Q4 FY2019 Earnings Call Transcript – May 14, 2019

CORPORATE PARTICIPANTS

- Amit Jatia – Vice Chairman
- Smita Jatia – Director
- Suresh Lakshminarayanan – Chief Financial Officer
- Sajeev Arimpur – Director, Finance & Accounts

Moderator: Ladies and gentlemen good day and welcome to Westlife Development Limited Q4 & FY19 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. I now hand the conference over to Mr. Sajeev Arimpur - Director, Finance & Accounts. Thank you and over to you sir.

Sajeev Arimpur: Thanks Stanford. Welcome everyone, and thank you for joining us on the Westlife Development Limited earnings conference call for the fourth quarter and full year ended March 31st, 2019. We are joined here today by Amit Jatia – Vice Chairman, Smita Jatia – Director and Suresh Lakshminarayanan – Chief Financial Officer of Westlife Development Limited.

Please note that results, press release and investor presentation have been mailed across to you earlier and 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 shall be followed by Smita who will take you through the key business initiatives, and Suresh, who 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 maybe forward-looking in nature and must be viewed in conjunction with the risks and uncertainties we face. A detailed statement and an explanation of these risks are available in this quarter's 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. Thank you.

Amit Jatia: Thank you Sajeev. Good Evening everybody and thank you for joining this call today.

Moving strong on our growth part, I'm happy to share that we have had a solid year with a growth of 23.5% in FY 19 over the previous year. During the quarter we continued to build on the positive results we posted during the first three quarters of the year and delivered strong results for our shareholders. We continue to lead the QSR industry with 15 straight quarters of positive SSSG.

It has been a year of the big bold moves and transformation across our business and we have stayed committed to offering an exceptional guest experience which we believe is our biggest differentiator in the industry today.

We have expanded the footprint of our 'Experience of the Future' restaurant giving our consumers a dramatically new McDonald's experience. This complemented with our indigenously developed new menu and our strong focus on convenience and hospitality has helped us redefine our baseline in terms of consumer experience.

2018-19 also marked the beginning of a very special journey for us - with our 'Good Food Story'. We re-engineered our menu to make it more wholesome and nutritious which enhanced our brand permissibility significantly.

We have made significant progress in rolling out our digital platforms and with the plethora of tools like the delivery app, the new McDonald's app, our website and our completely integrated backend we have been able to make our customer experience simpler and more customized.

A robust range of initiatives coupled with strict financial discipline and maximization of operational efficiencies have helped us deliver a strong year. With this, we believe we are very well poised to capture our new age consumers as well as remain relevant to the existing ones.

We started out on this journey 23 years back and have charted a growth path marked with innovations and bold moves. We have always had tremendous confidence in our business and that is the reason why even in challenging times we never shied away from investing in it. It was in the challenging times that we articulated our ambitious Vision 2022 and I'm proud to say that we are well on our way towards achieving the same.

We believe we have laid a pretty solid foundation for our business and are confident of accelerating our growth in the long-term, irrespective of cyclical downturns.

Smita and Suresh will now take you through the results of the last quarter ended March, 2019.

Smita Jatia: Thank you Amit. Good evening everyone and thank you for joining the call today. I'm happy to share that we have concluded a rock solid year built on the back of menu innovation, digitization and great customer experience, supported by cost optimization.

Moving into Slide 4, 2018-19 truly brought alive our brand promise of value, variety and convenience. We launched our value platform McSavers and introduced Rice as a platform to give our customers a compelling meal option. We offered 9 new products as a part of our 'What's Your Spice Fest'. We increased our Experience of the Future footprint and expanded our digital reach.

The success of our initiative reflects in our annual results:

- We achieved a total revenue growth of 23.5, SSSG at 17% with the PAT at Rs. 403 million.

- Gross Margins improved 138 basis points year-on-year to 63.9%.
- 37.7% growth in Restaurant Operating Margin driven by enhanced operating and supply chain efficiency.
- Operating EBITDA grew by 50.4% with the margin expansion of 163 basis points year-on-year.
- We added 25 new restaurants taking our restaurant count 296 across 41 cities.

In the fourth quarter we focused on consolidating various initiatives launched throughout the year with our laser sharp eye on driving financial discipline across our operations. We are happy to report that this quarter we have achieved SSSG of 5.6% making it the 15th consecutive quarter of positive SSSG.

Here are some key highlights of the quarter:

- We achieve total revenue growth of 12.05% year-on-year to Rs. 3391.7 million and PAT at Rs. 71.4 million.
- Our operating EBITDA grew by 21.67% year-on-year with the margin expansion of 64 basis points year-on-year.
- This was aided by a gross margin expansion and improved because of product mix, controlling input cost and prudent G&A spends.
- We also saw a 17.21% growth in Restaurant Operating Margin driven by an enhanced operating and supply chain efficiency.
- We added 7 new stores taking our restaurant count to 296.

