"Westlife Development Q3 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Westlife Development Limited Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dattaprasad Tambe, General Manager, Finance and Accounts. Thank you and over to Mr. Tambe.

Dattaprasad Tambe: Thanks, Neerav. Thank you all for joining us on The Westlife Development Limited Earnings Conference Call for the Quarter-ended December 31, 2021. We are joined here today by Mr. Amit Jatia -- Vice Chairman; Ms. Smita Jatia -- Director and myself, Mr. Dattaprasad Tambe, General Manager, Finance and Accounts for Westlife Development Limited.

Please note that our "Financial Results" and "Investor Presentation" has been mailed across and these are available on our website as well. I hope you had the opportunity to browse through the highlights of the performance.

We shall commence today's call with key thoughts from Amit who will provide a Strategic Overview, which shall be followed by Smita to take you through the Key Business Initiatives with Overall Operational Progress and the Strategic Imperatives that lie ahead. I will cover the Analysis of the Financial Performance. At the end of the management discussion, we will have a Q&A Session.

Before we start, I would like to remind you that some of the statements made or discussed on this call today may be forward-looking in nature and must be viewed in conjunction with the risks and uncertainties we face. A detail statement and an explanation of these is available in this quarter press release, investor presentation and annual reports which is available on our website. The company does not undertake to update these forward-looking statements publicly.

With that said, I would now like to turn over the call to Amit to share his views. Thank you and over to you, Amit.

Amit Jatia: Thank you. Good evening, everyone. Firstly, I wish all of you a very happy and healthy 2022 and hope you and your loved ones are safe.

Year 2021 was a special year for us for many reasons. To begin with, it marked a significant milestone for us at Westlife as we completed 25-years of operations in India. Looking back at the journey, we have traversed, there is so much to be proud of, from a single store in Bandra to over 310 stores in 44 cities, from pioneering large scale lettuce farming, to setting up various ecosystems from scratch that have taken lives of their own, from a 10 employee store to building a 10,000 strong family from bringing a quintessential American brand to India for making it a household name. Our journey has been defined by leadership across menu, people, supply chain and technology. Our growth has been consistent, sustainable, and a true testimony to our commitment to the market.

We have also been very mindful about our impact on the environment and the community we have been part of. We have therefore woven sustainability in our business right from the start and are very proud of our ESG efforts that have resulted in positive impact in terms of reducing carbon footprint, skilling the youth and generating employment.

There have been many wins for us in these 25 years. But the one thing that we are more grateful for, is all the love we have received from our customers 300 million strong customers. And we thought the best way to celebrate this milestone would be to do something to give back to the community.

To mark our 25 years in India, we have announced 25 Acts of Happy, 25 big and small initiatives we hope will bring a smile to the faces of our customers and employees. Smita will be telling you more about these initiatives.

But like I said the year 2021 brought in many more reasons for us to celebrate. 2021 was the year we saw strategies come to life. We believe that the last 20 months have been an inflection point for our business. What started off as an unprecedented crisis, steadily turned into a springboard for our next phase of growth. Our concerted effort to build an all day part menu and omni-channel brand and a strong value proposition, made us the customers favorite. Our technology investments to pivot McDonald's from a food to food tech brand, started manifesting in the way our customers use our brand across several touch points, helping us own the convenience proposition. This complimented with our sharp focus on cost and operational efficiencies. A unique real estate portfolio and best-in-class supply chain helped us accelerate business and set new benchmarks. We saw this play out strongly in Q3 FY'22. As we delivered our best ever quarter so far, firing on all cylinders, notwithstanding the restrictions and volatilities.

The convenience channels that we built over the last 20 months continue to grow stupendously. As we have hypothesized right at the beginning of the pandemic, the convenience channel continue to add incremental revenues led by new brand use cases, even as dining came back strongly. This is a true testimony to our omni-channel strategy, with customers being able to access us wherever and however.

Menu innovation is our core strength and this quarter we added the new gourmet burger collection to our menu. The customer feedback for these new indulgent range of burgers have been phenomenal. Last quarter, I shared how our new fried chicken platform was aiding the average unit volume growth in a big way. Now, with these new burgers, our AUV is set to accelerate further, boosting the overall profitability of our restaurants.

I now hand over to Smita to take you through the Earnings Presentation.

Smita Jatia: Thank you, Amit and good evening, everyone. Happy new year to you all and hope you are all keeping safe.

I am happy to share that Q3 FY'22 was our best ever quarter with robust trends across all business parameters. As a stronger new normal session for us, our revenues jumped by 46.7% YoY to 4,768 million, our highest ever in 25-years. Our SSG for the quarter stood at 44% YoY. This was driven by growth across both dine-in and convenience channels that grew by a solid 39% and 55% respectively.

Our performance continue to accelerate through the quarter. We started by clocking an all-time revenue high in October, and then beat that in December, setting a new benchmark. This growth in revenue was complemented with continued cost efficiencies. So, despite all inflationary pressure, we clocked a robust gross margin of 66.4%, an improvement of 48.3% YoY. Our strong top line ensured a robust 60.3% YoY jump in restaurant operating margins that stood at 22.6%, again, setting a new benchmark. We also reported an all-time high EBITDA of INR836.2 million, a 61% increment YoY taking our EBITDA margin to a new high again. As a result, our PAT zoomed to an all-time high to INR208.2 million, a formidable jump over the same quarter last year.

