



Westlife Foodworld Limited  
Q3 FY23 Earnings Conference Call

**January 31, 2023**

**MANAGEMENT:**

- Mr. Amit Jatia – Vice Chairman
- Ms. Smita Jatia – Managing Director
- Mr. Saurabh Kalra – Chief Operating Officer
- 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 Q3 FY23 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 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, Vivian. Welcome, everyone, and thank you for joining us on the Westlife Foodworld Earnings Conference Call for the third quarter ended December 31, 2022. I'm 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, 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 earnings presentation and financial releases available on the stock exchange and the Investors page of our website.

With that, I'll now turn the call over to Smita. Thank you.

**Smita Jatia:**

Thank you, Chintan. Hello, everyone. On behalf of the entire Westlife Foodworld team, I wish you all a very Happy New Year, and thank you for participating in the call today. I'm happy to report that Westlife Foodworld has once again delivered solid and consistent results. We were able to produce another steady and profitable quarter, thanks to the ongoing implementation of our strategy.

Backed by the festivities, customer sentiments remained stable and we witnessed sustained momentum in the quarter gone by. This, coupled with menu innovation, convenience, and a strong value proposition, helped us to serve our existing customers

besides attracting new ones. We witnessed consistent growth in both our on-premise and off-premise channels owing to the strength of our omni-channel model, continuous focus on cost optimization and operational excellence. Our outcomes demonstrate that we have developed a robust business model and a much-loved brand as a result of our clear and convincing strategic approach.

We are committed to consistently reinventing ourselves to keep up with the shifting market trends. Our expansion plans are on track towards opening 35 to 40 new restaurants in FY '23 and 580 to 630 more by 2027. Growing at this pace, we are in a strong position to deliver accelerated business results and generate long-term value for all our stakeholders. I'm delighted to inform you that Saurabh Bhudolia has joined our team as CFO. We are confident that he will play a key role in Westlife Foodworld's growth.

Finally, I'd like to thank all our employees and partners for their hard and for providing excellent value to our customers. As a company, we pledged to prioritize consumer experience and productivity, building on our emerging digital advantages and providing differentiation in the marketplace. I want to express my gratitude on behalf of the entire Westlife family for your support and belief in us.

I will now request Akshay to share the operational and financial highlights of the quarter gone by.

**Akshay Jatia:**

Thank you. Good day, everyone. I wish you a great 2023. It gives me immense happiness to share that we have posted market-leading performance with outstanding results across all parameters. In Q3 FY '23, our record-breaking revenue of INR 6.1 billion increased by 28% year-on-year. This was supported by a 20% increase in same-store sales on the back of a healthy rise in guest counts. Even on a pre-COVID basis of FY '20, we saw over 40% growth in sales in Q3 as well as nine months.

Healthy consumer adoption of our digital channels like the global McDonald's app and self-ordering kiosks added to our in-store digital-led sales. As a result, we crossed over INR 2 billion of average monthly sales with highest-ever sales in October and subsequently in December, also helping us to gain market share amongst QSRs.

As you can see on Slide 5, our average sales per store on trailing 12 months increased to a new high of INR 64.7 million. Our three pillars of burger meals, chicken, and McCafe continue to drive our differentiated results. Menu initiatives like McCheese Burgers and the KITKAT collaborations saw great consumer response. Simultaneously, we augmented our brand affinity through memorable brand campaigns which are meals and family focused. Fried chicken also continues to do well in the South. As you all

would be aware, we also introduced the chicken Big Mac for the first time in India in January. We will try and share an update on this next quarter.

Moving on, I think consistency in growth across West and South market served as a foundation for our impressive third quarter performance. On a pre-COVID basis, non-metro towns continued to grow at 1.5x the rate of metro markets, reinforcing our belief in the emerging markets opportunity. If we look at channels, the growth trend has been broad-based, with the on-premise business, maintaining its streak of healthy growth and gaining significant traction, while our off-premises business continued to rise steadily, yet again, clocking double-digit growth and the best quarter ever.

Overall, the on-premises business clocked 42% year-on-year growth and 23% over the pre-COVID base while the off-premises business grew by 12% year-on-year and 85% over pre-COVID base. It also gives me pleasure to say that more than 57% of the system's total sales were made through digital channels, like our mobile app, our self-ordering kiosks, and our McDelivery channel.

We saw higher sales growth in our own channel, the McDelivery platform, owing to enhanced consumer affinity and sensitivity. The performance in delivery is also a strong reflection of all the work that our teams have been doing at the back end, which is leading to best-ever scores in business operating KPIs. I believe that having a strong foundation through efficient operation will be key to serving the humungous consumption appetite of India.