Getting into the restaurant portfolio:

Maharashtra and Karnataka continue to be our key markets with over 60% of restaurant concentration. This quarter we saw 7 new restaurants across regions with a new city launch in Tirupati. We have continuously made investments in the revamping our restaurants in modern and contemporary in design. Today 90% of our stores are of modern design.

Our customers have shown immense appreciation for our ‘Experience of the Future’ restaurants that provide a superior dining experience with self-ordering kiosks and table service. This gives us great confidence that we are treading on the right path. This quarter we added 3 new EOTF stores taking the total number to 25.

Let me now take you through specific initiatives that we launched in this quarter to build the brand and the business:

We are happy to report that this quarter we achieved a healthy SSSG of 5.6% over a high base of 25% same quarter last year. Over the 15 quarters of positive SSSG our AUV has grown by

50% in the past 4 years making it the highest in the industry. SSSG has also helped us maintain a strong baseline growth and operating leverage.

The key initiatives for the quarter was the launch of a new McDonald's app that gives customized offers to our customers that can be redeemed at the restaurant. We have seen that the average check for this in-store orders placed through the app is higher than the orders placed over the counter. We ran a creative 10-year challenge campaign on the app by offering products at 2009 prices and the Valentine day's Perfect Match campaign that helped us drive downloads and redemptions in a big way. The app had more than 8.45 lakh downloads so far with a very healthy redemption rate.

We are very proud of the 'Good Food Story' we launched last year and are committed to make new strides in the same. Following the success of the pilot launch of the whole wheat buns in Mumbai we did a system wide launch of our whole wheat buns this quarter. I'm happy to share that with the conversion rate of more than 50% our whole wheat buns have seen a great up take with our customers adding further to our cash flows.

Menu innovation has always been our key strength. We launched the Spice Fest campaign as a limited time offer and continued it in this quarter as well. Our clutter breaking products such as Chilli Naan and the Salsa Bean Burger have been well received.

Over the last few years our brand extensions- McCafé, Mcdelivery and McBreakfast have made a strong mark with the customers and are contributing to the business significantly.

McCafé has been of definitive game changer for us. It has built a loyal base of customers who now walk into McDonald's for our range of coffee and other non-aerated beverages. This quarter we added 4 new flavored coffees to McCafé portfolio of 45 hot and cold beverages. We added 8 McCafé during the quarter taking the total number to 190 and is making is the second largest organized coffee chain in India. McCafé annual sales grew by over 50% year-on-year.

MDS has been a significant growth driver for us with FY19 sales almost doubling as compared to the last year. To cater our new customer segment, we launched a pilot project last quarter to test hot beverage delivery and got a thumbs up from our customers. This quarter we launched hot beverage delivery service across all our McCafé stores. The delivery segment is growing aggressively and with 216 MDS hubs and strategic partnership with third-party aggregated partners we believe well poised to capture the market.

Breakfast also showed a steady growth as we continue with the Breakfast Egg Festival during the quarter. The campaign helped enhance awareness and visibility of our exclusive menu. We added McBreakfast to 16 stores during the quarter taking the total count to 163 restaurants. Breakfast is just another way we are adding convenience to the fast paced life of our customers.

And finally, our people form the core of our business. We undertake a number of initiatives for the development of our employees which has resulted in our company winning many awards in various segments through the year. Among the many awards our company received are the **Great Places to Work** award for the 4th year in a row- we were among the Top 10 companies to work for in the retail industry in 2018.

The Economic Times also recognized McDonald's India as one of the **Best brands for the year 2018-19.**

With this I handover to Suresh, who will take you through the details of our financial performance.

S. Lakshminarayanan: Thank you Smita. As highlighted earlier it has been a continued robust performance in fiscal 2019 where we have seen significant growth across all our financial parameters i.e. revenues, margins, PAT and cash flow.

Moving to Slide 25 on top-line growth;

We reported yet another quarter of robust comparable sales. This makes it the 15th consecutive quarter of positive SSSG at 5.6% and 17% for fiscal 19. Our total revenues witnessed 12% growth over Q4 of last year and over 23% vis-à-vis FY18. Our menu innovation, superior performance of brand extensions and enhanced customer experience through EOTFs resulted in higher revenues. As a result of all of these, our revenues have grown at a 3-year CAGR of 17% from Q4 FY16 to Q4 FY19 and 19% from FY16 to FY19.

Moving on to Slide #26 on gross margins: Our work around driving product mix-led improvement continued along with tight control over input costs. We were able to drive gross margins up by 56 basis points to 64.12% as compared to 63.56% in Q4 FY18. For the fiscal 2019 there has been an improvement of 138 basis points to 63.93% as compared to FY18. Continuous improvement in supply chain efficiencies along with our product mix, has aided the healthy expansion of our gross margins by around 500 basis points in the last 4 years.

