



Westlife Foodworld Limited
Q2 FY23 Earnings Conference Call

November 09, 2022

MANAGEMENT:

- Mr. Amit Jatia – Vice Chairman
- Ms. Smita Jatia – Managing Director
- Mr. Saurabh Kalra – Chief Operating Officer
- Mr. Akshay Jatia – Executive Director
- Mr. Chintan Jajal – Lead - Investor Relations
- Mr. Dattaprasad Tambe – General Manager (Finance & Accounts)

Moderator: Ladies and gentlemen good day and welcome to the Westlife Foodworld Limited Q2 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then ‘0’ on your touchtone phone.

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 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 harbor 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 Rutuja. Welcome everyone and thank you for joining us on the Westlife Foodworld Limited Earnings conference call for the second quarter ended September 30, 2022. I am Chintan Jajal, Lead IR at Westlife. From the management team I have with me Mr. Amit Jatia – Vice Chairman, Ms. Smita Jatia – Managing Director, Mr. Saurabh Kalra – Chief Operating Officer, and Mr. Akshay Jatia – Executive Director.

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 Q&A. We will be referring to the earnings presentation and financial releases which are available on the stock exchange as well as investors page of our website. With that I now turn the call over to Smita. Thank you and over to you, Smita.

Smita Jatia: Thank you Chintan. Good afternoon, everybody. A hearty thank you to each one of you for participating in the call today, hope you are doing well.

With the quarter two FY2023 results I am happy to report that Westlife Development, now Westlife Foodworld, is all set on the path to the next phase of growth. Despite external headwinds we were able to produce strong and consistent results for four straight quarters. We have been continuously beating our standards, surpassing our goals, and have achieved the required competitive advantage by capitalizing on our strengths in cost leadership and operational efficiencies.

Our performance clearly demonstrates that we have established a resilient business that has produced results and is positioned for the long haul. Our coherent strategic approach has enabled us to run excellent restaurants and create a strong and enduring brand. We are keeping a close eye on changing market trends and are committed to renewing ourselves through disruption. We are bullish on our expansion plans and are on track to

opening over 200 stores in the next three to four years. Our organizational agility and our strong focus on execution makes us well positioned to deliver accelerated business results and create long-term value for all our stakeholders.

In closing, I would like to express my gratitude to all our employees and partners for their outstanding work in navigating this environment and offering our customers excellent value. As an organization, we commit to concentrating on our core values of operational excellence and productivity enhancing our emerging digital advantages and prioritizing the health and safety of all our customers and crew.

From the entire Westlife family I thank you for your support and for placing your trust and confidence in us. I will now request that Akshay to share the operational highlights of the quarter gone by.

Akshay Jatia:

Thank you. Good day everyone, I hope you had a great Diwali break with your loved ones. I am pleased to highlight that this is the fourth time in a row that we have outperformed ourselves to post outstanding results across key parameters.

Our strong performance in the second quarter irrespective of macroeconomic and inflationary challenges was underpinned by steady growth across west and south markets. Our revenue at Rs.5.72 billion grew by 49% year-on-year and 6% Q-on-Q in Q2 FY2023.

This was backed by a strong 40% same store sales growth. Even on a pre-COVID base of Q2 FY2020 we saw a healthy 44% rise in sales. Our average annualized sales per store continues to grow and reached a new high of Rs.67.5 million in Q2. If we dissect the performance we can see that our meal strategy, our focus on omni-channel model and growth in emerging towns is playing out really well for us. We sustained QSR traffic share gains in most of our markets by focusing on elevating our brand, doubling down on our core equities of burgers and chicken.

It was also heartening to see that we achieved broad based growth across all store types with mall stores picking up the pace sequentially. Our systematic and well thought out approach to network expansion is helping new stores achieve required milestones much faster than the past. In fact non-metro town continue to post 1.6x growth versus metros on the pre-COVID base of Q2 FY2020.

Before talking about channel wise performance I would like to highlight a nomenclature change. We have transitioned from using dine in and convenience to using on premise and off premise channels as it is easier to understand for a boarder set of stakeholders. However there has been no change in the underlying definition on numbers.

Moving onto slide #6. We can see that the momentum had continued across channels with the on premise business gaining strong traction and delivering healthy growth. While the off premise business continues to rise steadily creating a new high point for the business. Our on premise business grew 96% year-on-year and 24% over the pre-COVID levels. The off premise business increased by 12% year-on-year and 88% over the pre-COVID base. While our overall delivery channel achieved highest ever sales this quarter, our own McDelivery platform also continue to see increased consumer affinity and posted 1.7x growth versus 3POs thereby increasing its share. Our cumulative app download surpassed 21 million or 2.1 Crores this quarter.

