Q2 FY2022 Earnings Call Transcript – Oct 28, 2021

CORPORATE PARTICIPANTS

- Amit Jatia – Vice Chairman
- Smita Jatia – Director
- Pankaj Roongta – Chief Financial Officer & Vice President - Finance & Accounts
- Devanshi Dhruva – Manager, Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Westlife Development Limited Q2 FY22 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Devanshi Dhruva – Manager, Investor Relations. Thank you and over to you, ma'am.

Devanshi Dhruva: Thanks, Vikram. Thank you for joining us on Westlife Development Limited earnings conference call for the quarter ended September 30th, 2021. We are joined here today by Mr. Amit Jatia – Vice Chairman, Ms. Smita Jatia – Director and Mr. Pankaj Roongta – CFO and VP (Finance & Accounts) for Westlife Development Limited.

Please note that our financial results and investor presentation has been mailed across and these are available on our website as well. I hope you had the opportunity to browse through the highlights of the performance. We shall commence today's call with key thoughts from Amit, who will provide a strategic overview, which shall be followed by Smita to take you through the key business initiatives with overall operational progress and the strategic imperatives that lie ahead. Pankaj will cover analysis of the financial performance and highlights during the review period. At the end of the management discussion, we will have a Q&A session.

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

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

Amit Jatia: Thank you Devanshi. Good evening, everyone. Hope you and your families are doing well. I am happy to report a solid quarter with heartening trends across all parameters. After a turbulent year I am glad to share that a newer, stronger normal has emerged for us. We have been seeing business accelerate on the back of our efforts to create an omni-channel brand and a unique, compelling menu. This is been further aided by enhanced brand trust and movement from the unorganized to organized sector.

Westlife, is uniquely positioned to chart accelerated growth in the coming years. The biggest reason for this is that we are the only QSR to have relevant offerings across all day parts, including breakfast, snacks, coffee, lunch, dinner, and desserts. This gives us a unique competitive advantage in terms of AUV, Average Unit Volume, which has been a key strength for brand McDonald's globally as well.

Secondly, our foray into the fried chicken market has been extremely encouraging. With this, we are already making inroads into the south market while also strengthening our meal proposition. The chicken, burger and coffee platform together have the potential to further accelerate our AUV in the coming years.

We have also taken a future forward view on our digital investments and traversed a strong journey to being a food tech company. Today, we have pivoted to being a truly omni-channel convenient, digitally driven brand that is helping us enhance revenue optimization of our restaurants.

This month marked a significant milestone for us as we completed 25 years in the country. The journey thus far has been exhilarating and marked with many bold moves that have challenged the industry norms - such as launch of McDelivery, McBreakfast, McCafé, and Experience of the Future concept. Over the years, we focused on building a rock-solid foundation for the business and the brand - and have chosen to run the marathon with an aim to grow consistently and sustainably. We are confident that this strong foundation will now help us expedite the pace of growth and achieve new milestones much faster.

The eating out industry in India is at an inflection point for an orbital shift. As a positive aftermath of the pandemic, the organized food services market is expected to grow at healthy double digit CAGR. Within the organized sector, the Western fast-food category is pegged to grow at an even faster pace. This presents a huge opportunity for us, especially as a brand that plays in all relevant categories.

You will continue to see us make bold moves to reinforce our market leadership. In the coming months, we will be picking up the pace on store expansion, adding close to 30-35 new stores in our core and emerging markets, thus increasing our penetration. While this will help us grow our top line, an upward trending AUV will help us boost both top line and profitability.

We believe we have entered a truly exciting phase in our growth journey and this quarter's results are a great preamble to this. I will now hand it over to Smita to take you through the details of Q2 FY22 results.

Smita Jatia: Thank you Amit and good evening, everybody. I am glad to share that we have delivered a strong set of numbers setting the base for our new normal. Let me give you some highlights for the quarter.

Both our revenues and same store sales have surged by a solid 84% Y-on-Y. This growth has been driven by both our convenience channels that have continued to accelerate and dine-n that has built up strong and fast. Revenues from dine-in have almost doubled over same quarter last year. At the same time convenience channels that include delivery, takeout, drive thru and on - the - go have grown by a robust 77% over the last year. Even with dine-in opening up across most of the markets, delivery sales have grown by 107% as compared to Q2 FY21 - when there were strong restrictions and delivery was the primary channel operational.

This once again collaborates the fact that with our pivot to being an omni-channel brand, we have acquired new customers and created new use cases. This is driving incremental revenues without any business cannibalization.

