"Westlife Development Ltd. Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Westlife Development Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dattaprasad Tambe – General Manager (Finance & Accounts). Thank you and over to you, sir.

Dattaprasad Tambe: Thanks Steven. Thank you all for joining us on the Westlife Development Ltd. Earnings Conference Call for the Quarter Ended March 31, 2022. We are joined here today by Mr. Amit Jatia, Vice Chairman, Ms. Smita Jatia, Director and myself Dattaprasad Tambe – General Manager (Finance) for Westlife Development Ltd.

Please note that our Financial Results and Investor Presentation have been mailed across and these are available on our website as well. I hope you have 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 strategic overview, which shall be followed by Smita to take you through the key business initiatives with overall operational progress and strategic imperatives that lie ahead. I will cover the analysis of the financial performance. At the end of the management discussion, we will have a Q&A session.

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

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

Amit Jatia: Thank you Datta. Good evening everybody. Thank you for joining the call and hope you are all doing well. I am very happy to report that FY22 has been a good year for us. Despite the challenges of the second and third wave of COVID, inflation and other international events, we have managed to deliver one of our best results. We have delivered our highest ever full year revenue so far. Our reserves demonstrate that we managed to build a fairly resilient playbook to successfully navigate the challenging external environment.

The dine-in business has recovered completely to the pre-COVID levels and the convenience off-premise channels continues to grow strongly on quarter-on-quarter bringing in significant incremental business and growing baseline sales. This trend has reinforced our confidence in our bricks and clicks omni-channel strategy where the dine-in and convenience channels are complementing each other and giving the consumers more occasions and options to experience us. We are firmly back on expansion plans. We are aiming to be around 500 restaurants over the next 3 to 4 years. The growth will be predominantly funded by internal accruals as we have done in the past. Strategically, we are growing our presence in smaller cities and towns along with key cities and that is showing very promising business results. We have consistently been driving efficiencies in utilities, supply chain and labor productivity leading to improvements in margins. We entered the pandemic with a strong balance sheet and we have come out of it with an even stronger one. All of this can be attributed to the phenomenal agility displayed by our people.

I am proud that we have been able to recruit and retain some of the best talent in this industry. Our next in line Management Team, which has been working relentlessly over the last 2 years has joined the leadership council of the Company, which is the strategic decision-making body in the Company. We have a strong succession plan in place and with the knowledge and expertise of our management team, we are confident of not only maintaining our market dominance, but also setting new benchmarks in the QSR industry.

To sum up, I would like to say that I am proud of our remarkable progress on the strategic growth levers that we had outlined at the start of this year, which is driving profitable growth, increasing wallet share and exploring whitespace opportunities, increasing our geographic footprint and market penetration. I believe we are on a strong growth trajectory and will continue to build on our competitive strength and further our business advantage.

With this I handover to Smita to take you through the highlights of the quarter.

Smita Jatia: Thank you, Amit and good evening everyone. I am happy to share that in quarter 4, we were able to build on the strong growth momentum that started in quarter 3, which was the best ever quarter touched so far. Our revenues for this quarter are up by 27% and same-store sales growth (SSG) for the quarter stands at 23% YoY with 12 store openings. We have delivered a strong March with Rs. 4.6 billion revenue for the quarter and recorded a PAT of over Rs. 231 million in the quarter pre-IndAS. This was driven by growth across both dine-in and convenience channels that grew by a solid 15% and 42% respectively. This growth in revenue has been complimented with continued cost efficiencies. So, in spite of strong inflationary pressures, our top line ensured a robust 34% YoY jump in the restaurant operating margins and 46% growth in our operating EBITDA, which closed at 16% for the quarter. Our margin growth has been more than our sales growth, hence, ensuring operating leverage.

Our annual numbers are even more impressive despite the first half of the year being significantly impacted by the second wave of COVID. Revenues jumped over 60% making H2 our highest revenue grosser so far. Our FY22 Return on Capital Employed stood at a respectable 16%+ which is back to the pre-COVID level, and in the second half of the year, we are trending significantly higher. What is very encouraging is our accelerated growth in H2, which mitigated the impact of the first half to some extent.

We have seen a strong comeback in dine-in that has recovered to pre-COVID levels combined with consistent growth in the convenience channel. Dine-in along with our digital channels is now driving revenues of over Rs. 450 crores every quarter. The average unit volume currently stands at Rs. 6 crores, which is 1.5x to 2x higher than the industry average. This clearly indicated that our growth in both dine-in and convenience channels has been continuously setting a new baseline for the business.

