driven by several key factors:

Youthful Demographics and Economic Contribution: With a substantial portion of the population in the 15-64 age bracket, India's youthful demographic forms a considerable workforce fueling economic growth. The evolving dynamics of this young population, marked by increasing purchasing power, accelerated urbanization, and expanding rural market engagement, are expected to significantly boost soft drink consumption in the country.

Accelerated Urbanization and Rising Incomes: Predominance of the working-age group in over half of India's population is leading to an increase in disposable incomes and transformation in consumption patterns. Additionally, growing participation of women joining the workforce is contributing to higher household incomes, further enhancing consumer spending capacity.

Increased Household Spending: The last decade has witnessed a marked rise in average household expenditures. Indian consumers are spending majority of their discretionary incomes towards categories beyond basic necessities. Factors such as rising disposable income, evolving consumer preferences and a growing population are driving the demand for beverages.

Rural Advancements and Enhanced Electrification: The outlook for India's rural areas remains optimistic, supported by forecast of good monsoon and improved agricultural conditions. Enhanced electrification and better electricity supply in villages will further aid in the availability of cooling infrastructure in these regions, thereby promoting expansion of the industry.

Location: A large portion of the Indian population resides in regions with hot, dry, or moderate climates. This will significantly boost the consumption of soft drinks in coming years.

Innovative Products: Indian market has a large young population that has been driving the demand for new and unique flavors. Catering this trend, the industry is continuously focusing on expanding its product offerings and introducing innovative options, such as new and creative flavors and packaging solutions.

Business Overview – A Key Player in the Beverage Industry

VBL's Presence

Varun Beverages Limited ('VBL', or, 'the Company'), a significant player in India's beverage industry, operates across six countries. Three of these are situated in the Indian Subcontinent (India, Sri Lanka and Nepal), contributing to ~83% of net revenues. The remaining three countries are located in Africa (Morocco, Zambia, Zimbabwe), contributing to ~17% of net revenues in CY 2023.

Symbiotic Relationship with PepsiCo

The Company has maintained a strategic, mutually beneficial, and long-standing partnership with PepsiCo for over three decades, since the beverage giant entered the Indian market. VBL accounts for more than 90% of PepsiCo's beverage sales volume in India. Leveraging its extensive manufacturing infrastructure and well-established distribution channels, the Company is responsible for manufacturing, marketing, and distributing a range of PepsiCo-owned products. These include carbonated soft drinks, carbonated juice-based beverages, juice-based beverages, energy drinks, sports drinks, and packaged drinking water.

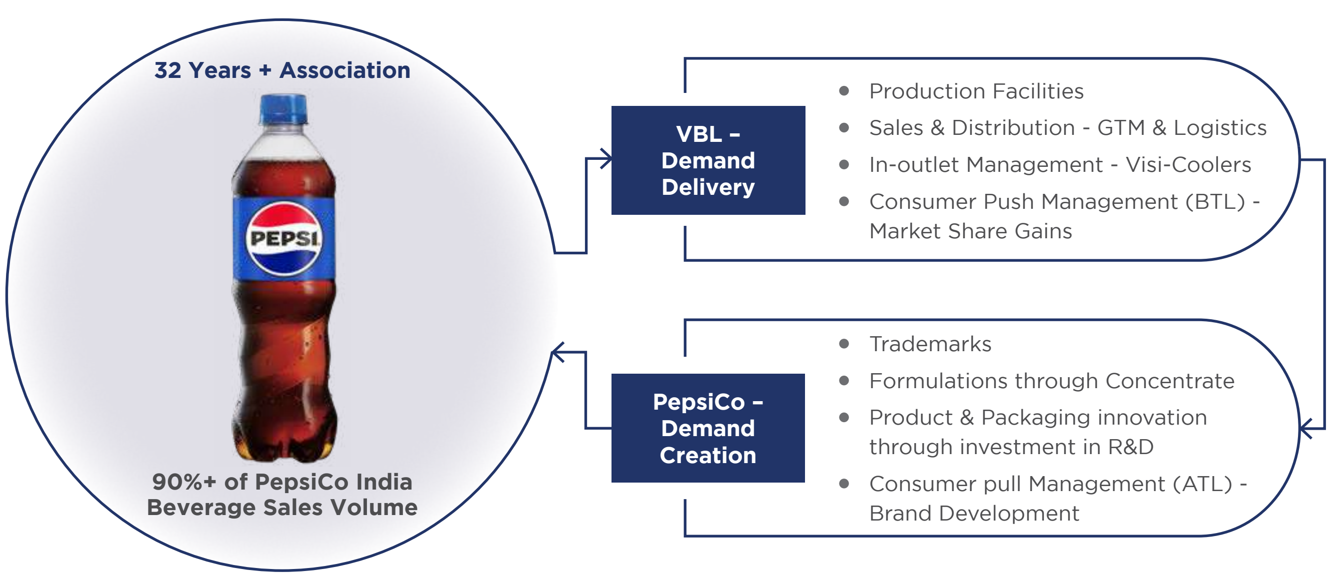
The various PepsiCo brands manufactured and distributed by VBL include Pepsi, Pepsi Black, Mountain Dew, Sting, Seven-Up, Mirinda, Seven-Up Nimbooz Masala Soda and Evervess. PepsiCo non-carbonated beverage (NCB) brands produced and sold by the Company include Slice, Tropicana Juices (100% and Delight), Seven-Up Nimbooz, Gatorade as well as packaged drinking water under the brand Aquafina.