Let me now give you a perspective on our performance in September of this quarter - when most restrictions were eased vis-à-vis September of 2019 - which was pre-COVID. September 2021 clocked a 103% recovery versus September of 2019. We saw complete recovery across all markets despite continued restrictions on time and capacities in some cities. In fact, our delivery sales grew more than 50% over September 2019 - again, a testimony to the strong convenience proposition that we have built in the last 18 months.

We also continued to hold strong on our margin performance despite all inflationary pressures. Our gross margins surged by 87.5% Y-on-Y, while restaurant operating margins jumped by 204%. This is a testimony to our new cost structure that has brought down our fixed costs and streamlined the variable cost to a large extent. As a result, our operating EBITDA surged 11 times Y-on-Y to Rs. 457 mn.

Our performance has been steady and sustained notwithstanding the volatility and restrictions. With further relaxations announced in Maharashtra in mid-August, we saw a significant QoQ revenue jumped of about 50%.

This gives us immense confidence that once complete normalcy sets in and all use cases, including college and multiplexes come back, we will create new benchmarks and charter accelerated growth. The key tenants of this accelerated growth will be:

1. Menu innovation led by burger and chicken leadership
2. Digital and omni channel acceleration led by owned and partner channels
3. Expansion and re-imaging of our stores.

Menu innovation has always been at the heart of our strategy. We continue to dominate the burger market with close to 75% market share. While burger leadership has accelerated the business in the west, with our new fried chicken platform, we are already trending to add Rs.50 lakh per store per year in the south - with minimal CAPEX investment. We can attribute this success to a truly outstanding and differentiated product that has resonated well with our customers and has been receiving phenomenal feedback. The product is well researched and is backed by a robust supply chain. It also strengthens our all-day part and meal proposition putting us firmly on track to become chicken leaders in the south market. Our brand association with south superstar, Rashmika Mandana is further helping us build cultural resonance. Given this we believe that even with 50 lakhs per store per year, we are just about scratching the surface and the potential to grow this platform is immense. We are confident that this platform will help us significantly enhance our AUV and hugely optimize the return on investment.

This quarter we also added new products to our McCafé and breakfast portfolio. You can now enjoy two immunity boosting beverages - Turmeric Latte, and Masala Kadak Chai at our McCafé stores. We also launched the Double Cheese McMuffin and Spicy Egg McMuffin to our exclusive McBreakfast menu.

More and more customers are now adopting digital as a way of life and a robust digital presence is imperative to serving and delighting them. As Amit mentioned earlier, we have been investing significantly to build a strong digital backbone. This will now be a foundation for our next phase of growth.

The two key tenants of our digital strategy are convenience and personalization. We have two very strong apps, the McDelivery and the McDonald's app, which have a cumulative of 13 mn downloads - to drive these.

McDelivery is helping customers order our food at the click of a button and at the same time our unique McDonald's app is helping build in-store GCs by giving customers personalized offers. Furthermore, these apps are giving us wealth of customer insights that are helping us drive meaningful CRM programs to offer further deliver personalization and build frequency.

Finally, we are back on track with our expansion plans. This quarter we opened 5 new stores and many more are under ground break. We also continue to reimage stores to the new EOTF platform and have also added 6 new McCafés.

This said, I now hand it over to Pankaj to take you through the financial highlights of our results.

Pankaj Roongta: Thank you, Smita. Good evening, all. I hope you and your loved ones are keeping safe.

I am happy to report a robust Q2 performance, a testimony of our strong foundation and resilience. We clocked a total sales of 385.4 crores, a solid 84% growth on YoY, along with a same store sales growth of 83.7%.

Let me share some key highlights with you.

We have been able to execute omni channel strategy effectively. Our convenience channels have grown at 77% YoY, along with the dine-in recovering and going at the rapid pace of 93% YoY.

Within the convenience sales delivery clocked an impressive 107% growth on YoY basis. It continued to outperform itself with an 8.5% growth over the previous quarter and once again hit an all-time high revenue mark. Drive-throughs grew 91% YoY and, on the go, continued to build consistently at a healthy pace.

Dine-in for a quicker recovery after the second wave as compared to the first wave. This is on back of upbeat consumer sentiments which we believe will continue to be buoyant as we enter the festive season.

While the revenue built up steady and strong, we kept a sharp eye on the cost. We maximized our supply chain efficiencies and rationalized food cost. Hence despite inflationary trends among some of our commodities, we maintained a high gross margin of 64.7%, an 87.5% growth over last year.