On to Slide Number 7. We saw an all-round improvement in profitability with EBITDA margin at 18% reaching an all-time high. Our supply chain cost initiatives, along with better product mix and calibrated pricing actions to mitigate inflationary pressures, resulted in a 52-basis points year-on-year and a 141 basis points sequential increase in gross margins to 66.9%. The gains further percolated to the restaurant operating margin, or ROM, which was up a healthy 35% year-on-year to INR 1.45 billion, implying a margin of 23.8% as against 22.6% last year.

Our Q3 operating EBITDA of INR 1.1 billion and margin of 18% was helped by enhanced operating leverage. Our staff cost as a percentage of sales was higher on a year-on-year basis on account of variable payouts. However, on a nine-month or annualized basis, it was much lower than last year. Nevertheless, this is the third quarter in a row where we saw sequentially improving EBITDA margin.

Our cash profit after tax stood at a record INR 753 million, implying a margin of 12.3%. We continued to maintain 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 are on track with our network expansion targets. We added six new restaurants in Q3, taking the total to 341 restaurants, including 288 McCafes, 67 drive-thru eateries, and 205 EOTF restaurants.

A key highlight was the rapid modernization of our stores, making them more relevant for digitally savvy customers. Over 60 stores transitioned to the EOTF format during the quarter. Also, six new stores have been added in January as of today. Hence, overall, we retain our target of opening 35 to 40 new stores in FY '23.

In order to increase brand affinity, we launched several new brand campaigns under the umbrella of Festivals Make Families. To further reinforce our commitment towards fostering inclusion, we unveiled our new brand film under our marquee EatQual initiative. As you may be aware, as a milestone event, we charted a five-year strategic growth path and unveiled our vision 2027 in December and we remain committed to achieving these goals, guided by a well-defined strategic growth framework.

With that, I now hand over the call to the moderator and open the forum for your questions. Thank you.

**Moderator:**

The first question is from the line of Latika Chopra from JPMorgan.

**Latika Chopra:**

My first question was around your in-store sales growth. Would it be possible to give us a flavor of a broad break-up of this 20% SSG in terms of increase in average ticket size versus number of transactions growth?

**Amit Jatia:**

Hi, Latika. This is Amit here. Thank you for the question. As you know, we don't break up the guest counts and average check. But I can tell you that there was robust growth in our guest counts as well that kind of led to this growth in sales. It was largely driven by guest counts.

**Latika Chopra:**

And my second question was around your broader thoughts on the overall demand environment. Clearly, you have gained market share, and you've elaborated the key vectors of growth for you. But any broad color on how you are sensing the market growth for QSR? And incrementally, any comments on consumer behavior in terms of up-trading, spends, frequency of consumption? Are you worried about how inflation is affecting the consumer walk-ins into stores?

**Amit Jatia:**

Sure. Latika, I mean, as you know, I've fortunately been consistent over the last 10 years. Of course, we've seen all the ups and downs. And my philosophy is that all times are good times. I do hear about the environment getting tougher and so on all the time. But essentially, my philosophy is that we are very-very entrenched with our long-term strategy. And essentially, as I feel we've done in the last three or four quarters

particularly, that strategy has played out and connected extremely well with the consumers.

And even if you look at the informal eating-out market visit growth, etcetera, even on, say, accounts of the visit growth, our share has been higher than that. So, I feel that even if suppose the environment does get challenging, we are very confident that our strategies are long-term in nature and we should be able to navigate that. That's at least how we see it. We are not worried-worried, but we're always alert and adapting our strategies, our tactics, I would say, to adjust to the environment.

**Latika Chopra:** And I don't know whether you will give me a specific answer to this, but what I wanted to know was on your delivery sales today, even if qualitatively, is the revenue coming from your own app higher than what you derive from aggregators?

**Amit Jatia:** No. Currently, the aggregator demand is higher than our own app. But our own app is growing quite well. We have, as we've said in our report as well, between the two 22+ million customers downloads now and the number of active users is increasing month-on-month, but it is dominated by third-party aggregators even today.

**Moderator:** The next question is from the line of Avi Mehta from Macquarie.

**Avi Mehta:** I wanted to just build up on the earlier participant. Just could you give us a sense on how is the inflation scenario right now as we speak? And whether, if we have taken any additional price hikes?