Moving on to Slide #7 I feel the key highlight is that we have delivered strong profitability despite inflationary headwinds. We were proactive with our pricing decisions instead of being reactive to external market conditions. Our pricing strategy along with our supply chain initiatives and improving product mix led to a 118 basis points sequential increase in gross margins to 65.5%. The gains further flow down to restaurant operating margin ROM which stood at 22.7% for the quarter as against 21.6% last quarter and 17.4% in the base quarter. We recorded highest ever operating profits of Rs.988 million in Q2. Operating EBITDA margin stood at 17.3%, up by over 500 basis points versus last year. On a sequential basis operating EBITDA margin was up by about 15 basis points backed by enhanced operating leverage partially offset by higher staff cost. We generated a solid Rs.680 million in cash profit after tax in Q2.

I would also like to highlight that we took a 2% blended price hike in October. While the prices of key commodities like oil witnessed softening, milk and wheat saw continued pressure. Having said that, overall inflation in our raw material basket has been relatively moderating. Sale through digital channels such as our mobile app self-ordering kiosk and deliveries accounted for more than 55% of total system sales. This signifies that we have now greater business predictability owing to our omni channel approach. This strong multi-channel and multi-day part strategy also allows us to serve our customers whenever and however they needed, no matter where they are.

We have added six new restaurants and entered four new cities during the quarter. With this we now have a total of 337 restaurants, 274 McCafès, 68 Drive Thru's and a 138 EOTF restaurants across 52 cities. We remain confident of adding 35 to 40 new stores in FY2023. All in all, our menu innovation and omni-channel strategy has helped us deliver over Rs.63 million of average sales per store and nearly 17% of operating EBITDA margin in the trailing 12 months ended September 2022. We maintained a strong balance sheet and liquidity position. Our operating performance will continue to generate healthy free cash and fuel our growth in the future.

We have also been working hard to further strengthen our brand trust and business through menu innovations, business initiatives, such as the real food, real good campaign and McDonald's in every celebration amongst other things. We have launched some brand films for the festive season under the umbrella campaign of "meal to make families".

Finally at Westlife we go through great plans to ensure that ours is an inclusive organization and a great place to work. In keeping with our vision, I am thrilled to announce that we were named recently one of the top 50 India's best places to work for women.

This year also marked the 6th anniversary of Ronald McDonald House Charities in India. This program aims to keep families together in tough times. Since its founding, we have touched the lives of 35000 families through RMHC India. We will continue to build on its initiative over the next few years. With that I now hand over the call to the moderator and open the forum for your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Thanks. My first question is on your gross margins going ahead. Already it is higher than pre-COVID. Of course the wheat and milk prices have been highly inflationary. So wanted to understand in terms of sourcing of the wheat are you already well placed so the current prices does not really impact you too much milk of course is quite inflationary and there it is not possible to have too much of long-term contract. So any price hike you need to sustain the current gross margin.

Amit Jatia: I have Saurabh our Chief Operating Officer to answer the question.

Saurabh Kalra: I think Amit has made it is abundantly clear in the last few years. Commodity cycle happen, we do not see that impacting our gross margin on a month-to-month, year-to-year basis. Like you said milk has been under pressure and we have already taken a 2% hike in October in order to manage all the inflationary pressures which may come in. But we do not see any further impact coming because of any of these commodity one or two commodities because we sell so many things go up and down but we are able to easily manage it I do not see our gross margin coming into any immediate pressure from where we see it.

Abneesh Roy: One question on your delivery business. So another QSR said that they saw their highest share from their own app so they have been consistently seeing a moment from

aggregators to customers ordering from their own app. In your case are you seeing similar or you are not focusing too much on this.

Saurabh Kalra: I think Akshay in his commentary already spoke about our own app delivering better than the 3PO players which is just the likes of Zomato and Swiggy. While we will continue to strengthen our own app towards the loyalist base we do see that there is a play in terms of our strategic partnerships with the 3PO so that we do not leave business on the table. so, we remain engaged even with the 3PO players who continue working on increasing the delivery size. On the 3PO players plus also on our own app we continue to work on the value proposition and continue increasing the base of users on our app vis-à-vis 3POs.