On the back of these operating efficiencies, we saw a 203.5% improvement in our restaurant operating margin that stood at 17.4% for the quarter. And our operating EBITDA stood at 11.9% representing a solid 987 basis points improvement over the same quarter last year which is almost a 10-folds increase. This puts us in strong stead to achieving our long-term margin objectives as outlined in vision 2022.

With the opening up of all our markets, channels and dayparts, September'21 month saw a healthy buildup of guest count, bolstered by an upward trending average check. This aided over 100% revenue recovery for the month. As a result, our gross margins for the month zoomed to 67% and restaurant operating margin at a robust 22.4%. Consequently, operating EBITDA moved northwards to 16.4% for the month. The flow through of this can be seen in our positive 2% PAT for the month.

Going forward, we are very bullish. Consumer demand is coming back strongly. The external environment is also supportive for an increased share of wallet for eating out. We have aggressive growth plans for next 3-5 years. We believe our solid balance sheet will aid and fund this growth.

With this, I will now hand it back to Amit to take you through the outlook for the coming quarter. Thank you.

Amit Jatia: Thank you, Pankaj. With the volatilities of the year gone by behind us, the new normal has brought many new opportunities for the industry as well as for Westlife. As we announced a few days back, we will be investing about Rs 800 to 1000 crores in the next 3-5 years to double our footprint and re-image all our stores to Experience of the Future. We will also focus on further strengthening our technology prowess and on driving cutting edge menu innovation to further strengthen our all-daypart proposition. At the same time, we will keep a sharp eye on the cost and make sure we continue to grow margins, boost profitability, and deliver value to all our stakeholders. At 25 years, 310 restaurants, 10,000 employees, and a rock-solid foundation, we believe we are just about getting started. The best is yet to come.

Thank you. With this I open it up for Q&A.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have our first question from the line of Vicky Punjabi from JM Financial. Please go ahead.

Vicky Punjabi: Thanks for taking my question. Three parts to it. Actually, firstly I just wanted to understand the recovery out here. If I see the average revenue per store, it's something like 5% lower on an average in this quarter versus say Sep 19 quarter. And dine-in recovery is something like 60% - 65%. Now, if I were to assume that dine-in fully recovers without really impacting the way that has been going through right now, it kind of implies that taking the dine-in share at 50%, it would still mean around a 10% - 15% growth over this Sep'19 quarter. Is that the kind of growth we are looking at in terms of revenue per store going forward?

Amit Jatia: Yes, absolutely. Even in my last earning calls I had mentioned, I am kind of putting it at between 8% - 10%, just to be a bit conservative because I have taken a small drop in something. But you are absolutely right. What we are seeing even the slides on the earnings presentation talks about that, that essentially even as dine-in has continued to come back in, convenience channels have stayed and therefore, if you assume the dine-in will get to even 85-90%, you will see 8 - 10 - 12% same stores sales growth.

Vicky Punjabi: And on the SG&A cost part, I am actually looking at on a full rental cost basis. Now this overheads, I mean, there was a perception during the COVID period that some of those savings that would come through would be sustainable. If I just compare the overheads for 2Q FY22 with 2Q FY20, we are somewhere around that 220 crore mark and almost flattish. Was there no flow through of savings at such during the quarter or what is the one-off charges that had impacted overheads?

Amit Jatia: Pankaj you can take that. Essentially, if you look at the month of September, you have to look at July, August, and September, and they were sequentially getting better because in July again things were quite difficult. And if you look at the exit September irrespective of individual line items, we were at a healthy 16.7% or so of operating EBITDA. That is really what I believe, but Pankaj if you have any comments you can add to that.

Pankaj Roongta: So, our normalized volume that's why we stated the September month margins where the gross margins were upwards of 67% flowing down to ROM of upwards of 20% and the operating EBITDA at 16.4%. So, the cost initiatives backed with volume recovery is definitely playing the role.

Vicky Punjabi: Lastly, on the expansion part. If I look at it, we have talked about around 150 to 200 stores expansion over the next 3-4 years at 800 to 1000 crores. Generally, we were kind of building in a 3 crore per store CAPEX and say another 30% on refurbishments and addition of McCafé. Now this looks like this 3 crore per store has actually moving to around 5 crore per store. Are the CAPEX intensity of store increasing or is there some investments that are being made into the old store? I mean I just wanted to understand what's this kind of cover you work with it.

Amit Jatia: That's a good question. I think the correct way to look at it is that within the next 3-5 years, we intend to double the base of our stores and the investment is about 800 to 1000 crores. So, that's the correct way to look at it rather than just looking at what the media had reported, point number one. Point number two, we maintain that the store investment will be around the 3-crore average mark plus a little plus for drive-thrus, a little less for food courts. So, that is as far as that is concerned. The additional incremental CAPEX will be to convert all restaurants into further restaurants into modern, Experience of the Future and McCafé. So, that is how you can read that. The business model is not changing dramatically in these numbers.

