Westlife Foodworld Limited

Q3FY25 Earnings Conference Call

January 29, 2025

MANAGEMENT:

- Mr. Akshay Jatia – Executive Director
- Mr. Saurabh Kalra – Managing 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 Q3 FY '25 Earnings Conference Call.

As a reminder, all participants' lines will be in 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, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded.

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

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

Chintan Jajal: Thanks. Welcome, everyone. And thank you for joining us on Westlife Foodworld's earnings conference call for the 3rd Quarter ended 31st December 2024. I am Chintan, Lead IR at Westlife.

From the management team I have with me, Mr. Saurabh Kalra – Managing Director; Mr. Akshay Jatia – Executive Director; Mr. Hrushit Shah – Chief Financial Officer.

We will kick off today's conversation with Akshay sharing his thoughts on overall progress in 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, Chintan. Hello and good evening, everyone. I am happy to have you on the call today. I trust you have seen the numbers, Saurabh will take you through the details.

But in summary, growth is gradually coming back, and we are encouraged by signs of progress. Same store sales were up by 3% year-on-year moving back in the positive territory. A key highlight here is that it is a guest count-led same store sales growth, while average check remains stable. I think this reflects our well-rounded strategy focused on enhancing value, our value proposition, while driving customer excitement through product innovation.

We have been pioneers of value in the QSR industry with initiatives like the Happy Price menu launched nearly 20 years ago, democratizing the burger category in India. In fact, the QSR industry globally is built on two core pillars of value and convenience. I am pleased to report that our sustained efforts with Everyday McSaver Meals and the McSaver Combo programs have significantly improved our affordability perceptions scores, and increased customer footfall in our restaurants.

Our customers continue to see us as value leaders, which is crucial in a challenging consumption environment where every rupee counts. We remain committed to delivering exceptional food experiences at all price points. During the quarter, we launched the McCrispy platform, with Shordaar Crunch tagline. The product has been very well received by customers and is becoming a favorite for many. McCrispy along with McCafe, has enabled us to drive the premium segment of our portfolio.

Our customers are increasingly looking for experiences that offer both affordability and premium options, deepening their needs and occasions. Our ability to cater to these diverse preferences is a testament to our robust strategy and deep understanding of consumer behavior.

Lastly, the operating environment remains challenging. We are yet to see a significant increase in dine-in out trends. We anticipate that stability in retail inflation and any budgetary measures to boost disposable income and purchasing power could provide the necessary stimulus in the near term to consumption. Despite these challenges, we continue to execute our strategy and expand our network prudently, in line with our Vision 2027 plan with a long-term growth mindset.

We opened a record 46 new restaurants in the Calendar Year of 2024. Our ambition is to fortify our market leadership and deliver differentiated performance in the years to come, supported by a strong foundation and multiple growth levers.

Thank you for your continued confidence in us. I will now hand over to Saurabh to take you through the operational and financial details of the quarter.

Saurabh Kalra: Thank you, Akshay. Ladies and gentlemen, good evening. Thank you for joining us for this Q3 result. I am pleased to report to you that our revenue for the last quarter reached Rs. 6.54 billion, reflecting our 9% year-on-year growth. Our same store sales momentum has improved to a positive 3% Y-o-Y from a negative 6.5% in the last quarter. Our positive shift is given by increased footfalls and transactions, while our average check remains stable, as Akshay just pointed out.

Our dual strategy of focusing on product innovations like McCrispy and offering value through McSaver has generated encouraging momentum despite current challenging consumer spending trends.

From a channel perspective, our growth has been pretty broad based, with both on premise and off premise growing about 9% Y-o-Y. Our omni-channel strategy is designed to deliver an exceptional customer experience at every touch point. To this end, we continue to invest and enhance our capabilities across dine-in, delivery, and drive-thru. While growth may vary across channels, we believe that a broad-based growth approach is far more resilient and value accretive over medium to long-term, given the evolving customer preferences on channels.

Off-premise contribution stood at 42%, consistent with the two-year average. Our average sales per store on a trailing 12 months basis was around Rs. 60 million. We are committed to further enhancing consumer experience through digital technology. Our digital journey is actually progressing quite well with increased enrollments in our flagship loyalty program, MyMcDonald's Rewards, and the adoption of the self-ordering kiosk across all our restaurants. We engage with over 3 million monthly active users on our mobile approximately, and digital sales that now account for almost 70% of our top line.