What is particularly interesting to note is that this growth came in a quarter that continue to see COVID-led restriction. But our strategy pegged on a strong channel mix enabled us to activate different levers depending on what the external environment was. This helped us capitalize on the tailwind for the organized eating out sector and grow our overall revenue pie, which we believe is the new baseline for us.

Q3 FY'2022 was a true manifestation of all our efforts in the last 20 months. Our vision to build a "All for One Brand" with an omni-channel presence, and relevant menu offerings for all day parts and segments truly came alive in this quarter.

We saw a strong dine-in as malls and food courts recovered. This however did not result in any cannibalization for our convenience business, which continue to accelerate.

Like you can see on slide number 11, our sales mix over the last few quarters has had a significant share on convenience-led revenue. Even in this quarter where most dine-in restrictions were eased, 45% of our revenue came from our convenience channel. This is a testimony to our definite pivot to being a convenience-led brand with a stabilizing channel mix.

As, we have been making concerted efforts to build and grow our meal day part through our fried chicken and premium burger platform. I am happy to share that this quarter we saw a robust 50% jump in our meal day part revenue. This led to a larger revenue pie on the back of new customers, new brand use cases and growing AUV.

Menu innovation, omni-channel strategy and network expansion continue to be the key levers of our strategy. Our burger leadership aids our all day part proposition and enables us to own both the snacking as well as the meal proposition.

Reinforcing our burger leadership this quarter, we launched our New Gourmet Collection. A range of premium, indulgent and more filling burgers made with exotic ingredients and sauces. This helped us bring in new customers to the McDonald's fold and further strengthen our meal proposition. As a result, our burger meal volume grew by over 50% as compared by June 2021 and we saw a good jump in our brands cost for great tasting burgers.

As you know, chicken is emerging as a pivotal platform for us, giving us a strong foothold in the south market and helping us boost AUV in a big way. This quarter we gave our chicken offering yet another fillip by launching "The Rashmika Meal." As a part of the campaign, we not just tapped into superstars popularity to build brand relevance but also led some disruptive innovations to build long term brand recall. As a result, our chickens scores jumped up by close to four times. We also kept our final coffee platform buzzing with exciting new launches, and marketing campaigns.

Finally, as in one of our 25 Acts of Happy, we gave our iconic Happy Meal, a wholesome makeover by adding a mixed food beverage and a cup of hot fresh corn to it.

All these menu interventions together helped us increase our average unit per restaurant by a solid 30%, taking it close to six crores which is two to three times of the industry average.

I would like to highlight that this has come purely on the back of menu relevance without any significant CAPEX investments, thus giving a boost to our ROCE numbers.

Second lever of our strategy. Our omni-channel strategy helped us complement a strong menu relevance by making the brand ubiquitous, accessible however, wherever, and whenever they like

We deployed a series of ATL and BTL initiatives to showcase these channels including delivery takeout on the go drive through and cost time and of cost dine-in. This created new brand use cases, helping us acquire new customers and increase frequency of the existing one.

Convenience continue to fire with McDelivery yet again clocking an all-time high revenue. At the same time, we saw complete recovery of dine-in in the quarter as malls and multiplexes came back. While McDelivery has continued to enable a convenience proposition, our McDonald's have a unique offer engine that gives customers personalized offers, played a key role in driving in-store volumes and frequency.

The App saw cumulative downloads of 1.3 million in the quarter. We also saw both active user base and average check for the McDonald's App increased significantly.

With the stronger baseline, we are back on track with our expansion plans. This quarter, we added eight new stores taking our restaurant count to 316 restaurants across 44 cities. Close to 80% of our restaurants have McCafe now, while 100 of them are experience of the future store.

We are now ready to accelerate our network, doubling our new store run rate from 25 to 30 years to 40 to 50 stores a year. With an investment close to Rs.800-1,000 crores in the next three to five years, we are looking at taking our store count to more than 500.

Our expansion strategy will be completely aligned with our omni-channel strategy. We will have a robust portfolio experience of the future stores, drive thrus and stores with separate takeaway windows, enabling our customers to use our brand, wherever, whenever, however, they like.

Inclusion and sustainability have been important pillars of our 25-years. We have been very mindful about creating a positive impact on the environment and community.

Last year, we launched each EatQual that make the act of eating burgers easy for our people with limited upper limb mobility. This quarter as one of our 25 Acts of Happy, we reinforced our commitment to inclusion through a Refresh to the EatQual Campaign. EatQual is an inclusive platform that we will continue to build. This unique packaging marks just the first step in the direction.

We aim to launch a host of new meaningful innovations to make the McDonald's experience easy for everyone.

I now hand it over to Dattaprasad, who will take you through the financial highlights of the quarter.