On the restaurant operating margins, we have seen a growth by 17.21% for the quarter as restaurant operating margin expanded by 61 basis points year-on-year to 13.84%. The robust same-store sales growth helped drive operating leverage across labor and utilities and other operating expenses. Despite impact of denial of input tax credits, restaurant operating margins for FY19 has grown by 37.72% over last year and that has translated into a margin expansion of 151 basis points to 14.61%.

Increase in revenues in gross margins has helped us optimize our operating leverage resulting in increased operating margins. Our restaurant operating margin has increased by the 360 basis points in the last 2 years.

On operating EBITDA moving to Slide #28:

All the above initiatives coupled with prudent G&A spends, have resulted in significant improvement in the EBITDA margins that have increase during the quarter by 64 basis points YOY. Margin expansion in FY19 is higher by 163 basis points as compared to FY18. As a result of our sustained focus on menu, value, product mix, brand extensions and productivity efficiencies we have been able to increase our operating EBITDA by 380 basis points over the last two fiscal.

Slide #29 highlights the major levers that are contributed to YOY increase in operating EBITDA margins in Q4 FY 2019 as mentioned earlier.

Moving to Slide #30 and #31 on PAT and cash profits:

For FY19 there was a significant jump in our profit after taxes as we tripled our bottom-line to Rs. 403 million and PAT margin stood at 2.9%. Our FY19 cash profit has more than doubled in last 2 years to Rs. 1258.2 million.

In a nutshell, our robust performance is the outcome of the amalgamation of our various strategies, it gives us the confidence to move ahead in the same direction to deliver on our FY20 revenue and margin targets.

With that said, I would now hand over back to Amit, who would take you through the outlook for FY20 and give the closing remarks.

Amit Jatia: Thank you Suresh. In today's business environment uncertainty and volatility is the new normal. However, with our solid business foundation and a strong strategy centered on consumer experience, we are confident of achieving our Vision 2022. Our 'Experience of the Future' restaurants have redefined customer experience not only for McDonald's but for the entire QSR industry and we are focused on expanding our EOTF footprint. We are integrating digital strategy across our business to enhance customer experience as well as build efficiencies. Our brand extension remained an important lever of group for us and we will continue investing in them. We are confident that with a compelling value platform, menu innovation and 'Good Food Story' we will grow our customer base while giving them compelling reasons to our existing consumer to consume us more often. We are confident that these initiatives will help us deliver enhanced value for our shareholders.

With this I opened it up for Q&A.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: My first question was on the SSS growth, you highlighted that the base is something that was one of the contributing factors for SSS growth moderating from the earlier quarter. Just wanted to understand was there any sense on consumer demand being weak and if not how do you look at SSS growth as we go forward?

Amit Jatia: SSS growth I have always maintained you cannot compare percentages of the past to the percentages of any quarter for that matter. From our point of view it's about compounding and this was our 15th quarter for positive same-store sales growth. For effectively if you look at one of the slides in the earnings presentation you will see that we are at 140% or 150% sort of where we were 3 years ago. The point is as long as you can retain that customer base and yet grow that forward we look at that is a very positive sign. Now obviously as the base becomes bigger even a 6% or a 7% in rupee values is more than what you did 3 years ago with a 10% same store sales growth as well. So, that's how we look at it and therefore yes consumer sentiments keep moving up and down. As I've mentioned in a particular quarter there could be some volatility for example right now there are elections, so I feel these are all momentary things. But we maintain that our vision and more sustainable same-store sales growth of 7% to 9% as we have articulated in Vision 2022 we continue to maintain that for the future.

Avi Mehta: So, if I hear you correctly would you allude to any weakness in consumer demand I'm sorry I missed that part?

Amit Jatia: No, what I'm saying to you, I don't think that you can take 5.6% same store sales growth as consumer weakness. The point I'm trying to make is it's a compounding effect and you will understand this better than I do. We have analyzed and put that into one of the slides. So, I feel that having retained 40% incremental business in the same store sales over 3 years or 4 years, the fact that we maintained that and grown back from a rupee value does not weakness in the consumer sentiment. It in fact reflects the fact that we not only retained the customer base but we have grown on top of that. I feel it is unrealistic to expect 15%-20% growth every quarter because the base keeps going up. So, I'm not saying that there is consumer weakness as yet but definitely our market is volatile—I mean I have maintained that throughout the last 3 or 4 years—but I feel one quarter is not reflective of whether the market is weak or not because I'm reading a lot about rural weakness and about what other brands are saying as well. But I don't come to the same conclusion at this point in time.