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

Avi Mehta: I just had a question following up on what Vicky has asked on the CAPEX intensity. Now you correctly alluded that the per store CAPEX is 3 crores only, but there is an additional investment that goes into the existing stores. My question is, how does this change the stored level economics, and more importantly payback return ratios, because if you are going to do additional investments you would expect some additional revenues. If you could run us through, how do you see that situation panning out.

Amit Jatia: As you might have seen, we have been consistent for the last, as long as I can remember, including vision 2022, which we had announced in FY16, McDonald's and Westlife's focus is to grow average unit sales, which is average unit volume per year, along with penetration. So, the idea is to do both jobs. To be honest, whatever we have talked about does not change unit economics at all from whatever it was in the past. In fact, it's only getting better. So, we alluded to the fact that just the chicken business alone with almost minimal investment has already added about Rs. 50 lakhs per restaurant per year and we believe that that is going to continue to rise, and we are going to expand that to more restaurants like we did with McCafé. Even if I take 50 lakhs and you take the 300 stores, that 150 crores on the top line without us having put any other CAPEX. The minute we start doing that in our business, the return is very good. It keeps pushing the return on capital employed higher and higher. So, actually the business is getting stronger and stronger and that's why we kind of share the September margin. We believe that Maharashtra started normalizing around August 15th. So, September it was still not where it needed to be and yet with just some decent growth in sales, an operating EBITDA margin of 16.4% I feel is phenomenal. And September by the way across the 25 years that I have seen is never like a high month. It's a normal average month. So, we believe that as we continue to grow our average unit volume through what we have done with gourmet burgers, with what we have done with chicken, McCafé is continuing to play out, experience of the future is giving us tremendous incremental sales, so every incremental dollar that we are putting in for every incremental activity is yielding 4-5x the sales to our investment. So, to answer your question in short, we are looking good on return on capital employed.

Avi Mehta: Amit, let me kind of rephrase this and kind of pinpoint this a little better. Maybe I was not clear. So, you are adding 150 stores, that's 3 crore per store, that’s 450 crores. That will generate 6 crores a year or 7 crores now with the chicken per store. I am clear on that part. What I am trying to understand is the remaining almost 350 crores that will go in into the existing stores plus back end. And should we assume that also generates an additional income from the store? If that does, does the AUVs now start moving up for the 7 crores? Because you did allude 6 will go, you can probably add another 1 crore from chicken. That is where I was trying to kind of understand that.

Amit Jatia: I get it, Avi. So, you missed my earlier points made to Vicky that rather than going by media reports, what we talked about today is that we are going to double the base of restaurants over the next 3-5 years with an investment of 800 to 1000 crores. So, even if you take 300 x 3 is 900, and the rest whatever. And if you take the lower base of even 200, 200 x 3, 600 crores and the other 200 crores would go into something else. So, look at it from that point of view and the answers will be visible to you.

Avi Mehta: Okay, so it’s not 150-200, that is where the issue was

Amit Jatia: We have confidence where we are heading.

Avi Mehta: And the second bit essentially, Amit, I just wanted to have a small clarification, the royalty if you could just help us understand is that expected to change next quarter onwards? How is that expected? Any changes over there?

Amit Jatia: That Avi we have declared that for this entire year I think it's 4% plus service tax and then it's 4.5% and that same schedule continues. There is no change. Except that this year McDonald's supported us by maintaining the 4% which was to become 4.5%.

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

Gaurav Jogani: My question is with regards to the gross margin. You have mentioned that the September quarter has registered gross margin of 67% early entire quarter has registered 60%. So, why is the gross margin so high in September? And in addition to that how it is expected to trend further in the going times ahead?

Amit Jatia: Essentially, I must say that if you look at our history from 2013 until today, I think one of the things we have done extremely well is manage product mix. And while we would not want to share more than that in terms of our real recipe for success, but we have been able to continuously manage inflation and growth margin movements by managing our product mix. So, even in this quarter month on month, we have been able to get benefits by playing around with some of our products which has yielded this result. I think if Pankaj wants to add anything to that, please go ahead.

Pankaj Roongta: So, along with product mix, there's also channel mix. We shared in our earlier calls about the entire zero-base cost approach that we have applied on the food sourcing, distribution, logistics and all of it seems to be fructifying when the business is coming to a healthy normalization and that is leading to the gross margin touching 66-67%. To your other part of the question, how do we see it moving forward? We are very confident that we will be able to deliver this kind of gross margin in the coming quarters as well.

