Q3 FY2016 Earnings Call Transcript – Feb 5, 2016

CORPORATE PARTICIPANTS

- Amit Jatia – Vice Chairman
- Smita Jatia – Director
- Suresh Lakshminarayanan – Chief Financial Officer
- Ankit Arora – Senior Manager, Investor Relations

Moderator Ladies and gentlemen, good day and welcome to the Westlife Development limited Q3 FY16 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Arora – Senior Manager, Investor Relations. Thank you and over to you Sir.

Ankit Arora Thanks Mallika. Welcome everyone and thank you for joining us on Westlife Development Limited third quarter and nine months ended December 31st 2015 earnings conference call. We are joined here today by Amit Jatia – Vice Chairman, Smita Jatia – Director and Suresh Lakshminarayanan – Chief Financial Officer, Westlife Development Limited.

Please note that results, press release and investor presentation had been mailed across to you earlier and these are also available on our website www.westlife.co.in 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 the strategic overview which will be followed by Smita to take you through the key business initiatives and Suresh will cover analysis of the financial performance and highlights during the review period. 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 risks and uncertainties we face. A detailed statement and explanation of these risks is available in this quarter's results press release and investor presentation and in our Annual

Report which is available on our website. The company does not undertake to update these forward-looking statements publicly. With that said, I would now turn the call over to Amit to share his views.

Amit Jatia Thank you, Ankit. Good evening and thank you all for joining us on the call today. As we enter the last quarter of FY16, I am energized with the progress we have made on all fronts especially our renewed connection with the consumer. The new reality of the marketplace is that volatility is here to stay and we need to operate in this environment continuously. Therefore, over the last two years we have taken significant steps to navigate through this environment.

Our key focus areas continue to be around margin expansion, building our base line sales and broadening our accessibility through growing our same store sales, opening profitable new restaurants in the vastly under penetrated market especially for McDonald's west and south. Our strategic approach with regards to same store sales has elevated our consumer connect on account of investment in restaurant re-imaging, building the McDonald's footprint, brand advertising like "Kuch Pal Offline" rather discounting and our un-relenting focus on the home delivery business has continued to differentiate us in the marketplace and is yielding positive results.

New restaurant openings is as critical as building same store sales. As we deploy significant capital behind opening new restaurants, sensible unit economics, quality of real estate and terms of the real estate transaction play a crucial rule in the long-term success of the brand. I am pleased with the progress on our new unit economics where it now reflects the reality of restaurant sales in this environment. We feel we are on a strong platform for all new restaurant opening from January 2016, as the base of this restaurants grow it will positively impact the restaurant operating margin over the medium-term to long-term.

Restaurant operating margin remains a key measure for our business as it reflects margin growth at the restaurant level.

I now hand over Smita to take you through the results for Q3 FY16.

Smita Jatia Thank you, Amit. Starting with some of the highlights in quarter, we are happy to show a renewed customer connect reflecting in comparable sales over two quarters with quarter three ending at 3.1%. Total sales growth stands at 8% with 223 stores, this has been led by a focus on menu initiative and growth in our brand extensions taking our comps for the quarter 3.1%.

On the profit front a consistent improvement in gross margins quarter-on-quarter along with productivity initiative helped expand our operating margins close to 500 basis points. Starting with our first strategic pillar to drive customer accessibility, enclosed are some of the pictures of our new restaurants which opened in the quarter. We opened 24 restaurants in the past 12 months, three new cities and a state of Chhattisgarh in the city of Raipur in this quarter. Our cluster approach to open new cities is not only giving us accessibility to the brand but also helping drive operating efficiency giving us better profitability.

So re-capping this strategic pillar, along with restaurant openings our continued focus on unit economics of new stores and intelligent market planning and mapping is helping deliver better sales and profitability. Our drive-thru focus also continues giving us the competitive advantage.

Moving on to the next strategic pillar, growing base line sales. Our work on our three levers has helped us renewed customer connect. In this quarter we have given our customer a variation of our spicy range with a limited time offer. Not only did this strategy help us in better realization giving better gross margin but also helped in building our core spicy range. We also offered customization to our customers by giving then a bun variant which they could switch with any of their favorite burger.