Abneesh Roy: Sure and last question is on your other marketing initiative so on this Drive Thru in terms of 120 seconds service guarantee what is the thought process on this and is this very different versus say any other QSR in terms of a promise and the other global market is this a big differentiator to the customer.

Saurabh Kalra: Number one I do not think too many competitive players have drive thrus. We are the number one omni player as far as Drive Thru is concerned we already have around 60 plus Drive Thru's operating across. And one of the use cases which we see people using Drive Thru for it when they are in a hurry and when you look at it from that standpoint then obviously speed of service, faster speed of service, is a key unlock to that use case occasion and for us we are very, very happy that versus pre-COVID we have changed the momentum of Drive Thru dramatically. While we do not give the breakup on the investor call, but we dramatically increased, exponentially increased, our Drive Thru volumes and we are committed to opening more Drive Thru as a percentage of portfolio when you see our new store openings and we are very happy about the place we are in as far as Drive Thru is concerned.

Abneesh Roy: Sure, that is very helpful that is all from my side. Thank you.

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

Avi Mehta: Hi Amit and team thanks for the opportunity. I had three questions. First was on this store addition we have done first half only about 10, 11 stores and is like the guidance for 23 means the 35, 40 I just wanted to understand is there a delay that happened which is why first half it is so skewed in the second half and what is it that gives us the confidence and that would be my first part just trying to understand this better.

Amit Jatia: It is a great question and we have seen this trend across the board across markets typically because the cycle is a capital cycle and at least the McDonald stores are 3000

square foot we are doing a lot more Drive Thru's. So acquisition of land or contracts are 25 years so the cycle is long but typically it all ends up in the last two quarters and therefore we still maintain very strongly that we will be able to deliver the 35 to 40 that we talked about, the pipeline is in place the ground breaks are happening and therefore the opening will come through as well.

Avi Mehta: What would be the Capex number would you have any number in mind when we say for the full year how much should be, if you could help us on that.

Amit Jatia: The Capex.

Avi Mehta: Yes.

Amit Jatia: Well it would be in the range of Rs.2 billion to Rs.2.2 billion.

Avi Mehta: Okay perfect that is helpful the second bit was essentially just taking this further with new stores now accelerating in second half I remember in the last call also you said that the annualized per store sales should be more at the 60, 65 range and first half has been 67 so you will still maintain that 60, 65 because the impact should start coming in, in the second half because you are going to have more new stores is that the right understanding.

Amit Jatia: No, we are confident of maintaining the 67 million mark that we have talked about. One, our new stores are opening much better. Number two we have a huge underpenetrated market and in fact many times and we are entering smaller cities we sometimes do better than that as well. For example when we opened at the airport the average was much greater. We have a couple more stores coming at the airport as well. Drive Thru is normally opened better so it is all factored and we are quite confident of maintaining the 67 million average unit volume.

Avi Mehta: If I were to paraphrase it is more like the new stores are also doing better and your new launches that you did whether it is chicken that traction also continue to see the existing store is also kind of doing at a much better pace than what we had imagine in the first quarter right.

Amit Jatia: Correct absolutely.

Avi Mehta: Last bit just you have announced 2% price hike I mean, I recollect the last time I know that time was very different but you were one of the few ones to use your supply chain strength to take price cut you are actually even the few ones who went against the market and we saw good market share gain this I am talking about the 2010 period. I just wanted to kind of get your sense because you have taken a 2% price hike which means clearly the

situation is not that we but I would love to hear your comments and how do you contrast the same.

Amit Jatia: I will explain to you. To my mind pricing is a very much an art and I feel we have handled it very well when I look at our 25 year history. Firstly we still maintain that we stay within the 3% to 5% price hikes but I have also learned the hard way not to fall back on price increases especially when there is an opportunity to take it and inflation in the minds of the consumer is still there and other peers have taken much greater price hike because you may not be able to take it later. So first and foremost, in 2008, 2009, 2010 when we doubled our same store sales we stop taking price increases and we paid for that dearly in 2013, 2014, and so on when we were forced to take a 10%, 12%, price increase which was a rare situation. Also in the last two years we did not take any price increase at all and we did not want to fall back on that so therefore first thing our three pillars of improving gross margins continue which is control on raw cost, product mix and menu price increases. So the same pillars continue quite strongly which is why in the industry I am proud to say that we are probably going to be the rare one that has improved gross margins even in this quarter. Number two you have seen the top line has not been impacted I mean 40% same store sales growth in the quarter and 49% topline growth in totality. So while maintaining our sales we have been able to get a margin growth we feel that is not a bad situation, but moving forward it goes back to the 3% to 5% a year so I hope that answers your question. Important thing is we are not changing our strategy, we are thinking around how we need to move forward.

