Westlife Foodworld Limited
Q3FY24 Earnings Conference Call

January 31, 2024

MANAGEMENT:

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

Moderator: Ladies and gentlemen, good day, and welcome to the Westlife Foodworld Limited Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 the 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, Neerav. Welcome, everyone, and thank you for joining us on Westlife Foodworld Earnings Conference Call for the third quarter ended 31st December 2023. I am Chintan Jajal, lead IR at Westlife. From the management team, I have with me Mr. Amit Jatia, Chairperson; Ms. Smita Jatia, Vice Chairperson; Mr. Saurabh Kalra, Managing Director; Mr. Akshay Jatia, Executive Director; and Mr. Saurabh Bhudolia, Chief Financial Officer.

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

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

Smita Jatia: Good afternoon, everyone. Thank you for joining today's call, wherein I will share with you our steadfast perspective on Westlife Foodworld's performance. Let's begin by reflecting on how Westlife Foodworld has grown from strength to strength over the last 27 years. We continue to grow while facing market cycles and shifts in consumer demand. We focused on creating an ecosystem that would not just help us, but also raise the water table for the entire QSR industry.

We personalized the most popular QSR brand in the world to suit the Indian pallet, budgets and preferences. We navigated various cycles of highs and lows and emerged bigger, better and bolder. Remember, even amid the global pandemic, we successfully achieved Vision 2022, which is a testament to our organization, focused on achieving execution excellence and our commitment to our goals irrespective of external challenges. This vast experience underscores our adaptability and the ability to navigate through uncertainty.

Our last quarter has been a little soft, owing to inflationary pressures, subdued consumer spending and other external factors beyond our control. But I must acknowledge that Westlife Foodworld has displayed resilience and is adapting to these challenges with fortitude. It's essential to recognize we started this fiscal year on a positive base coming off the success of a remarkable year gone by. It is this positive momentum that has served as a foundation for navigating the challenges we encountered.

Our average sales per store in the trailing 12 months remained broadly stable, showcasing the resilience of our business model. These positive bases, even amidst the challenging times, provide us with a solid foundation as we address the challenges that have impacted our performance. I must reiterate that despite the persistent headwinds, we are all well-positioned to achieve our ambitious target of opening 40 to 45 stores this fiscal year.

We continue to execute this plan by adding 11 new stores in Q3. Moreover, we plan to further up the ante and open more stores in FY25 as compared to FY24. I remember back in 2015-'16, when the industry was facing similar macroeconomic challenges, many industry players had taken drastic steps to curtail their network. However, we remained committed to opening stores prudently. We stood firm, defined the trend by not only weathering the storm, but actively expanding our network. Our resilient strategy allowed us to achieve stellar results in the subsequent year.

Today, we are once again on the same path resolutely holding onto our Vision, confident that it will pave the way for our future success. Remaining committed to our growth strategy, we consistently strive to provide delicious food and superior customer experience while having a positive impact on the communities we serve. We believe in making the experience of McDonald's accessible and making feel-good moments easy for everyone.

Aligned with this philosophy, this year, our EatQual initiative was a step to further our commitment towards inclusiveness and social responsibility wherein we made our delivery app and website color blind friendly, a first of its kind initiative in the food industry.

As we navigate these challenges, our robust leadership plays a pivotal role. Their strategic vision and decisive actions have steered the organization through uncertainties in the past, and their expertise and unwavering commitment inspire confidence in our future. We remain confident in our strategy, our leadership and our long-term vision.

Our long-term vision remains a priority, and our goal for 2027 are firmly intact. We are not nearly reacting to the challenges, but are proactively shaping our future. Your confidence in Westlife Foodworld is a cornerstone of our success. As we remain resilient, adaptive and steadfast in our commitment to delivering long-term value, we thank you for your continued trust and support.

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

Akshay Jatia: Thank you. Good evening, everyone. Wishing you all a great 2024, and I hope you had a good start to the year. Thanks for taking the time out to discuss our Q3 results. As you would have seen, the performance during the quarter was a bit subdued. Consolidated sales and same-store sales declined by 2% and 9% year-on-year, respectively, on account of 2 key challenges. Firstly, on the macro side, demand conditions remained tough with lower levels of eating out frequency. The festive season saw a slight uptick, but the demand pressure continued thereafter. The softness in general consumption trends is quite visible across the retail space and several other macro indicators.