Our omni-channel strategy has given us better business predictability. Owing to a multichannel, multi-daypart strategy we are able to serve our customers where ever they are, whenever they want it, and how ever they want. This has helped us cement our market leadership position even further. We have been making concerted efforts to build and grow our Meal Daypart business through our Gourmet Burger platform and McSpicy Fried Chicken. I am happy to share that this quarter we have seen a robust (+40%) jump in our Meals category revenue and are inching towards becoming leaders in the Meals category while continuing to maintain our snacking leadership.

Last quarter, we launched our gourmet collection, a range of indulgent more filling burgers. We are happy to report that this has helped us recruit new customers, giving our existing ones more occasions to come to us. We have seen a solid 15% uptick in our great tasting burger scores. Our chicken category has also made its mark in the South market. We built our McSpicy Fried Chicken marketing campaign with celebrity announcements and it is yielding us significant results. McDonald's great tasting chicken scores have grown 3.7x significantly gaining share from the competitors and have helped grow our market share as well as achieve the highest monthly sales in the region.

We continued our efforts to strengthen brand trust and affinity through our various initiatives like the truly Indian burger campaign on Republic Day, Valentine Day's initiative around McCafé and International Day of Happiness. Last quarter, we enhanced the nutritional profile of our Happy Meal and this quarter we introduced Happy Meal Readers, which is an addition of a series of books to encourage reading as a habit among kids.

We took International Women's Day opportunity to further our inclusivity agenda and opened stores that were exclusively run and operated by women. We are proud to share that 35% of people who work with us are women including those at the restaurants. We also introduced easy delivery reusable bottles exclusively for our delivery channel for our range of beverages. We, thus, continued to launch campaigns with different themes to connect with our customers and further enhance brand love. We are continuously building a brand that is accessible to customers at their convenience through various digital touch points through the McDelivery app and the McDonald's app and the self-ordering kiosk at the restaurant. These digital touch points contribute 57% of our revenue and are growing well. While the McDonalds delivery app continued to enable our delivery proposition, our McDonald's app a unique offer engine that gives customers personalized offers plays a key role in driving dine-in, walk-ins and frequency.

These digital touch points saw a cumulative download of 17 million. We also saw both the active user base and average check for the McDonald's app increasing significantly.

We are now firmly back on track with our network expansion plan. This quarter we opened 12 new restaurants and entered 3 new cities. As Amit said, we opened Tier-2 cities of Vellore, Bilaspur, and Bhilai. Sales in the first few weeks in these cities are even higher than our metro city restaurants clearly indicating a strong appetite in these emerging markets. With this we have a total of 326 restaurants and 262 McCafés across 47 cities. We are also happy to announce that 118 of our restaurants are now fully refurbished, swanky, digitally enabled experience of the future stores.

Inclusion and sustainability have been important pillars of our business in the last 25 years. We have been consistently taking steps to mindfully build them into our business. I am proud to say that now we have a significant ESG footprint that we can talk about. We have taken definitive steps to reduce our energy and water consumption. Some of you will be aware that we convert our used cooking oil into biodiesel that is used to power our delivery trucks thereby reducing carbon emissions, and we only use FSC certified paper for packaging. We have reduced waste and hence landfills by completely doing away with single use plastic. Lastly we launched the Eat Equal Packaging to make eating burgers easy for people with limited upper arm ability. We continue to serve more people under this initiative and will be innovating to bring happiness to many more people. We also continue to support the RMHC Family Room at Wadia Hospital and this year alone almost 3,000 families have been able to use our facilities.

I will end by saying that we are absolutely committed to growing our environment and social footprint as we are to the highest standards of financial and corporate governance. I now hand it over to Dattaprasad who will take you through the financial highlights of the quarter.

Dattaprasad Tambe: Thank you, Smita and good afternoon everyone. Hope you all are doing well. As you are aware and already as shared by Amit and Smita, we have ended full year 2022 on a very strong note. As a Company, we clocked our highest sales for the fourth quarter.

Our revenue for the quarter stood up by 27% year-on-year to Rs. 4.6 billion and I must mention that for the year, our sales jumped by 60% to Rs. 15.8 billion firmly setting us on the path of future growth. Our gross margins have been stable at 65% despite the inflationary pressures. This was because we continued to maximize our supply chain efficiencies and product mix management. I would like to highlight that our restaurant operating margin is the best in class with Rs. 1016 million and even as a percentage, we have been able to achieve 33.7% improvement in ROM year-on-year.