Turning to profitability, our gross margin improved by almost 40 bps sequentially to 70.1%, despite heightened inflation in key commodities such as oil, coffee, cocoa, etc. We mitigated these inflationary pressures through supply chain and cost initiatives and a 50-bps portfolio level price increase. We expect the gross margin to remain stable at around 70% in the near term, providing a healthy benchmark for reinvestment in strategic growth initiatives.

Restaurant operating margin and operating EBITDA were lower by approximately 200 bps Y-o-Y due to operating deleverage and higher A&P spends for new product launch. However, on a sequential basis, we saw an improvement in profitability due to a better scale and cost management. We anticipate that this trend to continue as the average unit volume improves. The cash profit after tax stood at Rs. 520 million or 8% of sales.

Despite near-term challenges, we are forging ahead with our network expansion plan. We added 15 new restaurants in the quarter and close to bringing our total store count to 421 across 67 cities as of December 31st. Approximately, 95% of these restaurants feature McCafe, 92% EOTF, and 22% offer drive-thru services. We are on track to achieving our FY '25 target of 45 to 50 new restaurants, reinforcing our confidence on the long term potential of both the industry and our business.

In summary:

As I highlighted last quarter, our three key pillars to drive profitable growth in the near to medium term are; first, accelerating on the value platform. Second, augmenting our menu through product innovation and giving excitement to our customers. And third, robust cost governance. We are seeing promising signs and green shoots of these initiatives taking effect. Guest count momentum is improving, particularly in dine-in, leading to a broad-based growth. Our breakeven sales have improved by 2% to 2.5% in the past quarter due to systematic cost governance, thereby enhancing like-for-like profitability, sequentially.

Thank you for your time. I now hand over the call to the moderator and open the floor for your questions.

Moderator: Thank you very much. We will now begin the question-and-answer. We have the first question from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Hi, thanks for taking my questions. And congrats on the growth revival in the business. So, the first question is that, there are a few important changes that have happened in our business over the last couple of years. One such change is the digital-led sales, which is now about 70% for us versus 50% earlier. These changes specifically are currently being underappreciated due to the weak demand environment. But I wanted to check on the positive impact of these changes in terms of top line margin once we return to normalcy.

Akshay Jatia: So, Devanshu, the way we look at it actually is that we are acquiring a very loyal customer because we view digital touch points as a touch point where we understand the customer a lot better because we get their information, we get their buying trends in a digitized format. And as a result, we are able to reach out to customers regularly and personalize their experience in terms of offerings that we display to them, as well as personalize their experience in the restaurants through our self-ordering kiosks, etc. So, in the long run, the way we look at it is that it will increase frequency. It allows us to cross sell to our customers, which can eventually have an impact on average ticket size positively. But most importantly, it gives us predictability in our business where we are able to, firstly, have multiple cohorts whose frequency we know, and multiple cohorts whose buying habits we know. So, as a result, it helps with predictability, it helps with loyal customer base, and eventually sales growth.

Saurabh Kalra: So, just adding on to what Akshay said, just one point. I think in my commentary also I talked about it being a journey. I think the question you asked is also around what will happen when it all culminates. I think Akshay gave you a flavor of we can bring predictability, we can control frequency, we will have our loyal customer base with us all the time. So, those are all advantages we all know. But to me, we are also approaching it very structurally because there is restaurant and network involved. Because our digital strategy is also really phygital, right, so there is self-ordering kiosks which are there in the restaurant. So, we foresee this journey completing and giving us all the dividends which digital sales gives to the business.

Devanshu Bansal: Understood, Saurabh, Akshay. Any margin benefits also that should accrue, apart from operating leverage because of better throughput? So, any cost savings that can be there with these digital initiatives?

Akshay Jatia: So, we do not look at it like that today. I think we would rather focus on throughput advantages we can get. And I think, as we get more control in terms of the buying journey, we can definitely obviously tactically intervene with upselling, but most importantly, giving the customers what they want. So, I think throughput is what I would focus on.

Devanshu Bansal: Understood. Akshay. The second strategic question is, we are sticking to our five-year vision of delivering Rs. 40 billion to Rs. 45 billion of sales by FY '28, right? So, '24 and '25 in between are two years that have been impacted because of weak environment as well as some global actions. So, is it fair to assume that now the lower end of the guidance seems more likely versus the upper end of the guidance that may not be achieved?

Saurabh Kalra: So, the guidance, obviously, there is a reason why that guidance is a range. I do not know what we will achieve, because honestly, we are putting our best foot forward. We went through a certain crisis where our new base got established. We have finally got momentum of starting to beat that base. We would like to do far more than what we have done already. But I would not say we should change, not change, because when COVID came in, our current guidance looked highly unlikely for us to achieve Vision 2022, too. But we did it. So, I would rather say, there are demand challenges, there is a volatile world out there, the consumer demand is not as what it should have been. But that could change, right, that could change in the next one year and you could see, okay, all of a sudden you got a high single digit growth.