The second key challenge we faced during the quarter was on account of floods and external issues beyond our control. We have seen a meaningful impact on our business. Around 30% of our stores across West and South saw a 10% to 50% decline in daily sales from mid-October onwards.

These stores reported a significant divergence in sales and footfall trends as compared to other relatively less impacted stores as seen in the second chart on Slide 5 of the presentation. Having said that, considering the diverse set of communities and customers that we serve, I think it is reasonable to infer that there was some pressure across our entire network.

Normalizing for these external issues, basis our best judgment, the same-store sales would have likely declined by 3% as against the reported negative 9%. We initiated various on-ground measures to mitigate these challenges. Many affected stores are progressively recovering to their normalized business levels, and we are hopeful that this issue will be resolved soon. I'm proud to also highlight that Westlife is an inclusive Indian company. We employ over 10,000 Indians representing various communities.

Moving on to business channels. Our off-premise business grew by 3% year-on-year, contributing 42% to overall sales. Our on-premise business declined by 5%, largely on account of lower footfalls in more affected stores. Our average sales per store on a trailing 12-month basis was broadly comparable to last year at INR64.5 million. Today's consumers are more demanding than ever. While their preferences will keep oscillating within price points, categories and channels, it is imperative that we continue to innovate to offer them the right value for their money and their time.

During the quarter, we reinforced our Value platform with our always-on Extra Value Meal promotion. This is leading to a healthy improvement in customers visiting our restaurants. We also launched the McDonald's -- MyMcDonald's loyalty program in November. While it is at a nascent stage, we are seeing encouraging signs of adoption, especially amongst our younger customers. Our plan is to leverage the learnings and drive customer frequency as we scale the program in the coming quarters.

On the premium side, we launched the Cheesy Italian Burgers as a limited time offer and continued to promote our cheesy range. We also collaborated with Mondelez to launch Cadbury Gems-based desserts and beverages. And just like our previous collaborations, it has done well with our customer base. And finally, our McSpicy Fried Chicken continues to track higher volumes quarter-on-quarter.

Moving on to profitability. Our gross margin stood at 70.3%, up by about 12 basis points year-on-year and 17 basis points quarter-on-quarter, thanks to a strong focus on strategic sourcing and cost optimization. Restaurant operating margins and operating EBITDA margins were lower by 130 basis points year-on-year and 204 basis points year-on-year, respectively, on account of lower operating leverage. Cash profit after tax stood at INR601 million or at 10% of sales.

On the network, we opened 11 new restaurants and closed 1 in Q3, bringing the total number of restaurants to 380 in 62 cities as of December 31. 90% of these restaurants have McCafés, 83% are EOTF stores and 19% are Drive-thrus. We are on track with our network expansion plan of adding 40 to 45 restaurants or new stores in FY '24. Furthermore, we are targeting 45 to 50 stores in FY '25 with a stronger focus on South India, smaller towns and drive-thrus. As a result, we continue to aggressively increase brand penetration.

Finally, I would say that while it has been a challenging period with multiple headwinds, our brand qualitative metrics continue to remain strong across our key markets. Our latest data and research suggest that demand trends have largely stabilized. Hence, we do not expect incremental macro headwinds here onwards. We are hopeful that business will start moving in the right direction sequentially before getting back to our desired levels of growth. We remain focused on executing our plans and achieving our Vision 2027.

Thank you for your time. I now hand over the call to the moderator, and we are happy to answer any questions that you may have.

Moderator: Thank you. The first question is from the line of question Krishnan Sambamoorthy from Nirmal Bang. Please go ahead.

Krishnan Sambamoorthy: The point that you highlighted on the affected stores, what is the commonality there and why were these stores affected, these 30% of stores affected significantly more than the rest of the portfolio?

Saurabh Kalra: Like we've already pointed out, there were issues beyond our control. And then if you look at it, there is a sentiment for the brand going around. But essentially, I'll give you examples of a few restaurants, like Mumbai Central, Bhendi Bazaar, and I'm not giving you too much detail around it. they used to do an X volume. And then now all of a sudden, overnight, in October, mid-November, they went down by almost 50%, 60% for reasons which were not in our control.

