Westlife Foodworld Limited
Q4FY24 Earnings Conference Call

May 08, 2024

MANAGEMENT:

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

Moderator: Ladies and gentlemen, good day, and welcome to the Westlife Foodworld Limited Q4 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

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

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

Chintan Jajal: Thanks, Sagar. Welcome, everyone, and thank you for joining us on Westlife Foodworld Earnings Conference Call for the fourth quarter and full year ended 31st March 2024. 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. Hrushit Shah, Chief Financial Officer.

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

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

Akshay Jatia: Thank you. Good evening, everyone. I extend a warm welcome to all of you and thank you for joining us today as we review the annual performance of Westlife Foodworld for the fiscal year 2024. Despite a backdrop of significant macroeconomic challenges, including inflation and subdued consumer spending, our company has shown remarkable resilience and adaptability. The past fiscal year was challenging. But it also highlighted the strength and strategic acumen of our team.

While the last quarter was softer due to external pressures, we continued to push forward. We remain steadfast in our mission and successfully opened 41 new stores.

This expansion not only underscores our commitment to growth, but also enhances our market presence, ensuring that we are well positioned for the future.

Our effective consumer engagement strategies and our ability to align with changing consumer preferences are reflected in the increase of guest counts. The surge in our off-premises business segments particularly delivery and Drive-Thru services stood out propelled by our relentless focus on digital innovation and operational excellence. These efforts have ensured that we not only meet but exceed our customers' expectations regarding service and convenience.

As we adapt to the changing landscape, we are not merely reacting to challenges but proactively shaping our future. Our long-term vision 2027 remains firmly intact. We are refining our operational efficiency and continuously focusing on improving our financial performance to address operating leverage.

Turning to our leadership team. I would like to take a moment to acknowledge the contribution of our CFO, Mr. Saurabh Bhudolia who is moving on to pursue new opportunities. We thank him for his contributions, and we wish him the very best in his future endeavours. Stepping into this role, we welcome Mr. Hrushit Shah who brings extensive experience from his previous roles.

I'm certain that his expertise in strategic planning and financial analysis will be invaluable as we continue to grow and innovate. Looking ahead to FY '25, we plan to further accelerate our expansion with even more store openings than this year. This commitment reflects our confidence in the strength of our industry and the opportunities that lie ahead.

In conclusion, as we move forward, Westlife Foodworld's focus will remain on delivering long-term value through continuous innovation, strategic growth and steadfast commitment to excellence. Thank you once again for your trust and commitment to our journey. I will now pass it on to Saurabh to share the operational and financial specifics of the past quarter.

Saurabh Kalra: Thank you, Akshay. Ladies and gentlemen, good evening. Thank you for joining us to discuss our Q4 and full year results. Allow me to begin by reflecting on the business environment. After several consecutive quarters of decline, on out-of-home consumption trends in Q4 remains relatively stable on a sequential basis. However, on a year-to-year basis, eating out frequency continues to be lower.

Having said that, I believe that easing pressures on consumer wallet due to improving macros and moderating retail inflation will positively impact discretionary consumption, and we anticipate progressive improvement in coming quarters.

Furthermore, I'm pleased to highlight that our comparable guest count growth for the full year FY '24 was positive, indicating an increase in market share across all our geographies.

Now turning to our performance in quarter 4. Our top line grew by 1% Y-o-Y. Same-store sales at negative 5% progress sequentially despite multiple external challenges in our key markets. Strategic communication and tactical menu interventions are helping us tackle external issues. I take immense pride in the way our entire organization proactively addressed and dispelled misinformation limiting any further impact to the business or the brand.

Personally, I would also like to thank you all for standing by us in the wake of multiple external challenges, which were beyond our control. Basis the faith you have reposed on us, we are taking active steps to augment our trust building efforts, both in the communities and on the ingredient side.

While our value platform continues to drive incremental footfall and setting us up for the vision 2027 objectives. During the quarter, we also collaborated with Lotus Biscoff or a limited time desserts and frappe offering which has been very well received by our customers.

Over the last 2 years, we have harnessed the power of digital technology to enhance customer engagement and frequency. Our aggressive investment in user interface and back-end improvement across platforms like McDelivery app, self-ordering kiosk or the MyMcDonald's Rewards app have started to deliver great results and exceptional customer experiences.

As a result, digital sales contribution grew by a massive 15 percentage points to 70% in the last 2 years. Surpassing our Vision 2027 target of 65% to 70%. As we are able to identify a majority of our customers, we are in the bargain building a solid platform to deliver personalized and consistent experiences to our customers.

Moving on to business channels. Our off-premises business grew by 8% Y-o-Y, contributing 43% to overall sales, on-premise business declined by 2%. Our average sales per store on a trailing 12-month basis was at INR 63 million. For the full year ended March 2024, sales grew by 5% Y-o-Y. Same-store sales decline was limited to negative 1.5% on a base of 36% of growth last year despite external challenges. Off Premise contribution was broadly stable at 41% compared to FY '23.