So, things happen in business. I think there are times when you protect your base, there are times you improve your profitability, there are times you accelerate on sales. The good news for us is, we know our business is linked to a lot of momentum. Finally, we have broken the negative momentum. Last time when this had happened, it had taken us 2.5 years to get out of the negative momentum. This year we have been able to do this in four quarters. So, we are taking a little bit of heart out of our history and saying, what is the art of possible rather than saying what could be the barriers, is where we are. Now there is a range, we are still fairly committed to achieve that range.

Devanshu Bansal: Understood. Last question from my end. We are likely going to be anywhere around 13.5% post-IndAS EBITDA margin in FY '25. So, in the PPT we have indicated that we are making higher investments in terms of marketing otherwise to come over the community-based challenges as well as weak demand environment. So, I just wanted to check what are the one-off kind of investments that we have made in FY '25, which may not be repeated in FY '26.

Saurabh Kalra: So, while I will not give you the answer directly as FY '25 versus FY '26, obviously we have to reach what we have committed in the Vision 2027 over the next two years. Now, the good news is, if you look at it sequentially, we did see a significant improvement over the previous quarter. And our intent is to maintain this quarterly improvement and show it to us and through results that we will be able to make the EBIDTA improvement, sequentially, going closer to what we have laid down into our Vision 2027. And you will see improvement over the next one year because there are multiple paths to it, right. So, the multiple paths include what is the product mix, what is the pricing strategy. Then there is what are the cost governance initiative, what are you doing on the bottom store, stop store. So, there is multiple work which is happening right now. I think we are fairly confident that we will be able to grow EBITDA percentage consistently, sequentially.

Devanshu Bansal: Fair enough. Thanks for taking my questions.

Moderator: Thank you. We have the next question from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: Hi. Thank you. It's actually very similar to the previous participant, but I was looking at your AUV currently, you are at Rs. 60 million. And to reach the lower end, I think rough cut calculation shows that you have to increase the AUV by 15% over the next three years. And correct me if I am wrong, but that should translate to a high single digit SSSG on average, over the next three years. So, if you could just help us how you expect to get a high single digit SSSG, that will really help. If you could just break it down into maybe transactions, footfall or new product introduction, that will really help get some confidence.

Saurabh Kalra: Okay. So, I will give you a little bit of flavor on it. So, obviously when you look at the average unit volume, and you compare it to the comparative store sales, which actually means that all our restaurants which were present last year have done 3% better, so their AUV is higher. The AUV on a totality basis is lower because of some of the new store additions and for some stores which might have shut down, one or two stores which we would have shut down. So, if you look at in totality, the momentum of growing has come back. I know some of the new stores might not have been at the system level, which is causing some kind of, to me a transitionary blip because we opened the number of stores we did. And we also expect them to reach system level in the next couple of years. So, there will be some momentum which will come from that side.

And like I said, we are a momentum business. Finally, we have reached positive. It does not always change in one quarter. I remember still time when we had launched the Happy Price Menu campaign in 2004, it almost took us three quarters of launching it to become positive, and then one year to really have the next five years rung of good positive numbers. So, we are true to our strategy, I think whatever we had laid down in Vision 2027, we have fairly committed to it. In fact, what we did do was, because of all this crisis we had augmented it and said accelerating value platforms is now one of the key agendas we have. We are comfortable with what we are providing as input and then we believe this is just a matter of time when you will start seeing the momentum shift to even better numbers.

Saurabh Kundan: Sure. Thank you, Saurabh. So, safe to assume that it will be largely transactions driven? I am talking about the SSSG because you are focusing on value, so you are trying to get more and more footfall.

Saurabh Kalra: Yes, we would. We would largely want it transaction driven without having any impact on the average customer bill value. That's pretty much how we have always thought about things, and that should continue.

Saurabh Kundan: Okay. And I think you mentioned in your remarks that you feel that dine-in is still not fully back, can you just dig a little deeper into that? Do you say that because some of your earlier, the impact of restaurants, are they still down in footfall? Are you expecting them to come back or is it something else?

Saurabh Kalra: No, no, I do not think, I mentioned that in my comments but, however, I think there was a new baseline got established last year. And we have to improve from there. And we believe the growth will be broad based across channels and across types of stores. We did see even in the last quarter some of the regions are not performing as well and some of the regions really doing quite well. So, we have to work on those regions and that's how things will pan out.