And we've got a cohort of the store and cohort of a market, which is behaving in this manner, and that's what we have normalized for. We want to correct that by telling everybody that we are a truly Indian company. And we foresee that in a quarter or 2, we should be back as far as this impact is concerned.

Moderator: Thank you. Next question is from the line of Marie from GIC. Please go ahead.

Marie: So if I may, could you please comment on your SSSG trend and what has changed in the quarter? Do you see burger as a category to deliver a slower trend going forward?

Akshay Jatia: So like we kind of tried to illustrate, obviously, there are 2 key challenges that we faced in this last quarter, and the trend was building for a while as you've seen in all the macro indicators, there is softness in demand and consumption overall. Eating-out frequency has actually degrown, basis our data in the last quarter, and there's already been a lot of expansion across the retail network. So as a result, demand pressure was there.

And number two, there were issues and external issues that were beyond our control, which further impacted our store base, 30% of these stores, 30% of our network had an impact to the range of 10% to 50%. And as a result, you saw our SSSG at negative 9%.

We normalized it for these external issues where we came to a negative 3% number. And from a long-term point of view, like we've reiterated in our Vision 2027, our endeavor is to get back to high single-digit SSSG.

Moderator: Thank you. Next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: My question here is, as you highlighted in your opening remarks, we are seeing some recovery. So probably, while talking about the near term, do we expect like somewhere around by Q4 and Q1 or probably early start of Q1 things should normalize and probably we should be back on the growth trajectory, probably not at the desired level, but probably we might see some recovery and probably some growth on SSSG side? That's the first question.

Saurabh Kalra: Okay. So this is Saurabh. So what your understanding is right because we have been able to attribute an issue apart from softness, and we have taken steps to be able to work through the softness right now, and that seems to be working well. On the other issue, we see that remaining for a quarter or 2 before it gets completely neutralized. But increasingly, you will see it reducing as far as the impact is concerned.

Manoj Gori: Right. Can you throw some light on demand environment, apart from the external factors how do you read the demand environment, probably how things are progressing over there? Because obviously, we relatively delivered better performance barring Q3 numbers. So probably if you look at, we did -- and how do we read the demand...

Manoj Gori: So my question is how do you read the overall demand environment? We have done well relatively until 2Q. Third quarter is probably the first quarter where we have seen some weakness. So can you throw some light on the overall underlying demand environment?

And probably my last question would be on the down trading side. Have you seen any down trading in this soft demand environment and probably that's one of the reason for margin impact? That's all, sir.

Saurabh Kalra: So let me give you this answer in 2 ways. Number one is, as far as we are concerned, we have never given excuses. We have said in India, demand is not every 1 quarter. So that's how India grows. Some quarters are soft, some quarters we grow up well. So it's about our strategy. I think what Smita mentioned in the start of this call, we are pretty committed to our strategy.

And what we do foresee is there was an element which was remaining, which we had pointed out last quarter also on value for money. I think we have completed that picture, and we should be able to -- we should have gained some amount of market already. However, due to external issues, right now, it was a little tough, and we foresee that in a quarter or 2 that will get vanished -- if you're always used to seeing as far as Westlife is concerned.

Akshay Jatia: Yes. And just building on Saurabh's point, we feel we've completed the entire puzzle in terms of value for money and our strategy for Vision 2027. While we are tackling the other issues on the ground, we are committed to our Vision 2027 and plan to deliver on that, which indicates that once this is bottomed out and we get back onto the growth trajectory, we are aiming for high single-digit SSSG to take us to Vision 2027.

Moderator: Next question is from the line of Dhiraj Mistry from Antique Stock Broking.

Dhiraj Mistry: So my first question is related to -- I know that you don't give any future guidance. But in this quarter, there was a preponement of IPL, which has been going through. And also in terms of near-term demand scenario, what kind of SSSG growth or what kind of momentum you would like to -- you would be witnessing in 4Q?

Saurabh Kalra: So while we will not comment immediately what's going to happen this quarter or next, I think like Akshay said, we are fairly committed to the 5-year goals. And if you look at our 5-year journeys in a block of 5, 5 years, you will realize there are quarters, good quarters, bad quarters. But overall, from where we look at it, whether it's IPL, every year IPL comes, it's not that it's going to be new. So we will always be -- the same-store sales growth will be on that base.