Moving on to brand extensions to grow the base line. We added ten new McCafé's taking our account to 62. McCafé attracts a new customer base giving us incremental sales and also helps in growing the beverage category which gives us better gross margin. Our focus on McCafé will continue and we will double our McCafé's in the next 12 months to 18 months. Our re-image restaurants along with McCafé delivers a better restaurant experience.

On the delivery front with constant focus on digital marketing and technology, we have taken our web and online sales to 50% of total delivery sales. Hence, re-capping growing the base line strategic pillar, our work on brand building through our advertising strategy of "Kuch Pal Offline", continued focus on menu and brand extensions is helping us drive loyalty and customer engagement differentiating us from only focusing on deals and discounting.

Now coming to the last strategic pillar of margin expansion. Our restaurant operating margins have grown close to 500 basis points year-on-year. This has been attributed to three levers: firstly, positive comp sales leading to operating margin; secondly, menu work around beverages leading us to a healthy gross margin with focus on the product mix lever and lastly our restaurant productivity initiative which have yielded us positive results.

I will now hand over to Suresh to take us through the financial review.

Suresh L Thank you, Smita. I will now take you through the business performance for the third quarter and nine months ended fiscal 2016. This has been a strong quarter across key operating parameters of top-line growth, comparable sales and margin expansion.

Various ongoing strategies around the brand building exercise over the last 12 months have yielded significant results in our Q3 performance. Our continued efforts around the four strategic pillars helped us deliver positive comparable sales of 3.1% versus flat comparable sales in Q3 FY15. This was the second consecutive quarter of positive comparable sales during this fiscal year and this coupled with new restaurant additions, our top-line grew 7.8% over the same quarter of the previous fiscal.

Moving on to gross margins, we continue to consistently drive our strategy around gross margin expansion and have demonstrated a significant expansion over the last eight comparable quarters. All our strategies around the same showed increased traction this quarter. Under the spicy platform we introduced Indi-Spicy Chicken and Paneer along with limited edition of Masala Bun on the menu which helped increase the average spend as well as drive better system by gross margins.

During the last 12 months we have more than double the number of McCafé's and such accelerated roll out has also positively impacted the gross margins. These initiatives along with continued supply chain efficiencies resulted in gross margin expansion of approximately 190 basis points in this quarter on a Y-o-Y basis. It is extremely encouraging to state that we have made a significant delta around gross margin while operating in tough consumer environment through our brand initiatives and continues work on our menu and we shall continue to focus on the same to drive this further.

On operating expenses and the margins, our continued focus around restaurant productivity measures have yielded significant results this quarter. As we had stated earlier payroll inflation had impacted our restaurant margins in the past and we had undertaken specific productivity initiatives to address the same. Our relentless efforts around managing labor cost continue to deliver results and sustained efforts in this direction would continue. This coupled with efficiencies across occupancy and other operating expenses along with gross margin expansion have resulted in a significant improvement in the restaurant operating margins by approximately 500 basis points in this quarter.

The aforesaid efficiencies along with stable G&A expenditure during the quarter had led to an operating EBITDA expansion of approximately 500 basis points.

Lastly, this has been an excellent quarter from the overall business and financial performance standpoint. We shall further continue to build on our four strategic levers across the system and as consumer sentiments witness momentum we believe we are perfectly placed to take advantage due to our strong brand connect with the consumers which we have build over the years.

With that said, I would now hand over back to Amit who would take you through the outlook and give the closing remarks.

Amit Jatia Thank you, Suresh. We are beginning to see consumer spends on occasions and are seeing higher footfalls during specific events like End of Season Sales, holidays etc. We believe that as the economy picks up we hope that this will translate to move frequent occasions by the consumer. You will continue to see us accelerate our penetration on McCafé along with re-imaging to double the current base of 62 restaurants to over 120 in the next 12 months to 18 months. We believe this will improve returns on the capital employed at the restaurant level as we grow this portfolio.