Saurabh Kundan: Okay. And did you exit this quarter, since you mentioned momentum, did you exit this quarter better than this overall 3%? And was the last few weeks better than 3%?

Saurabh Kalra: So, overall if I were to say, it was a quarter which was pretty much at par. If I was to look at it very, very in detail, I would say the last 10 days in December weren't as we would have expected it to be in the conventional sense. However, since January we see coming back. So, that's how it is.

Saurabh Kundan: Okay. Thank you for that. One last question. If I am reading the numbers right, the royalty as a percentage of sales seems to be quite low, so what explains that?

Saurabh Kalra: Last year December also we had told that that on an annual basis we reconcile all the incentives, etc., which comes from the McDonald's Corporation on store opening etc. So, all the numbers have been reconciled. They are not materially big impact on the annual basis, on one quarter it sometimes looks a little better.

Saurabh Kundan: The next quarter you revert to what your normal royalty is as a percentage of sales.

Saurabh Kalra: Our normal royalty is what given in our website on an annual basis. Beyond that, if there are any incentives, etc., pass-through, we do it once in a year in December. So, last year also you would see it was similar.

Saurabh Kundan: Sure, sure. Thank you.

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

Avi: Yes. Hi. Thanks a lot. I just wanted to check on the impact of geopolitical factors. How has that behaved in 3Q? And whether that is changing, given the recent agreements, etc. that have come.

Saurabh Kalra: Hi, Avi. How are you doing? Hope you are well.

Avi: Yes.

Saurabh Kalra: So, actually, Avi, I look at it a little differently. There was a new base that got established last year. We not necessarily looking at it. And for us its history, it happened. We are not doing anything extraordinary for any type of cohort, specifically for any geopolitical, etc., ratios. We have taken it as a part of our base, and we are saying how do we grow from there. And the good news is, some momentum got built last quarter.

Akshay Jatia: Correct. And largely, we are seeing a lot of appreciation of our efforts. There are some stores that still have some of this overhang. But largely, like Saurabh said, its history for us and we are focusing on building momentum through the value leavers or the levers in general that we have spoken about.

Avi: Got it. So, I mean, where I was coming from is, you pointed towards gradual improvement in demand, your initiatives are on track, on value, doing very well over there. I just wanted to get some comfort on whether the macro, is it giving us any sense of expecting a sequential improvement in same store sales growth trends as we go forward. And the only thing that I was trying to kind of balance the equation was this, which is the base of the question. So, would it be fair to say that it looks all in place for a potential –

Saurabh Kalra: Avi, I will give you this answer in a little bit other way. When people leave a brand for a certain reason, new habits get created. It is not a switch on or a switch off. I think that's why I said we created a new base. The IEO growth remains pretty much muted for the entire year, which is the informal eating out sector. Luckily, western fast food is doing quite okay, which is also reflected in our 9% growth overall. But the eating-out occasions have not grown or have remained muted. In fact, OND, with whatever we see, is almost flattish as much as July, August, September, if not a little lesser. So, that's what we see. So, how I would read it is, there are new habits got created and we need to improve from where we are. And we are no longer talking about any factors impacting directly or indirectly.

Avi: Got it. Got. Just a follow-up on that, given this weak demand environment across this industry that you are witnessing, has there been any change in competition or competitive intensity whether it is from peers or aggregators?

Saurabh Kalra: Whenever there will be pressure, everybody wants to give the best value to the consumer. Eventually, when I look at it for us, right, we have put our best value offering on everyday affordable pricing there of what is good for the business and what is good for the consumer and what is good for us, being able to have a sustainable business result. That's why we look at it this way, saying, we have to do what we have started out for ourselves. So, I do not see anything from a competitive standpoint because we discuss what do the consumers want. In this environment value will work, and therefore our number one goal right now is to accelerate the value platform.

Avi: And I think there is closure or something?

Akshay Jatia: Sorry Avi. I think we do also talk about value in its entirety, which is our value for money proposition. So, it's not only an entry level price point, it's the right price point across our entire pricing ladder. So, whether it's at the entry level, at the core level, or at the premium level, we feel that it's the best quality product at the best price possible for the customers that makes a difference. And we supplement it or complement it with our experience as well as the quality hygiene standards that we offer at a McDonald's, whether it's at the restaurant or through delivery drive-thru or omnichannel experience. So, I do not want you all to get caught up in the thought that value is just price. That's what I just wanted to clarify. And like Saurabh said, we want to maintain this that a new base has been created, and we are gradually improving from there. We are quite pleased with how our initiatives are being appreciated by customers and we feel like we have the right product portfolio as well as the use case occasions are drawn out. And we are quite excited about our FY '26 plans as well.