Avi Mehta: If I may just probe you further on it. Is it fair to say that you still remain the cheaper option because others had taken price hike is that what you are alluding to.

Amit Jatia: No, see it is about see for example it is value for money you do not look at the gourmet burgers.

Avi Mehta: Yes, value for money correct. Is that the fair way to think this was the value for money.

Amit Jatia: No I was just saying the gourmet burgers for example even at Rs.200 reflect value and people are buying that. The rupee margin and that is quite strong. Similarly McCafé has come back quite strongly and that is improving our margin is pretty much what happened in the past and I will let Akshay and Saurabh add a couple of thoughts they have.

Akshay Jatia: See we do not look at it as the cheapest option because we are not playing a price game but playing value for money, value for money means many things and we have discussed this before around it means pricing it means experience it means quality of product and in that equation yes definitely we are showing differentiation and we are showing very good customer response so pricing is a strategy and we have used it the way that it is

supposed to be hence it has been well received by consumers. on top of that even if you take our gourmet burger right like the example we were talking about even at say an average price of 280, 320 people are seeing it as extreme value because it is not only well priced for them in the relative basket it is quality it is filling and it is an occasion with their families. So that is how we look at it and that is how we are looking at managing both volume as well as our margins.

Avi Mehta: So cumulatively we would have taken what price hike that is the last question from my end. Thank you.

Amit Jatia: It is about 6%.

Avi Mehta: Okay that is all thank you very much.

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

Kapil Jagasia: First of all congratulations on a great set of numbers. Sir my first question is just wanted to understand this 1.7x growth of McDelivery in this era of strong performance of dine in channel so what was the growth number of McDelivery in previous two quarters and any promotional campaign which has worked for you or any other commercials done for this delivery channel.

Saurabh Kalra: Obviously from a pre-COVID standpoint we are seeing 1.7x growth in sales (vs 3POs) on our McDelivery channel in terms of percentage. If you look at it, we do multiple things for example we launched kitkat McFlurry and that helps us both in dine in and delivery business all together. So it is not that our menu strategy is to play out in dine in or deliver. How we look at it like I said earlier also we look at it in two parts delivery business is an important business in which one lever is to work with the third party operators like Swiggy and Zomato and continue strategic partnership with them to maximize sales the second is from our own app standpoint look at what our loyalist want and improve consumer interface and user experience continuously and there will be a lot of work around that and we see that giving us good results in terms of our app growing dramatically more than the growth we saw on 3PO operators and therefore the percentage with our own app contributors has also become significantly high.

Kapil Jagasia: Thank you for that. So just like McCafé's would delivery be also be available in 80% of the store network like what would be the number here.

Amit Jatia: Yes absolutely. Almost 300 stores have delivery, that is 90%.

- Kapil Jagasia:** And just one book keeping question from my side this employee spends are up by 25% sequentially any one offs here.
- Amit Jatia:** No, it is not employee cost it is all GNA sorry Dattaprasad you want to take it.
- Dattaprasad Tambe:** So basically there are no one offs, it is basically the merit increase which has come in the current quarter.
- Akshay Jatia:** Just to add to that obviously during COVID in the last few years there has been a lot of pressure on keeping staff cost in check. The merit cycle has come up and we wanted to appropriately reward and manage that cycle. so it is in line with what we expected and there are no one offs it was part of our whole high performance culture.
- Saurabh Kalra:** So very shortly you will also see the inventor presentation when we do an investor day in that we are already planning ourselves up for the next five years of our new vision and therefore we are adding new skill in the system we are making sure we know whom do we want to keep in this journey and hence there is a marginal increase in employee cost, but absolutely in line with what we had planned for.
- Kapil Jagasia:** Thank you for that. Thank you.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** In response to our previous question on Capex just to get my numbers right do you mentioned that it would be about 220 Crores of Capex this year.
- Amit Jatia:** Between 200 to 220cr is what I said.
- Percy Panthaki:** Would it be possible to give some color on the breakup of this as in how much of it would be for setting up new stores how much for renovation how much for any other IT projects etc., etc.
- Amit Jatia:** No we do not share breakup on Capex
- Akshay Jatia:** But it is funded, so I mean it is used for like you said, new stores, reinvestments and other Capex.
- Percy Panthaki:** Also just wanted to understand your margin journey you have already reached about 13.5% on a pre Ind As basis what is your medium-term target here and what would be the main contributors to the expansion going ahead.