Talking about the operating EBITDA margin, our margin for the last quarter stood at 16% and for the year it was a respectable 13%. We believe our cost management strategy is working, which is helping us to improve our profitable substance. Our profits are growing more than our revenue. Our EBITDA stood at 14% for the full year wherein the EBITDA in the second half was recorded at 17%. It is important to note that for the last 2 consecutive quarters, we have delivered a PAT of Rs. 230 plus million pre-IndAS reaching our best ever sales in quarter 3. We are also able to deliver a positive PAT at pre-IndAS level for the full year.

We believe that the flow-through of the top-line growth and the cost leadership initiatives also gave our margins a strong boost. It is heartening to share that we maintained a strong balance sheet and a robust liquidity position by optimizing our treasury and working capital. Going forward we are confident that our operating performance will continue to fuel growth in our already strong free cash flow profile. As a result, we are committed to historical capital allocation priorities to invest in new restaurants, refurbish restaurants and lock in opportunities to grow the business.

With that I will hand it over to Amit for his closing remarks.

Amit Jatia: Thank you, Dattaprasad. On the outlook, I believe the business environment will continue to be volatile. Rising inflation coupled with a shortage of inputs due to the global geopolitical situation will continue to be a challenge. While there may be some blips in the short term, we are confident that in the long run we will be able to navigate these successfully to deliver strong sustained growth. In the last 2 years, we have redefined our cost structure and increased productivity. We believe that with strong average unit volume and restaurants cash flows, we are well positioned to withstand the pressures ahead. We have already embarked on an aggressive growth journey to deliver accelerated business results and shareholder value. Thank you.

With this I open the call up for Q&A.

Moderator: Thank you very much, sir. We will now begin in the question-and-answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Just one bit on the inflation, if you could give us a sense whether you've taken any price hikes in the first quarter and is there any other line item that makes you feel any pressures in terms of variability, whether it's employee or any inflation in the other line items, which you would want to highlight?

Amit Jatia: In terms of price hike, in the last quarter we didn't do anything. In the current quarter, we have taken a price hike recently. In terms of the line items, other than food, we are all right. Utilities could be something that could come up depending on availability of coal and all these things that I am reading about, but currently 45 days are gone and we've been able to navigate most of it quite well.

Avi Mehta: And this price hike, what could be the quantum and would it be enough to take care of the input pressure? Would that be a right understanding?

Amit Jatia: We don't believe that it's only price hike that covers all the cost as we have been able to do that over the last 5 to 7 years consistently. I think the whole idea is there are 3 levers as I always talk about, product mix, it is menu prices and it is raw cost. Currently, of course, there is pressure on raw cost. So, typically we take 3% to 5% price increase in a year.

Avi Mehta: And lastly on store expansion, any guidance would you seek to maintain that 40 store that we were planning on AN annual basis, if you could give us a sense on what should we expect?

Amit Jatia: Absolutely. So, basically as we have said consistently over the last 1 year particularly that we intend to build another 200 restaurants over a 3-to-4-year window. Obviously, I'm happy that even with half the year or many difficult times in the last financial year, we still built 12 restaurants in the last quarter and made up FOR building 25 restaurants. Obviously, the pace quarter-on-quarter and year-on-year is going to grow. This year, we're looking at 35 to 40 restaurants and that is the plan and of course the following year if we want to do the 200 in the 3 to 4 years, the pace will go up. So, we are well geared up for that.

Avi Mehta: And if I may just the last bit, I just wanted to clarify you said some blips in the short term, if you could just explain which is it you are looking from a margin, your guidance that you had given, the target we have set for ourselves of mid-teens while we will be on line is that trajectory what you're talking about, if you could just clarify what was that all about?

Amit Jatia: I will explain. When we say blips and you read in the newspapers every day, one day edible oil is not allowed for import, one day the government stops wheat and all this means volatility and all those things are going to happen, but I personally feel that with 25 years of experience and particularly since you have been watching our results, the entire community, I think irrespective of anything, we have consistently delivered. Now we have history to talk and we have consistently for the last 5 years now, given 100 to 150 basis points improvement year-on-year on the EBIDTA level. So, while something goes up, something else we are able to manage. So, the whole point being that quarter-on-quarter, some line items may move, but year-on-year, you will continue to see this company deliver what we talked about. So, the mid-teens EBIDTA, we don't shy away from it, that is what we are going after.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Just wanted to understand your town Tier-wise mix of the stores versus what you have today 3 years, 4 years down the line, would it remain roughly the same or would it change?