Dattaprasad Tambe: Thank you, Smita. Good afternoon, everyone. Hope you all are doing well. Wish you a happy 2022. It's been a happy start for the year for us. As Smita said, we clocked all-time high sales of Rs.4,768.3 million, a 46.7% jump from the same quarter last year. The same-store sales growth has jumped to 44%. The top line results represent a continuation of our broad-based business momentum that is coming from both, on-premise and off-premise consumption. We are seeing robust business growth across all our channels, in-store, delivering, takeaway and drive thrus, thus reinforcing our faith in our omni-channel strategy.

Let me give you some key highlights of Q3. We saw record sales in each of the three months, October November and December, resulting in highest ever revenue with high AUV of Rs.6 crores. Our gross margin jumped by 48.2% despite inflationary pressures. This is because we continue to maximize our supply chain efficiencies and rationalize the food cost. The strong revenue growth led to commensurate increment in both, EBITDA and operating EBITDA, that jumped by more than 60%. This is on the back of operating efficiencies in utilities and M&R.

The flow through of the top line growth also gave our margins a strong boost. And we clocked an all-time high PAT margins, operating EBITDA margins and restaurant operating margins. As a result, our PAT increased manifold and created a new benchmark of INR 208.2 million for the quarter.

We have complemented our revenue growth with continued cost leadership. We continue to target meaningful margin progress and are tracking towards our long-term margin objectives, demonstrating our ability to accelerate value creation regardless of the environment.

We continue to maintain a strong balance sheet and a robust liquidity position by optimizing our treasury and working capital. Our relentless focus on internal improvement and driving synergies across our portfolio, will enable us to extend our continued best-in-class record.

Going forward, we are confident that our operating performance will continue to fuel growth in our already strong free cash flow profile. As a result, we are committed to a historical capital allocation priorities, to invest in new restaurants, in existing restaurants and opportunity to grow the business.

I now hand it over to Amit for his closing remarks.

Amit Jatia: Thank you, Datta. The short term volatilities are here to stay. But we believe we have the right playbook to navigate these and stay relevant to our consumers. We are bullish on the future and press the gas pedal. We have a solid strategy pegged on menu innovation, digital and strategic store expansion. With Gourmet Burgers, the Chicken platform and McCafe, we believe we have the right menu strategy to retain and acquire customers increasing the baseline. We also have a pipeline of digital initiatives to drive personalization and enhance customer experience.

Lastly, we've already started work on our expansion plans that we had announced in October 2021 as a part of our 25th anniversary.

We have identified the opportunities to strengthen our presence and optimize our network. We have an aggressive expansion plan to increase our restaurant count to over 500 in the next three to five years, and already have a pipeline of close to 100 new restaurants that will fructify in the next one to two years.

As we enter our 25th year, we are excited about the opportunities and the possibilities of our next phase of growth pretty much. And I am open for an Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Avi Mehta for Macquarie. Please go ahead.

Avi Mehta

Macquarie: I wanted to understand first from a near term lens. Have we seen any material impact from the third wave on operations and more importantly on the dine-in recovery in this ADS trend that we're witnessing this quarter, if you could help us understand that part, that will be helpful.

Smita Jatia: Whether it's third wave or whatever the circumstances are externally, I think we've been through to an omni-channel presence. And we are able to kind of accelerate a different channel mix depending upon what the external environment. So obviously the third wave did see restrictions on dine-in again, but the good news was we were able to accelerate what we could on our other channels. And that's why even in December, while the last 15-days had restrictions, we were yet able to deliver a stellar quarter.

Avi Mehta

Macquarie: Continuing on that, we have now seen two quarters of almost close to double digit EBITDA growth, whether you take in adjusted or iGAAP numbers or not. With the demand strength sustaining, would it be fair now to expect FY'23 to see double digit EBITDA margins, if you would kind of help us give a sense on what should we look for as we go into next year given the demand side looks?

Amit Jatia: As you've seen, I think we continuously pivot our business based on the situation. And if you look at a four year trend, we've grown our EBITDA by 130 basis points every single year, if you leave out the COVID exception. And I have talked about vision FY'23 effectively which is now sort of coming to close. And we have talked about a 13% EBITDA pre IND AS. I think we are at that number and we definitely see that can be more in the future. We will have an investor day where we will talk about our next vision. And as we boldly laid that out in 2016, we will again boldly lay out our next three to five year vision in the next one year. But yes, you can expect this EBITDA to remain as the baseline.

Avi Mehta

Macquarie: Just a bookkeeping, could you share what CAPEX number should be expected for FY'23 given that along with the 40, 50 stores, there would be investments required in digital as well as supporting infrastructure?

Amit Jatia: Firstly, I think you might have noticed that we've consistently reinvested back in our existing restaurants, which is why whenever we open McCafe, we modernize the restaurant as well. So the important thing is that even in the industry, I think everybody will realize this over time, keeping a modern fleet is extremely important. And today, the relevance of our designs with our consumers is at the highest. So, we have 100% experience of the future restaurants and so on. So, all those investments are going to continue. Essentially, you can expect about Rs.200 crores of CAPEX for the next year.

