Westlife Foodworld Limited
Q1 FY24 Earnings Conference Call

July 27, 2023

MANAGEMENT:

- Mr. Amit Jatia – Chairperson
- Ms. Smita Jatia – Vice Chairperson
- Mr. Saurabh Kalra – Managing Director
- Mr. Akshay Jatia – Executive Director
- Mr. Saurabh Bhudolia – Chief Financial Officer
- Mr. Chintan Jajal – Lead Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to the Westlife Foodworld Limited Q1 FY '24 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 star then zero on your touchtone phone.

We would like to remind you that certain statements made by the management in today's call may be forward-looking statements. These forward-looking statements reflect the management's best judgment and analysis as of today. The actual results may differ materially from the current expectations based on a number of factors affecting the business. Please refer to the safe harbour disclosure in the earnings presentation.

I now hand the conference over to Mr. Chintan Jajal. Thank you, and over to you, sir.

Chintan Jajal: Thanks, Melissa. Welcome, everyone. Thank you for joining us on Westlife Foodworld earnings conference call for the first quarter ended 30th June 2023. I am Chintan Jajal, lead IR at Westlife. From the management team, I have with me Mr. Amit Jatia, Chairperson; Ms. Smita Jatia, Vice Chairperson; Mr. Saurabh Kalra, Managing Director; Mr. Akshay Jatia, Executive Director; and Mr. Saurabh Bhudolia, Chief Financial Officer.

We will kick off today's conversation with Smita sharing her thoughts on overall business progress and outlook. This will be followed by Akshay taking us through operational, financial and strategic highlights. Post that, we can open the forum for questions and answers. We will be referring to the earnings presentation and financial releases available on the stock exchange and the Investors page of our website.

With that, I now request Smita to commence this session. Thank you, and over to you, Smita.

Smita Jatia: Good afternoon, everyone, and welcome to the call. I am pleased to share with you that we have taken yet another firm step towards realizing our Vision 2027. It gives me great confidence that we not only finished last year on a robust note but have also started this year on a high. In the last 6 months alone, we opened 22 restaurants and are on track to meet our goal of opening 580 to 630 additional restaurants by 2027. We also witnessed a significant increase in our gross margin of about 300 basis points in the last 6 months, compared to the same period last year, which highlights the strength of our brand and our business strategy.

Over the last 12 months, we generated cash PAT to the tune of INR2.67 billion, which signifies a healthy cash generation ability. What gives us confidence is that we continued the momentum in our quarter 1 performance as well, wherein we once again delivered industry-leading growth backed by a strong focus on execution excellence in menu innovation, service quality and supply chain management.

We not only served our existing customers, but also welcomed many new customers to our stores and online channels. Our consistent growth confirmed our faith in our strategy, be it building a great brand through effective marketing initiatives to elevate trust and win over families or bolstering our e-commerce platform. These efforts are generating growth and strengthening our brand year after year. I take particular pride in growing the core of our business by building a robust platform for burgers, chicken and coffee.

Finally, our Ds: Digital, Delivery and Drive-through have significantly contributed to our steady growth. In fact, 64% of our customers came to us through one of our digital channels. Our dine-in and convenience channels continued to complement each other to give customers more ways to interact with us. What makes us unique is the solid foundation of our people, the scale of our supply chain, the quality of our real estate portfolio, the agility of our system and the power of the McDonald's brand and most importantly, consistency in our strategic approach.

To summarize, I would like to say that I am proud of our progress and excited about the future. Today, we have a strong management team, a clear strategy and a growing market opportunity. We will tackle the year ahead with agility and a strong focus on execution. Along with improving our operational excellence foundation, growing our digital advantages and carrying out ongoing work on creative menu offerings will remain critical.

With a prudent cost structure, increased productivity, strong average unit volumes and healthy restaurant cash flows, we are well positioned to deliver accelerated business results and create long-term value for our shareholders. I thank you for your continued support and will now request Akshay to share the operational highlights of the quarter gone by.

Akshay Jatia: Good evening, everyone. I'm glad to be here today to share our Q1 results with you. We saw a healthy broad-based growth during the quarter amidst relatively soft consumption trends witnessed by the QSR industry. Our focus on elevating our brand, accelerating digital channels and innovating in our core equities of burger, chicken and coffee helps us deliver differentiated performance and grow or sustain our traffic share in West and South India.

Sales in Q1 FY '24 stood at INR6.14 billion, up 14% year-on-year on the back of 7% same-store sales growth. On-premise business grew 18% year-on-year, led by dine-in channel, which continued its strong momentum backed by a robust increase in guest count.

The off-premise business grew 9% year-on-year on a high base led by delivery. The overall contribution of the off-premise business to the top line was broadly stable at 40%. We remain committed to an omni-channel business model. Menu innovation being one of our key pillars of growth continued with the launch of our Piri Piri McSpicy range in April.

We also roped in the Megastar Junior NTR as our brand ambassador to promote McSpicy chicken sharers and further strengthen our chicken equity in the South. Jain-friendly menu with no onion, no garlic and no roots products was launched in the Western markets to democratize the menu. These strategic interventions saw great consumer response and benefited the brand positively.