- Amit Jatia:** So basically we had laid out a vision 2022 in 2016 when our EBITDA margins were 6% or 7% and we had boldly talked about 13% to 15% and here we are so I am quite pleased that we have actually delivered pretty much on all parameters while aspirationally I have always maintained mid teens but we have an investor day coming up and we will give more color on vision 2027 in that particular investor day which is not too far away.
- Percy Panthaki:** Okay sir that is all from me thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.
- Devanshu Bansal:** Congratulations on a strong execution on the SSG front. Sir historically there is a 5% to 10% increase in revenue per store from Q2 to Q3 and incrementally we have taken a 2% price hike as well. So can we expect the historical trends to continue this year Q3 as well.
- Amit Jatia:** Absolutely because our pricing strategy so far has worked for all these years and we have pretty much a very good balance between art and science of pricing so we are quite smart about how to do it and so far our results indicate that has worked quite well for us.
- Devanshu Bansal:** And for H1 our Capex is closer to about 1.3 billion and we have opened about 11 stores versus annual target of 35 to 40 so since you have mentioned that in the incurring 2 to 2.2 billion so is a significant part of this Capex under EWIP.
- Dattaprasad Tambe:** What you have seen the cash flow is the payout of Capex not the actual Capex so what are that period so it will give the advances to capital vendors and everything. Hence the cash flow will not give you the correct picture of how much Capex has actually happened what Amit said still holds good that my Capex when we say is working like capitalize at the year it has nothing to do with the cash outflow.
- Devanshu Bansal:** And lastly so you explained the reason for higher employee cost does the same explanation is good to higher head office cost as well for this quarter.
- Amit Jatia:** Yes, absolutely the same thing and you got to look at things like employee cost and because what happens is as there is Diwali you start sort of hiring part time workers you train them so you got to look at it over a period of six months to one year so if you look at corporate GNA which we are proud to say as the only company that actually spells it out because we really care about controlling it, it is about 5% of sales which is very much in line with global trends.
- Devanshu Bansal:** Got it Sir thank you these were my questions thanks a lot for that.

- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.
- Chirag Lodaya:** Thank you for the opportunity and congratulations on great set of number. Sir my first question was on McCafé if you can just throw light how McCafé is doing now.
- Amit Jatia:** McCafé has come back because that is pretty much an in-store strategy from our point of view and the McCafé was just building out when this COVID thing happened. Firstly I believe the opportunity on McCafé is at least double or triple or where we are at as McDonalds and coffee continue to build in the consumers mind but with in-store growing at 96%, McCafé thankfully has kept in line with that [inaudible].
- Chirag Lodaya:** So it would be now above pre-COVID right.
- Amit Jatia:** Yes, almost.
- Chirag Lodaya:** In terms of gross margin so we have improved our gross margins but we are still below our historical level so with McCafé also doing well is it fair to assume that going ahead we will improve gross margin as well.
- Amit Jatia:** That is a constant endeavor. I do believe that we are at a very healthy number I have maintained this for the last five years but yet we do get 100, 200 bps here and there movement but is there a dramatic focus to grow our gross margin? No, it is to maintain and grow in small bps. The bigger objective for us is to grow our topline so currently if we have 6.7cr average unit volume. The idea is aspirationally to grow that quite nicely and we will share details of that in our investor day. So I think that is the bigger focus not that gross margin improvement is not. But we are in very good territory for our type of business within QSR by the way there are different sectors that are different sort of base lines around gross margin, employee cost and things like that for our industry, that is the burger sector, we are in a pretty strong position on gross margins.
- Chirag Lodaya:** Just lastly what kind of inflation we are seeing in Capex per store.
- Amit Jatia:** Capex per store is pretty much in range with what we are talking about. There has been pressure because there is an imported component, the dollar has depreciated but simultaneously as I have maintained this forever that we recognize that rupee keeps depreciating we know that. So if you know something and you do not act on it and what is the point of having sort of people involved so we simultaneously take cost out so typically it has been in the past between 2.5 to 3.5 Crores because as we have added business models like McCafé has now become a standard, experience of the future is become a

standard so again we want to give more color on the cost structure to build a restaurant in our investor day where we will share what is going to look like for the future.

Chirag Lodaya: In terms of store pay backs how it is trending now as you mentioned new stores are doing much better.

Amit Jatia: It is trending very well because if you look at our return on investor capital it is doing very well over 30% that clearly reflects how the pay backs are looking at. The good news is that they are opening very well and therefore the payback cycles are only getting better.