The Company has built a strong sales team that collaborate closely with PepsiCo on local advertising and marketing campaigns. The Company has also been granted franchise rights for several PepsiCo products in India's 27 States and 7 Union Territories, as well as Nepal, Sri Lanka, Morocco, Zambia, and Zimbabwe.

Business Model

The Company manufactures and distributes a wide range of carbonated soft drinks (CSD), as well as a large selection of non-carbonated beverages (NCB), including packaged drinking water. It operates under a unique business model with end-to-end execution capabilities spanning from manufacturing, distribution and warehousing, to customer management, in-market execution, and managing cash flows for future growth. PepsiCo provides brands, concentrates, and ATL marketing support to VBL. In return, VBL assumes complete control over the manufacturing and supply chain processes, driving market share gains, enhancing cost efficiencies, and managing capital allocation strategies.

VBL boasts extensive experience in managing soft drink distribution, involving complex logistics and



product packaging. While business operations maintain similarities across all markets, each territory and sub-territory present unique operational challenges. These challenges vary from ensuring reliable electricity supply and refrigeration equipment to addressing logistics needs, as well as navigating demographics and general socioeconomic conditions in the respective market.

The Company has established a robust and well-entrenched distribution network covering urban, semi-urban and rural markets, catering to a diverse range of consumers. This strategically located distribution network aims to maximize market penetration across licensed sub-territories in India. Leveraging its strong production capabilities and distribution network, the Company effectively responds to competitive pressures, market demands and evolving consumer preferences across targeted territories.

As of December 31, 2023, the Company operates 39 state-of-the-art manufacturing facilities, with 33 located in India and 6 in international territories. Additionally, it boasts a robust supply chain, encompassing over 120 depots, a fleet of 2,500+ owned vehicles, 2,400+ primary distributors and over 1,000,000+ installed across various markets.

Over the years, VBL has expanded its operations in India both organically and in-organically. Through inorganic expansion, it has acquired additional territories from PepsiCo as well as previously franchised territories. With a dedicated and knowledgeable sales staff, the Company prioritizes driving growth and expanding market share across categories through various customer push strategies in licensed territories. These strategies include local-level promotions, in-store activations, customer relationship management, merchandizing, individual account management, and evaluation of high demand regions for strategic placement of PMX machines and visi-coolers.

VBL has also implemented several strategic initiatives aimed at enhancing operational excellence, such as backward integration of manufacturing processes and centralized raw material sourcing. Backward integration facilities for the production of preforms, crowns, plastic closures, corrugated boxes, corrugated pads, plastic crates and shrink-wrap films have been established in certain facilities to ensure operational efficiencies and maintain high-quality standards.