Avi: Got it. Fairly clear, Akshay and Saurabh. Thanks a lot for this. I will come back in the queue. Thank you.

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

Jay Doshi: Yes. Hi. Thanks for the opportunity. First is, could you give us some update on how your chicken venture has progressed over the last two years since you launched, in how many restaurants you have fried chicken available today of your overall network? And what would the ballpark salience be that you would have reached in those restaurants?

Akshay Jatia: Sure. So, I think we have it in all our restaurants in the South, as we have always maintained. And select restaurants in other geographies where we feel the chicken eating occasion is relevant. I think you know we have made good progress in terms of our platform. We now have a holistic platform where we have a mixed McSpicy range, a McCrispy range, as well as wings in the McSpicy format. So, we feel like now we have the right bone in offering. In addition to that, we have our burger chicken as well as our chicken sides, which include Chicken Nuggets, etc. So, I think we have done a lot of good work in establishing this portfolio. And additionally, we further improved the product with our most recent roll out in this quarter ensuring that customers are viewing this as a differentiated product.

So, we have done a lot of process product improvement. And long story short, this quarter is when we are launching our final version of the back-end product. And moving forward, we are very bullish as we bring customers back to our restaurants in using this as an added lever to add an occasion as well as build credibility as well as leadership in the chicken category, or further build credibility and establish leadership in the chicken market. And I think that's why we are so bullish on the South as well. And it's one of the growth levers that still has to play out for the years to come.

Jay Doshi: Understood. Akshay, would it be possible to give us a count in terms of how many restaurants you have these products available? And whether it is high single digit salience as a percentage of ADS or double digit? I believe you had called it out early on, the initial year that you launched. And we know is whether it is improved in terms of salience, or it has tapered off or it's – where it is?

Akshay Jatia: Yes, sure. So, we have 160 restaurants, I can share that. In terms of ads, it's remained largely stable. It has not grown exponentially. But we have seen a stable base over the last six months. We have not broken-out the number, this is the first time. But at the right time we will share some more flavor. Because like I said, we have been constantly working on getting the foundation right because it's required a holistic approach, which includes the product, the training, the mindset, the mindset that we want to establish for chicken leadership in the South.

And on top of that, we have launched this McCrispy platform which includes bone and chicken, as well as McCrispy Chicken Burger, which is again targeted towards our Southern customers as well as customers in the West who enjoy eating chicken burgers. So, I think you will only see ADS go up moving forward. And at the right time, we will give some flavor in terms of how it's contributing to growth. As of now, like I maintain, the growth levers still needs to play out.

Jay Doshi: Understood, thank you. Second is on value, you did partly answer the question in response to the previous question. Again, is it possible to sort of give us some quantitative data points which kind of help us better understand how your strategy or your focus on value earlier this year or doubling down on value has helped either in terms of driving transactions or has the mix changed in favor of value?

The reason of asking this question is, when we look at one of your peers, the post-delivery fee waiver and slightly more sharper pricing, they have seen massive pick up in same store sales growth. So, are you seeing any such signs or do you anticipate similar trends in your business also maybe a quarter or two down the line?

Akshay Jatia: So, Jay, I mean, sorry to interrupt, I got the gist of your question. I think like we maintain in our commentary as well, we have already seen a gradual improvement where we are at 3% year-on-year same store sales growth. And it's come on the back of guest count-led growth, which means that our value proposition is working. But I want to maintain that value for us means value across the board. Obviously, sharp communication around entry level price points does help customers enter the restaurant, but we do a very good job in terms of creating them up as well, because we want to maintain profitability as we keep adding average unit volume. That's when operating leverage truly plays out. We do not want to cannibalize and downgrade our customers. So, I think the quantitative indication is already there in our current quarter same store sales growth which has been primarily guest count led. And we have managed ensuring that value has been across the board because our average check has remained largely stable. So, I think that's how I would look at it.

Jay Doshi: Sure. Thank you so much.

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

Krishnan Sambamoorthy: Hi, Akshay and Saurabh. Over the last couple of years, all of your peers have ranked up their value offerings. Both of you also mentioned at the beginning that you have retained your value leadership. But has there been any perceptible loss in your value market share over the last couple of years, so the state of launches by peers?