Amit Jatia: These are rough numbers. Our broad strategy is not changing. We will continue to grow our key cities, which is Mumbai, Pune, Ahmedabad, Bangalore, Chennai, and Hyderabad. Meanwhile, the smaller cities, we are penetrating that a bit more aggressively. So, let's assume we are 70:30 today, maybe we 60:65 and 35:40 that's the mix change at all because the good news is that look at the opportunity. So, far, we have 330 restaurants roughly with only 44 cities and I noticed that our competition is in over 100 cities. So, that's an extra 60 city advantage that we have to penetrate and yet we believe that in our key cities, we are going to further double. So, again I am proud to say that if you look at Mumbai, we opened in very difficult markets like Mazagon, more recently in Mahalaxmi area and so on so forth. So, I do believe in summary that we will continue to penetrate aggressively in our Tier-1 cities, which is the Mumbai, etc., but we will now start expanding a bit more rapidly into the smaller cities and therefore may be the 70:30 mix at best will become a 60:40.

Percy Panthaki: Two follow-ups on this. One is as you penetrate further into the existing large cities like Mumbai, let's say where you have more than 100 stores already, do you see some kind of store splitting effect like for example we have seen in Dominos because they are opening in the vicinity of their existing stores in the same micro market, there is some effect, of course, the total system level sales does benefit, but the sales per store grows at a slower rate than it would have if the stores were not clustered close to each other, that's part 1. Part 2 is a very small effect you did mention that Tier-2 exposure going up, not a very large effect, but just wanted to understand that the sales per store in those smaller towns, how much lower would it be versus a metro town?

Amit Jatia: Firstly, I don't understand the meaning of this splitting and all that. At the end of the day, we are 330 stores and 100 in Mumbai. So, we don't believe in splitting and therefore we share same store sales growth consistently since we started quarter-on-quarter and that's the only definition we understand even globally. So, we follow that particular norm, but to give you example, we have 2 restaurants opposite each other in Andheri. More recently, we have crossroads and we opened what is called Saat Rasta, Mahalakshmi and both have increased sales, both have done well because these are underpenetrated markets. The same thing in Ghatkopar, we had a store nearby in our city and then we opened Ghatkopar station. So, our philosophy is we spend a lot of time, we have done what is called a trading area survey and we understand impact by restaurant and eventually we find that if the location selection is right, the impact is very short term and we believe in a big basket that's not a shelter we want to take and therefore we talk about comp sales. Number 2, I laughed because you asked me a question how much lower is that and I felt why can't it be higher and it is higher. You have to understand the dynamics, they are different. You go to Tirupati, we have a restaurant in Tirupati where the town is small in the sense that there not many players, McDonald's is a good brand, now with McCafé, fried chicken, etc., we have a tremendous draw from families to young people and so on so forth and therefore actually average volume in smaller stores is higher. It's just that I believe in a cluster approach and that is why we have taken a specific strategy and to be honest, it is working beautifully for us.

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

Gaurav Jogani: My first question is with regards to the impact of the Omicron in terms of your margins given the fact there was an Omicron impact and we have been able to do a pre-IndAS margin of 11.5%, so if not for the Omicron impact, how much could have been the EBIDTA margins?

Amit Jatia: I don't think we can go that micro. Omicron impacted pretty much most of January and I can give you a hypothetical answer, but the important thing is that without January, we still delivered Rs. 455 crores in sales, which is absolutely top notch and we have been able to keep margins because when you lose a month, it's not that you can gain that back in the following months. You have lost that overhead. So, I would not like to isolate those 20 days. It is hard for me to give you a more accurate number on that.

Gaurav Jogani: Not an accurate number is what I was seeking. The reason I was asking was that how much are we underappreciating the margin expansion here because of the Omicron, like it is showing 11.5%, if not for it, it could be higher and that is how we can see the future target?

Amit Jatia: Yes, it would have been higher that there is no question in my mind because like I mentioned earlier the fixed overhead that you have lost in the sale, you have lost. So, if we had that sale, the contribution flow-through would definitely come, but to give you a number will be just guesstimate. It would definitely be better than whatever margin you are seeing today.

Gaurav Jogani: And the other question is with regards to the menu innovation that you have done like a gourmet burger and the fried chicken, both seem to be higher price point products and the McCafé now also expected to come back with the stores opening, how do you see the impact on the gross margins favorably? I am assuming that these products would be favorable on the gross margin side.