Key Business Developments – 2023

South Africa territory M&A opportunity

- The Company has entered into a binding agreement to acquire 100% stake in the business conducted by The Beverage Company (Proprietary) Limited, South Africa along with its wholly-owned subsidiaries ("BevCo"), with an option to accept minority co-investment from large equity fund, subject to regulatory and other approvals (if any) including but not limited to PepsiCo Inc. and Competition Commission South Africa.
- BevCo is engaged in manufacturing and distribution of licensed (PepsiCo Inc.) and own-branded non-alcoholic beverages in South Africa. It holds franchise rights from PepsiCo Inc. in South Africa, Lesotho and Eswatini. Additionally, it possesses distribution rights for Namibia and Botswana.
- BevCo's own brands account for ~85% of total sales volumes. These includes a popular energy drink – "Reboost" - and the other CSD brands such as "Refreshhh", "Coo-ee" and "Jive".
- The proposed transaction, at an Enterprise Level, is valued at ~ZAR 3 Billion (~₹ 13.20 Billion; 1 ZAR = ₹ 4.4). BevCo achieved net revenue of ZAR 3,615 Million (~₹ 15.90 Billion) in FY 2023.

Formation of New Subsidiary in Mozambique:

- Incorporation of a new subsidiary, 'VBL Mozambique, SA', in Mozambique, South Africa to engage in the distribution of beverages.

Acquisition of stake in Lunarmech Technologies Private Limited:

- On October 16, 2023, the Company acquired 5.03% shareholding in Lunarmech Technologies Private Limited for a purchase consideration of ₹100 Million. Following the acquisition, the Company now holds 60.07% of the effective equity share capital of Lunarmech Technologies Private Limited, which manufactures plastic closures for VBL.

Commencement of Commercial Production at 2 Greenfield facilities and Brownfield Expansion at 6 facilities:

- For CY 2023 season, the Company commissioned new production facilities at Bundi, Rajasthan and at Jabalpur, Madhya Pradesh, as well as expanded capacity at six existing locations namely Pathankot, Kosi, Bharuch, Tirunelveli, Begusarai and Guwahati.

Commencement of Commercial Production at Greenfield facility in CY 2024:

- Following the year ended December 31, 2023, the Company commenced commercial production, including backward integration, at its new greenfield production facility in Supa, Maharashtra.

Production of 100% rPET (recycled plastic) bottles for carbonated beverages:

- During the year, the Company introduced 100% recycled plastic (rPET) bottles for Pepsi Black in specific sub-territories. As a growth partner of PepsiCo, VBL takes immense pride in actively participating in this transformative initiative and collaborating to build a greener future for generations to come.

Credit Rating:

- In CY 2023, CRISIL (an S&P Global Company) reaffirmed the Company's long-term rating for bank loan facilities as CRISIL AA+/Stable.

Awards & Accolades:

- During the year, VBL received the esteemed recognition of PepsiCo's International Bottler of the Year 2022. This outstanding accomplishment further validates VBL's dedication to operational excellence, strong governance principles, and sustainability endeavors.

In addition, the Company received the following prestigious Awards in CY 2023 –

- PepsiCo's Best Bottler in the Africa-Middle East-South Asia region
- PepsiCo's 'Better' category award for our sustainability endeavors
- Business Excellence (Corporate Governance) of The Year 2022 award by Prime Time Research Media Pvt. Ltd.
- Best Corporate Governance Practices - Varun Beverages Limited award under Business Brand Awards

Split:

- During the year under review, the Company implemented a sub-division/split of existing Equity Shares. Each share, with a face value of ₹ 10/- (Rupees Ten only) fully paid-up, was split into 2 (Two) Equity Shares having face value of ₹ 5/- (Rupees Five only) each fully paid-up.

Dividend Payout:

The Company's Board of Directors formalized a dividend strategy in line with good corporate governance practices with the company's listing in November 2016.

Salient Features –

- Endeavor to maintain a dividend payout in the range of 10-50% of annual profit after tax on standalone financials.
- Consider financial parameters like earnings outlook, future capex requirements, organic growth plans, capital restructuring, debt reduction, cash flows, etc.
- Consider external parameters like macro-economic environment, regulatory changes, technological changes, statutory and contractual restrictions, etc.
- For a detailed perspective, please refer to the Company's website at www.varunbeverages.com
- For CY 2023, in line with the guidelines of dividend policy, the Board of Directors recommended a total dividend of ₹ 2.50/- per share.