Akshay Jatia: So, I mean, as we mentioned again in our commentary, in fact our value scores and affordability perception scores have increased significantly. And as a result, we have also seen a quantitative output or outcome, which is our increased customer footfall. So, I mean, we answered that already. But again, to reiterate, we definitely are the leader in terms of value for money, in terms of brand scores, as well as affordability perceptions scores which are increasingly important for brand trust.

Saurabh Kalra: And I think for us, quality of the consumer is as important as the value platform, which is sustainable to us, so that balances out the needs of the three stakeholders, right, you guys shareholders, the second part of the consumer, whether that proposition is good enough. And the third part is for company profitability because we want to grow through internal accruals. So, when you think about value platform, we think quite strategically about it. So, whatever value platform you see, we believe they are good enough to be able to maintain high quality consumer intake to the brand and this is something which we can sustain. We have got internal norms around what do we do for entry level, what do we do from mid-tier, what do we do from the premium side of it. But, I mean, we like to be within those ratios because back to us is broad based growth which also signifies good quality growth. So, that's how we think about it.

Krishnan Sambamoorthy: That's clear. Thanks a lot. The next question is from the pricing. The 50-basis point that has been initiated in Q3, in what month was this done? Was it there for the whole quarter? And has it been more in the premium end of the portfolio and McCafe, given what has happened to the coffee prices?

Saurabh Kalra: Good news is, you were not able to observe it, so I think our pricing was pretty good. It's a small portion; it was done on a few leverages on a few products where we were actually cheaper than most people in the marketplace. So, we keep doing this activity, 50 bps, yes, it's not substantial, we did it in November.

Krishnan Sambamoorthy: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Hi, thank you for taking my question. So, just one question on the margin side. Effectively what I read is that it is largely because of the suppressed AUV that the margins are getting impacted.

Saurabh Kalra: Gaurav, sorry, your voice is pretty – Gaurav, sorry, you will have to repeat it, your voice is completely broken.

Gaurav Jogani: Yes. Is it better now? Are you able to hear me now?

Saurabh Kalra: Yes, it's slightly better.

Gaurav Jogani: Yes. So, the question is, I understand that the margin impact is largely because of the negative leverage. But at what level of the AUV do you think that you can possibly achieve the 2027 guidance in terms of the margins?

Saurabh Kalra: Let me answer it differently like what I had answered earlier. I think we had to invest in a few areas, which we did at that point in time. Now we will see sequentially we improving our profitability literally for a few quarters to be able to retain our baseline. I would not go with AUV guidance. There is work which we can do now to be able to bring back our base number on profitability. So, that's the endeavor and that's how we are thinking about it.

Gaurav Jogani: Sorry, if you can be more clear, it did not help me answer my question. I mean, see, the thing was that earlier, even a 6.5 kind of AUV and even 7 kind of AUV we are clocking around 12%, kind of pre-IndAS numbers. So, given the entire condition, that I am sure that you would have given the cost line items more better, the understanding would be that even at a lower maybe AUV probably you can still achieve the margin guidance that you have given. That is what I actually wanted to understand.

Akshay Jatia: So, Gaurav, we cannot understand, the call is very broken so we cannot understand what you are saying. So, we will take this offline, we can answer your question. Chintan can get back to you.

Gaurav Jogani: Okay, sure. Thank you.

Moderator: Thank you. The next question is from the line of Jignanshu Gor from Bernstein. Please go ahead.

Jignanshu Gor: Hi. Thank you so much for taking my question. I hope I am audible.

Saurabh Kalra: Yes, loud and clear.

Jignanshu Gor: Okay, great. So, congratulations on improving performance. I think it sounds that the dine-in especially is coming back. So, the context for my question is your 2027 Vision statement. And I know you touched upon this earlier, specifically from achieving the AUV perspective. My question was, of course, we are behind on our straight-line trajectory from where we would want to be from. '22 to '27 given the market conditions. In your view, what would be the key levers that you think will come in handy to transition from the current AUV number that we have at around Rs. 60 million to let's say around Rs. 70 million which we need at the mid-range of our '27 Vision numbers? So, is it guest counts? Is it a better mix with more premium products, more AUV per customer, dine-in versus this, so what are your like top one or two ideas that you think should have the highest impact in that growth?

Akshay Jatia: I think, Jignanshu, we had laid down Vision 2027 with clear priorities on the deck saying what is it that we intend to do in order to get AUV. However, there was a part on making sure that we continue to lead family and meal occasions, the second one was around menu. Third one, the rest of the two were more around growth in terms of the new stores etc. But to me, while augmenting menu and product innovations continue, our menu continues to be an important leaver which you are going to see us play out. I think the guest count coming into value is an important lever for us in the short and medium term to be able to ensure that we are continuously building some momentum in the business.