During the quarter, we also launched the McSaver Value platform, offering meals at INR179. This platform is helping us accelerate the consumer frequency, footfalls and salience of meals in-store sales. McCafe sustained its healthy traction led by cold beverages portfolio, including frappes, shakes and coolers during the summer months of Q1. Our continued investments in consumer tech and talent are enabling us to now capture over 64% of our sales digitally.

As a case in point, sales originating from our self-ordering kiosks installed in the EOTF stores have grown 3x over last year. Given the convenience, we believe the adoption of such points of sale is likely to grow significantly in the coming years. Overall, average sales per store on a trailing 12-month basis grew to INR66.9 million as against INR57.4 million last year.

Moving on to profitability. Our gross margins improved by about 235 basis points year-on-year, led by a stable input cost basket, cost optimization and earlier pricing actions. On a sequential basis, we saw a decline on account of one-off incentives received in Q4, as highlighted in the last call. Portfolio level aggregate pricing was broadly stable on a sequential basis as inflationary headwinds abated.

Our restaurant operating margins improved by 134 basis points year-on-year with store payroll normalizing to around 9% levels. Royalty fees increased by 50 basis points as per the plan we had shared. G&A costs as a percentage of sales was higher on a year-on-year basis, but lower sequentially and is now close to normalized sustainable levels.

The operating EBITDA margin at 17.1% was broadly stable, while cash PAT at INR 670 million in Q1 saw a healthy 22% year-on-year growth.

Overall, we continue to work towards our target operating EBITDA margin range of 18% to 20% by 2027. During the quarter, we also saw a healthy improvement in working capital levels, thereby leading to a net cash position as of 30th June 2023.

On the network expansion, we opened 4 new restaurants during the quarter, bringing our total network to over 361 restaurants, 315 McCafes, 69 drive-through and 224 EOTF restaurants across 58 cities. We are on track to open 40 to 45 new restaurants in FY '24 and the pace of store addition will pick up in the coming quarters.

We achieved significant milestones over the past many years. We are one of the most loved and valued brands in QSR, and this is a testament to our strong business model, team and culture. FY '23 was a record year where we raised the bar. And given the strong performance, I'm elated to highlight that the Board approved an interim dividend of INR 3.45 per share, which is around 48% of FY '23 profit after tax. On that note, I conclude my remarks. Thank you for your time, and I now hand over the call to the moderator, and we are happy to answer any questions you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Congratulations for a great set of numbers and announcement of dividend. Sir, you seem to be outperforming in terms of growth. When we see your 2027 guidance, this implies about 14% to 15% top line CAGR over FY '24 to '28, which seems to be a bit on a conservative side. So how should we see this guidance?

Akshay Jatia: So I think that we're talking about sustainable growth over the next 4 to 5 years. For us, that means high single-digit SSSG and around 12% to 14% sales growth or total sales growth. So I think we've demonstrated that in this quarter, and we're confident that through the ups and downs because obviously, you will have some quarters that are up and some that are down, we'll continue to maintain this CAGR. So we are quite confident and optimistic that the plans we shared as Vision 2027 are the right plans, and we remain confident about that guidance.

Devanshu Bansal: Okay. Sir, PPT also mentions that SSG has been led by guest counts, in my opinion, there were 2 rounds of price hikes, which would have benefited us by about 5% to 7%. Are we sort of seeing consumers sort of down trading? Or is it because of launch of these value offers at INR179?

Saurabh Kalra: You were not very clear, Saurabh this side. I think the pricing part, I think I picked up. We pretty much did not take any price increase post-April of last year. It's been flattish all through. So there is not too much of pricing comparative sale or same-store sales built in. So that's the part I got. Can you repeat the question if you've got any other query?

Devanshu Bansal: So we had taken about 5% price hikes towards the latter half of Q1 last year. And if I remember correctly, there was 2% price hike that was announced in October. So I was coming from that perspective that ppt mentions that it is largely led by guest counts. So is it because of down trading or this launch of a value offer at INR179 sort of led to this?

Saurabh Kalra: So down trading might not be the most appropriate word. Let me put it this way, right? There are different occasions. People come for different occasions and different occasions get opened up. For example, if you see college people coming back, you might not have the same amount of average check for that occasion. While delivery might have even a higher average check than what it was last year. So I would not put it in those many words. I think the broad theme is a lot of this growth comes on the back of footfall growth rather than coming on the back of pricing growth. That's the long story, which we wanted to communicate.

Devanshu Bansal: Got it. And this vegetable inflation has come as an incremental headwind. So how are we placed here in terms of margin or any potential margin here? And also, if you plan to take any price hikes going ahead?

Saurabh Kalra: So our guidance is very simple. I don't think this is anything out of normal. Apart from a couple of years during COVID where inflation was really more than which we call out of whack. But otherwise, if you look at 5% to 7% inflation is a norm in India right from 1996. So it's very, very manageable. Food inflation is seasonal. vegetable inflation is seasonal, and we do a lot in the supply chain to make sure it doesn't impact us.