Financial Summary

P&L

Particulars (₹ in Million)	CY 2023	CY 2022	YoY (%)
1. Income			
(a) Revenue from operations	163,210.63	133,905.58	21.9%
(b) Excise duty	2,784.82	2,174.16	28.1%
Net Revenues	**160,425.81**	**131,731.42**	**21.8%**
(c) Other income	793.59	388.49	104.3%
2. Expenses			
(a) Cost of materials consumed	70,264.61	64,170.92	9.5%
(b) Purchase of stock-in-trade	4,626.96	1,885.71	145.4%
(c) Changes in inventories of FG, WIP and Stock-in-trade	(842.69)	(3,445.07)	75.5%
(d) Employee benefits expense	14,465.87	12,166.42	18.9%
(e) Finance costs	2,680.99	1,861.22	44.0%

Particulars (₹ in Million)	CY 2023	CY 2022	YoY (%)
(f) Depreciation, amortization and impairment expense	6,809.06	6,171.89	10.3%
(g) Other expenses	35,816.21	29,072.39	23.2%
Total Expenses	**133,821.01**	**111,883.48**	**19.6%**
EBITDA			
3. Profit before share of loss of associate and joint venture (1-2)	27,398.39	20,236.43	35.4%
4. Share of loss of associate and joint venture	(4.79)	(0.06)	NA
5. Profit before tax (3+4)	**27,393.60**	**20,236.37**	**35.4%**
6. Tax expense	6,375.47	4,735.23	34.6%
7. Net profit after tax (5-6)	**21,018.13**	**15,501.14**	**35.6%**

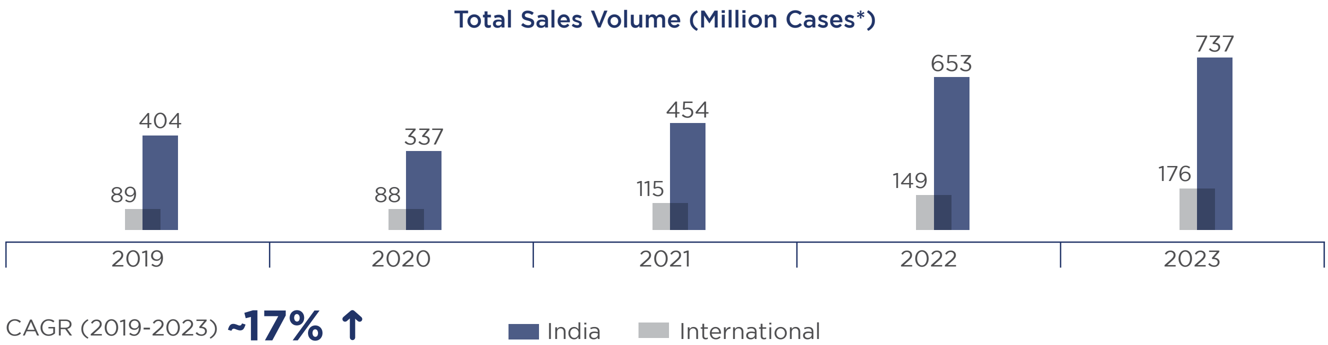
Balance Sheet

Particulars (₹ in Million)	31-Dec-23	31-Dec-22
Equity and liabilities		
Equity		
(a) Equity share capital	6,496.07	6,495.50
(b) Other equity	62,868.91	44,528.30
(c) Non-controlling interest	1,481.55	1,131.07
Total equity	**70,846.53**	**52,154.87**
Liabilities		
Non-current liabilities		
(a) Financial liabilities		
i. Borrowings	31,889.38	17,270.22
ia. Lease liabilities	1,978.85	1,654.25
(b) Provisions	2,126.44	2,041.13
(c) Deferred tax liabilities (Net)	3,430.11	3,368.48
(d) Other non-current liabilities	68.40	5.94
Total non-current liabilities	**39,493.18**	**24,340.02**
Current liabilities		
(a) Financial liabilities		
i. Borrowings	20,054.49	19,677.90
ia. Lease liabilities	390.38	235.77
ii. Trade payables	7,582.48	8,242.61
iii. Other financial liabilities	7,638.39	5,593.90
(b) Other current liabilities	4,650.93	4,889.77
(c) Provisions	825.43	291.91
(d) Current tax liability (Net)	390.02	755.68
Total current liabilities	**41,532.12**	**39,687.54**
Total liabilities	**81,025.30**	**64,027.56**
Total equity and liabilities	**151,871.83**	**116,182.43**