Jignanshu Gor: Okay. That's very helpful. And in fact, offers me a segue into my second and final question. You said one of the reasons SSSG was positive was driven by guest count, which in turn was driven by value products. Now, from my understanding, majority of the menu additional launches that we did were slightly premium than their existing counterparts. Value focus was largely on combos.

Akshay Jatia: So, I am sorry, I am just going to interrupt there, Jignanshu. I covered it in my questions – sorry, my answers preceding this where I mentioned that value for us means broad based value, value across price points. We followed multiple strategies and tactics through our retail network in the last quarter where we were communicating value across our entry level price point, our core, as well as the affordable premium price point. So, we made sure that we were bringing in customers by activating our restaurants on the ground through entry level price points. We were trading them up and we were also communicating on media about our affordable premium price points, as well as our entry level. So, it was broad based value for money, and I have always maintained that, so just wanted to clarify that.

Jignanshu Gor: That's very helpful, Akshay. Thank you. That the final part of that question which I wanted to complete was, we are comfortable with the value of products and hence the mix that we are getting post trading up etc. as being both gross and EBITDA margin accretive. And that's not a challenge that we see going forward.

Akshay Jatia: Yes,

Jignanshu Gor: Okay. Sure. Thank you so much. And all the best for Q4, yes.

Akshay Jatia: Thank you.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Hi. Thank you for the opportunity. I have a few questions or clarification; one was on your new store addition. I know we are close to ending at FY '25, but when you are looking at the broad demand environment, and you touched upon how new store AUVs are lower than the mature stores and probably they are not trending as performance your initial expectations, would there be any change in the thought process on locations which you will want to open new stores in? Would you target more of smaller towns or you would want to again target deepening presence in the big cities which ensure a certain level of throughput for you?

Akshay Jatia: Hi, Latika. No, I mean, there's going to be no change in our development process because we do not target cities basis only one factor. We use multiple factors in terms of evaluating our sites or the site pipeline that we put together. And this is actually built out over many years, not just one year because our real-estate process spans over nine months in terms of identification to opening. So, nothing changes overnight. And again, like we have always maintained, we are invested for the long term. And all of the locations that we are opening are projected over a 25 to 30 years' timeline. So, in the long run, I mean, all of them will be cash cows.

Latika Chopra: And this current pace of store addition is fairly comfortable for you?

Akshay Jatia: Sorry, could you repeat that?

Latika Chopra: The current pace of stored additions, the 45 to 50 stores --

Akshay Jatia: Yes, long term profitable for us.

Latika Chopra: All right. The second bit was, you answered a similar question for chicken, and I was just trying to check with you on the coffee piece in terms of salience, any incremental flavor on how is that trending for you? Is that salience very varied across different geographies? What more can you do on beverages? If you can elaborate a bit more on that.

Akshay Jatia: Sure. So, like we have always maintained, this is just the beginning of the coffee journey. It's a lever that again is going to play out, because our consumption story still has to play out even as a country as well as a category. Cafes are definitely helping along with players like us who have set up the proposition in terms of creating the market and educating customers in terms of what good coffee is. And I think we are very well poised to take advantage of that in the coming years. We have a great proposition, we have 400-plus McCafes. And I think the strategy is across cities, specifically our key cities where we see McCafe as a very established part of our brand now. And it's about increasing trials as well as frequency. So, I think we have done a great job. And the growth has to still play out.

Latika Chopra: Sir, the salience of coffee in your overall ADS is stable over the last --

Akshay Jatia: It's growing. It is growing.

Latika Chopra: It's growing.

Akshay Jatia: Yes.

Latika Chopra: Okay. And the third bit I wanted to check was on price, how do you think about price increased? I know there's been a lot of focus on value and there's a focus on guest count improvement. But in the past, historically, you have taken a low single digit kind of pricing on an annualized basis, because there is some inflation in the system always. So, how are you thinking about that for the coming fiscal?

Saurabh Kalra: Exactly how we have always thought about pricing. that you cannot fall way below inflation for multiple years for sure. So, every year we take small, small price, do not be shy of taking small price increases. And taking at least 50% of what the inflation is running as price increase would remain a norm. So, typically 2% to 4% of price increase is what we have conventionally taken, not more than 1% or 2% at one go. For the year, it might be 2% to 3% or 2% to 4%. So, we will continue doing what we have always done.