Smita Jatia: So, we have always said that the gross margin is a combination of 3 levers, raw material, efficiencies, as well as product mix and pricing. I just spoke about pricing a few questions back. Product mix has always been a very key lever and while as you heard that we have always been snacking leaders. Our Meal strategy was one of our new lever focusing two quarters back when we actually launched the chicken and in the last quarter, we launched the Gourmet Burgers. Now, obviously when a person consumes a Meal while vis-à-vis a snack, it is definitely higher and the gross margins are also higher and hence as we keep the product mix, there will be a favorable impact on margins. Chicken inflation is also here to stay for a bit. However, we are confident that we will be able to respond to that with good product mix management.

Gaurav Jogani: And this last question from my side. In terms of the line items, which specific line items are you working on in terms of driving the operational efficiencies?

Smita Jatia: I think that's a continuous process. Over so many years, there are a few line items where inflation is always there and you have to continuously drive operating efficiencies there. This would be the food cost, this would be utilities and the labor is again a line item while it is not inflationary in India just now, but world over, there is shortage of labor, which is being seen and somewhere it will come to our country also. So, I think it has always been utilities, labor and food cost. I think if these 3-line items are driven well through operating efficiencies, we will be able to combat inflation.

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

Amnish Agarwal: I have a couple of questions. First thing on the numbers side, I think in the reported numbers on a consolidated basis, our Other Income is showing Rs. 13 crores vis-a-vis a number of Rs. 3 crores last year, so is there any one-off sitting over there?

Dattaprasad Tambe: So, basically, there are no one-off sitting there. It's in the normal course of operating income.

Amnish Agarwal: But there is a sharp jump in the format in which we report to the exchange, it is going up from Rs. 3.3 crores to Rs. 13.1 crores?

Amit Jatia: We will have to probably get back to you. We can figure that out. We will come back to you on that, but there is no one-off gain. These must be maybe some supply chain write backs, if there were some costs that were taken earlier, it might be some of that, but we can come back to you on that.

Amnish Agarwal: Secondly, if we look on the expenses side, despite our opening so many stores during the current quarter, on QoQ basis, our Other Expenses, they have not risen, they have actually gone down, so any particular reason of cost control or whatever we have done over here?

Amit Jatia: Quarter-on-quarter, it very hard to talk about that. It's all about operating leverage. With sales going up, I have always maintained, when people ask me what is it that is going to take you to the mid-teen EBIDTA levels and I've always said it is average unit volume consistently over the last 5 years and that has been our focus and the best example is if you look at say fried chicken, it's an example, what happened with fried chicken, the old restaurant base was there, with minor equipment, we were able to get Rs. 50 lakh extra sales per year per restaurant, which is only increasing. So, the flow-through to the bottom line is pretty nice on that. The other thing is if you look at even G&A, it is pretty well managed. So, the whole idea, I always say this, we have to add the latitude, if some line items going up, we play with some other line item, that is outside our control, but the key is we have got to show delta in either the operating EBIDTA and PAT, which is really the true measure. So, I can't comment on each line item, but yes cost control is tight and wherever we are finding an opportunity to control when something else is going up is where we focus on. Smita gave, in the last question, the 3 or 4 key line items that we focus on and the operating leverage part.

Amnish Agarwal: And finally, just one more question from my side, like what is the proportion of you can say convenience sales or the delivery sales, which happen from our own app or from Swiggy, Zomato or from own distribution and outsourced one and is there a difference in the profitability or the margins, which we make if we supply from using McDelivery vis-à-vis Swiggy and Zomato.

Amit Jatia: We don't share the breakup. Our own app does quite well as well. We've shared the numbers of download and usage. So, clearly there is tremendous focus on building our own app. In terms of profitability, again, we don't share it by channel, but the good news is we do well on both accounts. My philosophy, which I have shared many times in the past is that wherever there is business, you have to make your business model work and we work very hard to make our business model work, even with 3 PO's. It's all about partnerships and I think we have demonstrated that in our supply chain partnerships over 25 years and we have demonstrated that with the 3 PO partners. If you see all my interviews over the last few years, we have always worked with them even through difficult times. We have never really felt them as a threat to our business.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: On fried chicken, when you mentioned Rs. 50 Lakh per store, on what base how many stores in your portfolio offer fired chicken?

Amit Jatia: So, it's all of the South stores, so that is roughly about 130 stores.

Jaykumar Doshi: So, it is averaging Rs. 50 lakh average unit volume for that 130 stores.

Amit Jatia: Yes, incrementally.

Jaykumar Doshi: Can you give some color on how Gourmet Burgers have fared for you since the time you launched it across the network in October 2021, any data point that you can share that allows us to appreciate the product is extraordinary, any numbers that you can share?