Lower capital costs to build new restaurants will help us grow the restaurant network from the estimated 230 to 250 range in FY16 to double the base in the next five years. We expect to continue to penetrate existing markets and enter new cities through these opening. Our menu will play an important role in growing same store sales and thereby improving our margins, you will continue to see strong menu innovation both across consumer segments and day parts. We will increase our focus on McDelivery to capitalize on the growing consumption of eating at home through food delivery. Continuous investment in technology and digital space will help us accelerate consumer experience both for online ordering and in-store experience. We intend to focus on brand building to differentiate McDonald's over the still prevalent practice of discounting to acquire customers in the QSR segment.

With lower capital cost to build restaurants, growth in same store sales, expansion of McCafé and McDelivery, we hope to continue to improve the profitability of our restaurants. We remain committed to being the most accessible brand to consumers and we will focus on bringing more customers to our existing base while opening new restaurants to serve future demand. Despite current market conditions, we remain confident that the measures we are taking to improve our performance and financial position will result in significant improvement in shareholder value in the coming quarters. Thank you.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra First question is on your SSG number. Is it possible to give some sense of the impact from price increases or the mix effect on SSG and also if we exclude the McCafé format from like to like stores where it is actually present, would the SSG trends behave very differently?

Amit Jatia So first and foremost, our menu price increases are relatively small. McCafé is only on a base of 62 restaurants and, yes, McCafé is positively contributing to same store sales but its impact is yet to be built. We believe that as the scale of McCafé goes to 120 - 200 restaurants, we feel that it will substantially impact positively same store sales. Primarily menu has played a huge role as you would have noticed through the quarter and through the previous periods as well that menu has been a big lever for us to be able to reconnect with the consumer. The second thing is even McDonald's delivery service, as we had reported in FY15 where it grew more than 30% and it continues to be the same trend where we believe that the delivery business for in-home eating of out of home food is going to continue to grow and I think with the strong platform we have of the 220 plus restaurants, we believe that we can really leverage that quite well. So, primarily all of these strategies have yielded positive result for us.

Latika Chopra I know you do not really share the delivery contribution to your sales but is it now close to touching double-digit revenue share or any sense there?

Amit Jatia Basically we do not break that out but yes, in the stores where we do delivery there are many stores where it is beyond double-digit right now.

Latika Chopra And my second question is on employee cost, they are just up 3%, pretty well controlled and there were recent amendments to the Bonus Act. So, one is the reason behind such strong cost control and second any impact from this change in the bonus rules?

Suresh L Thank you, Latika. Basically first and foremost whatever the impact is, it has already been factored into the current quarterly results that you are seeing so therefore to that extent the quarter is actually loaded with certain cost pertaining to the past as well. Further, if you recollect in the last quarter, Smita had mentioned about various initiatives that we were running in our restaurants with a view to ensure that we were probably managing our labor cost smartly. Those efforts continue and we are seeing the results of those efforts across quarters from the time that we actually went about executing them. We revisited the process and setting them right and getting going with the changes that were required to be made in processes like crew scheduling or shift management procedures etc. So very clearly the benefits of that are actually now flowing into the P&L.

Amit Jatia So just simplistically whenever cost go high, we do not just believe in raising prices, we have been maintaining that forever, we go back to the drawing board, relook at our design or system and processes and yes, we have a roughly 3% to 5% price increase every year but other than that we push ourselves very hard to get 100 to 200 basis points of productivity growth in all our costs every year.

Latika Chopra And just on that impact, from you said you have taken it from a retrospective effect so, this is just for the first-half cost which has come in or is it also FY15 cost which were provided in the quarter and what could be that one-off?

Suresh L Yes, basically if you have seen the notification, this is actually with retrospective effect. So, the entire effect which pertains to this financial year as well as the previous financial year have been factored in this quarter.

Latika Chopra And would you be able to provide a number what would that be?

Amit Jatia Basically, if you were to look at it as a percentage of sales it is fairly negligible – about 10 to 12 basis points.

Latika Chopra The one-off effect, right?

Amit Jatia No, it is the increased effect, the one-effect is a bit higher but the impact to us in totality going forward is negligible.

Moderator Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta Sir, just taking up from the last question I did not quite get it 10 to 12 bps which is the ongoing impact. What is the one-off impact over here which I should remove to get a like to like?