Gaurav Jogani: Just one clarification when you say this kind of gross margins, so would it be like more at the 67 levels or the 65 levels?

Amit Jatia: I think I wouldn't like to go with a hard number. It always is a range because things change, product mix also changes so I would say between 65 and 66, I would be more comfortable.

Gaurav Jogani: My second question is with regards to the chicken initiative that you have taken and it's really heartening to see that it's trending to that 50-lakh mark. But is it available still only in the present market or is it has been extended to the other geographies as well? And what has been your experience so far with the southern market? If you can give some examples here it will be helpful.

Amit Jatia: So far it is largely in the southern market and the movement towards the west has started.

Gaurav Jogani: Any more details, how it has been trending in some of the Gujarat stores? What kind of experiences you have seen there, any more details that you would like to share?

Amit Jatia: We will come back as it pans out. In our view, we are extremely confident because it's a whole different set of customers, a different occasion. And we feel even in markets like Gujarat, the way we have executed it, when you enter the restaurant, we have ensured that the veg sentiment is still maintained quite well and the restaurant will not see any shift in either the fact that a product is being served like that in terms of the smell, in terms of everything else. We have ensured that it is done in a slightly different way which maintains that sanctity. And because it adds a new occasion, we are actually quite confident that this 50-lakh is only trending upwards.

Gaurav Jogani: Last question from my end is your comment in the press release with respect to the journey towards being a food tech company. So, sir if you can give in more details here, by food tech what do you mean there?

Amit Jatia: I personally think we don't share the breakup of our delivery sales but if we were to, I think we are more food tech than most people who claim to be food tech, and we do serious e-commerce from 2005. Because when we launched delivery, it was on a tech platform. It was not where an order would come manually into every restaurant and the delivery would happen. It was all done on to a call center and it was tech enabled through a software. So, our business is very-very serious, and I feel personally, we are a food tech company already. But Smita can add some comments to that.

Smita Jatia: I would just kind of look at it that there is off-premise consumption and on-premise consumption. When I look at off-premise as Amit mentioned, our delivery sales are very-very strong. Along with that as you saw in our earnings presentation, on the go, which is again a digital platform is doing very-very well. So off-premise both on the go, as well as delivery is already making us a food tech company. Also, when you look at on-premise which is dine-in and a large part of drive-thrus as again what I mentioned in my commentary, the McDonald's app is already enabling us to be able to give the personalized offers to our customers. And by getting the data from the app of even our dine-in customers, we are being able to service them in a much-much better way. So eventually we are looking at a huge shift of people actually using digital channels to be able to consume us. And currently even in our restaurant 20% of our orders come from the self-ordering kiosk, which is again a digital platform. So, if I combine delivery, on the go, the McDonald's app and the self-ordering kiosks, together there are a huge substantial part of our digital sales and that is why we call ourselves a move from food to food tech.

Amit Jatia: Actually, just to last add on that, I feel Omni channel is the best way to describe our brand. I feel the world is about Omni-channel and the world's not only about online, etc. I feel a brand needs offline and online presence if you truly want to succeed and be a mass market brand.

Gaurav Jogani: I did see in the presentation also where there is loyalty card both on the coffee side as well as on the burger side, so is that a part of this entire thing that you are alluding to?

Smita Jatia: Yes, absolutely. Loyalty card would also be a part of the digital platform which we are enhancing and strengthening.

Gaurav Jogani: Just one last bit from my end now. The 800 to 1000 crore CAPEX that you had mentioned would that also include the digital investment that you would be making or that will be excluding that?

Amit Jatia: It includes everything. Our entire CAPEX is included in that.

Moderator: We have next question from the line of Ashit Desai from Emkay Global. Please go ahead.

Ashit Desai: Amit, I'm sorry to repeat this question but just to clarify, this 800-1000 crores CAPEX is to double your store base that you have as of now.

Amit Jatia: Correct.

Ashit Desai: Instead of 150 stores you are looking at addition of more than 300 stores.

Amit Jatia: Correct, over 3 - 5 years, yes.

Ashit Desai: So, this year will be 30 stores and thereafter it will be like a 50-store kind of a run rate.

Amit Jatia: Just moving towards that, Yes.

Ashit Desai: Can you share how many of these will be in existing cities versus how many new cities we will target?