**Amit Jatia:** Sure, Avi. We did take a 2% price hike in October, which we've mentioned in our earnings presentation. In terms of inflation, it is definitely much better than what it was before. And I feel that even though inflation had peaked a couple of quarters ago, I think because of our long-term supply chain methodology, our pricing protocol, we were able to navigate that quite well. And currently, we are not seeing very high pressure on commodity prices.

**Avi Mehta:** The second bit I just wanted to check on the store addition bit. Now I do hear you have added almost about 17 plus six, close to about 23 odd stores in the 10 months till January. But the guidance that you gave out, is this more -- I should look at this more as a target that we look at internally? And we are not -- we are looking at reaching that, may not be March, maybe April, but that's the broader philosophy, or how should I look at this? I would love to hear your thoughts.

**Amit Jatia:** No. We maintain, I think, again, over the last 10 years, if we maintain something, we intend to deliver that. So, we are quite confident of between 35 to 40 restaurants this year. As you know, we've opened six restaurants already in January. The pipeline is very

strong because we look at ground breaks in the last quarter, and therefore, we are quite confident to be in that range. And whatever our vision 2027 talks about, we are completely committed to making that happen and you will see that happen year-on-year. So, we stand by what we had talked about.

**Avi Mehta:** And lastly, Amit, just a bookkeeping, if you could please, if someone could help clarify the reason for the sequential increase in employee cost, because otherwise, ADS is all up, gross margins are cost in. So, I just -- that was the only thing that I wasn't able to I understand. And if there is any one-off of that.

**Amit Jatia:** Sure. No, in fact, that's why we covered that in the commentary. I've always maintained that particularly such costs should be looked at on a nine-month basis. And if you look at nine month basis from 5.9%, we're at 5.3% of sales. So, it has grown far lesser than sales, which is the operating leverage that we talk about. In this particular quarter, it had to do with bonus and it had to do with provisions around ESOP and things like that, which took the costs slightly up, because given the results, that's something that we felt we would like to accrue already. So, the quarter looks like that, but on a nine-month basis, you will see that we are all right.

**Moderator:** The next question is from the line of Kapil Jagasia from Nuvama Wealth.

**Kapil Jagasia:** Congratulations on a great set of numbers. I have two, three questions revolving around the store network. So, first of all, your presentation states that non-metro stores is 1.5x for metros in this quarter. So, is this demand coming from smaller towns, like amid this high inflation scenario, would you see the demand coming more, and would this warrant in any change in our store opening mix of 50-40 in the future?

**Amit Jatia:** Let me ask Saurabh to take the question. Saurabh?

**Saurabh Kalra:** Yes. So, we've seen -- what we wanted to pinpoint that there is a lot of opportunity available to us, especially, in non-metro towns. Metro town opportunity continues to remain strong, and we're leveraging that. And non-metro, what we've seen is the demand has grown dramatically from pre-COVID levels. We do not see any softness as far as that is concerned, and we're fairly committed to all-round growth where we will have growth coming out of both metro cities and non-metro cities, is the larger point we wanted to make.

**Amit Jatia:** Correct. So, I'll just build on that. As I've always maintained that we are only in 50 cities in our territory while there could be 130 cities that have the potential, clearly, that goes back to the 580 to 630 restaurants that we're talking about that that opportunity is presenting itself and the performance in the slightly smaller towns has been very robust. I think that's really the point we want to make.

**Kapil Jagasia:** Sir, would there be any possibility like price hikes which we would have taken that would be only applicable to metros and not so much of the non-metros, the average would be more higher in metros? Would there be a possibility of that?

**Saurabh Kalra:** So, while we don't give a breakup, when we're saying 2% price hike, it's a weighted average price increase. So, what will happen is 4% is something we don't take a price hike. It's product-by-product. It's restaurant-by-restaurant. And the composite core of it is 2% price increase. So, no, we will not be in a position to give the breakup store-by-store out there. But what do you need to understand is broadly 2% was the cumulative price increase, which we took. And normally, we would not differentiate between metro and non-metro. But product-by-product, we would go about it and some restaurant consideration are always taken.

**Kapil Jagasia:** My next question is like, could you provide some color on this average revenue per store going forward, because this quarter, the average revenue per store seems to be around, say, INR 7.2 crores per store. So, is this the peak for now as you would be opening new stores at a higher rate going forward?

**Amit Jatia:** So, I've got this question for like now many-many years when we were at INR 5 crores also, the question was, has it peaked, when it's INR 6 crores. So, we don't think that globally, when we look at the performance of the brand, even today after 70 years of existence, comparable sales growth is part of our DNA. So, the simple answer is absolutely not. Our DNA is to grow same-store sales quarter-on-quarter, year-on-year. And therefore, while we've done extremely well with INR 7.1 crores, pretty much highest in the industry, our ambition is to take this much higher than where we are today.