Particulars (₹ in Million)	31-Dec-23	31-Dec-22
Assets		
Non-current assets		
(a) Property, plant and equipment	68,031.32	54,415.78
(b) Capital work in progress	19,222.22	6,066.32
(c) Right of Use of Assets	10,347.07	9,155.01
(d) Goodwill	242.30	242.30
(e) Other intangible assets	5,471.00	5,509.10
(f) Investment in associates and Joint Venture	179.32	0.04
(g) Financial assets	654.18	486.81
(h) Other non-current assets	5,368.12	6,266.77
Total non-current assets	**109,515.53**	**82,142.13**
Current assets		
(a) Inventories	21,505.33	19,938.85
(b) Financial assets		
i. Trade receivables	3,593.85	2,993.38
ii. Cash and cash equivalents	2,422.12	1,543.32
iii. Other bank balances	2,176.50	1,309.35
iv. Others	7,388.23	3,977.06
(c) Current tax assets (Net)	3.11	0.00
(d) Other current assets	5,267.16	4,278.34
Total current assets	**42,356.30**	**34,040.30**
Total assets	**151,871.83**	**116,182.43**

Note: Refer Note 54 of Standalone Financials for key financial ratios along with their explanations.

Sales Volume



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

Varun Beverages reports its financials on a calendar year basis. Given that the soft drinks business is seasonal, with the bulk of sales occurring during the summer season, it is best to track the Company's performance annually. Revenues and profits follow a bell-curve with a significant portion accruing in the April-June quarter.

In CY 2023, VBL recorded a healthy performance, demonstrating notable growth across all key parameters. Despite the unusually heavy unseasonal rains during the peak season, the Company reported strong double-digit volume growth in both Indian and International markets. Consolidated sales volume saw a 13.9% increase, and the net realization per case rose by 7.0% in CY 2023. These factors collectively led to a revenue growth of 21.8% and an impressive PAT growth of 35.6%.

Net revenue from operations reached ₹ 160,425.8 Million, surpassing the ₹ 131,731.4 Million recorded in CY 2022. Total sales volumes for CY 2023 amounted to 912.9 Million cases, a notable increase from the 801.8 Million-unit cases in CY 2022. The Company registered double-digit growth in both its Indian and international operations, recording increases of 12.9% in India and 18.0% internationally. CSD constituted 72%, JBD 6%, and Packaged Drinking water 22% of total sales volumes in CY 2023. The realization per case increased by 7.0% to ₹ 175.7 in CY 2023 driven by improvements in the mix of smaller SKUs (250ml) in the Indian markets and higher realization per case in the international markets.

During the fiscal year, gross margins increased by 137 basis points to 53.8% from 52.5%, primarily driven by the softening of PET chip prices, notwithstanding a slight uptick in sugar prices. Resultantly, due to the augmented realization per case and improved gross margins, EBITDA improved by 29.5% to ₹ 36,094.9 Million, accompanied by an improvement in EBITDA margins by 133 basis points to 22.5% in CY 2023.

Depreciation recorded a 10.3% increase in CY 2023, attributed to the capitalization of assets and the establishment of new production facilities. Finance costs increased by 44%, primarily due to the increase in average cost of borrowing by about 30% to 7.9% per annum, reflecting the prevailing interest rate trends in India. PAT reported a notable 35.6% increase, reaching ₹ 21,018.1 Million in CY 2023 from ₹ 15,501.1 Million in CY 2022, driven by the growth in revenue from operations and improved profit margins.

On the balance sheet, net CAPEX reached around ₹ 21,000 Million by the end of CY 2023, highlighting a commitment to growth and expansion. Out of the total capex, approximately ₹ 8,500 Million was allocated for establishing new greenfield production facilities in Bundi, Rajasthan, and Jabalpur, Madhya Pradesh. An additional ~₹ 8,000 Million was used for brownfield expansions at six existing facilities across India, with the balance directed towards brownfield expansions in international markets, assets written off, and managing forex fluctuations. Furthermore, as part of our growth strategy, we have invested approximately ₹ 1,500 Million towards land acquisitions including Buxar in Bihar, Kangra in Himachal Pradesh in anticipation of construction of plants in the future years. The combined capital expenditure for CY 2023 and CY 2024 is expected to boost the peak month capacity in India by approximately 45% over CY 2022.