We've got a robust strategy in place right from value for money, affordability and premium in place for us. And we foresee that should be good enough for us to recover back and then start on a very good note as far as the next year is concerned. So that's how we look at it.

Dhiraj Mistry: Okay. And 1 bookkeeping question, why your royalty payment in this quarter is only 4% of sales compared to 5.1%, 5.2% historically last previous 2 quarters?

Saurabh Kalra: So essentially, on a larger picture, if you look at the YTD number, it's a reconciliation. There are some incentives here and there which come from McDonald's because we have opened record number of stores. But if you look at it, they are not even a rounding-off number. Jan to December is where the McDonald's cycle is, so you will see that happening every year in December, a little here and there.

Dhiraj Mistry: Okay. Okay. And can you help me with your capex guidance for FY '25?

Akshay Jatia: So we don't give out capex guidance normally. But what we do is that we talk about the number of new stores we are opening, and the number of new stores we anticipate to open in the next year is 45 to 50 stores, which shows our commitment towards building the network and expanding brand penetration and moving closer towards our Vision 2027.

Dhiraj Mistry: Okay. And last question from my side, like during the quarter, have you witnessed -- like is there any material change between Beverages portfolio versus Burger portfolio?

Akshay Jatia: So I think -- like we've always maintained our core is burger, chicken and coffee within which, obviously, beverages sits. We're very committed within our value strategy to selling meals. So our product mix varies. We plan to kind of sell across the product mix. And as a result, we represent the multi-category, multi-daypart kind of consumption occasion. And because of that, we have the average unit volumes that we have today.

Dhiraj Mistry: So the angle, which I am coming from, is there any change or you would like to throw some light on what kind of AUV movement has happened or per order value movement which has happened? Is there any material down-trading or up-trading, which has happened during the quarter?

Saurabh Kalra: I look at it differently. If you look at our sales, we are -- like Akshay said, we are happy to sell burger, chicken, coffee. Obviously, we haven't sold as many as we anticipated to. Now, if you look at it versus last quarter, I don't think there'll be too many years or there will be any year in my career when in October, November, December average unit volume would be lesser than July, August, September.

Now this has happened. It is there. But if I look at the pro-mix, there is not too much of a shift when I look at it quarter-on-quarter. Obviously, yearly, there is always a seasonality expected in October, November, December. It's not planned out. And like Akshay has already mentioned, there were issues beyond our control, there were softening, multiple reasons, which we can pinpoint, but reality is we haven't sold as many as we would have liked.

Moderator: Next question is from the line of Adithya from JPMorgan. Please go ahead. Aditya, may I request you to unmute and go ahead with the question, please?

Adithya: Sir, I had a couple of questions. First, starting on the overall demand trends, you have said that the Jan demand, it seems like the demand has stabilized. So in terms of the external disruption that you have seen in the quarter, do you think that will sustain in Q4 as well? And as a result of this, do you think the minus 3% of normalized SSSG that you saw in Q3, is that the bottom of this? Or do you think there is still some scope for possibility of it weakening further? And...

Akshay Jatia: Sorry, go ahead.

Adithya: No, I'll ask the second question afterwards.

Akshay Jatia: So in terms of demand trends, we clearly explained that we stay committed to our strategy. In fact, we've launched our Extra Value Meal at INR149. We have kind of multiple price points, whether it's across our value platform, our medium meals or our premium meals, so as a result, I think the interventions we are making are the relevant and right ones for our customers to come back for value for money because McDonald's remains a multi-daypart, multi-category occasion for them. And you get most products at a great value for money. We're just communicating it more currently.

Secondly, in terms of the external issues, like Saurabh mentioned multiple times, we anticipate them to kind of bottom out over a quarter or 2. Obviously, again, there are external issues that are beyond our control, and we are doing what we need to in terms of communicating on the ground that McDonald's is a truly Indian company, representing a diverse base of both customers as well as employees. We employ over 10,000 Indians , representing various communities. So as a result, we are doing what's required, and we do anticipate this to bottom out over a quarter or 2.

Adithya: Okay. And my second question -- the second question is on the loyalty program. Can you give us some color on like how many stores it has been launched, like what is the initial feedback? And what are the terms that like you have finalized for the program?