**Saurabh Kalra:** Yes. And also, if you look at the presentation also, it's about -- it's also a seasonal business. So, I think the key metrics which drive us is same-store sales. And you will see same-store sales being differentiated in the marketplace quarter-on-quarter, driving to the higher average unit volume sales. So, it is as simple as that for us.

**Kapil Jagasia:** And just last one from my side, like, could you provide some color on this closed restaurants during the quarter, like these where in metros or non-metros and were they profitable at the operating days? I guess that's it from my side just as a last question.

**Saurabh Kalra:** So, restaurant closure happens due to multiple reasons, primarily actually, three reasons. Our term has expired or there is an infra or something has happened around the visibility trade area has shifted. For example, one of the restaurant we shut down at Channapatna which was in Bangalore-Mysore Highway, now all of a sudden, the highway has changed, it's a new highway, and there is no way you can reach a restaurant. So, we had to shut down.



In another case, there was the restaurant, the trade area has shifted. So, that's how we do it. Two stores for the entire year is actually not even a percent. So, we don't even talk about closed restaurants. We believe in opening restaurants. I think you will continuously see our total number of stores growing substantially. We do not like closing stores unless and until it's reasons beyond our control. So, that's how I look at closures.

**Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.

**Shirish Pardeshi:** Congratulations for achieving the excellent numbers. Just two questions. On Slide 5, I'm reading chicken portfolio has been augmented. So, maybe the question there is that which all restaurants we have got or whether finally in the West, we have introduced? And the second question on chicken Big Mac, which was launched in January, so how many stores we have rolled out? Is it primarily in the western part of the country?

**Saurabh Kalra:** So, McSpicy Fried Chicken Wings are actually available in Hyderabad and three, four for restaurants in other places. If you look at chicken Big Mac, chicken Big Mac was launched across the system, which means across all restaurants.

**Shirish Pardeshi:** So, is INR 245 the price which is universal everywhere?

**Saurabh Kalra:** Sorry? The what? The price?

**Saurabh Kalra:** Yes.

**Amit Jatia:** Yes. I mean, it should be about that much. I mean, there are some differences.

**Saurabh Kalra:** There might be INR 1, INR 2 difference here and there. That's about it.

**Amit Jatia:** Here and there. Broadly, is that INR 245, whatever the price is, Yes.

**Shirish Pardeshi:** And my second and last question on the EOTF, which is Slide 12. Can you provide, now we have got 205 EOTF stores, some quantitative numbers just from the sake of how this number is driving, whether footfall is coming or it's because of our ADS is growing or something, some convenience, which is definitely is working? So, maybe quantitatively, if you can bank up?

**Amit Jatia:** Yes, sure. I mean, we don't share details around each platform. The important thing is that the customer experience is differentiated. And, again, the way I would like to say it, if you Google customer reviews around Experience of the Future stores, the answer lies right there and then.

And typically for QSR, Google Reviews range between 3 to 3.3, while our -- out of -- this is out of 5, of course, while EOTF would range between 4.2, 4.3 to 4.5 out of 5. So, that itself automatically leads to a better customer experience that leads to better sales. We believe that we have the largest portfolio of modern stores around QSR in the country. It's also redefining the QSR experience.

And we think eventually, customers will insist on this experience from all QSR brands, and that is where competitive advantage comes to us. So, that's how we think about it. Obviously, financially, we are finding that it does make sense. And not only in India, but globally, there is a big move towards Experience of the Future.

**Saurabh Kalra:** And luckily for us, if you look at it last quarter, the same-store sales growth is largely driven by dine-in and EOTF, McCafe together augurs extremely well. And I think you will see the differentiation in the dine-in results and overall growth amongst the other competitors.

**Shirish Pardeshi:** I do agree, and I have seen the customer reviews. I'm more inclined asking this question. Primarily, what kind of footfall growth we are seeing? And obviously, the numbers are panning out and I have visited at least three stores in last one, one and a half month. So, I'm pretty excited on that. But just one follow-up here, out of 341, you have already run 205. So, to reach to 300 plus, do you need a lot of time or it's conscious that we're developing slowly?

**Amit Jatia:** No. I mean, I think last quarter, we did 60. So, that's a testament to the speed. But it has to be clubbed in with various other factors. So, there are many things involved. It's not just that you pick up and convert. But the target is that within the next 12 to 18 months, within the next 24 months, we will be 100% Experience of the Future stores, because all new stores are opening as Experience of the Future. And therefore, we just have to bridge the 150 gap, which will take 12 to 24 months.

**Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.

**Devanshu Bansal:** Congrats on a leading SSG at about 20%. Sir, I wanted to check if this SSG of 20% also includes some component of low base as we were relatively more impacted last year because of higher presence in South and West?

**Amit Jatia:** Saurabh?

**Saurabh Kalra:** So, if you look at it last year, last year was the first time we announced on October, November, December, that COVID was behind us, and we had recovered fully, in fact, done a growth on top of pre-COVID numbers. So, for us, October, November, December was a regular quarter. We had shown growth over pre-COVID. And this October,

November, December is actually on a stable base, is how we look at it. So, we've looked at it as a strong quarter, delivering strong results including October, November, December. So, that's how we look at it.

**Devanshu Bansal:** And so this compared to our outlook of about high-single-digit SSG for the next few years, so this number, if it is normal, then it is significantly higher. So, are we relatively more conservative on the near-term outlook that you have portrayed?

**Amit Jatia:** No. So, as you know, we never talk about near-term outlook is what it is. I mean, quarter-on-quarter, it's very hard to talk. But from a -- we talk normally on a three-year, five-year horizon, and on a yearly basis, a sustainable same-store sales growth, as I've maintained, is always 6% to 9%. And of course, as our strategy is playing out, we've been able to deliver pretty strong numbers. So, I would like to leave it at that.

**Devanshu Bansal:** And gross margin performance was also, I would say, quite strong at about 67%. So, I wanted to check if Q3 particularly has any seasonality in terms of better gross margin, or it is a good base to consider for quarters coming ahead?

**Amit Jatia:** I mean, I always look at every number from a consistency point of view on a nine-month basis, because quarter-on-quarter, there are differences that happen. And therefore, if you want a better -- this is -- the trend is looking all right, because inflation has been okay as well. But I would look at the nine-month data to build anything for the future.

**Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.

**Gaurav Jogani:** Congratulations on the great set of numbers. Sir, my first question is with regards to a couple of clarifications. One, the target of 35 to 40 stores, is that on a gross basis or on a net basis?

**Amit Jatia:** That's on gross.

**Gaurav Jogani:** And sir, the chicken Big Mac that we have launched, so is this a limited launch, because few newspapers that we read was referring to this as a limited period launch? So, I mean, this would be...

**Amit Jatia:** It is a limited time offer.

**Gaurav Jogani:** And sir, a last, final question is with regards to the store additions. I mean, we are seeing aggressive store additions in Q4 now. Going by the numbers, we will be opening somewhere around 18 to 20 stores for Q4. So, do you think this in any way could in a short-term impact the AUVs, because the new stores generally would come with a drag? So, anything on this front, if you can highlight how the new stores are performing versus the system average or anything? Any color on this?

**Amit Jatia:** I mean, generally, I feel now that we've operated for over 25, 26 years, in the past also on a smaller base, if you open 30 restaurants, that is quite a bit of addition. So, we are very careful and we do a very scientific methodology in which we open new stores. So, I feel that what -- in terms of 6% to 9% same-store sales growth is what we will intend to deliver. And the way we plan new stores, there is lot of opportunity in smaller towns. We just opened our second store at the airport in the domestic terminal which has absolutely zero impact on anything. So, there are lot of trading areas that have no impacts, and there are some trading areas where there is impact and it grows. But on a base of 350 stores, we feel that we can absorb this.

We will not shelter ourselves in saying that by all these openings our comps are going to be under pressure. The intent is to deliver high single-digit numbers. And we do believe that there are enough open markets where it will not impact same-store sales.

**Gaurav Jogani:** Sure. Sir, actually, the question was more relevant to the newer ones. I mean, if you can just highlight how a particular store generally grows over a period of two to three years? So, for example, if in the first year, it could be like 60% of the system average, and then it grows to 80% and then 100%.

**Amit Jatia:** So, Gaurav, I mean, there is -- it depends on market-to-market. So, I mean, it's not that I have not heard this question before. The important thing is even if it opens at 100%, it continues to grow as the trading area settles down. A store could open at -- you've just heard that INR 7.1 crores is our average volume, a store could open at INR 10 crores. But if it opens at INR 10 crores, it will go to INR 11 crores. It will grow in the following quarters. There is no set number. But the important thing is it grows from once it opens.

**Moderator:** The next question is from the line of Nihal Mahesh Jham from Nuvama.

**Nihal Jham:** So, a couple of questions from my side. First, you mentioned about the 2% price hike in October, what would be the cumulative like you've taken over the last 12 months?