I don't think you will see any impact of inflation because in some months, for example, like you mentioned, some vegetables go up, we factor it and we ensure that we do not have any supply issues as far as those vegetables are concerned.

Devanshu Bansal: That's encouraging. Sir, last one from my end, this dividend announcement that we have done is sort of slightly on the higher side than the 15% to 25% range, that we had indicated during the Analyst Day. So just wanted to check, is this the range that is likely to continue going ahead as well?

Saurabh Kalra: So first is, we have actually released the dividend policy first, which was more than 25%. This was for the very first time, we were declaring dividend. So we declared a dividend, which we felt we can afford alongside being able to accrue for the growth which we have planned for.

Moderator: We have the next question from the line of Varun Singh from ICICI Securities.

Varun Singh: And congratulations for a good set of numbers. Sir, my question is on gross margin expansion, I understand that like, I mean, all the three vectors that you mentioned, cost optimization, price hike benefit in the earlier quarter, maybe no price hike during the current quarter, etcetera. But still, I mean, if you can also attribute that what would be the expansion because of the mix benefit, given the higher contribution from McCafe and beverages to our overall revenue. If you can share some insights on how the mix is changing, that will be helpful, sir.

Saurabh Kalra: See, we don't break down and give guidance on each one of them. But broadly, we've always said that our job as a business is to make sure we drive the cash PAT and profitability, overall profitability of the business. Gross margin is one of the levers in the entire line item, right? So we don't get too much worried about it. So for example, if you create a value platform, it might not give you gross margin percentage. It might give you leverage across the other line items of the P&L with higher sales and so on and so forth.

So normally, we do not break up everything one by one in terms of when we're giving guidance. But essentially, what you will see is, like we've always done, you will see improvement in overall margins of the business. Year-on-year, you will see a delta over last year when we had said that last year is a good base number for us to track our improvement against. So that's where we stand, and that's what our guidance is.

Varun Singh: Does that mean that incremental margin benefits from superior revenue mix will be reinvested back into the business by giving better offers in the core product portfolio?

Saurabh Kalra: No. That is not what I said. You can interpret as per your needs. But broadly, what we are saying is there is a P&L to manage. There are a lot of things which work around in a P&L. There is inflation, there is new stores, there is sales and then there is cost improvement, which we make year-on-year. At the end of it, the net-net sum is we have shown a great track record of removing costs out of the system and improving our margins year-on-year. You will see that delta happening even this year is what we are trying to say.

Varun Singh: Understood, sir. Very clear. Sir, my second question is on the delivery side of the business. So I mean if we look at your performance compared to peers, even on the delivery side, you have outperformed. So just wanted to understand that what is it that's driving strength on our this piece of the business? If you can share some objective insights with regards to what we are doing in this segment, sir?

Akshay Jatia: So I think on delivery, we've done a very good job over the last few years, especially which is the learnings through COVID. We've had very strong partnerships with the aggregators be it Swiggy or Zomato. We've had very collaborative relationships with them where we partnered and driven growth together.

We've also recently launched our new McDelivery platform app and back end, which have also kind of been received well by our customers. So as a result, our delivery leadership continues to grow in our region. And you've seen differentiated results for our off-premise business and as a result for our entire business.

Varun Singh: I mean, if you can share insight with regards to like incrementally, how we are thinking about own delivery compared to Swiggy or a third-party aggregator. So where do we stand right now? And how are you strategizing going forward?

Akshay Jatia: So like I said, that's why we have our McDelivery platform. We launched a new app and backend this quarter itself. And we've invested heavily into that in terms of both resources as well as manpower. So I think that we are very committed to growing our own platform, which is one big differentiator.

Second big differentiator, we have a very complementary relationship, a collaborative relationship with our aggregator partners, which allows us to drive volumes even during periods where other brands are facing stress. So I think these are our competitive advantages and these are some insights we can share in terms of how we scaled out our own delivery platform and grown our delivery business.

Varun Singh: Understood, sir. Very helpful. And one last question, if I may, regarding like our chicken brand equity that we have strengthened with the new brand ambassador in South if you want to share some color on that part of the business with regards to, I mean, of course, it is performing well, if you can give some time lines with regards to the scale-up of the chicken business?

Saurabh Kalra: So chicken is a long-term play for us. We talked about it at the Investor Day also that we have got 3 products where we would like to build our leadership. One was burger, second was chicken, third was coffee. So around chicken, what you're seeing is the start of a journey. We are very encouraged by the results, which we have seen, including with junior NTR. We've got our best numbers ever in chicken in the month of June.

So that's the broad guidance I can give you. But beyond that, this chicken game is not a short-term play for us. You will see this game playing out over a period of time. And you will see everything, whether it's menu, whether it's promotion, you will continue to see us continue to deliver on these top three strategies of creating differentiation in burger, chicken and coffee.

Moderator: We have the next question from the line of Amnish Aggarwal from Prabhudas Lilladher.