Avi Mehta: The reason why I was trying to understand if I look at slide itself you will realize that from 3Q onwards this is the first quarter wherein 4Q is lower than what 3Q was. I mean I know you have not given absolute numbers rebased to 100. But typically even in your slide 3Q to 4Q is the trend so that's why I was trying to understand was that a sign. But I believe what…

Amit Jatia: I have been saying this consistently that you cannot compare Q3 to Q4 because the dynamics of Q3 can only be compared with Q3 because it's December, it's got holidays, and it's got a whole different dynamic with Diwali. So, you build Quarter 3 based on Quarter 3 and you build Quarter

4 based on Quarter 4. That's why you see the graph is not comparing Quarter 3 to Quarter 4. It's compared Quarter 4 of 4 years to Quarter 4.

Avi Mehta: I understood the point that you're trying to make. In that sense then if the flattish store addition, you have not increased the store addition target, any reasons for the same?

Amit Jatia: We maintain that it's about sustainable growth and essentially even in 2013, 2014, 2015 we were growing 25 to 30 restaurants. We believe that's the right sustainable growth to the market at today's frequency of eating out. The frequency of eating out is growing at a sustained certain pace and if we try to outpace that I think it does not work because in the short-term it then really starts hitting you. There is a certain absorption that the market can take and at this point we feel it's 25 to 30. So, again in our vision 2022 we've talked about 400 restaurants to 500 restaurants and we are reasonably confident that that's the area we are going to end up with.

Avi Mehta: If you could give any comment on how the input cost environment is, is there any inflation over there or how was that?

Amit Jatia: I'm not seeing anything that would concern me out of the normal. In India in my view inflation always is a challenge and it's the same challenge. So, I don't see anything out of the normal at this point in time.

Avi Mehta: Even with the rough range that we are looking at which we were hoping to kind of achieve 7% to 9%, would you argue that our expectation to reach the FY22 guidance would continue and we would see EBITDA margin expansions sustaining?

Amit Jatia: Absolutely. In 2016 when we laid it out and the market was weak everybody would wonder what's going on. But in 2018 when we did that when numbers were good it all looks good. That's why I talk of sustainability and therefore 7% to 9% same store sales growth takes us to an average unit volumes annually of over 6 crores and we feel for us that's the sweet spot and of course you have to keep a very tight eye on cost and we are reasonably confident that vision 2022 for us is sort of the absolute target that we are shooting for. So, we are quite confident of delivering whatever we projected in vision 2022.

Avi Mehta: And the next year also kind of should be along that line, you don't see any bumps coming in at just in the near term?

Amit Jatia: No, whatever bumps, see volatility is always there. So, therefore I have always maintained that you got to bring costs down along with growth in sales. So, it's a constant battle on both fronts. You can't ignore one over the other. So, we've constantly been taking cost out of the system. One very good example of where we have done phenomenal work we were just looking at that is utilities. 3-4 years ago it was double-digit percentage of sales, today we've knocked-off over 300-400 basis points in just utility cost alone and it's a very challenging cost to manage. So, that's why redesign is our constant effort on whichever cost item we feel is sort of moving up and that's why it's a 3 year project that we always have. So, the projects coupled with growth in sales is really how we build vision 2022.

Moderator: The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: On the state split that you have I just noticed that in Andhra Pradesh and states like Gujarat, your number of outlets you have is relatively lesser than the spread that you have in other bigger areas or probably for that matter Tamil Nadu and Maharashtra and Karnataka the density is reasonably high, Telangana reasonably high. So, is there an operational barrier in terms of the population strata is there a challenge there in terms of expanding in those stores or those are white spaces for you?

Amit Jatia: Absolutely not. No it's not, so it's our strategy. I have said this consistently for the last 5 years that we focus on 6 key cities where 60% to 65% of our restaurant growth will come and the other 35% will come in some of the other smaller cities and new markets. So, for example take a market like Nagpur, we have zero restaurants there, Nagpur can clearly take a certain bunch of restaurants. But the minute we plant our flag in Nagpur in 3 to 5 years we will build 25 restaurants there. So, that's the way it has been, in fact Gujarat has been a phenomenal market for us. Again the 40 restaurants are only in 3 or 4 cities. Similarly if you look at Maharashtra, bulk of the growth is in Mumbai and Pune and at the end of the day Mumbai and Pune effectively have 25 million people. While there are really consuming 25 million people so while in Gujarat really our presence is in Ahmadabad, Surat and Baroda. So, you can't look at Gujarat is Gujarat. You got to look at the 3 or 4 cities that we really operate in. I hope this gives you a flavour of our response.

Ritesh Gupta: On the McDelivery and McBreakfast and McCafé side, could you just give us a sense of what proportion they would be of your revenue, you have to give index numbers? But if you could just give us a sense of how much it is contributed to your incremental sales in last 3-4 months?