Profitability during the quarter was muted largely on account of unfavourable operating leverage arising from the sales deleverage and the nascency of new stores. Gross margin in Q4 was broadly stable on a sequential basis. Restaurant operating margins and operating EBITDA margins were lower by 510 bps Y-o-Y and 280 bps Y-o-Y, respectively. Other operating expenses were higher on account of increased marketing spend and utilities.

Depreciation was higher due to the new stores, but it's likely to normalize at a 7.5% to 8% of sales in the coming quarters. Over the past year, we have really pushed the pedal across cost optimization project, unlocking over INR40 crores worth of incremental cost savings across various P&L line items like food, distribution, utilities, crew, etc.

For example, gross margin for the year improved by around 40 bps despite us doing the value platform play. Similarly, cost lines like maintenance, operating supplies, et cetera, have seen Y-o-Y decline. All this work resulted in improved like-for-like contribution margin and lower sales breakeven points, which will support our accelerated pace of network expansion.

On the network expansion bit, we added 17 new restaurants in quarter 4. We closed the year with a record-breaking store addition of 41 restaurants taking the total to 397 restaurants across 64 cities as of March 2024, 91% of these restaurants are McCafés, 84% of these restaurants are modern and experience of the future enabled stores and 20% are Drive-Thrus.

Despite the challenging operating environment, our network expansion plan remains unchanged. We will add 45 to 50 restaurants in FY '25 as we remain highly optimistic about the long-term structural opportunity.

To conclude, I think it's quite evident that it has been a challenging year for the entire industry as well as larger discretionary consumption space. We also had multiple external challenges to prioritize and address in the last 6 months. Despite that, we have strengthened our market positioning by investing in growth and putting the customer at the center of decisions we make.

We set up strong governance forums to manage risk and maximize profits. We fortified our teams with the best people, talent and processes. We created and deployed new technologies, which created efficiencies and enhanced digital experience.

We augmented our value platform leading to much higher affordability scores. We innovated our core menu to make it relevant for ever-evolving consumer use cases. And finally, we emphasize on brand trust through a remarkable campaign like Real Food, Real Good, Eat Equal and Truly Indian.

With all of this groundwork our foundation has only become stronger. We are confident that as macro consumption picks up, we will deliver differentiated performance. We remain committed to 2027 targets and thank you very much for your time.

I now hand over the call to the moderator and open the forum for all your questions.

Moderator: Our first question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Congratulations on opening 40 stores in FY '24. Sir, what is the SSG in the cohort of stores, excluding the 30% network that has been impacted due to the negative Israel sentiment. Last time, last quarter, this number was minus 3%. It would be helpful if you can call out this number for Q4.

Saurabh Kalra: So I would give you a ballpark number that we were trending a little positively on the stores which were impacted by community. However, we had additional impact of another challenge which we faced around cheese, in which we were slightly more impacted in the Western region.

So I can't really give you the breakup at this point in time. What I can tell you is the impact hasn't gone away completely. We have had marginal improvement on stores which were impacted by issues beyond our control.

Devanshu Bansal: So, Saurabh, I was checking on stores, which were not impacted. So last time around, it was minus 3% decline in those stores. Any qualitative comment on the cohort of stores that were not impacted will be helpful? Is it more than minus 3% or less than minus 3% even that will be helpful.

Saurabh Kalra: There are a couple of markets which have not been impacted by anything. And out there we see flat comps to marginal positive comps. But that's limited to a couple of markets because there were two challenges back to back on us, and that's why it's extensively difficult for us to remove like last time we had given you a guidance that we might be impacted close to 400 to 500 basis points negative on the comp side of it in which what you are telling is negative 3% was the number, the negative 4%, 5% has come down marginally, but that impact still remains.

Devanshu Bansal: And Saurabh, second question, I wanted to check on Drive-Thru stores. The proportion for this cohort of stores has been increasing in our new store addition mix. I wanted to check if you could help us explain the differential between payback for our Drive-Thru stores versus a normal store, or maybe the difference in value generated by Drive-Thru store over its lifetime compared to other store formats. So any qualitative thing here will be helpful.

Saurabh Kalra: Let me answer you this question in 2 different ways. One is if you look at our stores, which are really very well matured, all of you know the example of Kalamboli, which has been a Drive-Thru from the longest time we have had -- that was our first Drive-Thru. So you see there is always a Drive-Thru queue.

For us, it was also about an opportunity, which is right there in the market, which has not been capitalized on, and Mcdoanlds globally does a fantastic job on Drive-Thrus. So right now, what we are focusing on is to be able to build Drive-Thrus. What we have seen is Drive-Thrus after 4 years to 5 years, really, really unlock a tremendous amount of returns in comparison to any other cohort of store. So we are committed to Drive-Thrus and we believe that when the use case emerges and we are able to go to 300, 400 cars a day, it would be a real, real differentiator in the marketplace as you see years to come. There is no immediate guidance as far as Drive-Thrus for today is concerned.