Amnish Aggarwal: And congrats on good set of numbers. So I have 2, 3 questions. My first question is on you can say the demand scenario. If I look at other players in the industry, so they are facing some sort of, you can say, much more tepid demand scenario than what we are witnessing. So is it due to, you can say, some sort of, you can say, increased competition or penetration issue in a particular category?

Or is it driven by, you can say, your pricing going up? Because when I look at your results, the pressure on demand doesn't seem to be that much. So it will be helpful if you can give us some color on what is happening in the industry.

Saurabh Kalra: As Akshay mentioned earlier, there are headwinds as far as consumption is concerned of overall category in terms of eat out and Western fast food. But to us, India gives such a big opportunity, right? So what we have to be able to do is have a right strategy and be committed to that strategy. To me, the results which you see is a part of the committed strategy where we had talked about being very, very serious meal players and continuing to maintain our need during snacking and then doing it through various channels and being a really omnichannel brand.

And we're seeing that play out. I wouldn't say that the demand situation is very rosy. But in India, the curve is never linear. There will be good quarters, bad quarters, but overall, we are all committed to India's growth and we are all committed to our strategy. So the way we look at it is it's a good situation as long as you're committed well on your strategy, and we are committed to our meal strategy.

Amnish Aggarwal: Okay. So that's pretty useful. The second question is that, for example, we have got, you can say, tie-ups with Swiggy and Zomato, we are also having our own app. But now your this ONDC is coming. I think our products are also available on that. So how are we building traction on ONDC? And any you can say initial learning, which we have over the past few months on that?

Saurabh Kalra: See, while we don't give breakups, to me, Swiggy, Zomato was our partners, ONDC is another added partnership, another channel to sell, right? But the strategy to what will we sell and who will we sell to is more critical. And we don't give breakups of what is Swiggy, Zomato, ONDC, but we have seen growth across, which is very heartening. And then we have also seen growth a little higher growth from our own channel. So it has been an overall good growth in terms of the delivery mix.

Amnish Aggarwal: Okay. But how is the pricing because usually, generally, it is perceived that when you order through ONDC, the prices as you can see on the lower side. So for us, as a realization, are we taking any hit on that?

Saurabh Kalra: No. So from our standpoint, the realization is almost constant across all channels on digital. It depends on what the platform is charging versus what service they are providing to the consumer. So ONDC also, there are tie-ups through other channels. And then depending on what they charge, we do not have too much of a say in that, neither do we command how they run their business. But to me, ONDC is another channel where we are working through partners beyond Swiggy and Zomato to crack open that market.

Amnish Aggarwal: Okay. So that is very useful and just finally, last bit. Now we are having, say, 220 stores under the EOTF whereas our total number of stores is more than 360. So how many stores this year, we plan to say, bring it under the EOTF concept and some clarity on, say, how much of incremental capex we would be doing per store for this conversion?

Saurabh Kalra: So we don't give generally the guidance on what is the incremental capex on this number. But what I got to tell you is that we are internally or by 2027, we should be 100% stores on EOTF. However, the qualification is that Food Court stores don't have an EOTF experience. So they generally have a self-ordering kiosk being added but nothing beyond that. So there is Food Court stores which will never get converted. But beyond that, rest of all the stores should get converted in the next 2 to 3 years.

Amnish Aggarwal: Okay. Any guidance for the current year?

Saurabh Kalra: So typically, if you look at the last 2, 3 years track record, we are converting 30 to 50 restaurants year-on-year. We should be able to do the same thing this year also.

Moderator: We have the next question from the line of Percy Panthaki from IIFL.

Percy Panthaki: So what I'm trying to ask is that the value meal strategy works out to approximately a 25% price cut versus the earlier price of the combo. So I'm comparing combo to combo, not individual meal items ordered versus the new combo price, but even the earlier combo available versus the combo price now, there's approximately 25% price cut for the dine-in SKUs 4 combos that you have. And for the delivery, you actually have more number of combos. They are not exactly comparable to any other combo you've had in the past. So I can't really judge a price cut, but similar combos were available, if not the same earlier.

And if I look at the similar combo prices versus what they are now, that is also roughly a 25% price cut. So two questions here. Firstly, what is the need for such a sharp sort of pricing cut, especially when the business is going on so well and we have people willing to sort of pay the prices that we command?

And secondly, how do you manage this from a P&L point of view because especially for the dine-in where it's a pure price cut and there's no sort of change in the product offering, how do you manage the margins for this kind of a business? Because I'm sure that while it's only a part of your business, more and more people will gravitate towards this price point. So the salience of this business will also increase versus what it was earlier. Sorry for the long question, but I just wanted to ask this.

Saurabh Kalra: Thank you very much, Percy. I think you've done more study than what we have done on our own menu. But I don't think whatever the cut was, actually, we did not take any price increase neither we took a price reduction. We managed by increasing some prices and reducing this. As a portfolio, we've got a net zero effect on the P&L, on the gross margin, on this. Obviously, we want more-and-more people to come. And we believe due to the contribution margin of this product and new customers come and they come more often, we should be able to make this a very profitable proposition.