Amit Jatia: One thing is there that when we say that this is what we are going to do, I hope we have been able to build a reputation that we think very hard, and it is very data backed. So essentially, we do what is called a gap analysis. And essentially, we look at all existing and new markets and we identify the spots where these next 300 stores are going to come, and our commitment is based on that because we can clearly see that. To answer your question about 60%-65% will continue to come from existing cities. Earlier it used to be about 70% but we do believe that we are seeing a lot of traction coming in what I would call Tier-2 cities as well and therefore we want to start pushing towards that direction also. So, I would say about 35 - 40% would be in newer cities and smaller cities but 60% will continue to come in what I call our existing key cities at least.

Ashit Desai: Any changes in the size of store that you are looking at? And also, if you can answer whether we would need additional external funding for this, or this would all be met through internal accruals?

Amit Jatia: Well, our plan is to manage this through internal funding and at best in gaps, we will cover that with our debt lines. We are pretty debt free as you know. So, there is no plan to raise additional capital or raise a lot of debt or anything. We are pushing ourselves, as I had said in 2016, when we had announced that we will grow the store base and we will triple our sales, we had said that it will all be through internal accruals, and I think we have kept our word on that and that is the intention here as well. In terms of store sizes, no, we don't see any change because at least at Westlife and McDonald's, we are very focused on growing average store restaurant sales annually as well. And therefore, we do believe that in-store is going to come back and as we continue to add new product lines, like we did recently, we believe that we are at the right optimum size.

Ashit Desai: Lastly, if you could comment on the kind of RM inflation that you are looking at and any pricing actions that you plan for?

Amit Jatia: Inflation has been strong, and the headwinds are pretty strong as well. As I have mentioned, if you look at pretty much any call from 2013, I have been saying that inflation in India is a reality and there are times when inflation really becomes strong and there are times it becomes a bit dormant. So, our action around inflation never stops. While quarter to quarter it is hard to manage but year-on-year we have been able to do a good job. So, because we have stayed ahead of the curve even if you look at this quarter, we managed it quite well. But inflation headwinds are there. They are strong in many of our key products. So maybe on a quarter basis it might show up but so far, we have been able to manage it quite well.

Moderator: We have next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: The first one was on the delivery part of your business. I know you don't give a split across the convenience channels, but you did mention that convenience channels between 7% sequentially in Q2. Could you give a qualitative flavor on how delivery growth behaved versus this 7% number and also within the delivery mix, clearly a lot of work has been done on the app and your presentation shows it continues to see increased number of downloads. How is the growth trending between orders placed via your app or versus the aggregators and any qualitative flavor would be appreciated there. So that's the first question.

Amit Jatia: Sequentially, the 7% delivery has been an important part of that. I don't know the exact break up, maybe Pankaj can share that if that is possible. However, it's not that the 7% came on takeaway and drive-thru, etc. delivery was also a part of that 7% sequential growth. That is part one. And Smita will take the second one.

Smita Jatia: On aggregators or our own app, we see it as two different journeys. What we have seen is that on the aggregators, the customers are coming more for discovery and therefore it becomes more acquisition. Whereas on our own app with exactly what you said, with a better UI/UX and a customer experience, you are able to give more customization and personalization leading to loyalty. So, I think both have a very important role to play in delivery. And we are seeing, as we again mentioned in the presentation that in spite of dine-in coming back, quarter on quarter, month on month, we are still seeing delivery grow which clearly shows that there is a new use case occasion and people have got into the habit of ordering at home irrespective of the occasion of going out. And if I actually have to take global, global McDonald's was always a more convenience led brand where like in US 70% of consumption is through drive-thru and takeaway. I think it's only played out in India because pre-COVID, we were still an occasion led eating out brand whereas now we are even more convenience driven. So, there's a whole shift in even the consumption pattern of customers.

Latika Chopra: I also noticed mix is something that Westlife has handled pretty well. Is there any kind of index relatively that you could talk about over the last 4 or 5 years? The premium, if it was 100% or X percentage, how much that would have gone up by? Is that something that you would like to comment on?

Amit Jatia: Normally, Latika what happens with premium, I mean, it's not the case in the recent past but normally your rupee margin is strong, but the percentage margin normally is lower because if on a Rs. 150 product for you to maintain a 65%-70% gross margin, in a rupee number is very challenging. I can explain that to you separately on math. But fortunately for us, things like what we did with the wheat bun, etc., has really helped us not only grow our average cheque but also grow our gross margin. McCafé has played a role. And more recently again the gourmet burgers have helped us. So, we have done a whole number of things which collectively brick by brick have kind of given us and yielded that result. But, obviously with the launch of gourmet burgers it's evident that the customers are looking for indulgence as well. So, it's no more about Aloo Tikki. It is also about indulging with products that they are trying; they want new ideas, new products and new sort of condiments, etc. So that shift is coming, Latika. We can see it.