We believe that first of all, our task to be done like in any business, is to be able to democratize more and more Drive-Thrus. What you will see in the next couple of years is the number of stores we added Drive-Thru will increase substantially as a percentage and then we will start talking about Drive-Thru numbers etc. But now it's about a strategy which we are fully committed to that 30% to 35% store over a period of next 5 years to 6 years will be Drive-Thru restaurants.

Devanshu Bansal: And last question from my end. Among channels, dine-in channel decline was higher at about 8% versus 3% last quarter. Anything to read here in terms of lower footfall in the market versus the previous quarter? Anything you can help us understand?

Saurabh Kalra: No, I would not read too much into anything right now because, like I said, there were markets which were earlier -- there was a cohort of restaurants. We have talked about it, around 70 to 80 restaurants which were impacted beyond our control in the last quarter, that has continued. Beyond that, there was a little bit of impact in the Western region due to the challenges we faced because of cheese, et cetera. So I wouldn't read too much into it.

I feel these are transient things which keep happening. Trust is always a long-term game as far as, we, as a brand are concerned. And we are committed to spending more on our brand trust, resourcing it more, spending more time, energy on building the brand trust back.

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

Avi Mehta: Just wanted to clarify one point. You said that the impact from the external issues is something that is still continuing. Would you be -- and you also had the cheese kind of concern. Could you help us understand, a, where we are as of now? And by when do you see these headwinds kind of normalizing or going out of scene?

Akshay Jatia: So Avi, like Saurabh just said, we see marginal improvement. Building trust back is a long-term game. Obviously, the impact we had was beyond our control, and it escalated quite fast. What we have done, like he said, even in his commentary is that we've done a very good job in spreading the right information within the communities representing our brand in the way it truly stands, which is a truly Indian company and its truly Indian brand.

And as a result, we are seeing headway over there. We've seen a marginal improvement, but because obviously, the issue was larger than expected. We do anticipate a quarter or 2 more in terms of getting back to the growth trajectory that we've been talking about.

Saurabh Kalra: Avi, I would look at it as we've got to be able to see, one, obviously, we know it's a transient impact. Second is whatever inputs which we are ready and committing. So if you look at it the first campaign, which we did was yeh hain India ka McDonald's and Truly Indian to dispel some of the myths which were going around for us as Westlife. And then when the cheese challenge came through we have come out very, very strongly with Real Food, Real Good.

In fact, we have collaborated now with Sanjeev Kapoor and you guys would have already seen videos that we are doing in terms of yes hain mera McDonald in which we're talking about Real Good, Real Food, real ingredients, etc. So that all these issues and sometimes, these issues are also opportunities for us to strengthen our brand image, et cetera.

And we are fully committed. We are spending more on brand building right now than we ever have in order to make sure we come out of it stronger. And that's why the confidence around being able to bounce back for vision 2027. Now what will happen this quarter, next quarter, honestly, we are putting all our efforts. The inputs are all in there. What it will be? It's all conjecture at this point in time.

We would like it to go away ASAP, but we do see at least the next quarter or 2 will be softer in regards to these 2 issues as far as these 2 issues are concerned.

Avi Mehta: Got it. Very clear on this. The second question I had was on margins. Now it was heartening to see, you have reiterated the focus on getting to that 18% to 20% kind of level. Could you give us a sense of is this likely to be a little back-ended because near term could have some pressures and or maybe even in the near term, is it likely to go second half?

Just something on how do you see this number? How are you internally feeling it, in your thought process will be useful to understand.

Akshay Jatia: So Avi, like you know our target is 15% to 18% pre-IndAS margin which means an 18% to 20% post-IndAS margin in terms of profitability. Obviously, this quarter, we've seen an impact, one, due to some operating deleverage that set in because of the decrease in volumes. And number two, despite this tough macro environment, we've continued to invest into, number one, building a brand like Saurabh said.

The inputs are extremely strong and number two, opening new stores. We've opened a record number of stores in this financial year despite the second half being challenging. So the endeavor is to get back to this margin profile that I spoke about in the beginning, we even spoke about a cost improvement program that we ran internally that has removed significant cost from the system.

So our main focus is bringing volumes back. That's what where you're for in the long term as well. And as we see that coming back, the margin profile we shared is exactly what our target is. and we don't see a challenge over there. In fact, this is an opportunity for us to remove costs from the system to double down on our strengths by building brand trust. And we feel that we can come out even stronger as we tie through this time.

Avi Mehta: Okay, Akshay. So just to clarify, the reason why I asked is your immediate period is clocking in -- this year is probably, and I look at it more from an annual basis. We've probably done about 15%, 15.5% in this year. And that's on a reported basis and that the trajectory is 300 to 500 basis points expansion, so which is why, I was just trying to understand how the -- you think, given there are too many things happening, and it's not something which we can be anticipated, obviously.

Akshay Jatia: So Avi, what I was trying to say, right, if you saw the first half of last year and the year before that, when volumes were where they needed to be, our margin was, in fact, almost 18%, right? So our entire focus is on bringing volumes back as you see that coming in, profitability just follows. That's the beauty of our business model. And that's why that's our main focus, and we're talking more about that because we're already doing what's required from a profitability point of view.