**Amit Jatia:** Saurabh?

**Saurabh Kalra:** Yes, it will be in tune of around 7%.

**Nihal Jham:** The second question I'm just going back to our performance versus the industry. I just wanted to understand one aspect of this was that over the last 12 months, I think we've been the most aggressive in terms of new product launches, and I'm counting even the chicken portfolio as a part of that. In your reading, do you see that that has been a key driver of maybe the footfalls or in a way the significant SSG that we've been seeing this quarter and maybe over the last couple of quarters, if there is anything you could highlight on that?

**Saurabh Kalra:**

So, I think we have laid down actually in the investor deck also that there are three, four in the informal eat-out construct. We were already leaders in snacking. We're the only player who do breakfast. And post-dinner also we were leaders by far. There was a game to be played for meals during lunch and dinner.

And we were very strategic and this need arise right from the time only delivery was available during COVID, and we were very serious about it to be able to take this opportunity head on. And for that, we had talked about three pieces, right? Three-piece meal, which is the Burger Meals, the Gourmet Burger Collection, and the Fried Chicken in South, right? So, I think these three have augured extremely well. We haven't been actually very aggressive in launches.

Very few new additions on the menu, but they've all been strategic imperatives in order to grow market share in meal. And whatever you see is a result of us being strategic rather than being random in terms of product launches. In fact, you'll be surprised to know that we've got only a very-very few SKU additions when we have done all this work in the last two, three years.

**Nihal Jham:**

Sir, so what I was maybe referring to is that if you count gourmet -- the chicken range and maybe the McCheese range that you've recently launched, is it that that has become a significantly higher proportion versus pre-COVID?

**Amit Jatia:**

No, I don't think so. I mean, see, these are building blocks. That does not take away from the Aloo Tikkis and McVeggies and the McChicken. See, to understand, that's what Saurabh was trying to explain. That is not a product strategy, it's an occasion strategy. Here, it's about meals. It's about relevance of that occasion. So, what meals do is builds lunch and dinner. And these products are bigger products and that helps. But that's not replaced the Aloo Tikkis of the world and the McVeggie and our McChicken, our spicy chicken. That portfolio continues to do quite well.

**Moderator:**

The next question is from the line of Amnish Agarwal from Prabhudas Lilladher.

**Amnish Agarwal:**

Congrats on good set of numbers. I have a couple of questions. First, I think during the commentary, perhaps Akshay mentioned that the manpower cost had an element of one-time variable incentives paid to the employees. So, it would be good if you can please quantify the same. That is one.

Secondly, in the previous quarter, we have added 67 stores we have converted to EOTF and 50 McCafes we have added. So, what could be the capex on account of these particular conversions? And does these conversions plus the 15, 20 stores which we plan to add in a matter of one quarter, so was there some front ending of expenses with

regards to manpower or overheads ahead of the openings of the stores? So, these are my two questions.

**Amit Jatia:**

Sure. I mean, firstly, we don't share breakup of our G&A growth, but we gave you the key reasons why the percentage has gone up. Again, if you look at nine months, which is the more bigger base and the right way to look at it, the numbers look all right. So, unfortunately, you're not going to be able to break up the bonus factor and all of that. Similarly, on capex, as we've said that we do in fact now generate some free cash flow as well, typically, the capex is between INR 150 crores to INR 225 crores, of which about 60% to 80% typically goes into building new restaurants. That is roughly how our capex is broken out.

Particularly, our front-ending, the good news is that our net debt position remains very robust, our net cash debt position. So, therefore, even with all these expenses, I think our cash flow has been very strong and we managed that quite all right. And, yes, I mean, if you're going to grow stores, we need to ensure that the development team is well built because taking 25, 30 restaurants to 45 to 50 with the right location, the right quality of negotiation with the landlord takes time. But I think that's manageable within the guidance that we've given in our vision 2027. I think we are quite comfortable. We are not concerned that it would take G&A up beyond a point of our management, our ability to manage it.

**Amnish Agarwal:**

My only submission was that in particularly Q3, because Q4 is going to be heavy in terms of store additions, so was there any impact in terms of other expenses or the payroll due to employees being hired and trained for the upcoming stores and some of the overheads?

**Amit Jatia:**

Not to my mind. I mean, what happens is that that typically, real estate cycle is 12 to 18 months. So, for the opening in the next quarter, this quarter is not impacted. Maybe nine months ago, 10 months ago, it could have impacted. So, last quarter has no bearing on the next quarter, because that construction cycle is 60 to 75 days. So, if we are not in construction already, it's not going to open. So, you can't just hire in the quarter.