Moderator: My next question is from Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani

Axis Capital: With regards to your presentation, I have seen one thing that earlier, there was a lot of focus on the value for money meal that we do. But this time it was very heartening to see that the gourmet burgers or chicken offerings are also taking place. So, can you just highlight how big the contribution from these two pieces and with their contribution increases, the gross margin expansion also would be there?

Amit Jatia: It was not very clear, but whatever I could understand, I will tell you. Firstly, in my opinion, I think it's the evolution of our brand. And in our journey, the first idea was to introduce burgers to consumers and make it relevant. And that was the first phase of value recruiting more users into the informal eating out category. What happens is once it becomes baseline, then you got to launch indulgence, which is what we have done now. But, it does not mean that value is over. But, yet at the same time now, consumers do expect indulgent products. So you will see a balance across these parameters coming from us, like particularly gourmet burgers have just been launched. So obviously, there's a lot of runway left on the gourmet burgers. I think fried chicken is also just the beginning. It is just our first step towards leadership in the chicken area. So essentially, we are going to deal with that. Second part of the question is on gross margin impact. I always like to talk with facts. And if you look at five years of our history, five years is a very, very, very good basis for anybody to make a judgment as to where the company is headed. And through thick and thin, we have our secret recipe of how we are able to manage growth models, and components of that include a lot of things, it's around product mix, it's about managing supply chain, backward linkages to the farms, long term relationships and so on and so forth. So, I hope that answers the question, although it was not completely clear.

Gaurav Jogani

Axis Capital: Sure, that was my point getting the product mix. It would have improved this, because that also would have benefited the margin along with the cost efficiencies. But, yeah, you have answered that. So my next question is with regards to the recovery in the dining piece. So, is the dining recovery back to the pre-COVID levels? I mean, we understand that in many cases, there are still restrictions on the eating capacity, 50% all. So if you can put some more light on how the dine-in recovery is and how is panning out on the future as well?

Smita Jatia: Just before the wave three kind of hit, pretty much our dine-in was close to around pre-COVID levels, around 90% to 95% and that's what you have seen that in the quarter even dine-in has grown by 49%. So pretty much again I will repeat that depending on external circumstances, we basically just see which levers and channels are we able to accelerate, and that is why we are very true to our omni-channel strategy, and we have a very robust platform that irrespective of what happens in the future, are we be able to get what we can from our customers?

Gaurav Jogani

Axis Capital: On Slide number 11 that we put in the mix of the delivery and the convenience mix, I would say, has remained very consistent around 40%, 45%. So, should we consider this as a baseline now going ahead with dine-in now also getting recovered fully?

Smita Jatia: Yeah, I think that is the new baseline we have. There is an evolution and as we said, new use cases which the customers have come with, whether it is using on the go feature, or whether it is ordering in delivery, even on a weekend. We feel that this is going to continue as a baseline, where both dine-in and convenience channels will have very respectable contribution.

Moderator: The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki

India Infoline My first question is on the margins. You mentioned that you would do a 13% kind of pre-IND AS margin very soon. Just want to understand the implications of the royalty increase which could happen two, three years down the line, I think it is slated to increase by approximately 300 basis points. So once that increase does take place, what kind of margins are we targeting on our pre-IND AS basis?

Amit Jatia: I have maintained this before and I have answered this many times. Firstly, it is in 2026. And we have always maintained whatever vision we have set up is the absolute number that we are going to deliver. We are not going to lose the margin because royalty increases there. Also, I have mentioned this in the past that while currently the path of royalty is up to 2026, it's unlikely that it will go from 5% to 8%. So that path we can resolve and bring clarity over the next couple of years. But we are not very worried. If we are able to deliver whatever we are talking about both in terms of unit growth as well as the average unit volume, in any case, globally, we are able to absorb these royalties. So, that's what it is.

Smita Jatia: The only thing I would add here is by FY'26 as you saw in this quarter, we are going to get as what we had always said, operating leverage benefit. You already saw the operating leverage benefit come with Rs.6 crores AUV and by '26 this Rs.6 crores AUV will also grow and giving us the operating leverage to cover up for whatever loss of royalty which could come up later.

Percy Panthaki

India Infoline: This 8% number, is that a standard number for McDonald's across other franchisees globally?

Amit Jatia: Absolutely, because I don't think I am a bad negotiator.

Percy Panthaki

India Infoline: In terms of the normalization of dine-in, although yeah, Q3 was a very good quarter, but I am sure there is still some more leeway for normalization or do you think that basically there is some amount of channel mix change which has happened, which is permanent in nature and therefore comparing the normalization percentage to a pre-COVID level is not necessarily right, because that benchmark itself has changed, the people have changed their habits, etc., So any thoughts on that?

Amit Jatia: I have shared this over many earning calls. I will explain what I mean. Firstly, let's take convenience channel sales today at Rs.100. And let's say earlier the dine-in was Rs.80. So, what I am saying is that the Rs.80 is going to come back for sure and it is going to further grow, but the Rs.100 is not going to drop. And therefore, in my opinion, percentages are irrelevant. Essentially, our sales will go up by 8% to 10% with the new channel mix. So I had explained that earlier as well, I hope you're able to see it, because it's finally rupee value that matters, right.