So as we see it come back, we may even emerge stronger than we anticipate, which is why I don't want to give any set timelines or tell you exactly when that will come in. I think you should monitor the volumes and look at our SSG trajectory to kind of build that out.

Saurabh Kalra: Avi, in my commentary also, I just mentioned that we've improved our breakeven points. So that should give you a lot of comfort that because of the work, which we have done around cost we've improved the breakeven point. That's first and foremost. Now on a temporary basis, like I said, there might be higher marketing costs, et cetera, et cetera, to build the brand back, but we are in a better space than what we were 1 year back, if the volume is exactly same as 1 year back, our profitability will be more than what it was 1 year back.

So it is about now getting back to our volumes, and you will see there won't be any issue as far as the profitability is concerned because at the unit level, the breakeven has improved, if I were to remove all exceptions.

Moderator: The next question is from the line of Dhiraj Mistry from Antique. Please go ahead.

Dhiraj Mistry: So my first question on SSG guidance like looking at the external event which has been getting prolong beyond our expectation, what kind of SSG guidance you would like to give for, in near term for FY '25 and over the medium to long-term basis?

Akshay Jatia: So Dhiraj, like we've maintained in our vision 2027 document, we gave SSG guidance for the vision that we've set, which is high single digits, taking us to INR4,000 crores to INR4,500 crores of sales. And that's what we will maintain. Like Saurabh said, these are transient cyclical kind of events that impact the retail environment, and you're seeing that play out right now.

We will get back to where we were right before this, which was allowing us to move towards this vision that we have set. So rather than giving any guidance for the coming year, we're sticking to the guidance that we've given for Vision 2027, and that will require us, obviously, in the coming years to deliver a higher SSSG than where we're at right now.

Dhiraj Mistry: Second question on store addition, you have mentioned that you would be looking for more addition in the South market and in the smaller cities. What is stopping us from expanding -- why there is a skew towards South of India versus rest of India?

Akshay Jatia: So Dhiraj, I'll ask Saurabh also to add on. But as we mentioned in our Vision 2027 document, right, we have a huge opportunity in front of us in terms of adding stores, and that's why we bumped up our guidance next year to 45 to 50 stores. The South is a market that's a little more underpenetrated and a market that we're starting to kind of win in terms of market leadership, whether it's through our meal proposition, our chicken proposition or our store format proposition.

So South is an area where we can penetrate fast and with the business model that we have -- position that we have, we're confident that we can bring in both the volumes as well as the returns. Secondly, with Drive-Thrus, right? That's another area of focus for our development strategy. It's what Saurabh also mentioned earlier on the call, a business model that allows us to bring in large amounts of volume and hence, large returns moving forward. So that's another area that we are committed to in terms of our development journey.

So taking both of them together, I think the south is an area of focus, number one, because it's underpenetrated, we have a stronger value proposition than we did earlier.

And thirdly, even from a real estate point of view, even the Drive-Thru landscape over there is more feasible. So this is our approach moving forward.

Saurabh Kalra: So Dhiraj, if you look at it, we have just now started giving a guidance of 45 to 50 restaurants. By no means are we saying we are going to reduce our store opening in West. What we're saying is the additional augmentation which we are doing will come out of large unpenetrated markets of South. However, we will continue to open in West as we have always done in the last 10 years.

Dhiraj Mistry: Okay. Got it. And just to continue on that, what would be the capex guidance for this coming year?

Akshay Jatia: So it would be similar. It would be to the range of around INR200 crores to INR250 crores.

Dhiraj Mistry: Okay. And sir, last question, if I may. How do you see raw material price trending? And is there any -- what margin we have been building over medium- to long-term basis, what kind of price increase we can expect on an annualized basis going forward?

Saurabh Kalra: Yes. So again, I will answer in two parts. One is, if you look at it historically, we've always believe 3% to 5% is a price increase we take every year. This year, we did take price increases but got negated by the value proposition, which we were -- which we had taken. Right now, the market is soft.

So we are not taking any price increase as of now. But our guidance will always remain that we would like to take annual price increases, which is as low as possible in order to cover up for the inflation, which we get after all the work which we have done, so that we pass the maximum value to the consumer.

Dhiraj Mistry: And current raw material trends remain stable?

Akshay Jatia: Yes. So as you saw, even in Saurabh's commentary, we've done a great job in terms of removing cost from the system, so despite whatever may be happening from an inflation point of view, through strategic sourcing as well as strong vendor partnerships. We've been able to shed costs from the system over there. So our food, paper line up is sequentially trending even better than before.

Moderator: The next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale: Congratulations on the 41 store openings for the whole year. Sir, as you mentioned in your remarks that whole industry has been facing demand headwinds since last 4 quarters, 5 quarters. So when do you see those normalized SSSG levels? And in terms of store openings would be going slower in H1 in terms of store openings?