And if you look at it from a marketplace standpoint, the price point is INR179 and we wanted to make sure that we have got the third lever of meal strategy, which was affordable EVM, which we have been talking about from last couple of years. We were just waiting to build the baseline through the gourmet burgers and the filling burgers and this meal is available with McVeggie and McChicken, that's where pretty much where the price reduction has happened. So we are very excited that we will be able to have a INR179 meal, which people can use us regularly for during lunch and dinner.

Percy Panthaki: Okay. So you're saying that while there has been this new meal at a lower price, you've also taken some other price increases in other SKUs. And that's why the net impact on pricing is zero, is that understanding correct?

Saurabh Kalra: Yes.

Percy Panthaki: Okay. I'll probably take this offline with Chintan because the price increases I saw were more in the mid-single-digit kind of numbers versus this is like a 20%, 25%, but I'll take that offline.

Secondly, I just wanted to understand, yes, I mean, in the original question also, one part is pending, which is what is the rationale for such a drastic kind of price cut?

Saurabh Kalra: So there is nothing drastic about it. What we do, do is we would do something on as a conjoint study to understand what's the price point, which people are comfortable eating meal because EVM would naturally be an Extra Value Meal, a strategy where they can afford a meal which provides fillingness because it's a lunch and dinner occasion. To me, it's about those two products of McVeggie, McChicken, where we decided to position it in a certain manner. It's a part of the strategy. It was always the third pillar of the meal strategy, which we are playing out with bone-in chicken, and gourmet or filling burgers. That was the third lever, which was always a part of our planning process. So that's how it happens.

Amit Jatia: And it also upgrades customers who are buying individual items or two items to the third item. And actually, it helps increase average check as well.

Percy Panthaki: Right. That makes sense. So next question is on the same-store sales growth trajectory. You've clocked a 7% this quarter and the base is now completely normal. And given how sort of the demand environment is in QSR in general, although not for you, do you think you'll be able to, for the next few quarters hold this 7% kind of a number or do you see a downside risk to this?

Saurabh Kalra: So number one, we don't give forward-looking guidances. To me, what you will see is a differentiated result in the marketplace given that we have committed to ourselves to our strategy. Like I said earlier, we are not short-term players. In fact, that's why our guidance is actually Vision 2027 because we are committed to it. There is always one good quarter, bad quarter here and there.

We don't get bothered about it because the point is to drive our strategy and execution to its natural conclusion. And for us, we are fairly confident of our strategy and what it has been giving us as a result. So what's going to happen next quarter, next to next quarter, I cannot look at anything and tell you that what will be the case. But what I can tell you is the results should be differentiated in the marketplace.

Moderator: Thank you. We have the next question from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: So sir, there was a thesis that burger category became more affordable versus say pizza over the inflationary period we've seen in the last few quarters. Your price hikes are also lower than pizza. Now going forward, as that difference narrows, let's say, if cheese inflation comes down, you see that as a headwind to your growth as consumers on average shift a little bit towards other categories? And is this something that you see playing out? And are you taking any tactical pricing or menu actions to counter this?

Saurabh Kalra: To me, every organization needs to look at its consumer very, very carefully. We don't look at it as a narrative of saying, okay, this is what competition is doing. This is how they are feeling. I think there is a use case occasion. And there is generally a price point linked to that use case occasion if you've defined your target audience very, very sharply. And for us, we look at it always in that manner just because some pizza is cheaper than burger, will it create issues for us? We never look at it that way. We believe that there is a price point for every occasion and we've got to be able to cater to a wide spectrum of customers.

In fact, if you look at it, we launched the Jain burger. I don't think the Jain burger's price point is anywhere less than INR200 or INR250. And we saw a lot of customers in some restaurants taking those orders. So I think it's about use case occasion. It's not about what burger category, because once upon a time, everybody used to think burger cannot be delivered. Today, everybody is saying burger is better in delivery. So these are things which everybody makes up. For us, it's about staying true to the consumer and staying true to our business. As long as we do that, we should be able to get to where we want to get to.

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

Gaurav Jogani: Congratulations on the numbers and dividend announcement. My question with regards to one point in your PPT, where you mentioned that the metro cities this time has grown faster than the non-metros one. But earlier, when we used to see, you had mentioned that the smaller towns are growing faster. So is there any slowdown that you see? Or is it the acceleration in the growth of the metros on the other end that you are seeing?

Saurabh Kalra: See, to us, it was very clear. We've always talked about it, saying it's been overall rounded growth. Both metros, non-metros and small towns have performed well. It was always a baseline. Last year, we talked about metro going higher. This time, we are saying non-metro growing, this time, they'll say, metro grew a little higher. But that doesn't mean there is no growth happening in other areas. It is just because we have been maintaining continuity so that people know it's a well-rounded growth, even metros did contribute to growth this time around.

Gaurav Jogani: I'm actually asking the same that the metro you mentioned is growing faster this time around versus the non-metros is what I think is mentioned in the PPT. But I think earlier, in the PPT you mentioned non-metros were growing faster. So that is where the difference is what I was trying to ask.