Percy Panthaki

India Infoline: Now that you're accelerating your store addition, two sub-questions to that. One, is that the new stores, are they going to be of a different square footage versus your existing stores? And the second sub-question to that is with the new stores coming up, do you think that sort of to some extent, depresses the sales per store on a total average basis, because the new stores open up at a lower level? And how do we look at same-store sales growth, which is a slightly different metric versus just sales per average store? How do you look at same-store sales growth going ahead once this COVID base issues, etc., normalize?

Amit Jatia: I have mentioned this in pretty much all our earnings calls. We do not believe that we are going to reduce the size of our restaurants. We will continue to build the 2,700 to 3,000 square restaurants. So far it works beautifully for us, even with all the new restaurants. I think that kind of answers your second question, because I don't see my average unit volume dropping. That's not been factored into our plan and by no standards are we sort of going in that direction. Lastly, on stabilization, as I have said this many, many times, 8% to 10% same-store sales growth is kind of what we shoot for. So that's pretty much on stabilized basis what we will gun for.

Moderator: The next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.

Vicky Punjabi

JM Financial: So just again on this delivery and dine-in kind of split now, with McDonald's, the thought is that given the cafes, which are better suited for a dining segment, the relaxation of restrictions that we saw in the last quarter, which was almost a normalized what a pre-COVID hit, the thought process for me was that, you would see a sharper growth in the dine-in segment, but, when I look at the growth rates, I think deliveries still continue to outpace the dine-in segment in terms of growth. Could you help me understand what's the thing here or were there certain factors that actually kind of impacted the dine-in segment in this quarter as well?

Amit Jatia: Firstly, I cannot disagree with the hypothesis that McDonald's is a dine-in brand. I've mentioned this many, many times, that we operate in a segment called QSR. And table stakes of QSR is around convenience, right. And convenience is all about just taking things away. I mentioned this before that globally, even pre-pandemic, 70% of our business was off premise. So, you got to understand that is the segment we operated. In India, the brand had been building and therefore it is what it is. And what has happened is through COVID, the pivot has been sharp, and the last quarter is a phenomenal example of how this omni-channel thing for McDonald's is a reality. So to my mind, in-store restrictions by the way even in the last quarter, pretty much half of October, and the last 10-days of December, which are the most important days, we had tremendous restrictions in dine-in, but yet we were able to deliver an almost 500 crores a quarter, which we've never done before. So imagine if the restrictions are not there, our own expectation was higher than whatever numbers you see. And we got impacted because of the things I just talked about. Why do we keep talking about average unit volume? Along with new store openings, because it goes hand-in-hand. The first point is that if some other brand wants to open 80, we believe that our 40 restaurants are worth 80, because of the average unit volume we do. And we are not saying that by opening the 40, the Rs.6 crores should go down. We are in fact shooting higher. Our vision talks about a much higher average unit volume over time, and that is also visible in the global McDonald's model, which is over a 70-year horizon. If you look at McDonald's global average unit volume and you look at any of the competitors is almost double across the world. So I don't know if that answers your question. That's really what we feel.

Vicky Punjabi

JM Financial: Just conceptionally, if the mix changes in favor of delivery and the revenue would have remained the same. Just an hypothetical example, would that have a negative implication on the EBITDA margin per se?

Amit Jatia: No, because we've been through it over the last five, six quarters, and you look at our gross margins. Other than very heavily impacted quarters, like the first quarter of this year, where everything was not right, it was the second beginning of second wave, you cannot compare that because everything goes topsy-turvy. But outside of which even with delivery, being 70% of sales, our margin profile has been pretty solid.

Vicky Punjabi

JM Financial: I just wanted to understand the SSG versus say 3Q FY'20 level rather than 3Q FY'21 level, just pre-pandemic?

Amit Jatia: It's about 10%. We are sharing SSG pretty transparently.

Vicky Punjabi

JM Financial: I couldn't find regarding the three IND AS EBITDA margin. I don't know whether I have listed or not. Could you help us understand what was the pre-IND As EBITDA margin for the quarter?

Amit Jatia: They're all far better than whatever numbers you saw. It should have been there as an annexure. We will e-mail that to you. But I'll tell you the numbers. I know the absolute numbers; it's 13.5% EBITDA pre-IND AS. And Our profit, of course, in an absolute number goes to 27, 28 crores, which is another 200 basis points more than whatever you see here, which to me is the more important number.

Vicky Punjabi

JM Financial: Frankly, crossing 13% margin EBITDA margin in a quarter that still has some impact, maybe, we can't really consider being a complete normalized quarter. Does that mean the vision for EBITDA margin kind of get reset for future?