Chirag Lodaya: But in terms of years can you help us understand.

Amit Jatia: Yes, it is normally four to five years.

Chirag Lodaya: Thank you and all the best sir.

Moderator: Thank you. The next question is from the line of Prateek Podar from Nippon India Mutual Fund. Please go ahead.

Prateek Podar: I just wanted to check the 2% price hike is it across on premise off premise and across categories which means value plus premium.

Saurabh Kalra: When we say 2% price hike obviously we do not take price hike equally across all our products it is a weighted average which is 2%. Some of it could be higher and some of the things might not have price increase. obviously that is the breakup which we do not share but weighted average we have taken a 2% price increase across channels and in the geographies.

Prateek Podar: You can confirm this across channels or again it is weighted average.

Saurabh Kalra: Across channels and geographies.

Prateek Podar: Okay that is really helpful thanks and all the best.

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

Shirish Pardeshi: Hi Amit and team thanks for the opportunity and hearty congratulations for walk the talk you have delivered. I am quite impressed with the numbers, just two clarifications I am sorry for the sake of repeating I joined little late so what is the current inflation which we are seeing in quarter two and maybe towards end of quarter or early October have you

seen that from the previous quarter inflation standpoint we are seeing the inflation is getting down.

Akshay Jatia:

I covered that in our commentary and yes obviously we will take you through that again. We have seen a relative moderation in inflation while some key commodities like oil witnessed softening we have seen pressure on other commodities like milk and wheat. What we can say is that number one you have seen volume growth, number two you have also seen margin growth, so despite taking price we have been able to manage both volume, because it has been done scientifically, and margin because we have played with multiple levers the pricing the cost initiatives as well as product mix and as a result you have seen us deliver very high SSSG as well as our highest ever operating profits so that with the inflation.

Amit Jatia:

So essentially I personally think I would not believe in looking at a quarter-on-quarter. As Akshay said something go up something go down and we cannot react to it the question is that you factor in something and then you work towards taking cost out of the system regularly and you stay ahead of the curve. So that is how we managed it. Quarter-on-quarter if you look at our history over 15 years and look at India's inflation and map that they are I think 10, 15 years is a great timeframe for us to be confident that year-on-year we have been able to manage that quite well but it is hard to comment quarter-on-quarter.

Shirish Pardeshi:

I agree your point Amit what I was trying to extract say for example the inflation in the food is running 7% to 8% so if you assume that the similar inflation is there you have been able to just pass on to the sense so it gives the arithmetical calculation the 6% you would have absorbed or would have tried to do the intermediate cost synergies and engineering so I just wanted to understand that.

Amit Jatia:

My point is that math does not work like that because you are reading a reported number around food and that is not how it translates down at work in business. One we work directly with farmers and what is reported I do not know about basket they are talking about. Plus, our contracts are long-term contracts and they do not change month-on-month and quarter-on-quarter plus we have price contracts, we cover, we hedge, so I am not able to give you any color around the 7% versus what ours is and so on and so forth. The important thing is please look at our trends we will manage it. I cannot promise you quarter-on-quarter you will see management, but you will see over a period of time we will continue to sort of manage inflation and hopefully keep our gross margin ahead of the curve.

Shirish Pardeshi:

My last question is on the digital demand obviously you will not share but I am still making an attempt what level of interest or may be if you can share the demand is towards our

value segment or it is for the premium segment or it is completely on the McCafé segment which is driving.

Amit Jatia: It is across the board. See we are an omni channel business now we very proudly stated the 55% of our business is coming from digital channel when we say 55% it cannot be skewed in any direction, it has got to be a pretty holistic mix I mean if you look at our experience of the future stores if you look at all the work we have done around digitally delivery. Saurabh talked about user interface making the ability to order more easier all that is continuously growing the digital base so it is across the board.

Shirish Pardeshi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vishal Punmiya from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Punmiya: Congratulations on a very strong set of numbers and festive greetings to the team. My question was on the desserts portfolio now if you look at the current portfolio obviously it is a good mix of frozen dessert as well as to some extent muffins and cakes even within the McCafé portfolio what is the potential for this business or what is the potential for this category for us and can it become a part of the meal that we offer. So from that context I just wanted to understand the potential of desserts portfolio.