Saurabh Kalra: Yes, it's all marginal. It's between some basis points here and there. I wouldn't read too much into it. The point is the brand is doing well, both metro, non-metro and in small towns too.

Akshay Jatia: And I think it's about broad-based growth, right? We keep talking about whether it's geographies or channels or products. It's because we have the ability to drive broad-based growth that we offer differentiated results.

Gaurav Jogani: Sure. And in terms of the gross margins bit, under the new pre-classified gross margin, the gross margin is now at around 70.5% for this quarter around. I just wanted to ask how much scope there is further to expand the gross margins from here on? And considering now the raw material prices are better off what was in last year. Do you see still some scope of expansion during the current year as well?

Saurabh Bhudolia: This is Saurabh. See, it's not only about the gross margin, as we just discussed a couple of minutes back, that we always focus on the real profitability at a PAT level. So between the line items, definitely, we always keep working to figure out the efficiency that how and where we can improve the margins. And as we have already given the guidance for 2027, and I believe basis those guidance, we are completely on track, and it is very much achievable.

Gaurav Jogani: Okay. Sure. And just a bit on the store opening bit, you mentioned that you'll be opening 40 stores to 45 stores. The guidance is maintained for FY '24. On that bit, is it on the gross level? Or is it on a net level that you are guiding for?

Saurabh Bhudolia: So we are saying that new stores will be opened in the range of around 40 stores to 42 stores. It doesn't matter whether if there are any stores which are getting closed or not. So at a gross level, definitely, we are on track, and we are very much sure that 40 new stores to 42 new stores will be opened by the end of this year.

Gaurav Jogani: Yes. So if I'm understanding it right, so this 40 stores to 42 stores would be on a gross level and there might be some store closures, if any, that might be there. So that will be deducting this number, right?

Saurabh Bhudolia: Yes, right. But as such, we are not expecting any kind of major store closures for the year.

Moderator: Thank you. We have the next question from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I had four questions. So you please bear with me. Just first bit was on the pace of store additions. You said 40 store to 42 store additions versus, I think, last time, it was 40 store to 45 store, is that too much to read into, or I'm just kind of...

Saurabh Kalra: Hi, Avi. Hope you are doing well. Yes, too much to read into, it is still 40 store to 45 store. It's a ballpark number. We are confident we should be able to do 40-plus stores, now it's 42 stores, 43 stores, 40 stores, we can't say at this point in time.

Avi Mehta: Sure. And sir, in terms of the thought is given the way first quarter has been, is there a thought to kind of take it based on the environment? And hence, a lot of this might be back-ended when the environment kind of changes or no, this would be irrespective. Just wanted to understand that part.

Saurabh Kalra: No, Avi, so typically to achieve the quarter 4, if you look at it, we almost did 18 restaurant openings in quarter 4. So the momentum goes towards that, builds up to the year end. At the start of the year, we saw there were 4 stores. We are still sure of achieving 40-plus stores. That's pretty much what it is. If you look at it historically also, we haven't opened too many stores in quarter 1.

Avi Mehta: Okay. Perfect. Fair enough. The other bit was on the 2027 guidance. You have indicated better profitability. Could you help us understand in terms of numbers because earlier you used to say, your mid-teens margin is what we look at from a pre-Ind AS basis. 300 points, 350 points around 18% or so, give or take. Is that something that has changed now? And is there a new number that we should look at, which is why the wording has changed?

Saurabh Bhudolia: No, we are very much sure that 18% to 20% of the guidance what we have given last time, we still stick to the same guidance. And we feel that by FY '27, we can expect for the similar kind of number.

Avi Mehta: Okay. Perfect. The last bit was on the store size. Now I wanted to kind of, we typically do about 3,000 square feet stores. Have we thought about approaching the brand owner for smaller size formats for India to essentially accelerate the pace of store additions given there is a discussion has that in thought through. Is there something that is in the pipeline because the pace that we are kind of hoping to kind of look at from a store addition perspective seems to suggest a very sharp acceleration as we go forward. I would love to hear your thoughts on that.

Saurabh Kalra: Thank you, Avi. This is a question which keeps on coming. I think you had also discussed it back in 2015, then 2020. We have evaluated this multiple times, and we have come to a place where if we want to do average unit volume, our omnichannel strategy has to come to life. In fact, if you look at it, we've also given guidance in Vision 2027 to have more drive-thrus. Drive-thrus typically means we might have almost 0.5 acre of property in which there will only be McDonalds.

So we don't look at it. We have pretty much closed that, as of now, we are not looking at any small size formats. We are committed to our base size, which we have already mentioned, 2,800 square feet to 3,200 square feet. That's something which we believe can give a core omnichannel EOTF experience to our consumers. Having said that, you would see drive-thrus. You would also see a few food courts here and there, but that's about it. So we are not actively chasing any smaller size format for now.

Avi Mehta: So the way I should look at this is real estate availability is not a constraint. It's just capability and hence, we don't need to relook at a store size reduction. Is that the right way to kind of think about this?

Saurabh Kalra: Correct. So it's a model discussion. And we've got to be able to make sure that we get the right real estate in the right area at the right price in order to unlock. And from where we stand, we are pretty confident to be able to do the growth which we have talked about.