Latika Chopra: That’s helpful Amit. And in last bit if I could, I know you have priced your products more affordably, but any spends from the market as operating environment has normalized, are you seeing any step-up in promotional intensity in the industry?

Smita Jatia: No, I don't think. I think everybody is playing their game and as we have always played our game on value for money. And over the 25 years, we have always believed even during the toughest of times, we have never gone into discounting or promotions. We have always built platforms whether it was coffee, whether it was the premium burgers, now the gourmet burgers or the chicken platform. So, I think this has always paid dividends to us and I think we continue to be on the path of value for money.

Moderator: We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: A couple of questions from my side, first on the chicken market specifically. I know you alluded but just to understand better from the pilot that is happening in the southern market, are you seeing that it is basically existing customers who are coming in, who are maybe adding on to a chicken or you are getting a totally new set of customers for your chicken offerings?

Smita Jatia: I think it's a combination of both. Definitely, for the existing customers they are buying it along with their burger meal or sometimes if they are not having a burger, they are buying the six piece plus chicken offering. At the same time as awareness is continuing to build that McDonald's has the best-in-class chicken offering. It's already started to attract new customers and that's very evident in our GC growth which we are also seeing. So, I would say it's always a combination. Any new products will always be a combination of existing customers using it at the same time acquiring new customers.

Nihal Jam: That's helpful Smita. But as I check currently, I would assume that our chicken offerings on menu would be limited say compared to the other full-fledged chicken provider so from that perspective then what becomes the differentiator that we believe can keep driving customers. Because globally also I think the extension into chicken at least say for the likes of McDonald's also, they have not been that accretive but at least our experience seems to be good so what is it that we are doing incrementally to drive that?

Amit Jatia: First I'll answer the second part, McDonald's sells more chicken than any brand in any part of the world except in one or two countries like China. But essentially, we are a very-very-very strong chicken player globally, just to correct that part. And Smita can talk about it.

Smita Jatia: Secondly, I don't think it's only one offering/ If you look at our chicken offering, we have always had chicken McNuggets. We introduced also strips in the middle. Moreover, our chicken burgers, our spicy chicken burger, our American cheese chicken burger. So, I think we have a very-very strong offering in chicken. It's only that we have introduced the bone and chicken which was a new offering. And as we grow and we understand this more, there will be extensions which we will also put in bone and chicken. But for us, when we say chicken leadership, it's not only about bone and chicken, it's across burgers, it's across sides and it is bone and chicken together. So, I think we have a very strong footing now in south. There was a gap in the bone and chicken market where were not able to play in and with this introduction, I think that gap also is what we have covered.

Nihal Jam: Sure. Amit when you say globally McDonald's is a leader that includes basically the burgers and the bone in chicken offering that you are saying, right? And what is the contribution that has generally reached in some of the most successful countries for Mc Donald’s?

Amit Jatia: We don't share that breakup and that's more Global’s prerogative to talk about. As far as I know basically in all of Asia, we do fried chicken. So, you go to Malaysia, Indonesia, Singapore, we do fried chicken, and we have a pretty strong offering and if you go into the more developed markets, there are a whole range of chicken products. If you Google, you will see there's a lot of work and talk that McDonald's has done globally around chicken as well. At the end of the day $80-100 billion in sales so our chicken sales if you were to just separate that out, it would probably be higher than most of the players.

Smita Jatia: And even our south markets we already do more than 50%-60% sales from chicken. So, it reflects that we already have a strong chicken offering. It's only that we have added bone and chicken into the foray.

Nihal Jam: Just one last question from my side that generally for an upgrade for a normal store to become a EOTF what are the kind of CAPEX that goes in?

Amit Jatia: We have been able to keep it very marginal now and we don't share that break up. But it's not a crazy number.

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

Percy Panthaki: I was just remembering what was discussed in your last quarter's call and I recall there were some participants asking you why you are not accelerating your store addition, everyone else is doing it, etc., and you were explaining as to why you prefer to go slow and steady, increase the through put in each store and that is the better way to progress and then month or two later, we saw this sort of release from your end saying that, you are going to add 150 to 200 stores in 3 to 4 years and now you are saying actually it is doubling the stores so 300 stores plus in 3 - 5 years. So, why this change in communication? And also, this little bit of a lack of clarity in exactly what you are trying to do and why change from your original stance just 3 months ago that we would not like to accelerate the store openings.