Amit Jatia: That's precisely the reason why we give index numbers. So, we don't share breakups actually within the total sales. But just to give you a better flavour of the business we have given index numbers but we don't really break that up. But both are doing extremely well and no wonder we have expanded McCafés in a very short span to 190 and pretty much we have given vision 2022 which talks about 300 to 350 McCafés and so is the same with Delivery as well. Our biggest strength on Delivery is we don't need to do dark kitchens, we don't need to don't Cloud stuff because we have physical retail presence and we use this physical retail presence to reach the customer mass across our territory and also deliver from that. So, we feel that it's really powerful because it takes our philosophy of 1+1+1=5, very-very far because everything starts coming into this one restaurant which gives is really good advantage on growing the average unit volume.

Ritesh Gupta: Just on the Delivery side, how much of your delivery is via your own delivery and how much is via third party Swiggys and Zomatoes of the world?

Amit Jatia: Again we don't share that data but the good news is we have a strong app and that works very well and even with aggregators we see them as partners because of what we bring to the table from a brand demand point of view. So, I think it's a very good partnership and it works very well for us actually.

Ritesh Gupta: Any comments on the what is happening in the North and East side, is there anything which changes for you, could it open up certain opportunities for you as well in the longer term?

Amit Jatia: As you rightly said any comments and my comments are no comments. We are focused on West and South and that's really where we are today.

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

Anand Shah: Just one question is essentially on gross margins. If I look at the last 6 quarters your gross margins are broadly in the range of that 60% to 64%. One is what kind of upside do you see to this gross margins especially in terms of drivers and second your statement to vision 2022 where you are building a certain margin expansion from current levels, what kind of expectations are built in from gross margin expansion point of view?

Amit Jatia: So, gross margins I had mentioned last time as well that I think we are in a very good territory and the focus is not really to grow gross margins more. Of course strategically and intelligently if it grows that's okay but there is no plan that it should become another 300 basis points better. That's not the objective. The objective how the operating leverage comes through is all through getting average store sales, higher up and as I mentioned in vision 2022 we benchmarked this around 6 to 6.2 crores of sales and we feel that as long as we are able to get to that level, we feel that the operating leverage flow-through with tight control on cost will come through. So, on gross margin this is a decent number to build into models.

Anand Shah: So, I can walk with the assumption that saying the bulk of that expansion will come largely through the operating leverage part?

Amit Jatia: Yes.

Anand Shah: Do you see a high contribution of McCafé or a Breakfast and some of these items actually do contributing further enhancements to other gross margins?

Amit Jatia: It will because if you think about it, we have 190 McCafé's while we have a base of almost 300 stores so we have another 40% to go right there. Not only does it increase average unit volumes, because McCafé has given us phenomenal results but it also helps with gross margin as well.

So, that is a tested initiative that we have or strategic intent and that is definitely built into our 2022 vision and margin enhancement factor, so absolutely yes.

Moderator: The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.

Bhavesh Shah: I understand the base effect and the resultant 5.6% SSSG but even if you look on a 2-year CAGR basis, there seems to be some moderation. I don't want to go too much into the numbers but in your experience have you seen any specific parameter during the quarter, be it a retail footfall, moderating or anything else which can probably explain this or would you attribute this purely to the base effect?

Amit Jatia: It's very hard to say Bhavesh, in one quarter again in the quarter we don't talk about individual months but it was a specific month that had its play so on that one month for me to make a judgment call becomes very tough. Therefore, I need to see more evidence. I am reading a lot about slowdown etc. but I need to see more evidence around may be 1 or 2 quarters before at least I can come to that conclusion. However, our philosophy is that it's a volatile world, there is uncertainty and within that uncertainty, what's our pipeline of initiatives that is tested in the marketplace. And as long as we have pipelines of initiatives that are tested in the marketplace our vision 2022 should be deliverable. We are not saying that because the market is up or down, our number should change and while I cannot share much about what's in the pipeline but they are already in play in certain markets. The example I will use is McCafé again, quite that McCafé is a tested initiative and we yet have another 100+ stores where we need to add the McCafé. Where in delivery is in 200 some stores and there is opportunity to add that in at least another 50 restaurants. So, that just by adding those two components we get sales growth as well. You get my point that its very early for me to say is it footfalls or is it what? Because if all the 3 months we are not consistent and 3 months is just too small and taking one month as a base for that. So, we are keeping our antenna up; even what we are reading and what we are seeing and we will play our cards accordingly.

Bhavesh Shah: Over the past few quarters we have taken a bit of a margin hit due to reversal of input tax credit which was done in November '17. Given that this is now already in base; did this quarter benefit a bit of it from this of that exaggerated impact on input tax sale really going off. Do you think there was some benefit in this particular quarter, any thoughts on that?