Amit Jatia: We shared in our earnings presentation, it's all about the brand eventually and what it has done, my philosophy is that any new category that we have launched burger as a category many-many years ago and the category evolved and that is when consumers want indulgence and that's what the gourmet burger offers. So, with the halo of brand McDonald's, when you launch Gourmet Burgers in the packaging, in the patty, whatever we had done with the jalapenos and the taste, I think that's resonated very well. Some of the data points are already in the earnings presentation where we talked about how great burger scores have gone up. It's on slide #15, the great tasting burger scores have gone up by 15%, that's quite a lot by the way in a short period. We talked about the fillingness scores are important because you see the IEO construct, Meals are a very important part and in snacking, we have given you the data today that we are leaders in snacking and we are also looking at Meals, today we have openly come and announced to the world that's where the next frontier is and with both the fried chicken and Gourmet Burgers, that frontier can be conquered. Lastly, we have given that sales contribution. We don't share breakups, what we have shared that it was up 20% pre-gourmet to post-gourmet. So, our sales contribution of Gourmet Burgers is rising, but the halo effect of Gourmet Burgers is amazing because whenever I talk to people qualitatively, I am hearing very-very good things around that and the feedback that we are getting from consumers is very-very positive. So, Gourmet Burgers are here to stay and it's a category in itself that we feel we are going to grow substantially.

Jaykumar Doshi: Can you help me with that chart again when you say gourmet burger sales contribution has gone up by 20% versus pre-gourmet, how should I read that data point because you were earlier offering this burger through a very small number of stores and then you have launched it across the network, so that 20% I am not able to understand, my understanding is it should be much higher?

Smita Jatia: So, pre-gourmet, we had some what we call premium burgers like the Maharaja and the spicy McChicken, so if you take them and then we include the Gourmet Burgers in that, the contribution from these premium burgers has gone up by 20%.

Jaykumar Doshi: Is it possible as a one-time exercise, give us some color on roughly what would be the premium burger contribution in overall burgers for you and what it would have been 5 years back?

Amit Jatia: Unfortunately, we don't share such breakups at all. Product mix breakups is not something that we share. All we believe is I think we have this time given a construct of the IEO market. I think we felt this is really the right time to introduce this concept and the whole point is, as on that slide #13, we are talking about Meal and leadership for brand McDonald's in the Meal category and essentially we feel that Gourmet Burgers in West and the chicken platform in South is what is going to give us leadership in the Meal category, which is the largest category in the informal eating out. We already lead in the snacking department, but the whole idea in the last couple of years has been to go towards Meal. There has be to a logic for doing something. We hear people talk about premiumization of the brand, but premiumization is a very generic word. Really there has to be a more measurable reason why we are doing something and today we decided that we should start talking about why really what is the relevance of Gourmet Burgers in our strategy and what is the relevance of fried chicken in our strategy and if you see slide #13, it will give you a better indication, but breakup on product mix is something we don't share.

Jaykumar Doshi: My final very quick short question, do you have any plans to launch fried chicken in Western market or you would refrain from that?

Smita Jatia: We are doing some research and we have launched it in some of the trial stores. Depending on what the results are, I am sure we will see a need, but we're just going to balance in terms of what we focus on. So, just now we feel gourmet is what we are focusing on the West. At the right time, we will launch chicken also.

Amit Jatia: So, you can visit some of the stores that have it and see how fantastic the product is because that's what our consumers are telling us.

Jaykumar Doshi: Gourmet is there in the South or gourmet is yet to be launched in South?

Amit Jatia: Gourmet is across the board.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: I wanted to understand when other players are taking 10% to 12% price hike, why are we taking only a 4% to 5% price hike, why not increase our gross margins with other levers like you talked about efficiency, product mix, etc. Sub part is that do you feel that this 10% to 12% price hike will not be able to be absorbed by the industry and can affect volumes?

Amit Jatia: Leave some of this management to us. I think we know what we are doing. What we have done is all scientific. It's not that that we just increased 5% or 3% or 2% because we liked it. We have been doing some research for the last 6 months and that data tells us certain things and based on that certain things, we have a full pricing workshop and we get support from global pricing team on this. So, pricing decisions are not just arbitrary, that inflation running at this, so take the price increase. We are here to build a long-term sustainable business and my philosophy always is we are leaders, we lead. We don't follow. So, we have set the path based on what it is and I think today after 5 to 6 years of history, I think we deserve a quite a bit of an applaud on the way we have managed our gross margins and we have kept our pricing tight. So, leave it to us net-net.