Akshay Jatia: So I think in terms of SSSG guidance, we've covered it multiple times already, we're focused on the inputs like Saurabh said and the volumes will follow. These are times where, in fact, we can strengthen our brand further. So we're not too concerned and the ultimate goal is Vision 2027 which is high single-digit SSSG over this 4-year period. And secondly, in terms of new stores, we plan to evenly distribute our openings, that's our endeavor. You will see some movement here and there from a quarter-on-quarter point of view, but there's no -- what do you call it, direct initiative to backload the new store openings.

Palash Kawale: Okay, sir. Sir, my next question is off-premise growth, which is like the growth has been 8% in the quarter. So do you see this trend continuing going forward that off-premise is growing better than the on-premise?

Saurabh Kalra: So let me answer it in 2 different parts. As you know, most of the digital growth is more predictable. So off-line channels are all around digital and hence, more predictable, things sometimes in -- so digital-led sale is already 70%. So we have got far more predictability on the 70% of the sales.

Now unfortunately, the remaining 30 happens to be dine-in. I wouldn't break it up as on-premise and off-premise because there is a lot of work that we have done even on -- even on loyalty points, etc. And we are seeing frequency gains coming from there. However, we are still not 100% on digital, and hence, we have got 30% unidentified.

Now where this cohort is coming, our hypothesis is very clear that a lot of it is coming out of the fall in trust for the brand as far as a couple of challenges, which we have faced. And we see sequentially over a period of time, this has to come back and like your last question, I don't think we've ever grown in India in a straight line year-on-year. It's always been every 5 years, we face some challenge or the other, and then we cover it up in the subsequent year.

So these are all part of life. Immediate guidance for this quarter and next quarter, this year, I have no idea. But what's most important is I think we are very committed to the inputs required at this point in time. And we have calibrated and we feel quite confident about the inputs, which we are giving and hence, a very strong belief in, coming back on track for the vision 2027.

Palash Kawale: Sir, last question, if I may. Sir, you mentioned that there's a focus on value meal, going forward if the raw material prices remain stable, how do you see gross margins panning out? So could there be any pressure or do you see any room for expansion there also?

Saurabh Kalra: No. As far as we are concerned, we have always maintained and we've always -- you would have seen our track record. We've always improved gross margin. We do see continued work happening on gross margin, at least on a percentage side, you won't see a deterioration for sure.

Moderator: The next question is from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: My question is that in the two, three markets that you mentioned were unimpacted by either of the external issues. What was the SSSG trend like month over month or maybe if you could also share how it was coming into April?

Akshay Jatia: So Saurabh, we don't break out these numbers. I think Saurabh Kalra was just trying to share some flavor to the question that was asked in terms of how the brand is trending generally. And these were kind of green shoots that we were seeing even before the second challenge hit us. The whole idea is around the inputs, which is what we're focusing on, which is ensuring that we strengthen our brand trust.

We continue to press down on our digital levers and grow our off premise business, and we continue to open new stores. So I think the idea is that by doing these 3 will continue to increase penetration, build back the volumes, and you'll see SSSG come back to the levels that we need them to be at to deliver our vision 2027.

Saurabh Kundan: Sure. And my last question is on the cost side. Just wanted to understand there's been an absolute reduction in corporate overheads, if I'm seeing the numbers right, quarter-over-quarter. What's the nature of that? Are these like variable salaries? And also, the -- I think the royalty as a percentage of sales is tracking lower than what you shared on the strategy day also. There are probably some benefits there. Will those continue in the next year? And what are these benefits in that, if at all?

Saurabh Kalra: As far as our loyalty is concerned, if you look at it, for the Q4 is 5.1%. We've already given a guidance, which is there and uploaded in our investor website. However, we, last time mentioned that we had gotten some one-time benefit, which we had closed in the month of December. And last quarter, we had also given why this onetime had happen.

So beyond that as far as the other line items are concerned like I've said earlier I think we are space at all. A lot of it is due to average unit volume and excess spend on marketing and brand, which we are doing right now. If I remove all the exceptions out, our breakevens are better. And as you will see the volumes coming back, you will see that flow through also happening.

Moderator: The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I just had two questions. One was on the value segment. I mean FY '24 has been a year share of the value meal ramp up for everybody, competitive intensity is higher. I was just wondering as you have exited quarter 4 into quarter 1 of '25. How do you see that share moving for the industry as a whole and for you as well. My question, obviously, is in the context of in average check on gross margins.

Saurabh Kalra: Okay. Let me answer it in two parts. Value share increasing is a good thing because you have to provide value even at the highest possible burger level. As far as affordable menu is concerned, I think there are two, three parts to it. If you look at it we are not going with a McAloo Tikki strategy of INR20.

Right now, we're talking about a meal strategy of INR149 which we feel is a good price point for a single person's meal and it's in line with what we used to have as spending on an average single person. So we don't see an average check drag coming through it. GM through our costs we have been able to manage. We'll continue to -- you will continue to see that there is no percentage drag on the gross margin coming ahead in the quarter also.

Harit Kapoor: Got it. And the second part was on product innovation. I mean, over the last 4, 5 years, format product innovation has been kind of bedrock of the strategy. I was just wondering in the context of the next two quarters, demand also being a bit. It is recovering now as well as some of the externalities just in a market fully recovered whether some of these product innovation factors also get pushed into the second half of the year. I just wanted your sense on how that pipeline will go.