Amit Jatia: I am quite pleased that if you look back and look at our investor day in 2016 and 2018, we kind of broke out the different categories in which there is opportunity for the McDonald's brand to grow and beverages was lot talked about because of McCafé so McCafé is not just about coffee. Similarly desserts is something that we do quite well in most recently our McFlurry with KitKat it is an amazing association with a very strong brand and when the two come together results just take off, so McFlurry is a big hero and is working beautifully for McDonald's in many markets. Also we have a dessert kiosks strategy we do not talk about it because if we tell everything then we have nothing left for the future, on a lighter note. But we do believe the desserts in McDonald's can grow to my mind from what I recollect is a \$500, \$600 million category for QSR and I think we are reasonably well entrenched but we have a long way to grow in desserts it has not been a crazily focused area for us but like I said strategy is about where to prioritize. So you have to go after the biggest bang for the buck and as we have shown you in the presentation currently it is about meals and we have gone about it with chicken and with our gourmet burger and on the quite we are working on desserts. So more on that as what I called horizon two horizon three for the future but it is something that has got opportunity.

Vishal Punmiya: So basically after looking at some of those Asian market portfolios, other Asian market portfolios I could see that there is a decent opportunity in the pie portfolio, the apple pie,

the pineapple pie. So is there a potential of adding that kind of product in our India business.

Amit Jatia: We started with apple and pineapple pies and they are fried products so I think leave it to us we have a pretty good understanding of how to build the dessert portfolio and that is work in progress for us and it will continue to grow like what we did with KitKat we feel is a lower hanging fruit [inaudible] with a new product at least at this stage.

Saurabh Kalra: Sweet pie like you are saying is a category creation job. We already have a lot on the menu which we can prioritize before we go to apple and pineapple pie from where we stand and like Amit has already mentioned, menu, I think you have to trust us that with the resources we want to put our money where the mouth is. And given that the medium-term to long-term strategy for now is to shift our focus towards meals and dessert will have a part to play in meals like you saw in the KitKat McFlurry promotion we will continue that.

Vishal Punmiya: Thank you and best of luck for the future.

Moderator: Thank you. The next question is from the line of Sanchit Agarwal from Kredent Infoedge. Please go ahead.

Sanchit Agarwal: Congratulations on your results. My question is in line with the fried chicken. I remember that in fried chicken they were done really South India we had also introduced in West India I think somewhere in 5 to 10 stores. So can you share what has been the response in West India in the 5 to 10 stores.

Saurabh Kalra: For us fried chicken was a very, very big imperative in south because our standing as a brand in terms of relevance was relatively on a weaker side and with fried chicken we have been able to change that completely our average unit volume in south look as good as what they look in west. In west we already are a very strong brand and for us when we make that choice obviously there is Capex involved as far as launching spicy chicken is concerned therefore we prioritize the gourmet burgers collection. On top as far as winning the meal occasion is concerned and in that also we have got very exciting chicken products and then we are experimenting in five restaurants (in west). Unless and until we see that fried chicken will be really a big driver for customers to come into McDonald's on an incremental basis I think it is not worth our while to add complication to operations in the west, but we are evaluating in five stores where we are experimenting what is the role of fried chicken what is the role of wings, do we need to have a fried product without bone so on and so forth. So it is all work in progress as far as menu is concerned. We are very excited the way our fried chicken has played out in south and we continue to remain optimistic of the role of fried chicken in south, on west we are still experimenting.

- Sanchit Agarwal:** Okay thank you sir.
- Moderator:** Thank you. The next question is from the line of Dhiraj Mistry from Antique Stock Broking. Please go ahead.
- Dhiraj Mistry:** Congratulations on the good numbers. So just to continue with the previous question so how many stores in west our fried chicken would be available.
- Amit Jatia:** It is basically just in test market five, seven restaurants that is it.
- Dhiraj Mistry:** In south also.
- Amit Jatia:** No, in south it is across the board in west it is a test. So I do not think west is worth conversion right now in south it is across all our restaurants.
- Dhiraj Mistry:** So follow up question on that like if I compare the mature store in fried chicken although we are very new in fried chicken how is the traction in the first store or mature store for the fried chicken so earlier you have guided that there could be an incremental sales of 50 lakhs per store from the fried chicken how is the development over there.
- Amit Jatia:** Just to give you firstly the McDonald's is a very strong chicken brand in the whole world and probably sells more chicken than anybody else in the world within the QSR category so we are leaders in the top ten countries in chicken so first thing is it is not new it has been part of our strategy from a brick by brick point of view and couple of years ago we felt it is right time to launch it. In south India the traction for fried chicken continues to be very strong the number that I talked about we are getting ahead aspirationally we are looking at over 1 Crore per restaurant per year in south India and we are moving in that direction. We will give more color on that when we are ready but for now it is trending very well.
- Dhiraj Mistry:** That is helpful and two questions going forward our effective tax rate would be the corporate tax rate.
- Amit Jatia:** 25%.
- Dhiraj Mistry:** Lastly can you comment on the royalty payment where you are in talks with the parent company any development on that.
- Amit Jatia:** No, we have clarity until 2026 and when there is more clarity we will definitely come back and we are very confident that in the last 25 years of our history with McDonald's I think they have always focused on growing the market so we are very confident that, that will not be a barrier in our growth.