Amit Jatia: There is no benefit but it's now comparable. That is the only difference that has come because last year same quarter the input tax change had happened so the number you see are now comparable while until the last quarter it was not comparable because of the mismatch between input tax credit and no input tax credit.

Bhavesh Shah: I was trying to understand that if we have a very good SSSG of almost around 17% in this year and margin expansion to that extent was not that strong. Given that do you think margin expansion can be a little higher in this year given that the input tax credit impact is now already there in the base?

Amit Jatia: I think that I get what you are saying but I feel that a 50% growth in operating EBITDA, if sales grew by 23% which includes new restaurants as well. So, 17% is comp and the balance is coming out of new restaurants as well. On top of that if we've grown EBITDA by 50% and look at the flow through to the PAT it's almost 200%-300% growth so I am personally quite pleased. It's about rupee margin I feel, I have been mentioning that many times but it's not just about percentage margin growth. Finally, it's about, when you divide your capital invested into the returns you divide rupee amounts and finally it's about return on equity, return of capital and so on. Percentages are only a way of representing them as the way we see it. The percentages may not go in line but you will see shift in total rupee amount growth quite consistently.

S. Lakshminarayanan: And also 2.5 quarters of FY18 had the benefit of input tax credit which is not there in FY19.

Bhavesh Shah: What was the CAPEX incurred in FY19, total?

Amit Jatia: 130 crores.

Bhavesh Shah: Given that we opened 25 new stores. On a per store basis the number looks little high. Can you just give us some more color that what was the CAPEX?

Amit Jatia: So, Smita talked in her presentation that 90% of our stores are modern and contemporary so we have been doing a lot of reimaging and reinvesting and the consumer feedback on that is absolutely fantastic so a lot of the other capital has gone into reimaging, reinvestment, EOTF expansion, McCafé as we have accelerated, 50-60 McCafé's, so it is all of this and that's why actually we are quite pleased that it's not just about store openings; it's about really keeping a very modern contemporary restaurant base for our consumers.

Bhavesh Shah: How much we should expect in terms of CAPEX for FY20?

Amit Jatia: Around similar.

Bhavesh Shah: On McCafé you have been expanding quite well a here. What has been your experience in some of the Tier 2 cities, towns where you now have presence?

Amit Jatia: Actually, very good surprisingly because probably the there is no, the penetration of other brands, may not be there or be there is not enough retail there, that offers such good quality products and that is why we have seen a phenomenal experience in Tier 2 towns. We are loving it.

Moderator: The next question is from the line of Pratik Poddar from Narnolia Financial. Please go ahead.

Pratik Poddar: Actually I wanted to ask one thing is, we have been seeing 3 stores closing down in each of the Q3 and Q4, can you just explain what can be the reason?

Amit Jatia: Basically, we do a portfolio review every year, every 2 years, some of it could be re-location as well as markets move and so on but pretty much our portfolio has been rejigged quite nicely. 2 to 3 closures are a realistic thing over a 300-restaurant portfolio because of market movements. Sometimes for example a metro is coming on the next street so we may like to relocate closer to the metro even if the store is doing well and we do our payback analysis on that and so on. That's primarily the purpose.

Pratik Poddar: Majorly the question was because if we do a net addition it's just 19 stores for FY19, so that was the major reason why I asked the question.

Amit Jatia: I agree, so it's part of rejig of portfolio and movement but essentially, we are looking at 24 to 25 net additions in the coming years ahead.

Pratik Poddar: You expect further more ramp-up in FY21-22?

Amit Jatia: Yes, we do. That's why over the 400 even if I take the bottom end of our projection that's the only way, we will to it so we do see that and you just got to see the support of frequency of eating out going up as well. Also, what happens is as we open new market, for example let's say we open a Nagpur based on my earlier example then that allows me to open another 5 to 10 stores over the next 4 years in that particular territory.

Pratik Poddar: On the AUV that we use as a metric for operational revenue, if you see it's pretty low in Q4 when you compare it to the rest of the 3 quarters. If I see YOY is 5% up but otherwise pretty low?

Amit Jatia: We have only given you an index; we have not given you AUV for Quarter 4 but as we just to generically explain this, as I have done before that each quarter for us is very different in its behavior because certain quarters are exam quarters, certain quarters are holidays, certain quarters are celebrations so at least in our business you got to look at that quarter consistently on its own account. 2-3 quarters ago I had tried to explain that as well that you cannot compare Quarter 2 numbers to Quarter 3 numbers at all. You got to look at Quarter 3 last year to Quarter 3 this year.

Pratik Poddar: If you can share FY19 numbers, I am not asking on a quarterly basis but AUV for FY19 if you can.

Amit Jatia: No. We can off-line get back on that. We have to just work that out. It's not readily available at this point.