Amit Jatia: It always does. When we were in 2016 when the market was quite bad, I think we had boldly laid out a vision that nobody thought was deliverable. But I think quarter-on-quarter, year-on-year, I feel we've done that. And that's the feedback we got from the community as well. We will come out with our new vision. It will be bold, it will be big, it will be audacious, but it will be sustainable and smart in our opinion. I feel we've made bold calls. And even in real estate while it seems that our number of store openings are what they are. But when we get there, it's a 20-year deal, it's a deal that is sustainable. And many, many examples are with locations, otherwise would not have come through to us if you look at the international departure of McDonald's, that is there. Everybody's talking about it. It's a beautiful store. Volumes are phenomenal. And we actually are profitable. And that's the kind of store we like. It took us time but we are there. So that's sort of our philosophy. And you will see margin continuously rise from hereon and we will bring that out in our three to five year vision document.

Moderator: The next question is from the line of Kapil from Edelweiss. Please go ahead.

Kapil

Edelweiss: In terms of revenue per store, we had touched around Rs.6 crores per store and if we compare this to our closest burger competitor, it would be around Rs.4 crores per store. So, apart from the cafe segment, the number of mature stores also that would be contributing to a great extent. So what would be the mature stores as on today as a percentage of total stores for us? And also like, what is the average revenue per store for this mature stores?

Amit Jatia: I don't ever believe that stores mature, because I'm not saying three years from now that these stores are not going to come or give same-store sales growth. Also, last year, we effectively did not open any stores. Our growth is 47% is largely from existing stores. And all of them have been opened I think 24 months or 20 months ago, because the pandemic has been around for that long. So, we feel that this mix is giving you this average unit volume. We feel that's quite positive.

Kapil

Edelweiss: A couple of bookkeeping questions from my side. So like the McDonald's delivery hubs have given a very good sales number this quarter, so what would be the number of McDonald's hubs as on today and what contribution would be from here?

Amit Jatia: Total number of delivery hubs would be about 240. We don't share the breakup of that actually.

Kapil

Edelweiss: From the total number of store outlets that we see, it seems that you have close to McDonald's stores this quarter, because the last quarter the number was around 310 stores. Now, since you've opened eight, probably, two stores must have been closed. So could you provide some color on it?

Amit Jatia: No, these two stores were relocated. So they were not added as new stores.

Moderator: The next question is from the line of Hasmukh Vishariya from Ichi Life Insurance. Please go ahead.

Hasmukh Vishariya

Ichi Life Insurance: I just wanted one clarification on store opening. So in last quarter, you had mentioned about doubling the store count over next three to five years let's say which translate roughly from 60 to 100 stores per year and in this quarter, you are mentioning about 40, 50 stores every year. So can you tell us is this 40, 50s stores only for FY'3 and will this number increase going ahead to reach 500 stores by '25, '26 or how should we look at it?

Amit Jatia: My philosophy around store openings is always over a three to five year horizon. And we do not talk about quarters and years. What we are telling you are two things. We are telling you that we will do 200 stores more in the next three to five years. And we are saying next year we are going to do 40. The rest is all math.

Hasmukh Vishariya

Ichi Life Insurance: So now the revised target is 200 stores over next three to five years, which earlier target was less than 300 stores for next three to five years?

Amit Jatia: You can say that. Like I said, we will come out with a vision but very firmly, we are talking about 200 stores over the next three to five years with 40 openings next year.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani

Axis Capital: With regards to the chicken burger, has that been introduced all throughout India? I mean, earlier, I think it was only in southern part of India.

Amit Jatia: No, right now the fried chickens only in South India as of now.

Gaurav Jogani

Axis Capital: Last time you mentioned that approximately 50 lakhs of incremental contribution is expected from the chicken burger. So, one clarification on this. So, this incremental contribution would only be for this South stores because it's introduced there and how have we really progressed so far?

Amit Jatia: So right now it's only in South. It will, of course, come to West. But right now, this incremental volume that we've talked about is for the store based in South. In West India, of course, we got the gourmet burgers. So that's what sort of given a fillip here as well.

Gaurav Jogani

Axis Capital: So are we reaching near that 50 lakh contribution on an annualized basis now in the stores or how has been the progress there?

Amit Jatia: We normally don't share details like that, but basically, that's the number that we have reached, which is what we said, our ambition does not stop there. We do believe that as the consumer starts connecting, bone in chicken and fried chicken to our brand, we believe that over the next two to three years, this business is going to grow quite exponentially. You can do your own channel checks, but the customer feedback around our product has been extremely, extremely positive. And that puts us on a good wicket and we are quite bullish about this particular business.

Moderator: The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham

Edelweiss: Sir, just one question from my side on the store opening target. When we are looking at this target of 500 stores over the next few years, do we have internal plan of how many cities do we expect this to be? Currently, we've been at 43 stores and I think over the last couple of years, that number has more or less stayed the same.

Amit Jatia: So our philosophy is around ensuring that we continue to gain market share in the cities we operate in, because cities are changing very dramatically and we don't like to lose our share there. Yet, at the same time, in the next three to five years, we want to add at least 20, 25 new cities as we kind of expand our network, and we spread our roots into the interiors of the country.

Nihal Jham

Edelweiss: The only related thought to that is in one of the earlier questions, you were asked about the store sizes. So say you deeper and beyond the tier-1 or tier-2 cities, ideally, smaller store formats would work depending on the areas of those stores too. So you are still sure that even as you go deeper into the remaining 25 cities, you would keep the store format between the 2,700 to 3,000 square feet?