Saurabh Kalra: Loyalty program -- actually, it's a global program in which there is a certain amount of points you earn when you purchase at McDonald's. It was a very soft launch. We are trying to operationalize it in the restaurant so that people get habituated to it. That's why -- obviously, you are a keen customer; therefore, you've been able to capture the loyalty. And then we have put it in the presentation as a very small point.

I think right now, how we see it is more you eat for McDonald's loyal customers, instead of giving deep discounting maybe after some visits and spending some amount, for that points you can then get, say, a burger, a pizza puff or a Cappuccino and so on and so forth. So that's -- it's not a straight-point-based functioning of saying these many points is equal to these many rupees, but it is basis points.

We're going to continue playing with it. There are a lot of global best practices because we are actually not the first country to launch this. In fact, after multiple countries learning from this loyalty program, we're trying to look at the best bet and then see how we can make sure that loyal customers are rewarded the maximum.

Adithya: Yes, that was very clear, sir. So where I was getting some was -- like has it been launched across all the stores? And secondly, if I'm not wrong, it is currently only available in dine-ins so is that like the initial version of the soft launch? Or like is that the concrete version that you'll be going ahead with as you roll it out?

Saurabh Kalra: So as McDonald's, we take -- we don't do everything together. There is a digital journey, which we have mapped out for us in that digital journey as a part of that digital journey. Earlier we used to have McDonald's app only giving offers. Now what you're going to see extensively the -- and those were all dine-in offers, we were very dine-in offers-heavy app, which you're going to see a lot of dine-in app offers reducing, more acknowledgment to loyal customers through loyalty, and you're going to see that calibration happening.

Is that the end? Absolutely not. There is a huge journey which we are embarking on in terms of digital, which is going to play out over the next 2 to 3 years. But I can't share all the details right now. But what I can tell you is it's always an ongoing journey in which loyalty dine-in is an important part because there are a lot of dine-in goers who are regulars as a start of it. And we will see how do we scale up as a part of our digital journey.

Moderator: Next question is from the line of Priyank Chheda from Vallum Capital Advisors. Please go ahead.

Priyank Chheda: Sir, my question is on the normalized SSSG, which is minus 3%. And I'm excluding all the external problems, which are not in our control. Do you -- why do you think that this normalized SSSG is also negative? Is this only a short term quarter phenomena? Then what's that short-term quarter phenomena, which we think that should normalize back to 7%, 8% in the coming quarters? It's something which I'm not able to solve the puzzle. If you can help me, it would be great.

Saurabh Kalra: So I'll give you this answer in 2, 3 manners. Obviously, we should have reacted as far as value for money a little earlier. The demand in IEO has been soft now for at least last couple of years, if not more. In that, our premiumization played quite well, and we were left a little behind as far as value was concerned. I think we have corrected that. So you're going to progressively see that base going back to the growth which we are used to.

Akshay Jatia: So I'll just build on that. If you see we started off the year very strong. And actually, despite there being pressure in the IEO market, we've continued to deliver strong results like Saurabh said on value for money. While we've had the relevant offerings and the price points, our communication might have been a little late to the game. And at the same time, this last Q3, I think in the entire retail environment, it has been a tough one. So we did witness more softness than anticipated.

But like I said, we intervened and we've kind of launched all the right communication strategies and further strengthened our value -- strengthened our value platform. And as a result, we're hoping to stabilize the demand and get back to our growth trajectory in the next couple of quarters.

Saurabh Kalra: And mind you, October, November, December was real, real high base as far as we are concerned. In fact, that was the highest average unit volume which we had ever achieved. So we were also, again, the high base.

Priyank Chheda: Okay. So demand softness has been witnessed in the value category side and where we were late and which we are trying to bridge out, plus extra base effect, which has been playing out for us to look into our SSSG number, right? I mean I have been able to...

Akshay Jatia: See, like we said, it's a couple of things, right? The market itself is slowing down. From a value communication point of view, we strengthened our platform in the last quarter. And we're playing across price points now, not only kind of around premiumization in terms of communication. And that's allowing us to kind of stabilize the demand trends. And like we said, we hope to get back to our growth trajectory in the next couple of quarters. And that's our plan moving forward.

The base is something that Saurabh just added incrementally. Obviously, we were comping against a very high base last year same quarter. And that coupled with the demand effect obviously has taken us to negative territory, which we've reported after a long term.