Pratik Poddar: Just that it would help to understand the path of vision 2022, nothing else.

Amit Jatia: Sure, we will put that up. It's been moving nicely, we do that normally on investor day, we will just consider whether we want to put that out in the domain.

Pratik Poddar: On the gross margin front the expansion in gross margin, can we call it for the product extend because driven by product mix?

Amit Jatia: It is largely product mix and some raw cost management.

Pratik Poddar: If I check that this time our debt has been little bit on the higher side, we have actually not been a net cash. This FY19 has resulted into a net debt company.

Amit Jatia: Correct that's because we expanded our EOTF and reimaging thing. Normally our investment was 100-110 crores. This year that way if you think about it our cash flow is about 126 crores while our investment is 130, so that may be some mis-match during working capital or something like that. It's a 15 crores-22 crores gap.

S. Lakshminarayanan: 22 crores was net debt.

Pratik Poddar: We expected to come down in the next few quarters.

Amit Jatia: Absolutely.

Moderator: The next question is from the line of Kunal Shah from IIFL. Please go ahead.

Kunal Shah: I am just delving a little bit on your earlier comment that one of the 3 months in the previous quarter had seen a weakness so just to confirm was that month March and have you seen the weakness continuing to April also do you think…..

Amit Jatia: We don't want to share that breakup. We don't talk month to month; it was more an example so can't discuss specific months.

Kunal Shah: In general, in the first 45 days of this quarter have you, is your growth trajectory similar to what you saw in the last quarter or it will be different?

Amit Jatia: It's a forward-looking statement so cannot discuss though.

Kunal Shah: On EOTF, we have expanded them by around 20 new stores this year; so do we plan to maintain this state of new store in new EOTF openings or would that….

Amit Jatia: Yes, it will only be accelerating.

Moderator: The next question is from the line of Nitin Dharmawat from Aurum Capital. Please go ahead.

Nitin Dharmawat: As we are reading the media reports about this North and East outlets, so just wanted to understand from your side are we in the fray for bids for this outlets or we are not bidding for this outlets?

Amit Jatia: As I said we are focused on West and South and we would like to keep the focus of this call on the earning result and so on for the last quarter.

Nitin Dharmawat: The number of restaurants, as our vision is for 2022; 500 restaurants and right now we are close to 300 so in next 3 years we have to add around 200 restaurants that is approximately 17 restaurants per quarter. We are adding around 7 currently. What is the plan to meet this number otherwise we will miss the number by a big margin, so just wanted to understand from your side?

Amit Jatia: We have given a range of 400 to 500, obviously 500 is out of question that's the reality because for us it's all about essentially doing it right and sustainable. So, obviously it will be at 400-400+ mark so for that we have done our numbers and we are working towards that. So, we are reasonably confident to be around that number and vision 2022 is December 2022. We had clarified that so if effectively FY23 because we had done it on a calendar year basis so we are reasonably confident of getting there.

Nitin Dharmawat: Around 400-450 you are saying.

Amit Jatia: Yes.

Nitin Dharmawat: How many restaurants will be closed during the quarter?

Amit Jatia: Three.

Moderator: The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Can you give some understanding on these corporate overheads going forward? How do they change, any sort of guidance for us to understand? What sort of operating leverage can come in your business because as some of the other participant asked regarding the expansion in the EBITDA compared to the SSSG, how should we read this number?

Amit Jatia: I will give it to you at a broader base. For example, in our vision 2022 we talked about 2000 to 2500 crores from the current 1400 crores. As we go towards that number the corporate G&A is not going to move in a same proportion as that because a lot of the people do exist. However it depends on initiatives, for example we are accelerating - I talked about the pipeline. We have some really interesting stuff that is in play already in certain of our markets that have huge potential that we are going to grow across the board. Similarly, as we are adding Breakfast, as we are adding McCafé all of that needs to be managed as pretty much a separate business unit because all of them are scaling. In summary, while we don't share specifics what I can tell you is that the percentage of G&A to sales is going to drop over the next 4 years as a percentage. Now you can check some global benchmarks etc. and you will get a sense of where this can go. Again, in summary that as sales go to 2000-2500 crores; the G&A is not going to grow at the same pace. G&A is going to grow at a much lower pace.

Dhaval Shah: Your guidance is 13 to 15 is what you have said, if I am not wrong in terms of EBITDA?

Amit Jatia: Yes, EBITDA low to mid-teens.

Dhaval Shah: This year we did around 85 crores of corporate overheads we have broadly like 80-85 crores, that was 55 crores in FY17 so a jump of….

Amit Jatia: No, its 77 crores this year.

Dhaval Shah: I must have added something else. So, from 18 to 19 it has not grown too much, if SSSG is very high say assuming you have a 15% to 20% SSSG next year so is there any relation between corporate overheads also growing and when there is a very high SSSG growth or there is no relation?