Devanshu Bansal: I actually wanted to appreciate only.

Amit Jatia: I know, but I'm saying that we stay with what we have done and I hear you, but I gave you the logic of why we follow this path. It's on a study. I know that you are appreciating it and you are saying we can take more and get better but trust me what we are doing is a well thought of strategy.

Devanshu Bansal: We have improved our non-veg portfolio in certain states. So, just wanted to check if you can qualitatively share as in how has this helped us improve the profitability in those stores when things are returning back to normal?

Amit Jatia: I have in the past explained that of course if I were to just take West, you would love our business even more. I think you might still be loving it, but you will love it even more and we entered South very late and I feel by doing what I have done, putting Rs. 500 to Rs. 600 crores with bold move, we have earned the right to play in South, it is a very important point and now we are earning the right to win and therefore with what we have done with the product mix, the brand relevance in South is going up and obviously average unit volume in South was lower than what we would have liked and all of this play around the chicken and some other things that we have done, experience of the future, even McCafé for that matter, all the reimaging that we have done even in smaller towns, the resonation to the brand is phenomenal and our market share in South India has come up very-very well and we are really loving it. We want to grow even faster, but I have always balanced the quality of real estate with growth. So, average unit volume is better and it is helping us get better returns. Smita today talked, again, subtly gave out another number, our return on capital employed of over 16% for the whole and remember the first half was where it was and we lost a lot of money in the first half and yet that's the number we are at. So, imagine what's the run rate that we are at today, it's very promising.

Devanshu Bansal: Couple of data points I was looking for, what is the royalty take that is going to be for FY23?

Amit Jatia: 4%.

Devanshu Bansal: Can you also tell us what is the current rental cost run rate?

Amit Jatia: We do not share the breakup of rentals, it's under control. It is what it used to be, it's not something that we are worried. I think the portfolio rejig we did, has really been very helpful and like I always said, if you have been on our calls that how do you not lose this COVID time and how do you keep it useful and I think we worked very hard to get the cost structure right, but the other work that is not necessarily understood because we have not talked about it, is the portfolio mix and all the work we have done to get the restaurant portfolio, very-very strong and solid.

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

Nihal Jham: A couple of questions from my side. The first is on the SSG. Despite the Omicron impact, we have turned in a very strong performance and that's not on any weak base. It's a genuine performance that we have put in. As I deconstruct our performance, I do notice that over the last couple of years some of the strong initiatives that Westlife has implemented have been the delivery, then obviously you have spoken of gourmet and chicken being an addition, would it be right to say that delivery has been the biggest driver if I look at how the share of delivery has sustained and that is what is solely driving the strong SSG, if it's possible to deconstruct as much as possible?

Smita Jatia: Actually, if you see Slides #7 and 8, it gives you an understanding of our convenience channels. If you look at it from even quarter 4 of last year, it has grown by 42%. If it was 100, it is 1.42 and if you actually look at pre-COVID levels, our convenience channels have grown by 2x. So, you are right, other than just menu interventions, it is the omni-channel we have adopted and we also gave our data point that 57% of our sales are now digital, which is also linked to our convenience strategy as well as our dine-in strategy. So, net-net it's not only menu, it's definitely convenience and in convenience, delivery does play a very critical role.

Nihal Jham: The other question is, I do notice we've obviously been implanting our EOTF strategy and on top of that, we have already launched a range of Gourmet Burgers, so there is an effort to premiumize the look and feel and the menu, there is obviously a core category to McDonald's also, which is say the value or the evening snacking category and there I think we only have one entry level, veg and non-veg burger, would it be right to assume that most of the launches that you want to do in the future will be more towards the gourmet or the premium side and there the portfolio is more or less hot?

Smita Jatia: I mean if you again go to slide #13, it's not that snacking is just about a veg and a non-veg burger, it's fries, it's coffee. Even in McVeggie, McChicken is sometimes eaten as a small snack. So, I don't think our strategy is only to premiumize and only speak about Meals as a daypart. We have to be continual to be leaders in the snacking strategy and we will continue to add product in snacking daypart and at the same time, we will add the products, which are required for the Meals strategy and again we have always said that we are a limited menu player because that's what helps us to keep operational efficiencies, give better quality service to the consumer. So, I think there was a gap in the Meal strategy, which has been augmented by gourmet and chicken, but as time goes and as our customers' needs will change, we will obviously be abreast of them and be able to introduce relevant burgers in both categories.