Priyank Chheda: Got it. And on a very broader category perspective, do you think burger is a category which is also witnessing an increased competitive pressures with more fragmented, smaller chains in each of the regions trying to get their shares, trying to give out their differentiated offering to consumers versus the national brand versus very standardized offerings. So do you think -- and to add on to that, there are a few other national brands within burger, which are also getting more aggressive in terms of their menu operations and changes. So on an overall category, do you think that this is also something to be mindful of?

Saurabh Kalra: I wouldn't look at it that ways at all. In fact, we have been the pioneers of burger even today. We would have the dominant share of burgers. I don't worry about mom-and-pop shops because any which ways anything which has to make a material difference has to happen at scale. To me, I think we would rather look at it in a different manner. If you look at it from the industry standpoint, you can take anyone in the QSR industry, and our average still remains at around INR6.4 crores, INR6.5 crores annualized volume per store -- actually even close to us.

So if I look at it, qualitative metrics, and I look at brand metrics, I look at the metrics like the burger people like, I do not see any softening as far as the burger is concerned, the burger eat out is concerned. And to me, that's not something. In fact, that's one of the areas where we believe burger is going to continue dominating the QSR industry.

More -- if more and more people can come and make people habituated to eating a burger, it is good news for us because from the last 25 years, we are the sole proponent of burgers, and we are very, very happy to have more competition so that burger category can build further because burger category versus any other country, I would call it very nascent as far as India -- as far as our country is concerned.

Priyank Chheda: Got it. Very clear. And just a last question. Over last 6 months, we have added 20 stores, but if I have to look towards the quarterly trajectory of other expenses or if I have to add employee costs also, that has broadly remained flat. So other expenses at INR250 crores has remained flat, employee expenses at INR80 crores has remained flat, while we have added around 20, 23 stores into our network that which we understand that the new store would bring in the cost at day 1 while sales would come in the later half. So if you can help you what is the piece that we are missing out?

Saurabh Kalra: I think this one you can give us a little bit of credit because -- also utilized to rationalize cost. I think we have eliminated a lot of costs. And therefore, you don't see the fixed cost impact, which would have come because of 13, 14 stores, augurs well because when we are back on the growth side, all this will also turn into good profitability numbers.

Priyank Chheda: No, the credit all goes to you, all to the management of Westlife definitely because the time when we had met a previous year, we did mention that all the cost rationalizations were behind us, and now we are looking towards the growth. So was there anything that was left, and if you can give us specifics on to which kind of a cost have we eliminated over the last 9 months?

Saurabh Kalra: Yes. So cost rationalization is -- in the Indian context is never a destination. I think every year, we need to put costs back in the hopper, and I will actually pass on to Saurabh Bhudolia, who's our CFO, and his team worked on it. All the costs were put back in the hopper, and we have been able to identify a certain amount of savings.

Saurabh Bhudolia: So see, again, if I reiterate the discussion what we had in the last couple of quarters, see cost reduction or cost rationalization is a continuous exercise, and as we always know that we are a growing company and we are growing fast. So as we start our growth journey, there is always a chance that we start creating a fat on the layer. So I believe now the time has come when we have to start removing up fat out of the system. And I believe this is a continuous exercise. It will last for the next couple of quarters where we need to keep evaluating what are the good costs, what is bad cost. Definitely good cost will be part of life and bad cost we have to get rid of it.

Moderator: Priyank, sorry to interrupt you, I will request to come back for a follow-up question. The next question is from the line of Palash Kawale from Nuvama Wealth.

Palash Kawale: Apologies if I'm repeating the question. So, sir, you have mentioned that SSSG was also affected by higher base. So from which quarter will we be having normalized base?

Akshay Jatia: So I think that was an incremental point that was added when we were discussing the SSSG number. I think from this quarter onwards, like we said, we're hoping that demand trends have stabilized and there shouldn't be any incremental macro headwind. And next year onwards, we hope to get back on to our growth trajectory and work towards our Vision 2027, where the goal is a high single-digit SSSG.

Palash Kawale: Okay. And my next question is, you mentioned that you would be driving the footfalls to value side of the menu. So keeping the external factors aside, is the effect of those initiations there, like the delta between premium and value growth, has that narrowed?