Saurabh Kalra: Yes, we keep on recalibrating. See, at the end of the day, there is always an annual plan with us. We recalibrating the plan quarter-on-quarter depending on where the demand of the market and the consumers are, for example, last year, in the third quarter onward, we decided that it was always long overdue that in the meal at some point in time.

We will have to go with affordable meal strategy. We felt Q3 was the right time when we launched the meal proposition at that point in time. And since then we are sticking to that. If you look at product innovation on the meal itself this quarter in April, May, June we are coming with exciting different -- limited time offer on the McVeggie and McChicken, which is the fiesta -- McVeggie Fiesta and McChicken Fiesta.

So we keep adding excitement on the things which are a strategic priority. Right now, the affordable INR149 meal is a part of our strategic priority. So you will see the work happening on that. And you will not find us lacking behind as far as the innovation is concerned even in the coming quarters.

Moderator: The next question is from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities. Please go ahead.

Krishnan Sambamoorthy: Congrats on a good set of numbers in the challenging environment. Two questions, One on the Drive-Thru. Did I hear, Saurabh say correctly that by 2027, the number of Drive-Thrus will be 30% to 35% or did -- or is it to mean that 30%, 35% of incremental store openings will be Drive-Thrus?

Akshay Jatia: Yes. So that's what Saurabh was saying that 30% to 35% of our new store openings now will be Drive-Thrus.

Krishnan Sambamoorthy: Okay. And that seems to be substantially larger than what was earlier. So what was the guidance earlier, which was about 20% 25%, I understand your global expertise as well as your execution strength here in India as well. But is it also to do with, say escalating high street cost in places like Western India, which is also something that an earlier participant and us?

Saurabh Kalra: So if you look at it, the Drive-Thrus premise is far bigger premise, then a high street premise required to operate the business. And if you look at it in the last quarter also, we haven't opened outside the city and highways only. We have opened in Nashik. In the middle of the city. So we are talking about Drive-Thrus not only as highway use cases, but a use case for you to pick up in relatively suburban stores and be able to use the Drive-Thru use case there.

So for us, I don't think these are compromised to not do high street, not do Drive-Thru. To me, if we are able to get a Drive-Thru anywhere we would first try to do a Drive-Thru. If we don't get it Drive-Thru, then we would go and say, can we open a street store there? That's how at least we are thinking about the next phase of growth of stores.

Akshay Jatia: Yes. So just adding on to that, as we even mentioned in our vision 2027 session as well as document Drive-Thrus have the ability to generate large volumes and hence, even better returns and McDonald's as a brand has a strategic advantage because we know how to do Drive-Thrus and no one does it better than us. So like Saurabh said, if we can put up a Drive-Thru in the center of Mumbai also, we would. So the whole objective behind Drive-Thrus is to drive volumes as well as increase, strengthen the brand as well as increased penetration. So because of the competitive advantage, it is a business model that we prefer. And like he said, it's a bigger premise. So it's not about rentals.

Krishnan Sambamoorthy: Understood. Just for clarification, just also wanted to comment on the rental inflation in high street. Is it still significant currently?

Saurabh Kalra: So rental inflation as a world, obviously, there is always rental inflation. But we've got to do the deal with the landlord, which works as a win-win for both. So for us, we work through each deal separately. Some deals might be high, some deals might be low. Some deal might even be a low percentage of sales. So as a basket of it, we manage.

I don't think there is huge rental inflation, which is hitting us. In the new store, we have to make a decision of, what will the store yield for the next 20, 25 years. And that's the decision we go by. And then over a period, we know it's a huge competitive advantage when you do a 25-year old deal.

After 10 years, the rentals looks fantastic, even on a fixed deal, which might look high today. So we're taking a long-term view of looking at the property, what can we do in the next 25 years with the rental, which we are starting with.

Krishnan Sambamoorthy: Understood. My final question is on the loyalty program. What have been the key learnings here and what have been the areas where you've been proud of in your initiatives on the front so far?

Saurabh Kalra: I'm quite impressed with the amount of people are already using the app converting into loyalty members. Now what loyalty gave you is the way it's designed for the first one year is after every 4 visits, you will be able to get something complementary from McDoanld's or you can burn it through your points which you get out of your 4 visits, which is exciting because it's value on top of high value, which already McDonalds drives.

We are very excited about the behaviours which we are seeing in the restaurant right now. But very clearly, we are working with the guidance from the global team because loyalty is a global program. For the first 1 year, we are accumulating data. This will become more and more exciting as more and more data starts to flow in and more and more customers enrol into loyalty. So our immediate goal is to have more and more people enrolled into loyalty program.

Moderator: The next question is from the line of Manish Poddar from Invesco Asset Management. Please go ahead.

Manish Poddar: So just one question probably can you highlight, let's say, for the full year, how would our market shares be index with these -- in the aggregator channel, I'm just trying to see the emergence of, is there a lot of regional or local players emerging. Is that really having any dent on the entire revenue delivery.