Suresh L It is about in terms of rupee value it will be about probably 12 million or thereabout.

Avi Mehta Okay, secondly, you have been indicating efforts being undertaken to reduce the per store capex. Can you kind of share where are you at that number in terms of per store capex now?

Amit Jatia Sure. I mean we use to talk about Rs.25 million to Rs.30 million and now we are at least Rs.23 million to Rs.25 million which is pretty much on the lower end of the range. So we feel that about Yes, Rs.5 million to Rs.7 million per store will be wiped out.

Avi Mehta Okay, that is great. And then sir, if I look at the current numbers in terms of where we are on expenses growth and EBITDA margin, do you see if SSSG sustains at the current level and plus the efforts that you have taken on per store capex, would it not be fair to say EBITDA margins could sustain at current level while SSSG remain at the 3%-4% levels?

Amit Jatia We last quarter we had the same question, I think we have shown that we are resilient, we take long-term decisions on the way we sort of plan and as I mentioned in my earlier comments that we believe that volatility here to stay and unless and until something significant changes in the environment, we believe that we are working towards maintaining if not growing our restaurant operating margins.

Avi Mehta Okay. And sir, lastly, on the outlook you stated that the consumer spending is increasing, footfalls kind of improving on End of Season Sales and holidays, would you say it is an initial sign of recovery. Are you trying to get a hint of some positivity there or no?

Amit Jatia It is there but as I have mentioned before, I find it a bit erratic overall. What I have seen is that definitely there if is a good movie, End of Season Sales, or some holidays, we are seeing sales higher then we have seen in the past. So to that extent we are excited about what is going on, but if I were to say is it consistent, or, is that the way it is going to be I am not sure about that. So definitely slightly positive I would say.

Moderator Thank you. The next question is from the line of Krishnan Sambamoorthy. from Nirmal Bang. Please go ahead.

Krishnan A couple of questions, one about 30 of your McCafé's would have been over a year old. What has been the performance there and during our store visits we noticed that it could easily be higher than the leading coffee player that is about 13,000 per day in terms of coffee revenues, could you throw some light on that?

Amit Jatia We do not break-up unfortunately the sales we do with individual brand extensions but the good news has been that if I were to see same stores sales growth for McCafé's that have been opened one year, it has been solid and that tells us that the platform is connecting with the consumers. We are hearing a lot of consumers talk about it because restaurants that do not have McCafé, we are seeing consumers come and ask for that, which is why we have been rapidly ramping that up. Other than that if you look at forums where consumers give feedback, we are seeing some really positive feedback around McCafé as well. So the trajectory is very solid for us and even though we are getting a lot of growth by opening new McCafé's, we are also seeing the trajectory continue solidly in the restaurants that have McCafé for over a year.

Krishnan Okay, that is great. My second question is regarding expansion while you did maintain your longer-term store expansions plans. Correct me if I am wrong, you opened about nine restaurants in first-half and about eight restaurants in the third quarter. So in order to meet your earlier guidance of about 30 stores to 35 stores for the current year, you would have to open 15 in Q4. Are you scaling down a bit on the near-term while keeping your longer-term aspect?

Amit Jatia No, we maintain our guidance.

Krishnan You do retain so 30 stores - 35 stores for the current year?

Amit Jatia Absolutely.

Moderator Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy Sir, first question is on the food apps. We are seeing quite a bit closure of food apps and scaling down also. On the other hand, Swiggy has tied up with Burger King. So what is your view on food app in general on the industry perspective and what is your own plan in terms of tying up with some of these?

Amit Jatia It is called food tech, we feel we have the food and we have a very solid platform of running 35,000+ restaurants across the globe, so we feel that what other people are trying to learn, we already know and therefore all we needed was the tech side and we feel that we got that right and we saw results. If you noticed, we have been transparent to share that 50% of our sales are now coming from web & online app. I have explained before that what is happening on the online and at home consumption of outside food is the same as going into a food court where there are 30 competitors. And my point is that obviously there is a connect that we have been able to bring with our consumers that when they come to a food court with all the competition we are still able to be a leading food company. Similarly, what my view is that online people are only going to use restaurants that they are familiar with, if they do not know the menu if it is a new restaurant that they do not understand they will first go, live to try it before they will consume it online. So we have a huge advantage because we touch over 180 million consumers and therefore the touch point of McDonald's is very strong. So we are absolutely not worried about more players because the market is growing and in that growth the ecosystem for delivery is changing and that is actually helping us out as well. What I mean by ecosystem is riding companies are coming, because there is demand for delivery, everything to do around delivery is being serviced by Indian entrepreneurs and that is making our life easy as well. So I am quite bullish about McDonald's impact on the food tech business and that is why we are very excited about it.