**Moderator:**

The next question is from the line of Sabyasachi Mukerji from Centrum PMS.

**Sabyasachi Mukerji:**

Two questions from my side. First one, you mentioned you had a total price hike of 7%. If I compare last year same quarter to this year same quarter, almost 7% of price hike. I believe out of the 20% SSG growth, there would be some portion of FX from the premiumization happening, so gourmet burgers and the chicken portion. So, what would that amount to be in terms of percentage, if you can highlight the same?

**Amit Jatia:** Firstly, we don't break up the 20% component. Also, math does not work where you've taken a 7% hike and 7% is -- out of the 20%, 7% is your price increase. It doesn't work like that. There is a rebalancing that happens. And therefore, it's almost impossible to predict. The important thing is, I think, as I mentioned in the first question that our growth has come on the back of robust guest count growth. And that is the important thing because our strategies are working. We talked about the meal occasion.

We are already leaders in snacking and other day parts. And the meal occasion is resonating with the consumer because the products are now relevant for the meal occasion. And that is what is driving footfalls into McDonald's restaurants in West and South. It is aided by McCafe, it is aided by Experience of the Future, and the modern restaurants that we have. And everything together plays apart, that is how at least we see it. Again, for example, when you go to an Experience of the Future store, there is a very nice-looking restaurant with McCafe, people come in bigger groups sometimes. There will be more coffee buying which pushes the average check-up. So, it's a combination of all of that. Price hikes have not totaled up in the way you had suggested.

**Saurabh Kalra:** Typically, in FMCG, that's where you will calculate that this is the price increase, this is the product. For us, it's customers coming in, and sometimes they would buy something, they would buy something else. So, price increase doesn't necessarily flow into the sales or average check as an exact formula. That's not how it goes.

**Sabyasachi Mukerji:** Sir, the reason why I'm asking where I'm coming from is, if I go back and -- to your commentary of 6% to 9% kind of a steady-state SSG growth that you see in the medium-to-long term, that 6% to 9% should come from, in my sense, 5%, 5.5% kind of an inflation trend that we see in India. And the rest probably 3%, 4% coming from the volume part.

So, from a footfall perspective, I just wanted to understand that how much of this 20% would have been contributed by the footfalls or the guest counts? Is it 10% or more than that? And is it in double digits or single digits? Any color on that.

**Amit Jatia:** I'll explain to you, whatever best I can. One, you can look at our history. Number two, we typically take price increase of about 3%, 2% to 3% a year. And therefore, like I explained to you, the math is not complete because many times customers trade down if they don't like the price increases well.

So, you are not able to capture the entire increase. But basically, our DNA is about growing guest counts. Our DNA is not just about growing average check. But to give you an example, what happens is, let's say, when we introduced McCafe, somebody who was coming in for lunch and now they like our coffee, so they've added a coffee,

which is INR 99 at that time, let's say. So, what that has done is increased the average check. You understand? So we've been able to get the consumer to buy more.

Second example is that when you look at meals, obviously, a meal is a part of three pieces that you buy. If you versus buy only one Aloo Tikki when you come, but if you are coming for the meal occasion and buy a meal, what happens is your average check goes up. But now the consumer is now in their mindset, they know that there is good coffee at McDonald's. So, we get one extra occasion of visit as well.

And because, I'm again making this up just to make my point, that they like the coffee, they could say, at McDonald's, we like the coffee, and there is a meal. Why don't we go there for lunch? So, the brand starts becoming more relevant and usable for them. So, this is how it plays between growing average check, price increases, and footfall growth. Price increase is normally only to -- the way I see it, is to only manage inflation a little bit. But we push ourselves harder to grow sales through guest counts.

**Sabyasachi Mukerji:**

So, you are suggesting, so, just to summarize, are you suggesting that the same customer is probably coming more number of times because of the options he or she is getting? And whenever he or she is coming, visiting your restaurants, they're also ordering more than they used to order, and that's how your -- the average check size is going up? Is that what you're suggesting?

**Saurabh Kalra:**

Sabyasachi, we're not suggesting anything. It was just an example for you to understand that our business is a little different from how retail would evaluate it. Our business is which is average check which is per order bill value, multiplied with the number of customers who come. What we are saying is in the last quarter, this was majorly driven not by value increase per average ticket size, but was driven through the guest counts or footfall, as you call it in your language. We're not ready to give you a breakup at this point in time. But largely, the vast majority of this growth has come out of the guest counts.