As of December 31, 2023, net debt stood at ₹ 47,345 Million, compared to ₹ 34,096 Million on December 31, 2022. The primary driver behind this increase in net debt was the rise in CWIP and capital advances, which increased incrementally by ₹ 12,000 Million (with the closing CWIP and Capital Advances at ₹ 24,000 Million compared to the opening balance of ₹ 12,000 Million). This escalation was largely due to the completion and initiation of production at the Supa plant in Maharashtra by year-end, which is scheduled to become operational on January 25, 2024. Looking ahead, an additional outlay of approximately ₹ 12,000 Million for capex is anticipated for the CY 2024 season. Despite these financial commitments, the debt-to-equity ratio was maintained at a healthy 0.67x, and the Debt to EBITDA ratio was recorded at 1.31x as of the end of CY 2023.

Growth Outlook

Volume Gains

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

Acquisitions

- Penetrate newer geographies.
- Identify strategic consolidation opportunities in South Asia / Africa.

Strengthen Balance Sheet

- Repayment of debt through strong cash generation.
- To enable significant interest cost savings.

Operating Leverage

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

Diversified Portfolio

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

Heading into 2024, VBL is poised to sustain its healthy growth trajectory, leveraging strategic expansions and a fortified market presence developed over decades. The acquisition of The Beverage Company (Proprietary) Limited (BevCo) in South Africa marks a significant milestone in this journey, signaling VBL's substantial entry into the African market. This strategic move underscores the Company's commitment to diversifying its portfolio and strengthening its international footprint, promising to enhance VBL's global operations significantly.

In its core domestic market, VBL is set to maintain a sustained and healthy growth rate in 2024, supported by favorable demographic trends. India's large, young, and expanding middle-class population, with its evolving beverage preferences, presents a significant opportunity for VBL. The Company is well-positioned to capitalize on these demographic shifts, catering to the changing tastes and preferences of this dynamic consumer base. The rising spending power and the increasing inclination towards diverse and quality beverage options in this segment are likely to drive continued demand for VBL's product offerings.

The Company's strategic investments in improving and expanding its manufacturing and distribution capabilities are expected to notably contribute to its future growth. Enhanced infrastructure, particularly in electrification and electricity supply, is set to assist the Company's distribution reach and product preservation, especially in rural areas. This will support VBL's expansion into new markets and ensure the consistent quality of its products. Overall, as VBL moves forward, a combination of factors will support the Company's success and growth in the coming years.

Threats, Risks, and Concerns

The risks and opportunities inherent to all corporations are inseparable elements. The directors and management of the Company make constructive decisions to protect the interests of stakeholders. The Company has implemented a Risk Management Policy, which is continuously monitored and reviewed under the guidance of Audit, Risk Management and Ethics Committee. This Committee convene periodically to identify processes exposed to risks, determine risk mitigation strategies, and oversee their implementation.