Abneesh Roy Sir to summarize, you are saying you would like to do food tech on your own so, you are not tying up with third-party and you not expect market share loss to these kind of players?

Amit Jatia What I have been saying that we are driving double-digit comps and double-digit total growth of delivery business in FY15 and that trend continues. Our platform is open, so to give you an example we do not mind if a customer uses somebody else's platform to order at McDonald's, we are completely open minded around that. Customer can choose any way to order as long as they are using McDonald's we are happy about it. You will find McDonald's on FoodPanda now, for example.

Abneesh Roy Right, that was helpful. Sir on the online part, you are saying 50% of the delivery part is through online. So, in online, how is the Average transaction price and margin profile versus overall business. Is it higher or lower margin? Also, are people up trading in that segment?

Amit Jatia So delivery is margin accretive for us because it is incremental that is why it is a brand extension which is what I keep saying that for McDonald's one plus one plus one is equal to five and what I mean by that is once you have a base McDonald's, you add McCafé, you add delivery, you do Desert kiosk, you add Breakfast, you add drive-thru's, the sum of all the parts is far greater than the individual parts. It's margin accretive on the delivery business.

Abneesh Roy Sir, your margin trajectory has been extremely good and I congratulate you on that. In the PPT, you have said crew productivity is yielding results so what can you share there?

Amit Jatia So you see we have an operating platform, so that is the way in which you run McDonald's and as you can imagine globally, we do really good work from the time we hire crew till the training and the till the time they work with us. So when labor cost started rising we zoomed out. We went back to the drawing board, looked at all our practices, took the help of innovation center of McDonald's Corporation in Oak Brook and along with them we started re-looking at every process, every step that is used at the restaurant level. So it is not just one thing, there are ten things that have come together that allowed us to bring crew productivity up. But I have always maintained that we do not do knee-jerk reactions, so if labor cost went up by 40%, we took a hit in the short-term but we refuse to let our customers bear all the cost of that. Over three - four quarters we were able to re-organize and design our restaurant systems and therefore you are beginning to see from last quarter and in fact a little bit before that quarter as well pretty much from FY16 you continued to see improvements on the labor side.

Smita Jatia Yes, so simplistically if you say that is the combination of process improvements as well as training focus which helps us give a better crew productivity.

Abneesh Roy Sir, my next question is on same store growth again, a good recovery there. If I see Yum! India numbers, ninth consecutive quarter pretty challenging set of numbers. so are you able to comment on what you are doing better and are you gaining share from KFC, they do not report KFC, Pizza Hut separately but clearly there seems to be some issue in terms of multiple franchisees in KFC. So are you gaining share is that the reason why you are reporting recovery in the same store growth?

Amit Jatia See one brand does not change the trajectory of 220+ restaurants as I have maintained even in my last quarter notes that McDonald's believe that differentiated consumer connect is the way to move forward and we have stayed away from discounting if you can check all the ads that we have been talking about, you will find that it is about brand advertising like "Kuch Pal Offline", it is about investing back in the restaurants through re-imaging and adding McCafé to it. McCafé brings a whole new dimension to the business with beverages, coffee as McDonald's now being top of mind of consumer to come and have a beverage and coffee as well. The third angle is delivery, as I have said that is growing extremely well and when I look at my break-up of comps that is contributing positively to it. So menu has played a significant role. So, we feel that we have created our own trajectory of where we want to go and our initiatives are connecting with the consumers which is what is differentiating us from many of the other players

Abneesh Roy Sir, one small follow-up on the same store growth, one was there any negative impact of the floods, etc., in south India especially Chennai? Second is festive quarter full impact of the festive this time versus last year same quarter it was split between Q2, Q3. So has that benefited in this quarter?