Amit Jatia: At the end of the day, we do operate in 43 cities and they include the smaller cities and the largest. And our experiences that in smaller cities, family sizes are much larger and the occasion for consuming is very concentrated. So therefore, we believe that we should have larger stores. And in fact, in many of the smaller cities, originally, we started with a smaller footprint, but we kept the space available. And if you visit our Bharuch store now, double the size, but fortunately, we kept the real estate available to be able to do it when we needed to. Because it's a whole separate conversation around what are the implications of not doing that. We've seen that over our 25 years journey.

Nihal Jham

Edelweiss: On the gourmet burgers, is it currently only available in certain number of stores. And if that is the case, you could just share approximately what's proportional to serving that and what is the plan of scaling that and also the fried chicken incrementally to say the entire network?

Amit Jatia: So we normally do everything through the entire network. And therefore gourmet burgers are across the network. In South India, what had happened is that time COVID came. Otherwise, our plan was to rapidly expand that. But with the gourmet burgers coming in, yes, we will see it in West India, we are working the details out, but eventually it will be across 100% of our restaurants.

Moderator: My next question is from the line of Chinmay Gandre from Reliance Nippon Life Insurance. Please go ahead.

Chinmay Gandre

Reliance Nippon Life Insurance: Just on the gross margin front, what is the reason for such good margins we have put out in the current quarter?

Amit Jatia: Well, that's a secret sauce. But I was just saying earlier, that over the last five, seven years, we've been able to consistently grow our growth margins systematically, while not really increasing prices largely to the consumer. So I think we've been able to understand the playbook around that quite well and it's work for us. It obviously started with a strong supply chain foundation, where right from day one, we've been working directly with farmers. And most of our relationship with our suppliers are 25 years old. We've not had to change suppliers at all. And we worked with them. A lot of efficiencies from there over three to five years. So that's one part of it. And the other part is really the secret recipe that we have, by which we are able to manage this new product mix and other ideas.

Chinmay Gandre

Reliance Nippon Life Insurance: On the EBITDA front, would it be fair to assume that delivery cost attached would be having maybe a lower EBITDA margin with respect to aggregate?

Amit Jatia: See, we don't see our business like that. As far as I'm concerned, we have to deliver a higher EBITDA. So if something's going to take away, what do you do to manage the other part of it? And gross margin is the same question. So my point is that line items have to be managed, something goes up, something goes down, something is inevitable, and it will go up or something else you work to bring it down. So in summary, we work on 100 to 200 basis of cost elimination every year out of the system. And it's a continuous process, it never ends. And the world keeps changing around us giving us new opportunities to cut cost. And that is how we sort of stayed where we are. So I think that's how we will continue to manage. I am not really getting into line items. But essentially, our job in my opinion is to finally deliver an operating EBITDA and PAT. So that's the way I look at it.

Chinmay Gandre

Reliance Nippon Life Insurance: You mentioned on the fried chicken, we have kind of reached the 50 lakhs kind of incremental top line addition on annualized basis. So would that be across stores in South where the products is available or any specific stores?

Amit Jatia: Absolutely. I mean, there are many stores that do far greater that we sort of average across. If I would take a few stores, that would be the wrong sort of number to share. But it is across the board and is getting stronger by the day.

Moderator: The next question is from the line of Vishal from Nirmal Bang. Please go ahead.

Vishal

Nirmal Bang: My question is on the overall industry, nothing specific to the quarter. There were talks in the last two years on many standalone players kind of struggling to operate and also were seeing closures during the last two years. With the market now stabilizing, if you can share some thoughts on how things will pan out in terms of market share movement for the organized players, specifically for players like you who are present across dine-in as well as convenient channel?

Smita Jatia: During COVID that there was a change in the IEO construct from mom and pop players people started to go into chain than organized more because of safety, assurance and hygiene. So, this is something which I think is going to be here to stay. And the organized sector is going to grow and is going to become a much larger part of the informal eating out which till now it wasn't, it was dominated by the unorganized sector. So we can see this happening in India like it has happened in across the world. And in the organized sector. I think definitely we are a very strong player and specially our omni-channel presence will help to get better market share as we go quarter-on-quarter.

Vishal

Nirmal Bang: Have we seen anything on ground in terms of the last two quarters where operations are kind of normalizing, we've seen those players coming back on ground, any anecdotes that you can share or any examples?

Smita Jatia: Difficult to give a complete, but yes, there are new players, which keep on mushrooming. And I think everybody has learned kind of from COVID to make a sustainable business model. So I'm sure there will be single unit, which will come back. And '20 was pretty normal for everyone, so I think the players which are single players, would have definitely seen a better way in the quarter and it's not going to take away from new players coming in, there will be new players which will come in.

Moderator: The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal

Prabhudas Lilladher: I have a couple of questions. My first question is you stated that even in 3Q, there were some disruptions with regards to the occupancy in the stores, and particularly in the last 15 days. Once the third wave, you can say started stepping in. So can you give us some idea that how the you can say the last 15 days of the quarter particularly panned out, because you have big presence in Mumbai, Pune, Bangalore, etc., usually we have seen that any wave of COVID has been starting from these cities, how much and in what manner, the sales got impacted during this quarter particularly in the last 15 days?