**Amit Jatia:**

And I'll give you one last example, I made it before, but is a better offline conversation than on the earnings call. But what happens is, earlier, let's say, you wanted to have a cup of coffee, right, and you -- before McDonald's had McCafe, there was a McDonald's, a Cafe Coffee Day, and some other brands, McDonald's would not come in your consideration set. Now, McDonald's comes in your consideration set, so you get that extra visit. So, I think we can take this offline. But essentially, I tried to explain that it's a mixture of everything.

**Sabyasachi Mukerji:**

Second question, your point towards the market share gains, as I see probably, it's a very small sample set, but then, if I look at stores in Mumbai, there is one other



competitor that has come up with the cafe proposition. So, how do you see the competition growing and the coffee business? Is it kind of, I mean, affecting you or, I mean, it doesn't really affect at this point of time? How do you see competition right now?

**Amit Jatia:**

I mean, competition has been around for the last 25 years in different forms. And just because a competitor launches coffee, it does not take away from where we stand long-term. And essentially, our results speak for themselves quarter-on-quarter. So, just because we do coffee, does not mean that we'll hit somebody else. And just because somebody else does coffee, does not mean it's going to take us away from where we are. Saurabh can take it forward clearly, but to my mind, our results speak for themselves.

**Saurabh Kalra:**

Yes. So, to me, it's about what focus one company has. I think as McDonald's, being the global leader, we always focus on our consumer. We saw the need of McCafe back in 2014. That's when the first McCafe was launched, to today, we are talking about conversion of EOTF almost close to 100%. So, to us, it's about following the consumer. We don't get very bothered about what competition is doing. In fact, to us, it's also a testament that people are following what we are doing. So, right now, we see where the consumer is. There's a meal category. There's a meal play which we want to do. And then it's auguring quite well for us. I mean, there's substantially differentiated results and all the best to everybody in the marketplace.

**Sabyasachi Mukerji:**

Last question if I can squeeze in. If I look at a long-term trend of McDonald's, last eight years, nine years, in FY '15, FY '16, to nine months FY '23, so now, you're -- and if I were to annualize the average sales per store of the 3Q number, it is somewhere around INR 7 crores. And out of that, 60% is dine-in. So, roughly INR 4 crores is dine-in and the balance INR 3 crores is from deliveries.

This number, dine-in number, INR 4 crores number, way back in FY '15, '16 or somewhere around was INR 2.8 crores, INR 2.9 crores. Then if I do a seven, eight years' CAGR, the number comes around 5.5%, which is well in line with the inflation that is there in India. The question here is, again, boils down to the average sales per restaurant that is people goes on asking, that where do your numbers settling in? Do you see the same kind of CAGR going ahead, 5%, 5.5%, 6% kind of average in...

**Amit Jatia:**

No. What I can tell you is we talked about in 2016 that we were at INR 4.5 crores, INR 5 crores. Today, we are INR 7.1 crores. Where the business is coming from is irrelevant. The important thing is we are capturing the customer occasion to eat out. And as I have maintained, this is going to continue to grow. We've given you a sense of the 6% to 9%, okay? And we've given you a sense of 2027. And that's really where we are.

**Moderator:** The next question is from the line of Amrita from Wealth Managers India.

**Amrita:** My question is regarding the breakfast menu as in how many stores offer breakfast menu right now, and what is the plan going ahead? And the second question is regarding, again, how does the breakfast menu contribute in the revenue per store, and also the restaurant operating margins? Thank you.

**Saurabh Kalra:** So, while we don't give out individual breakups of what contribution each depart has, I'm pleased to tell you that we have got around 30%, 35% of our restaurants which serve breakfast. And this is typically between 7:00 o'clock in the morning to 11:00 o'clock in the morning. And that's when we change the menu completely to the regular menu.

So, breakfast for us is a huge opportunity, especially on highways, etcetera, where there is a big morning business. In key cities like Mumbai and Bangalore, we've got substantial number of stores doing breakfast. For us, breakfast is a growth lever, which will play at some point in time. Right now, we are more focused towards meal as an occasion. And then primarily burgers, chicken, and coffee are the three areas where we see right now we need to have our laser-sharp focus on.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I'll now hand the conference over to the management for closing comments.

**Amit Jatia:** No, I just wanted to thank everybody for taking the time to join us today. Have a lovely evening. And we'll talk again soon. Thank you.

**Saurabh Kalra:** Thank you.

**Moderator:** Thank you. On behalf of Westlife Foodworld Limited, that concludes this conference. Thank you for joining us. 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.