Amit Jatia: Firstly, I got the question, let me explain. Firstly, SSSG range is 7% to 9%. Number two, corporate G&A is around total growth. It's not around SSSG. Corporate has actually nothing to do with SSSG because in total growth SSG is factored in as well. As new sales also keep coming corporate G&A does not grow at that same pace. So, as we keep adding restaurants and sales of that also start maturing and growing, it does not add to corporate G&A basically.

Dhaval Shah: Any of the new restaurants opened, none of the expense of that restaurants have added to your corporate G&A, it's only your head operates?

Amit Jatia: No, corporate G&A is corporate G&A. It has nothing to do with the restaurant additions.

Dhaval Shah: Nothing like a zonal manager or a area manager being hired for that, would that also be like for example….?

Amit Jatia: That is there, for example we have an Ops manager who handles 20 restaurants so when 20 new restaurants, there is a headcount that we add to our operations team but the percentage of the act is very-very low compared to the sales of 20 restaurants.

Dhaval Shah: I was reading, there was an article in Mint which mentioned KFC had a very healthy SSSG, 26% odd. Any ….

Amit Jatia: KFC does not release SSSG for India.

Dhaval Shah: I don't know from where they have picked it up. You don't agree that's 26 is a right number?

Amit Jatia: 26 is not the SSSG, 100% we know that because they don't release SSSG for India for the last 3 to 4 years because people are not able to differentiate what SSSG means, what system wise sales growth means, that media is still not very savvy with that.

Dhaval Shah: They have written system-wide growth and not SSSG. I also thought system-wide would be there.

Moderator: The next question is from the line of Mahavir Jain from Aditya Birla Capital. Please go ahead.

Mahavir Jain: How has the Swiggy and Uber Eats as a sales channel has done for us?

Amit Jatia: They have done well. We don't share the breakup but we work with all the aggregators and both of them are doing well.

Mahavir Jain: Versus our own delivery app, how has been the response when we compare both the channels?

Amit Jatia: It's been good, I mentioned earlier that we are agnostic to third-party versus our own because we are very good long-term relationships so for example with Uber Eats, we have a global tie-up and Uber Eats is a global partner so there is a huge leverage on both sides to work with them. Similarly, we have developed very good relations with most of the other third-party where it's a win-win. They can see the value it's like when you see the FMCG brands in a supermarket; they have their own pool even over private-label. Similarly, we feel brand McDonald's that's the power of the brand McDonald's and therefore we find it very valuable and quite a win-win any third-party aggregators as well.

Mahavir Jain: What are the challenges we are facing with the third-party aggregators, if any?

Amit Jatia: That is the constant business thing I don't even know to be honest. There must be ups and downs all the time, I don't want to say it is all smooth but we have a very strong partnership with them and our biggest advantage is that we are geared up for delivery and we have been doing it from 2005. So, the operational platform that is built around that is fantastic with the technological integration with third-party partner. Most people don't have technological integration with third-party partners.

Moderator: The next question is from the line of Manjeet Buaria from Solidarity Investments. Please go ahead.

Manjeet Buaria: The cash profit which you report, is reported PAT plus depreciation plus the extraordinarily expensive line items, am I correct?

S. Lakshminarayanan: Yes, it is the cash profit as computed.

Manjeet Buaria: We include the extraordinary expenses in that rate because I presume there non-cash expenses, the one which you have in the write-up?

S. Lakshminarayanan: Non-cash expenses and depreciation is excluded.

Manjeet Buaria: If I take 126 crores as your cash profit what is the maintenance CAPEX I should assume? I am basically trying understand what is the cash return on capital for which I need to exclude some maintenance CAPEX.

S. Lakshminarayanan: Those questions we can discuss off-line in terms of while CAPEX we have given you a break out of saying that what is the component of 126 crores, we have given a broad indication. Obviously, there will be some maintenance CAPEX also as part of that besides the investments and rebuild that we talked about and that's something we do when we meet one-on-one, we give a sense of what is the kind of maintenance reinvestments that we do.

Manjeet Buaria: I will reach out to you separately.

Moderator: We will take the last question from the line of Alroy Lobo from Kotak Investments. Please go ahead.

Alroy Lobo: My question is on royalty. Could you just give us as an outlook as how will royalty move in the years ahead?

Amit Jatia: We have shared that, it's on the website.

S. Lakshminarayanan: It's already been shared last time?

Amit Jatia: The whole royalty program till 2025 and beyond is all there on the website. You can reach us separately, we will help guide to the website. No problem.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Amit Jatia for closing comments.

Amit Jatia: Thank you all for joining us on the call today, appreciate it. Have a good evening and talk to you soon next quarter.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Westlife Development Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.