Amit Jatia: Avi, this is Amit. Just because the right size of store is not available in the marketplace. It does not mean that we are going to change what is the right thing to do. And in Mumbai, real estate has always been challenging, but we have 100 restaurants with 3,000 square foot in every square inch of the city. So we think it's the right way to go forward, and we are going to stay with this.

Avi Mehta: Got it, Amit. Got it. Perfectly clear. And just a clarification. You indicated that the demand environment may not be rosy, but that doesn't deter us. We would focus on growing ahead of the market. Would you kindly also share how is the input cost environment? Is that something that we have because we hear from other players that it is kind of improving. So would love to hear your thoughts on that as well.

Saurabh Bhudolia: So we are not seeing any kind of surprises over here. As we discussed that yes definitely, there is a seasonal factor anyway, which is very much applicable in the food industry. And this any way we have already planned, and we have the sufficient budget to cover these kind of fluctuations between the seasons.

Moderator: Thank you. We have the next question from the line of Deep Paragbhai Shah from Equirus Securities. Please go ahead.

Deep Shah: Congratulations on the great set of numbers. So just one question from my side. So if you see, we have highlighted that there has been 50 basis point on kind of an increase in the royalty rates. So earlier, it was expected to be in the range of 4.5% during FY '24, and we were expecting 5% in FY '25. So is there any change in overall scheme of the royalty...

Saurabh Kalra: The only difference might be GST included and excluded. It is still 4.5% for the year. If you include GST, that's the difference you will get.

Akshay Jatia: And the plan is available on our website.

Deep Shah: Yes. So I just checked on that part. So that was 4.5% during FY '24, but when I calculate based on the press release data, where you have highlighted INR32 crores kind of a royalty, it translates into 5.2% kind of a royalty rate?

Saurabh Kalra: Yes. So it's 4.5% plus 18% GST for which we don't get input tax credit. So it's effectively the cost on the P&L. So that's the GST difference what you're talking about.

Moderator: Thank you. We have the next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just two quick follow-ups. I've joined a little late. So I'm not sure if you've covered, but just for the sake of my understanding. So I'm looking at the presentation on the Piri Piri McSpicy and Jain-friendly menu. I just wanted to understand qualitatively, if you could share, though Piri Piri was a limited intervention. What it means to our contribution to sales, if you can help me to give certain parameters on which you have evaluated? And such interventions will bring really a new customer. That's the thought, which is there, but also it adds to our mainline contribution to sales.

And second, on the Jain menu, the presentation says that we have introduced in the Western part. So is there on ground, if you can give me qualitatively, is there is a cannibalization which has happened? Or there is new customers which has been able to walk in and the footfall has improved and the sales has improved?

Saurabh Kalra: So, I will answer both of your questions. So let me answer the Piri Piri one directly. Actually, it's a policy of LTO, which is a Limited Time Offer on creating excitement to a very big equity platform. So McSpicy for us, is a very big equity platform and done historically very, very well. So what we did do was to bring excitement to this platform, we introduced a new kind of spice, which was Piri Piri and did the festival on the back of it.

We saw strong growth in the McSpicy platform, and we saw incremental growth on the McSpicy platform. So the number, obviously, we don't give break up details. So we were very pleased with the outcome of what we had planned for the limited time offer of Piri Piri and what we were able to achieve.

Second question on the Jain menu, it actually came out of the brand trust. So if you look at the McDonald's brand, we always try to make sure we are there and we have something for everybody. Whether it was the Eat Equal platform where we worked for the handicap people who got the upper limb disorder or upper limb disability. So we did do a packaging innovation for them. Now these are not necessarily sales imperative because at a system level, you don't sell too much volume.

Similarly, this time around, we felt that this community always never had anything to come into a McDonald's for. And given that we already had a product if we remove onions out, the raw onions out would be a Jain product, we felt that it was high time that we included this community. And we have seen a tremendous amount of growth from a very limited restaurant, which are in the community neighbourhood. So nothing more. It doesn't impact business results dramatically. This is an all-inclusive platform of McDonald's, which you will see continuously see something or the other keep on happening on inclusiveness of every part of the community.

Shirish Pardeshi: No, Saurabh, thanks for that explanation. What I wanted to check with you is Jain menu innovation is also an LTO or it's going to be a permanent reset?

Saurabh Kalra: Jain menu will be a permanent reset. It's actually a Jain friendly menu. So we have given the guidance that it doesn't contain any root vegetable, but is prepared in the same kitchen, where there might be root vegetables kept alongside. So we're calling it the Jain-friendly menu with no root vegetable. This will be available.

Shirish Pardeshi: I'm again sorry I'm having. There are many friends who have really appreciated this kind of gesture from an international brand like McDonald. But what I wanted to check and you have not answered. Is this intervention has been able to bring new footfalls and whether it has been really able to add up to our SSG?

Saurabh Kalra: I did answer that. For a system level impact, I don't know whether we've got population who eats out, substantial enough to create a difference in SSG, but there are definitely community stores in Gujarat, in Indore, where it's created a substantial difference.