Amit Jatia: That is because it's about your perception versus how we think about it. I mean, you may perceive that we have been slow and steady. I feel we have been super aggressive but sustainable. And essentially what we are talking, it's a step-by-step approach. So, first and foremost, in 2016 we talked about taking our store base from X to Y and when we talked about that in 2016, people were again the same kind of question that what is changing, so that is point number one. I don't think we have been slow and steady. I think we have focused on sustainable growth. We focused on good quality of real estate. We focused on building competitive advantage with drive-thrus, etc. The first important part is none of that is changing. That is point number one. Point number two, our vision 2022 talks about 2022 where 2022 is coming. So, I think it is time for us to now unveil our new vision and as a part of our 25th year anniversary, I felt the company can talk about its new vision over the next 3 to 5 years and this was in line of that conversation. So, at Westlife people who have tracked us for the last 7-8 years since we have been listed, have kind of seen that we don't make random out of line answers, and we don't build strategy on the go. And we have nothing to do with anybody else. We follow our own path. So, if you notice today’s conversation, we have not suddenly said that AUV is something we don't want to work on. We believe that AUV is unique to us, and we continue to focus on that and along with AUV we will build penetration. If I hear some of the conversations, I am hearing around other players in this category, I am hearing of smaller stores with a large number of stores and that is not our strategy. I think in the previous question I answered that in a different way. So essentially, we will continue to build the size we have talked about. We will continue to build real estate competitive advantage. We will continue to take a portfolio approach with drive-throughs and yet we will continue to now increase the pace because we find a shift in the marketplace from unorganized to organized and I have been saying that on call after call. Lastly, you see in the media, they picked it up in that manner but we in our vision statement also, even in 2016, we always talk of 3-to-5-year window. And like I said, the lower end would be 200 but our endeavor is to try and double the base in the 3 to 5 years. I hope this kind of helps you answer. The other thing is of course with the launch of our chicken platform, we are seeing very-very good traction in south India which is giving us the confidence to go a bit more aggressive including in Tier-2 and Tier-3 cities. So, there are shifts that we have been watching and it's all sort of a planned journey, except that the timing we felt is right now to talk about vision 2025-27. That is the basis on our thinking.

Percy Panthaki: Understood sir, so for FY23 in particular, how many store openings should we be factoring in our model?

Amit Jatia: FY23 you can assume between 30 to 40 stores.

Percy Panthaki: My second question is on the margins this quarter; they have come at 11.5% or so which is lower than what we did in Q2 2 years ago and also lower than what we saw in Q4 that is just a couple of quarters earlier. So, despite us exceeding the pre-pandemic sales, just wanted to understand what particularly has brought down the margin and you have given us some confidence saying that September has seen a revival, but September would also have witnessed a much better sales versus September of 2 years earlier. So, with that healthy sales margin has come back. And in context of all this some guidance on whether the next year FY23 margins pre-IndAS which you said you will target a low teens kind of margin so 13-14% of margin, are we still maintaining that kind of a target?

Amit Jatia: First and foremost, we don't change our vision expectation as I have maintained. So essentially our low teens to mid-teens will continue to stay and that guidance stays. We don't give guidance but that's our vision. Now you got to understand that in July the dine-in in Maharashtra was zero. Multiplexes were not on. It was a different day. When we are looking at that back in October when things are pretty open, Yes, it all looks pretty good, but you have to understand that business, in one month if you are low and in one month you are high, it doesn't work like that. That cost that was incurred in the month of July has been incurred and that is in the P&L. September, as I told you in one of the other questions is not like top-of-the-line month. It's a very average month for us. Our top-of-the-line months are coming, which is October, November, December and so on. So essentially, the reason we separated out September was because dine-in has started coming back in Maharashtra. If you recollect, only in October, Maharashtra allowed dine-ins till about 10 o'clock. In fact, that too recently. Malls were still wanting to see certificates and multiplexes were still closed. So, our food court business was still very impacted. So, my point is that from 2 years ago, I think we have done quite well and from December ago, there is seasonality in our business. You can check some of my earlier previous comments made in earnings calls that our business is seasonal and the cost structure also therefore changes. You cannot compare the October, November, December quarter to a quarter of July, August and September. So those are the sort of differences and therefore you have to look at the September number as your best benchmark because by then dine-in had almost opened in Maharashtra. The real opening happened in October.

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

Amit Jatia: I would like to thank everybody for joining the call today and appreciate your engagement. I would like to wish you all a very happy Diwali and a prosperous new year ahead. Thank you and have a lovely weekend. Bye.

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