Saurabh Kalra: Okay. So when we talk about value for money, we are not always talking affordability. So if you look at our 5 years plan also, we had always talked about meals being the focus for being able to achieve our vision of 2027. Now in that, a filling burger, fried chicken, and having an extra value meal was a part of the proposition of the 3 legs. I think the 3rd leg wasn't put in place and came into place only last year. And we had to strengthen that. We have worked on -- in order to strengthen that.

It is not that we are going on to a single 1 product at less than X price like what we had done in McAloo Tikki in 2003. It is about having the value proposition for being able to work on the meal proposition, which we are creating. I think we are committed to that journey, and we see that, that should be great value for money, will not only indicate an affordable price point, but also indicate McDonald's as a place for having good meals.

Moderator: Next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Saurabh, if I may check with you, the gross margin expansion has happened, and you have been able to maintain. But if I look at next 2 quarters, what are the pressure points? I mean, which are -- is the inflation is really under control? Or is there some bump up which you are expecting in next 1 or 2 quarters? So how should we look at the gross margin and then the operating margins for next year?

Saurabh Kalra: So as far as the gross margin is concerned, I don't see any adverse impact hitting us. I think we've been able to do a very prudent job in order to predict the cost on the gross margin front. Inflation is normalized, and we should be able to tackle with that normal.

Like I said, we are continuously working on removing cost out of the system so that the P&L doesn't go off. Obviously, when you open 42 restaurants and the fixed cost comes, some impact comes along with it. But as far as the cost prudence is concerned, I'm extremely happy with what we've been able to achieve in the last quarter and what we have planned for from a next year standpoint. So I think that this gross profit you will not see deteriorating any further.

Shirish Pardeshi: Okay, and Mr. Kalra, if I look back, I mean, I have enough explanation I heard from you in terms of decline in SSSG. But if I just quickly check, October versus December versus January, is the trend is similar or is there any material change which has happened on the positive side or it is things have further worsened?

Saurabh Kalra: Sir, we do not give any breakups. What I can tell you is, like I said, there is a cohort of store which was impacted. And the rest of it, we are still seeing everything bottoming out and us now starting to improve on the other aspects, but there's a cohort of store which we need to still work on. We are working on the truly Indian campaign, and let's see how it pans out.

Shirish Pardeshi: Okay. So does that mean that we will have to further strengthen our value proposition?

Akshay Jatia: So again, like we said, we're working on value as a platform as part of our strategy for Vision 2027, which revolves around meals, chicken, burger, coffee, and it's part of our strategy. It's not that we've changed anything. We're just strengthening certain parts of the communication. And that's anyway essential for us achieving our Vision 2027 strategy. So that is going to be the path moving forward.

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

Gaurav Jogani Apologies if my questions have been repeated because I joined the call late. First of all, I'm just...

Moderator: Gaurav, you are not audible, can you please speak through the handset?

Gaurav Jogani Am I audible now?

Moderator: Yes, better.

Gaurav Jogani Yes. So sorry if my questions have been repeated because I joined the call late. My first question is with regards to the store opening, are we on the track to open of 45-odd stores for this particular year on the gross basis at least?

Saurabh Kalra: So our guidance was between 40 to 45. We should be able to be between 40 to 45 stores for the current financial year. For next financial year, our guidance is 45 to 50, we should be able to do that too.

Gaurav Jogani Okay, sure. And the next question is with regards to, again, the cohort of the stores that you were mentioning about that was impacted due to some certain one-offs, like floods, etcetera. So are that issues now behind us? And are we seeing some -- that normalizing or the issues continue to be there?

Saurabh Kalra: We believe that it's bottomed out. However, we are yet to see significant improvement on any of this, but we do foresee that in a quarter and 2, it should vanish.

Akshay Jatia: And we are taking measures to ensure that we communicate to handle this on-ground issue of these external issues primarily around our campaign that we are a truly Indian company. And as McDonald's India, we represent and employ over 10,000 Indians representing various communities.

Moderator: Next question is from the line of Saurabh Trivedi, individual investor.

Saurabh Trivedi: Actually, I was going through the presentation. On the 6th slide, we have written that, initiated various measures to highlight that McDonald's India is truly Indian company, so what was the reason behind this thing?

Saurabh Kalra: So I've mentioned it multiple times. Obviously, there is a sentiment against the brand. And we have done a truly Indian company campaign for people to realize that we are truly Indian. And as Akshay has repeatedly said, we employ X, Y, Z customers, we want to tell people so that our -- we believe that the cohort of stores which have been impacted have been impacted because people don't perceive us as an Indian company.