Amit Jatia I do not agree fully there because it is about Diwali and Christmas. So Diwali was in October in the previous year and it was in November this time so from a quarter three point of view, nothing changed. And the flood impact on us was negligible in Chennai.

Moderator: Thank you. The next question is from the line of Nikhil Upadhaya from Securities Investment Management. Please go ahead.

Nikhil Upadhaya Two three questions from my side. When you say we have focused a lot on employee productivity and if we look at the year-on-year number so, we have added 10% to 15% as a percentage of stores but our employee cost has increased by just 3%. So as of now, when we are focusing on the employee productivity there is so much one employee can do but as the same stores sales growth starts moving towards say a higher single digit or double-digit, do you see that the same stores in which currently there are five people we might need to add more two people or three people as a results the employee cost might increase at the same rate?

Amit Jatia No, the challenge is so any business has to grow its sales faster than employee cost grow. Employee cost are going to grow because there is salary increases etc. Productivity can be done even through automation and if you bring automation into the picture, there is a significant room for improvement in the productivity numbers that we are running at today.

Nikhil Upadhaya Okay. And sir, if we look at royalty for that we pay to McDonald's, so now as of now we are doing average EBITDA over the last two quarters to three quarters of around 7% to 8%. So I just want to understand how does this move?

Amit Jatia Yes, so we have said this before and you can cover this more offline with Ankit. He can give you the schedule but upper limit is capped at 8% by 2020.

Nikhil Upadhaya Okay. And on the gross margin part sir, like we have done a commendable job of moving to almost 60-61%, but like initially in the call also you mentioned that McCafé is still not substantial. McCafé will become substantial when it reaches 100 stores or 120 stores. So as of now if we look at the improvement in the gross margin, so is it largely driven by our menu which is the significant contributor or our brand extensions?

Amit Jatia McCafé as it expands to more and more restaurant, we clearly see improvements in gross margin. On the menu, I have been maintaining that we believe that product mix can play a significant role in slowly shifting gross margin. We believe that in every aspect of the menu this is just the beginning and we feel that if you look at developed markets we have a long opportunity to build our menu which will hopefully lead to gross margin improvements. But it is a brick-by-brick, it is not that we can give you like a 200 basis points improvement every quarter. We have shown over the last two years where we were at 42%-43% food and paper cost where we have now come down to 39.5%, while we are maintaining value to consumers.

Nikhil Upadhaya Okay. And just two book keeping questions sir, like of the 223 stores as of now we have how many would be providing the delivery service?

Amit Jatia It is over 120 restaurants.

Nikhil Upadhaya And what would be the gross debt on books as of now?

Amit Jatia It is net cash, at present. For exact number, you can take this offline with Ankit.

Moderator Thank you. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Hi, just a couple of questions. One, still trying to understand the 100 basis points gross margin expansion that we have been consistently have been showing last year and even this year in the nine months. You did mention that mix improvement and efficiency so, I am just trying to understand which of this is larger weightage in the 100 basis points that we actually had been seeing?

Smita Jatia So, basically I feel both of them stay in equal path. In some quarters, it is menu which drive the better efficiency whereas in some quarters it is raw cost initiatives which have given us efficiency. So net-net, we remain that the three levers for our gross margin improvement is menu price, promix shifts as well as our raw cost efficiencies, one the menu price as we consistently say we do not do more than 3% to 5% increases year-on-year and the remaining is obviously with huge focus on menu through our food and beverage initiatives and our raw cost efficiencies.

Amit Jatia So Hemant, for example the Indi-Spicy it is product that connects with the consumer, the bun is slightly different and the consumers willing to try that product with a slight higher price and some of these things help us take margin down to the bottom-line.

Hemant Okay. If I would consider Aloo Tikki Burger as base portfolio, have you seen the share of that fall over the last two years as we have actually introduced more new products?