- Dhiraj Mistry:** Thank you very much sir and all the best.
- Moderator:** Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.
- Manjeet Buaria:** I just wanted the data point on what was the rent we have paid in FY2022 and H1 FY2022 the cash outgo for rent.
- Amit Jatia:** It is declared it is there in our annual report we will have to pick that up and come back to you since you want the cash outflow we will pick that up and come back to you.
- Manjeet Buaria:** If you could just give me the rent on an accounting business I just want to adjust for the Ind AS 116 so I just want to know what the actual rent has been.
- Amit Jatia:** We have given the reconciliation in our investor deck is there. It is there in the investor deck that was sent out earlier today that is the reconciliation which gives you the rent depreciation and all of that.
- Akshay Jatia:** In any case if it is not clear you can just write to us offline and we can come back with whatever appropriate.
- Manjeet Buaria:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Pvt. Ltd. Please go ahead.
- Amnish Aggarwal:** Congratulations on great set of numbers. What I am saying is that we have grown on premise sales by 88% whereas off premise we have grown by 12% but if we compare the total numbers the total 20 numbers the on premise sales are still lower by 9% and as we understand that the more on premise sales happened the more will be the operating leverage so do you believe that in the coming quarters also on premise will grow faster and will it provide more operating leverage in the coming quarters as well.
- Amit Jatia:** I first want to correct your thinking in my opinion there is not much difference between operating leverage of delivery business and the on premise business. I have maintained this by the way forever and in all my previous calls when delivery was not that well known as well to my mind wherever business comes from if our sales are growing faster than our cost, leverage will come and that is that we do not see much of a difference in on premise and off premise.
- Akshay Jatia:** I think what we have written over here is that our on premise business has grown around 24% over the pre-COVID level so I am not sure about the number that you are referring to

where that FY2020 has witnessed strong growth across channels and hence our overall sales growth versus FY2020 is around 44%.

Amnish Aggarwal: This means that the incremental operating leverage will not be very high whether the sales are from off premise or on premise.

Akshay Jatia: Correct but if you see our overall sales growth is 44% and if you obviously compare margins there is significant operating leverage that we have seen kick in.

Amnish Aggarwal: My next question is on the sales mix like we have been focusing a lot on premiumization and the trend is really gaining momentum we have even launched gourmet burgers so do you have any data with us to share that what could be the sales proportion of burger which are say about Rs.80 or Rs.100 as a part of the total sales.

Akshay Jatia: We do not break that out as we mentioned we have seen very strong traction in meals and a lot of it has come through our meals strategy which is anchored by our gourmet burgers and even our current campaign that is running in October, November, December centers around our McCheese platform which revolves around our gourmet burgers. So we are seeing strong growth across the burger category led by meals as well as premium burger.

Amnish Aggarwal: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Thanks for the follow up. I just took a look at the reconciliation on the deck on the rental expense which you mentioned so roughly my understanding from this is around 22 Crores was rental expense for this quarter which translates to give or take around 4% of sales I just wanted to understand structurally how do we think about this rent expense line item steady state where does this settle down at as percentage of sales for our company.

Amit Jatia: We look at this more on a yearly basis we look at the business more from what is the right strategy to tackle rather than in Ind AS point of view so we continue to do 20, 25 years deals and so on so forth I think typically rent is between 7% to 8% of the P&L and I think that is a great number as we have seen globally as well. So that is how we think about it.

Manjeet Buaria: So steady state 7% to 8% should be the rental expense which is the good number.

Amit Jatia: 7% to 9%.

Manjeet Buaria: Very helpful thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question for today I would now like to hand the conference over to the management for closing comments.

Amit Jatia: Thank you very much everybody for participating. We really appreciate it. Have a lovely day and talk to you all very soon.

Moderator: Thank you. On behalf of Westlife Foodworld Limited that concludes the conference call. Thank you for joining us and you may now disconnect your lines.

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