Shirish Pardeshi: Okay. My second question to other, Saurabh. At this time, what are the input raw material looks inflationary? I'm again repeating this point, I'm not sure whether it is covered before. But just a sense of what is the inflationary environment today, what ingredients are looking? Because largely, to my understanding, cheese and milk is now started deflationary.

Saurabh Bhudolia: Yes, definitely. So as I just clarified that we are not seeing any kind of major surprises over there. This cheese and milk, we have already factored and we were very sure that this is the inflation, which is going to hit in this quarter. Accordingly, the entire thing has been planned well in advance. And for the balance quarter, as such, also, I believe the way we have planned our ABP and the business plan, the way business plan is in place, we are not expecting any kind of major ups or downs.

Shirish Pardeshi: I agree, but I just wanted to understand, other than tomato, is there any other such surprises you have factored in?

Saurabh Kalra: So on tomato, we did not see any inflation, which is beyond the normal. These are seasonal inflation we had actually approved for, in fact, planned in advance. We did not have any tomato outage whatsoever in our region, and we did not see any tremendous inflation coming out of tomato out of the ordinary.

Moderator: Thank you. Ladies and gentlemen, we will take one last question from the line of Chirag Lodaya from Valuequest. Please go ahead.

Chirag Lodaya: So my first question was on average unit volume. You see the sales per store. So I'm just referring to your Vision 2027 document. So what you have said is by 2027, your top line would be in the range of INR4,000 crores to INR4,500 crores and total store units would be 580 to 630, which essentially implies sales per store of INR6.9 crores to INR7.1 crores. And today, already, at a run rate basis, we are at INR6.8 crores. On top of it, we maintained that we'll be able to do high single-digit kind of SSG over the next few years. So I'm just not able to get the maths right. Please help me understand how to look at this.

Saurabh Kalra: So these are things which are not, Chirag, done exactly as per math, right? So tomorrow, there might be opportunity coming up on highways, while it might not do the average unit volume due to not having delivery will something else plan out, not plan out? What we've done in Vision 2027 is look at the business from multiple angles, looked at our history and said, what is the number which we should be comfortable with average unit volume? That's what we've given.

Actually, the top numbers you need to assimilate is that we are doubling our sales. We are doubling our number of restaurants with solid improvement in profitability. So that's a broad outlook. But because we wanted to give more flavour because a lot of people were pushing us. So we gave flavour around other things. So they might not always pan out the way you planned, you could always go more or less here and there, but I wouldn't look at it that way.

Chirag Lodaya: So essentially, key number to look is top line, you might be able to achieve a similar top line by opening lesser stores. I mean, that is the biggest takeaway, right? That is our...

Amit Jatia: Not necessarily, it's a broad range. You see 2027 is five years away. We continue to share some trends on where we are heading, and it's not math. So that's the key point takeaway.

Chirag Lodaya: Right. And secondly, on G&A line item. So in the opening remarks, you mentioned that G&A line item has increased on a Y-o-Y basis, but this is the new normal, and now we'll see that number, which is at 5.8%. Now we have seen improvement in average unit volume throughput, etcetera. I mean, do you envisage any operating leverage coming through this line item maybe this year, next year? Any sense there?

Saurabh Bhudolia: See, largely G&A should remain in this kind of range. We are not expecting any kind of major fluctuations. But yes, as the business will grow, some level of the economy of scale benefit definitely should flow down to the G&A.

Saurabh Kalra: So G&A, I would look more at a fixed value with marginal increment rather than looking at a percentage. What we have said is this is probably the guidance of how new normal could look like with marginal gains coming out of sales. But otherwise, you can look at it being a INR35 crores, INR40 crores line item for the quarter-on-quarter.

Chirag Lodaya: Okay. Perfect. And just lastly, on dividend policy. This dividend policy of nearing 25% payout, is it on cash profit or reported profit?

Saurabh Bhudolia: See, definitely, it is on the dividend policy always works on the reported profit because as per the statute, we have to abide with the numbers what we are being presented in the financials. But the endeavour will always be there that how the dividend payout can be maximized on a higher level.

Chirag Lodaya: Right. No. So the context we're asking is almost the payout for the year or this quarter, it's like INR55-odd crores. if I just do 25% maximum payout, you would have wished to give, then it comes to INR220-odd crores kind of number?

Saurabh Bhudolia: No, 25% is the minimum guideline. What we have given, subject to certain exceptions, which have been carved out well, in the dividend policy. Otherwise, if there is a free cash flow which permits the company to take care about its strategical growth and if there is a left-out amount, definitely, it should be paid back to the shareholders as part of the dividend.

Moderator: Thank you. Ladies and gentlemen, that was the last question, and I would like to hand the conference back to the management for closing comments. Please go ahead, sir.

Amit Jatia: So just thank you, everybody, for participating on the call. We appreciate it and look forward to talking to you again next quarter.

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

Disclaimer: Please note that this transcript has been edited to correct any inadvertent grammatical inaccuracies or language inconsistencies that may have occurred while speaking.