Risk	Description	Mitigation
1. Demand Risk	A cyclical downturn can result in a slowdown in the Company's target markets, affecting its sales velocity.	Over the years, the Company has demonstrated its ability to drive significant growth in sales volumes by focusing on delivering the right brand, the right price, the right product, and the right channel. Additionally, the business operates in relatively under-penetrated markets with favorable demographics, climatic conditions and a growing population, indicating steady demand growth. Further, its wide range of product portfolio enables it to cater to diverse consumer segments.
2. Business Agreement Risk	The Company relies on strategic relationships and agreements with PepsiCo. Termination of agreements or less favorable renewal terms could adversely affect profitability.	Over the past thirty two years, the Company has nurtured a strong partnership with PepsiCo, expanding market ties by venturing into new territories and sub-territories. This partnership involves an expanded production and distribution of a wider array of PepsiCo beverages, integrating multiple SKUs into our portfolio, and broadening our distribution network. The business has demonstrated its effectiveness in significantly boosting PepsiCo's market share, establishing itself as a reliable partner. The collaborative relationship is symbiotic, with both entities actively engaged as development partners. Together, they invest in joint projects and business planning, with a primary focus on strategic issues. Notably, the bottling appointment and trademark license agreement for India with PepsiCo India, initially set to expire on October 2, 2022, has been extended until April 30, 2039, further solidifying this enduring partnership.
3. Regulatory Risk	Regulations regarding consumer health and the risk of the Company's products being singled out for discriminatory tax and packaging waste recovery may adversely impact business.	The Company proactively works with PepsiCo, the Government and the regulatory authorities to ensure that the facts are clearly understood and that its products are not unfairly targeted. VBL adheres to sustainable manufacturing practices and emphasizes on environmental issues related to packaging waste recovery / recycling, water management and greenhouse gas emissions. It consistently engages with stakeholders to develop sustainability solutions that prioritize environmental protection, including partnerships with NGOs and the communities in which it operates. PepsiCo's strategy of introducing healthier and zero sugar variant products also bodes well for the Company's future. The Company has initiated various sustainability initiatives, such as the engagement of GEM Enviro Management Pvt. Ltd. for phased implementation of 100% recycling of used PET bottles and partnering with Deutsch Quality Systems (India) Private Limited for water footprint assurance & the measurement and improvement of Company's carbon footprint.
4. Business Viability Risk	The inability to integrate the operations or leverage potential operating and cost efficiencies from the newly acquired territories and sub-territories may adversely affect the Company's business and future financial performance.	VBL's transparent strategy and financial planning ensure that any future acquisitions or collaborations are not only valuable but also align with the Board's acquisition guidelines. The company dedicates substantial management time and financial resources to secure the success of newly acquired endeavors. This includes developing local market strategies, addressing potential cultural and language barriers, and integrating business practices to ensure the overall viability of the business.

Risk	Description	Mitigation
5. Consumer Preference Risk	Failure to adapt to changing consumer health trends and address misconceptions about the health effects of soft drink consumption may adversely affect demand.	To stay relevant, VBL's sales team works closely with PepsiCo to evaluate evolving consumer habits and consistently focuses on product innovation and expanding the product range. Furthermore, PepsiCo's new product plan places greater emphasis on healthier products with zero / limited calorie and sugar content.
6. Raw Material Risk	An interruption in the supply or significant increase in the price of raw materials or packaging materials may adversely affect the Company's business prospects, results of operations and financial condition.	An integral part of VBL's strategy is to maximize cost efficiencies, the active reduction of cost of goods sold, minimizing operating expenses and increasing cash flows. To achieve these objectives, the business has undertaken significant programs, including backward integration and consolidated sourcing of materials. Leveraging its scale of operations, VBL negotiates with suppliers to enhance bargaining power, resulting in improved working capital management. The Company is dedicated to optimizing its assets to achieve higher operating efficiency and to amortize overheads costs across a wider case range. Additionally, VBL continues to invest in innovative solutions to enhance operational efficiencies and streamline work processes. These efforts include ensuring consolidated operational data from production, scheduled sourcing, and superior monitoring of the supply of goods from manufacturers to the retail point of sale.

Human Resources

As of December 31, 2023, VBL has over 13,500 full-time employees worldwide, with over 9,900 based in India and over 3,600 in overseas subsidiaries. Consistent with its comprehensive business strategies, the Company values its workforce as a crucial asset to drive future growth and advancement.

The Company has always placed great emphasis on nurturing talent within the organization to foster continuous progress. The Company prioritizes employee training, skill enhancements, and long-term engagement. VBL offers in-house training programs aimed at skill development and career advancement opportunities across all levels and functions. Additionally, key employees participate in management and staff enhancement initiatives led by PepsiCo, along with engagement opportunities with India's premier management institutions.

Risk Management, Audit and Internal Control System

The Company has established robust and effective internal control systems tailored to the scale of its sector and the intricacies of the market it operates in. These stringent controls ensure the efficient and prudent utilization of resources, safeguarding the Company's assets and interests. Transactions are meticulously approved, recorded, and accurately reported, with checks and balances in place to ensure the reliability and consistency of accounting data.

To uphold compliance with best practices, the Audit, Risk Management, and Ethics Committee conduct thorough internal audits and periodic assessments. The Company has appointed M/s J.C. Bhalla & Co., Chartered Accountants, and M/s O.P. Bagla & Co. LLP, Chartered Accountants, as the Joint Statutory Auditors to oversee and report on the financial controls of the Company.