Saurabh Trivedi: Okay. And what were the reasons behind this 30% of gap in West and South areas? What were the external issues?

Saurabh Kalra: Like I said, their external issues, I can't mention it on the call right now. You can research. There is enough material available to understand what the issue is. The impact was a little higher in South than in West. And I've given an example earlier also like a store in Mumbai Central, Bhendi Bazaar, even in Mumbai, we were doing an X volume, INR70 lakh, INR75 lakh, it has come down to less than INR30 lakh. So now that's an overnight impact which has happened. I'm giving you an example of a restaurant. So this is the kind of store where we have seen the impact.

Moderator: Thank you. Saurabh I'll request you to come back for follow-up question. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Again, I just wanted to as in -- ask as in how have you decided that these 30% of the stores are being impacted by the negative sentiment, just any thought on that side?

Saurabh Kalra: See on -- this is basis our on-ground intelligence on what is the type of store we operate, what communities we will operate with, etcetera, etcetera. These are best judgment. We believe we have been conservative in this estimate. However, this is very, very clearly that coming out of the issues which are beyond our control.

Akshay Jatia: And -- Saurabh has repeatedly given examples of multiple types of stores, whether it's Mumbai Central, Bhendi Bazaar, where we've seen sales decline from a monthly sale of X by around 50%, 60% in a matter of a week or a few days, so it's a very drastic knee-jerk impact, which, like we said, we're working on the ground to communicate the right messaging and ensure that this gets stabilized and get back to our growth trajectory.

Devanshu Bansal: And when was this campaign launched, truly Indian?

Akshay Jatia: So it's, I think, been launched in January. Over the months of November, December, obviously, we were gathering intel and understanding that our hypothesis was correct. And we also made interventions around value price points, etcetera. And now we're kind of communicating altogether.

Devanshu Bansal: Got it, sir. And thirdly, I wanted to check from a focus on value side of the things, do we anticipate some challenge on the gross margin as this mix may sort of be coming at a lower margin, so any thoughts on that, sir?

Saurabh Kalra: As I said, we do not anticipate any issues to gross margin, and our outlook is it should remain stable. I think we have factored all that in. We like to run everything from a long-term standpoint and not do short-term promotional things overnight. And then all of that has been thought through when we have crafted this value for money proposition, so do not worry about gross margin. I think the outlook on that remains stable unless there is something which hits us which we are not aware of right now.

Moderator: Thank you. Next question is from the line of Vishal from YES Securities. Please go ahead.

Vishal: Just 1 small question on one of the new launches that I witnessed in one of the Navi Mumbai stores, a bakery product, Croissant, but it is not part of your presentation in terms of new menu initiatives. Is it a test launch? And when can we expect a scale-up of this product?

Saurabh Kalra: So Vishal, thank you for being such a loyal customer because it was a 10-store trial, which we had done around it, including airport stores, etcetera, etcetera. So thank you for noticing it. Yes, it was a trial. So what we wanted to see is what are the foods which go with coffee well. And these are trials which we keep on doing in order to make sure that the growth remains consistent. And we plan to launch at some point in time next year with the new McCafé food platform, but that's not material. It was a small trial in a few cohort of stores to understand what will happen.

Vishal: So this will be a part of McCafé and not the desserts or the other bakery products, right?

Saurabh Kalra: Yes, yes and no. Because like what happens in trial is we try to frame -- a trial goes through 3, 4 stages. First is what do consumers want. So for example, what's the kind of food which will go with coffee well so that you can get coffee-only occasion in the marketplace? Then you craft out the menu which can work in the McDonald's operating platform.

When you do a rollout in 5, 10 stores, you will learn. You will replace a few products. Whether it will be bakery, whether it will be Croissant getting replaced, I can't comment at this point in time because that's a work which team continuously is doing, but we are going to have some proposition of food launching out next year when we are fairly comfortable with what's the kind of food we want to launch in McCafé.

Moderator: I now hand the conference over to the management for closing comments.

Akshay Jatia: Thank you so much for joining the call today, everyone, and we look forward to speaking to you next quarter.

Moderator: Thank you very much. On behalf of Westlife Foodworld Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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