Nihal Jham: Just a follow-up, in the gourmet category or the premium category, there have been multiple burger launches, whereas in the value category while we have an extensive menu, I don't think any new SKU's have been launched, so I was coming from that part when I was asking?

Smita Jatia: Absolutely, I think our snacking strategy is quite robust and we have products, which we can play with, coffee is a very integral part of our strategy also and therefore we didn't feel the need to introduce something just now, you are right.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: What I've heard over the last 45 to 50 minutes, I think it is really commendable and the way I understand I think product innovation, which in the past you have said it's a continuous thing, but how much effort at the backend, if you can spell out, what is the team size or how this innovation happens and maybe spend a minute or two, how this whole thing gets up to the supply chain?

Amit Jatia: We have been doing this from 1997 and we built competencies around that time. So, we obviously have a couple of chefs, but it's all about our suppliers. These suppliers are our global partners and there's a lot of research involved and with research, we understand consumers, we look at competition and then we have a pretty set global process as well where we then do some designs, the products are showcased to us, but it's all around a consumer need. So, it is quite a detailed process and there is a workshop we do called the menu vision and that menu vision lays out a 3-year plan and it goes back to that slide #13 that I have talked about, which is essentially the construct of IEO and which part of the IEO we are targeting for the relevance of the market today. So, it's going to be hard for me to just explain the whole process broadly, but it's a pretty well-defined process, it's not that I wake up in the morning and I see competition has launched something and we go after it. So, we give you an example on fried chicken. We decided in 2017 that we need to go after chicken leadership in South and then our team went to different McDonald's markets, we looked at our entire range, we looked at competitions' entire range, we identified some gaps and that is when direction was given to our suppliers and the menu team that start putting the product together. Then, we do some trials, then we do some small tests and then we put into our market and then we launch it. So, in 2020 quarter 1 is when we launched it when COVID hit. So, this is typically the process of how we go for it and the whole idea is to do something that is unique. So, the big differentiator and we're getting this from consumers about our fried chicken is that it is spicy to the bone up to the last bite and not just the coating and that required some process re-engineering as well at the plant and we're quite pleased with what we have done.

Smita Jatia: And just to add to this, this came from consumer insight. It wasn't something, which we just kind of worked on and innovated ourselves. The insight was that when a customer eats a bone and chicken, normally the flavor is only in the coating and by the time they get to the bone, the chicken becomes bland and that's the insight we caught on and we kind of gave the brief to our chef to develop the product.

Shirish Pardeshi: I have more questions on that. I'll take it offline. I actually wanted to see that what is the speed to market right from the conceptualization to the actual prototype and launching in the market. I will take it offline.

Amit Jatia: So, that's why there is a 3-year menu vision and that is why it is continuous, it's always continuous.

Shirish Pardeshi: On slide #26, you have given quarter number where the growth in dine-in was 15% and 42% for convenience, can you spell out what was the full year number?

Smita Jatia: So, I would just say that if I look at it, you can take slide #7 and 8. So, again in slide #8 because the only issue is quarter 1 was not the right quarter to take on because dine-in was not present. So, if you analyze the number, I don't think you will get a better understanding. So, only when you look at it quarter wise, even if I take half 2, the numbers would be same where convenience has grown completely.

Shirish Pardeshi: I'll do that. Amit, would you like to comment how April and May, which is more of a normalized month?

Amit Jatia: No, sorry, that would be too forward looking

Shirish Pardeshi: My last question is on the downloads, 17 million downloads is a very good run rate you guys have managed, but if you tell me what is the hit rate or maybe what is the conversion rate you are getting from this, the question is more of how the repetitive customers are there and when somebody downloads, how quickly?

Amit Jatia: We have the data, but we don't like to share beyond that. So, maybe for now, this is what it is. In our opinion, we are best-in-class.

Shirish Pardeshi: I do understand and I respect what you have built the business, the only thing is that you may not be able to give on a quarterly basis, but maybe on an annual basis, you should make it a practice that at least share some data points so that it will help us to model it correctly.

Amit Jatia: Sure, that is why this time around, we gave the whole construct of the IEO and we're trying to at least on a yearly basis give a little more insight into our business so that the understanding is slightly better. So, point taken and we will definitely consider that.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we take that as the last question. I would now like to hand the conference over to Mr. Amit Jatia for closing comments. Over to you, sir.

Amit Jatia: Thank you everybody for patiently listening to the commentary and attending the call, I really appreciate it. If there are any more questions, please direct that to our investor relations and have a lovely day. Thank you.

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