

Consumer Sector

27 February, 2023

Understanding 'Bisleri' and the Beverages industry

We recently hosted Mr. Angelo George, CEO, Bisleri International Pvt Ltd, at our virtual investor conference to get deeper insights into the Beverages business. The size of the organized Bottled Water industry (~40% of the overall industry) is pegged at ~Rs160-200bn; of which, the company is a market leader with ~32% market share. One big segment i.e. the Home Consumption segment (not considered in any research data), which includes Gallons, Jars etc, constitutes ~30% of the company's revenue. In terms of demand, FY23 was a good year for the Beverages industry, both in terms of volume as well as profitability considering that growth in most other FMCG categories was value-led. While the summer season was intense, an extended monsoon had some adverse impact on the overall FMCG industry.

Industry points

- The industry is expected to grow at a decent pace due to the following catalysts: (i) A large part of the country has contaminated ground water (ii) Only ~47% of the urban households have piped water connections (iii) Higher penetration opportunities.
- The Premium segment, which is driven by on-premise consumption, is growing at 2x the non-premium segment on the back of activation of right consumption locations (eg: making products available at the right restaurants).
- Logistic cost, being one of the important aspect of the business, is a function of managing network strength in an efficient manner and generating sufficient asset turns. Proximity to the target market is very important in this industry; having a large plant will not be a good proposition if the same is far away from the target market. An ideal distance between the plant and the suppliers should be ~100kms.
- On-trade/Institutional mix is 15-20%. Corporates are still running at ~50% capacity and if some demand momentum is seen in that segment, the mix is likely to move to 23-25%.
- Energy Drinks have gained some good traction in the last year as the Tourine and Caffeine formulation is available at an affordable price. Bisleri is not looking at entering this segment in the immediate future.
- Implementing price increases in the bottled mineral water industry is not easy at the consumer level.

Consumption areas

- On-premise consumption has increased as travel & tourism has recovered well post covid-19. Air travel has also seen a good traction.
- The recently concluded Soccer World Cup in 3QFY23 also created good consumption opportunities.
- The Corporate segment is one area where consumption has not reached its optimum level because of 'work from home' policies implemented by the corporates.

Company specific

- The company has registered good growth this year so far and has done better than the ~20% revenue CAGR that it had achieved over FY15-FY20.
- Currently, it is looking at capturing the upside that the Corporate segment represents.
- Carbonated Soft Drinks is a small part of the company's business.
- It has a strong presence with over 120 operational plants and an extensive distribution network of 6,000+ distributors & 7,500 distribution trucks across India & the neighbouring countries. It has significant dependence on co-packers in its business.
- It is present across the country but there are certain geographies where the company feels it needs to strengthen its distribution network.
- Bisleri recently entered the Hygiene segment as it noticed that hand purifiers saw good traction during covid-19. However, post covid-19, this category has not been able to maintain its momentum. This was more of an experiment for the company and might not be a long term proposition.

Plastic as a raw material

- The management believes that there is certain amount of misunderstanding with regards to plastic as a material.
- ~92% of Polyethylene Terephthalate (PET), which is commonly used to make plastic products, is recycled into higher value products (Eg: Shirts, bags, etc).
- There is a need to handle post-use plastic in an efficient manner, for which the company is running a programme called 'Bottles for Change', which aims to create awareness among citizens about the importance of plastic recycling.
- Earlier, Bisleri packs were available in glass bottles, but because of reasons like affordability, transportability, etc plastic bottles were introduced.
- No other RM is as scalable and cost effective as plastic. It cannot be completely banned/replaced as there is no other viable alternative that can replace plastic.

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