Amit Jatia Actually in other words we have actually built the premium category very well and this journey started in 2012 with the launch of the McSpicy Burger and if you recollect 22% comps for the whole year and since then slowly and steadily we have been building the portfolio of our premium products. We have a menu roadmap for two to three years and based on that we have been building the premium segment. So, Aloo Tikki is not dropping in terms of its sales but obviously as we are growing the premium category and as a percentage it may be dropping in terms of total products that we sell.

Hemant Okay, got it. And another thing which I really find it interesting is that your occupancy cost & other operating costs, I have seen that rise over the last few years but in the last couple of quarters you manage to build quite well at that level. So I am just trying to understand the components of this part, is it the electricity, is it something else which is actually tracking it down in this one quarter or two quarters or whether it is rental charges?

Amit Jatia See this is what I have be saying that when we do rental deals, we have a huge competitive advantage and therefore as comparable sales start coming in, you can see huge improvement in the operating margins. So the primary benefit we are getting right now is just the total momentum with sales growth. It is as sensitive as that, so I think that has been an important portion in this particular thing also some design work we have done on utilities that has yielded some result as well.

Hemant Advertisement remains at the typical 5.5% level?

Amit Jatia Correct, yes.

Hemant Okay. And just a bit of confusion I have on royalty. Last time also you did mention for this year we will probably have a 4% royalty level but when I look at the nine months a question I see it has been at around 3.3% as percentage of sales. So, is it that by the year ended we will be at 4% levels?

Suresh L Hemant, basically the percentage remains at four we also get the benefit of Cenvat so therefore you see the royalty is net of that.

Moderator Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta Sir, just two book keeping, have we taken any price increases in this quarter?

Amit Jatia We have, in October we took a small price increase.

Avi Mehta Okay. And sir, secondly on the delivery side you indicated that there are some initiatives that you are doing, would you be able to kind of elaborate on that?

Amit Jatia Yes, I mean it is basically we feel that the technology platform needs to be elevated continuously to keep in touch with all the changes that are happening in the world and as I mentioned earlier, I call it food tech we feel we have got the food we are vigorously pursuing the tech part. So you will continuously see tremendous work and recently we upgraded our app already and we are seeing some good traction around that. We feel that we can get our app to world class levels we will further see traction there.

Avi Mehta Okay. Also, an observation we also saw that Grab for example is delivering. I am not sure it was Grab or something, have they started delivery of McDonald's at the store or is that a trial, could you share some comments on that?

Amit Jatia As I mentioned, the ecosystem for delivery is gaining traction in India and we are using every means that is available to explore that. The important thing is there is always more orders than riders and anybody who adds more rider capacity to us, we are more than willing to experiment with it so, it is yet an experiment stage we have not reached any conclusions but probably by the next call I might be able to give more color on that.

Moderator Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek First question if I look at from a thought process perspective December 2014, you were flat on SSG and we have reported positive Comps. As you get into March and June we are sitting on a base of -5%, mathematically speaking other being equal it should mean acceleration simply because of the base is that a fair assumption?

Amit Jatia Yes, it is a fair assumption.

Vivek Okay. Second, I know this question has been asked in the past but occupancy and other operating expenses, the fact that you added 24 stores in the past 12 months, how is that on a Y-o-Y basis even if the restaurants come for lease rental reset every five years, how can you still have almost a flat occupancy charges. At least the rental bit should see an increase plus you are adding 24 new stores right which is a double-digit increase on a percentage basis Y-o-Y?

Amit Jatia It could be deal structure of the new stores are different that could be a very big factor. Also, the difference that you see here is the 200 basis points improvement that you see in the occupancy & other operating expenses, as I mentioned earlier, the utilities efficiency across the P&L is also impacting positively because of our restaurant re-design initiatives over last 12 months.

Vivek Okay, got it. Again on the staff expenses, you clarified on the new bonus bit but is it fair to assume that you were already paying incentive to some of those employees who are now coming under this regulatory change and which is why the impact is far lesser than what it could have been otherwise?

Smita Jatia Yes, for us the eligibility has not changed because everyone was exposed to the Bonus Act, what has actually changed is the rate at which they are eligible.

Vivek So from 3,500 to 7,000 basically that has changed but 10,000 to 21,000 there is no change because you were any which paying it.