Saurabh Kalra: See, we do not get the entire breakup. What we do get is I can tell you that we are one of the best retention brands available in the platform with a very, very high organic reach, which means we don't have to spend the amount of money which others have to in order to get the consumers on an aggregated channel. So we feel good about our relationship with aggregator channels.

We work with them to formalize a win-win situation where both Swiggy and Zomato, we work on our quarterly plan and then we do a quarterly review also with them to be able to do what else can we do. But I think our market share from a QSR standpoint, we've pretty much been stable to growing as far as the last year is concerned.

Manish Poddar: Would it be a right inference, let's say, if the entire -- if I look at the entire year, whatever revenue delivery which you've seen is largely because of, let's say, broader macro in this country issue, which increased and not really led the market share. Would that be right understanding?

Saurabh Kalra: Sorry, your voice was breaking. We couldn't get what you said.

Manish Poddar: I'm just trying to understand, let's say, when I look at the full year '24, the revenue delivery, it's largely led by external environment, which is macros and, let's say, the inter-country issue, which is going across, not really led by any market share as per your internal data, which you're generating across.

Akshay Jatia: Yes. Yes. Sorry, we got it now. So like Saurabh mentioned, right, from an input point of view, we don't see any structural issues or challenges. We've doubled down on areas where we saw opportunities like value and brand trust. And we think that with all the inputs that we have in place, we're in a pretty strong position, whether it's on the growth side or the cost side.

In fact, our breakevens have only gone down, so yes, as the environment starts improving on the macro side as well as these 1 or 2 challenges that we saw specifically start moving behind us as we believe the transient events, we will start benefiting substantially and we're pretty optimistic that the Vision 2027 growth trajectory will be back on.

Manish Poddar: Just one that I missed it. Did you call out raw material inflation, how is the raw material broader environment?

Saurabh Kalra: Raw material inflation, we should be able to manage this year. We don't see a big problem on that side.

Moderator: The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: I have one question which is not related to this quarter, but on January, when you look at your delivery business, what percentage of your delivery sales today in a city like Mumbai is fulfilled by your own staff and what percent goes through aggregators channels?

Saurabh Kalra: We don't give breakup, but we have mentioned, for example, in a city like Mumbai, we will be very strong, almost equal to the 3PO players, in a city like Mumbai, but we do not give breakups like I've always maintained, it's about McDelivery. McDelivery happens through our channel through Swiggy, through Zomato and hopefully tomorrow onwards through Magicpin and ONDC. So hopefully, we'll continue to keep adding partners and growing the business.

Jay Doshi: Understood, saurabh. Would you be able to then give us at least some color where from a profitability perspective, is it significantly better when an order is fulfilled by you, service by you versus aggregators?

Saurabh Kalra: Yes. So I think this question has come last quarter also where we had maintained, see both of them, both delivery and dine-in are complementary business. One is higher fixed cost, lower contribution margin, lower fixed cost, higher contribution margin and vice versa, right? So if I look at it, both dine-in -- dine-in has got high fixed cost -- sorry, low fixed cost and high contribution margin and vice versa. So we do not see the difference between delivery margins and dine-in margins on the absolute bottom line. right?

So our job is to add a penny irrespective whether it comes from dine-in or delivery. And we would continue to talk about that. That's why there is an advantage of being an omnichannel brand. We would like to add more Drive-Thrus, more pickup and such use case occasions so that we are able to add new channels and then continue to add sales, which will in turn get profitability.

Akshay Jatia: So Jay, as Saurabh said, right, it's all about volumes for us. And the beauty of our business model is not only from the real estate. From the same real estate, can we do dine-in, we can do delivery, we can do Drive-Thru. And these are the stores that generate large volumes. So any incremental sales beyond your traditional dine-in model is looked at as seller wouldn't have been there otherwise. And hence profitable. So that's our endeavor, which is to increase volumes and on the larger P&L, it only starts adding to our profitability.

Jay Doshi: My question was related to profitability, where the delivery order is serviced through an aggregator channel versus when it is service to your own pursued by your team. Is there a big difference between the 2, in that case, are you conscious...

Saurabh Kalra: No, there is not much difference between the 2.

Akshay Jatia: And again, Jay, we'll go back to the point that all delivery sales are incremental for us whether it's through our own channels or aggregators, and that's how we view it because aggregators are also partners and our own delivery channel is also a channel that we're building very aggressively. So we look at both as incremental sales and have thereby -- sorry, increase in volume of the restaurant and increasing profitability.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, your vision '27 with plus 4.5 -- plus INR4,300 crores sales?

Saurabh Kalra: Yes.

Pritesh Chheda: So on the other hand, when you put the store addition number or the -- and the SSG number which you are giving out, the INR4,300 crores or INR4,500 crores number, when -- if you look at separately doesn't correlate if you put the math one way or the other. So what is the inherent assumption in this INR4,300 crores in terms of store addition in 3 years and the SSG?