Smita Jatia: I wouldn't say completely sales got impacted. As I mentioned earlier on the call, we are now in omni-channel. When we saw dine-in getting restrictions, and there were some curfews also, which came in, what we were able to step up and accelerate was delivery on the go. So yes, we did see a slight impact, but I don't think we saw an impact what we saw either in wave one or in wave two. So I think this is now a way of doing business the new normal. Even in the future, if there could be some restrictions, I think all brands are now poised to be able to accelerate with their own channel mix. And that's what we did in the last 10 days and that's the reason why we continue to have a great quarter.

Amnish Aggarwal

Prabhudas Lilladher: But were we able to normally conduct delivery operation even during those restrictions or curfews, etc., in general?

Smita Jatia: It was different city wise. In Chennai, there was a Sunday curfew all day where obviously, we were not able to up till a certain timing, whereas in Mumbai there was no curfew or restrictions and therefore delivery was flying as per normal. So, it was city-by-city and Maharashtra was open when there were no curfews, only capacity was impacted and therefore delivery was also functioning and dine-in was also functioning.

Amnish Aggarwal

Prabhudas Lilladher: My second question is on the margin. If I can recall earlier your thought process used to be that on a pre-Ind AS basis in a steady state, we used to guide for a margin of say roughly on 14%, 15% kind of a number. Now at 13.5% margin which means that we have achieved in this quarter on pre-Ind AS basis. So do you think that over of the next two to three years we can now have a margin which will be significantly better than what you used to guide earlier?

Amit Jatia: It has to be right. I mean, I just mentioned earlier, that every year we've given 130 basis points consistently year-on-year on margin growth, and in my opinion, any company that stops growing their earnings, I feel it shouldn't exist, right. That is the expectation of all stakeholders. And therefore, that was a vision that we set for ourselves. I feel we've delivered on that vision, because in 2013, '14, '15, margins had dropped to almost 7, 8%. So over these last few years, we've at least sort of come to 13.5% of this quarter. And essentially obviously our next guidance will be to push it higher. We are not going to accept that we will stay at 13.5% for the rest of our life. So it is intended to go up that there is no doubt.

Moderator: Thank you. The next question is from Ashit Desai from Emkay Global Financial Services. Please go ahead.

Ashit Desai

Emkay Global Financial Services: We have seen a little bit of back and forth on the outlook for next three, four years store opening. Can you give the reasons for that? And what's your confidence level in achieving this 500 stores over the next three, four years?

Amit Jatia: No, I don't think there's been any back and forth. We had in 2016 talked about the number of stores that we are going to open by FY'22, and after that, the only time we really talked about it was on our 25th anniversary. The intention is obviously to double the store base over a certain period of time, but what is the firm call is that we are going to cross 500 stores, which means we are going to build another 200 stores over the next three to five years with a roughly 40-plus openings for next year FY'23. So that is really what you can take it as.

Ashit Desai

Emkay Global Financial Services: Is there an increase in CAPEX per store because our CAPEX number has remained the same like 800-1,000 crores, so is this for the additional 200 stores?

Amit Jatia: No, 200 multiplied by say about three, that is about Rs.600, 700 crores right there. As I've mentioned in the call earlier, that not only convert the rest of the stores to experience of the future, but we need to get McCafe to the other 20% plus we like to reimage, reimaging is a continuous process. Because as stores age, if you don't go back and reinvest in them, you cannot long term deliver good results and also the brand takes a beating. So, we stick by the numbers that we've just talked about.

Ashit Desai

Emkay Global Financial Services: And when you say 40 stores a year, that is the minimum that you would get?

Amit Jatia: No, I'm not saying 40 stores a year. I'll repeat it again so that everybody gets it. I said that 200 stores over the next three to five years and a definitive plan of 40 stores plus next year. That's all. I'm not talking of the year after, because I don't give such numbers out. I've given you a three to five year horizon and I've talked about the immediate year that's coming up.

Ashit Desai

Emkay Global Financial Services: Secondly, can you share what has been the recovery in the cafe segment?

Amit Jatia: While McCafe is big for us. Obviously, with in-store not only there, it's more in-store brand. So, it's obviously at that 80%, 90%, it's not yet at 100%. It's going to pick up. For us, we are a multi-purpose all-day dine-in restaurant. And everything fortunately for us is a smaller component of a larger pie. And that is McDonald's globally. And that is why we like to operate say in breakfast with beverages which is McCafe, chicken with burgers so that we are an all-day restaurant appealing to everybody. But overall specifically it's 80%, 90%.

Ashit Desai

Emkay Global Financial Services: Lastly, request you if you can put the pre-Ind AS numbers on the exchange as well.

Amit Jatia: Yes, we will update in the earnings as an annexure.

Moderator: I now hand the conference over to Mr. Amit Jatia for closing comments.

Amit Jatia: Thank you very much, everybody for participating and taking the time to be with us today. We appreciate it. Have a lovely evening and talk to you soon.