Smita Jatia We are giving bonus to pretty much all our crew.

Moderator: The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain My first question is actually with respect to your order size so what proportion of this 3% same store growth would be attributed to order size increase?

Amit Jatia While that's a number you can track, but, we do not see our business only around that. Like recently, when we did the spicy face off, people were buying the new spicy and it's priced little higher than the previous one. Another example is that when we do sides, they were incremental to your meal. The other thing is with introduction of McCafé, we have been able to trade-up the customers who were having carbonated beverages earlier. The other thing that we have done which we have not talked much about is McFlurry. Regularly and consistently we have been coming out with new flavors and it helps us grow slowly. As I said this before as well that the 180 million customer base which come to McDonald's, the key job for the company today is one, how can I make them sticky so they keep coming back to us which is in some ways comps and two, how can I give them more products that they like at McDonald's rather than going somewhere else, I hope this gives you some flavor.

Puneet Jain It gives good flavor but given the fact that you mentioned that you have launched more products and people are upgrading in terms of the burgers which they are buying. So clearly the order size should be growing at more than 3% pace?

Amit Jatia Probably, I mean like I said, we do not completely look at it that way for us we have metrics by which we measure the frequency how often customers are coming to McDonald's and his frequency going up and then the other thing we measure of course is if we are able to sell more products per order.

Puneet Jain So will it mean that the footfalls at this point of time are still flattish for various stores?

Amit Jatia Yes, that is true.

Puneet Jain And second thing, is that your same store growth is close to 3% and your store expansion is 10% while your revenue growth is 7.8% so, clearly there is some gap so obviously new stores will be opening at a lower base?

Amit Jatia Yes, because new restaurant takes time to establish itself in a trading area so, if you see our Investor Presentation we say that by the second year to third year they pretty much come to market average and that has been the whole issue because we have not stopped growing our new restaurant base because we believe that when the cycle turns all this really adds value to you.

Puneet Jain So now as you open more stores, is the stable revenue any different from the stores which is more two years or three years in the system or is this lower than system average or is it still close to system average?

Amit Jatia No, as I mentioned to you by the second year to third year they do get to system average right but there is not math to it, it depends on the market if sometimes we go and invest in a city it takes three year or four years for the city to pick-up so that is how it works so it is very hard to say. But, as a trajectory, we are seeing some bit of curve in the upward direction and you will continue to see the benefit of new stores kicking in higher sales as well.

Puneet Jain Okay. My final question is have you done any study as to what is the opportunity size given the current economic base of the markets where you operate in how many stores you can open?

Amit Jatia Absolutely we know that and you can see it in our Investor Presentation on the website or please do have an offline with Ankit and he will take you through that data.

Puneet Jain So do you have any inspirational target where do you want to be say in five years in terms of stores?

Amit Jatia Absolutely as I said in my outlook we want to double our current base.

Moderator Thank you. The next question is from the line of Sonal Gandhi from Anand Rathi. Please go ahead.

Sonal Gandhi: A bit of repetition but I wanted to understand more on the employee cost as I remove the one-off expense of 12 million, I actually see that the employee cost is going down on year-on-year basis by about 3%. I totally understand the productivity measures you have taken but are we cutting down our crew. So at least there should be some inflation adjustment or probably at least 4% to 5% kind of hike that should be seen?

Amit Jatia Because we are adding new restaurants what happens let us assume we have 100 people, if I am adding new restaurants I may normally have to recruit people but if I am becoming more productive and I can run my current restaurants with say 80 people then I put these 20 people into the other newer restaurants so, that is how it effectively works. The good news is we are growing aggressively and therefore we are able to take the productivity benefits and re-deploy this crew to the newer restaurants.

Moderator Thank you. Ladies and gentlemen that was the last question, I now hand the conference call over to Mr. Amit Jatia for his closing comments.

Amit Jatia Well thank you very much for joining us on the call today, I really appreciate your time and patience. Please if you have any other questions, please reach out to Ankit Arora at Investor Relations and all the materials are available on website as well. Thank you.

Moderator Thank you very much members of the management. Ladies and gentlemen, on behalf of Westlife Development Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.