Akshay Jatia: So we've laid it down pretty simply in our Vision 2027 document. I would advise you to look at that. Otherwise, we can take this conversation offline if you want to go through the exact metrics because when we did that exercise, we had done this exact math, which was high single-digit SSSG, 600-odd stores, 580 to 630-odd stores by 2027 which will deliver us this INR4,000 crores to INR4500 crores top line. If you have any additional questions in terms of understanding it, you can reach out to our Investor Relations, who will help clarify.

Pritesh Chheda: And my second question is, between the 2 years, let's say, '23 and '24 when it comes to the restaurant operating margin, is it fair to assume that '23 would have a much higher SSG number influencing the 23% ROM margin?

Saurabh Kalra: Yes.

Pritesh Chheda: And typically, that -- what could be a normalized ROM margin because there's a lot of variations in the last 3 years. So what can be a more normalized restaurant operating margin?

Saurabh Kalra: So we will not go today, maybe there is a call which you can do with our Investor Relations also later. But essentially, it's about breakeven and then it's about the operating leverage. I think as far as breakeven and operating leverage is concerned, we are very proud of the fact that we have been able to maintain or reduce in the last 1 year. And before that, there was less than inflationary increases on a breakeven point.

Now when that happens, the moment you get higher AUV, your leverage comes down, and that's why you see percentage. Unfortunately, we are a contribution margin business with a high fixed cost. So you will see these kind variability happening, part of life as far as running a restaurant business is concerned. So maybe with the Investor Relations, you can speak directly and we can talk a little bit more in details about how the P&L pans out.

Moderator: The next question is from the line of Vishal Punmiya from Yes Securities. Please go ahead.

Vishal Punmiya: Just one question. So the question is actually on the consumption at the value level. So we have done a decent job at the value portfolio. And I've seen that the other burger peer has also kind of introduced, a couple of offers in the dine-in channel, they will introduce 2 for INR79 and delivery channel, they've introduced INR139 combos. If you could share your feedback or your on-ground view on consumers, how they have responded and is there any market share movement that you might have seen at that portfolio level.

Saurabh Kalra: So like we have always maintained at Westlife, we always follow the customers and not necessarily competition because then it loses our ability to be the leader in the market. What we believe is, right now, as you look at the external environment, it's important to have sharp price points and entry-level price point, which are strong, but strong for what use cases.

For us, the use case was a lunch and a dinner occasion, for which we have crafted our proposition, where a McVeggie and McChicken, which is relatively a big burger with a French fries and a coke at INR149. We feel that that's a good enough work to be done. As colleges open in July August September, June end you will see a price point which will be attracted towards college goers. So it's not always -- we are not here trying to decimate what competition is doing on a day-to-day basis.

We follow our consumers, and we are comfortable with what we have done till now. That's why when Akshay also mentioned that we are happy with the inputs. We have tried to look at it from all aspects. And we feel confident that as far as the meal strategy is concerned, we are at a good price point.

We will continue to see activity around our price point, which is more attractive to the customer after the research, etc we do with them and won't be determined because somebody has done something. If it gives good results for them, good for them.

Vishal Punmiya: Understood. Just lastly on innovations. So you have highlighted a couple of innovations in terms of McSpicy and the desserts, Lotus Biscoff. I could see a couple of more innovations on ground in terms of Mexican, they have the Korean menu and as mentioned last time, there was an introduction of croissant which I think, has been taken back from the stores. So any feedback from that portfolio? Are we reworking that product? Are we talking to vendors in terms of making any changes or was it kind of testing grounds and maybe at a later stage, when the market is mature, we will reintroduce some of those products back?

Saurabh Kalra: First of all, I would like to give you absolute compliments for following us in so much detail because we do, we keep on doing these trials. And last time also it was picked up, that a 5 store trial on croissant was being picked up as a new product launch. So we keep on doing these trials. For IPL, we felt that wrap could be a good occasion because it was evening time.

It was only done as a part with the existing ingredients, as a part of our limited time offering, so thank you very much for calling us in so much detail. But overall, if I look at it, we are -- like I said, we always are following consumers and trying to create hypotheses and do trials in a manner, which can be scaled tomorrow for tomorrow's growth.

So in that spirit, the trials are done, and we then try to either improve the product or dump the idea. As far as McCafe food is concerned, the trial is still continuing, we've extended it to a few more stores, some products which had some improvement required have been replaced, etc, etc.

So we are working through with the consumer feedback. We will continue seeing excitement both on McCafe side and on the other use case occasion, for example, like I said, the wraps were specifically for markets like Mumbai during IPL matches. So that's how targeted trial it was. Thank you for capturing it.

Moderator: That was the last question for today, ladies and gentlemen. I would like to turn the conference over back to the management for closing comments.

Akshay Jatia: Okay. Thank you. Thank you, everyone, for attending the call. I hope we were able to answer all the questions well and see you on the next one. Thank you.

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

Disclaimer: Please note that this transcript has been edited to correct any inadvertent grammatical inaccuracies or language inconsistencies that may have occurred while speaking. The audio of this call is available here.