Latika Chopra: Understood. And absolutely last bit, MAU numbers that you have shared that they are up low double digit. I just wanted to check whether this is the kind of growth that's also translating in terms of the absolute value sales that you are doing through your own approximately ordering? Basically, is the own app delivery orders increasing at a pace similar to MAU growth, how should we think about it? Thank you.

Saurabh Kalra: The MAU actually both are of our own channels, which is our delivery app and also on the app which we do dine-in. So, it's the cumulative number, we do not break out. But having said that, I think the delivery growth is coming out of all three, right, the third-party operators like Swiggy and Zomato, and our own app. The good news is, our own app is not lagging behind for sure as far as the percentage of growth is concerned.

Latika Chopra: Alright, thank you.

Saurabh Kalra: Thank you.

Moderator: Thank you. The next question is from the line of Prathamesh Dahake from Motilal Oswal. Please go ahead.

Prathamesh Dahake: Hi. Am I audible?

Moderator: Yes, you are audible sir.

Akshay Jatia: Yes, yes, loud and clear.

Prathamesh Dahake: Yes. Sir just wanted to check, if I were to break down the growth as well as SSSG in this quarter, how much impact of festivals versus transactions do you see being factored into this quarter? And will the impact of the festivals, if there is any, go off in the coming quarters?

Akshay Jatia: See, we have never looked at it this way. Luckily, all festivals are cyclical. They are all built in the base exactly like that, so we do not believe there are good times, there are bad times. For me there was no positive or negative impact of festivals, they were like to like what it was last year. So, I would not attribute positively or negatively around any of this.

Prathamesh Dahake: I asked because last year the 3rd Quarter was negative 9% SSSG. So, I mean, did we get any benefit of that lower base something like that?

Akshay Jatia: Again, as we have mentioned, we believe that the growth that we have seen is coming on the back of the new baseline that was achieved and primarily linked to all our efforts in terms of value for money and hence it's been primarily guest count led, and we do not attribute it to any specific days or any specific events. That's why we report SSSG quarter -- year-on-year. And that gives you a sense in terms of how growth is playing out.

Saurabh Kalra: I also gave a flavor of when there is a negative trajectory in a retail environment, it generally you would not come out of it immediately. I think this would be the shortest run of negatives where we have been able to come out of it in four quarters. Normally, you will not see that in a retail environment if you look it from that standpoint, because a lot of it is behavior linked, a lot of it is consumer habit linked. Things do not change, switch on and switch off. And it's not that since last quarter you were negative nine so now your base should come back because unfortunately that's not how consumers work as humans.

Prathamesh Dahake: Okay. My next question was with respect to numbers. Sir, our store level payroll expenses have fallen sequentially. So, should we consider this as the new base for the coming quarter and the coming quarters, if I were to say?

Hrushit Shah: Yes. So, as you rightly pointed out, sequentially we have seen improvement in our margins, right. And Saurabh has also rightly pointed out in terms of the effort is in terms of maintaining the margins as we go ahead. So, your hypothesis is in the right direction.

Prathamesh Dahake: Okay, fine. That's all from my side.

Moderator: Thank you. The next question is from the line of Harshad Gadekar from Elara Capital. Please go ahead.

Harshad Gadekar: Yes, hi. Am I audible?

Moderator: Yes, you are audible, sir.

Harshad Gadekar: Yes. So, congratulations on a good set of numbers. Sir my question is on the, recently a lot of food delivery platforms have started 10, 15 minutes of delivery, and burgers are their one of the prime menus, so how it has been fared for us? That's question number one. Question number two is on, how much of our overall exposure as regards the online food delivery platform has shifted to this kind of 10, 15 minutes delivery format?

Saurabh Kalra: Luckily on the food side of it, that has not actually been a significant portion yet. In the last quarter we had tried out a few restaurants, we are now expanding the number of store based on 15-minute delivery, etc. But if you look at it, burgers any which ways mostly are majority of orders get delivered in 20 to 25 minutes even with the third-party operating partners. So, I do not foresee too much change coming on that side. It could be an interesting marketing proposition for the consumers. And if it does that, it augurs well for us in the future. But right now, I have no evidence to say if the offering of 15 minutes is doing anything for the system yet.

Harshad Gadekar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Krishna Shah from Ashika Stock Broking. Please go ahead.

Krishna Shah: Good evening, sir. I have only one question regarding the store account. So, we are hoping to open close to 45 to 50 stores as guided at the start of the year, and we have so far had a net addition of 24 stores. So, are we in line of meeting our guidance for the near term?

Akshay Jatia: So, our guidance remains the same. And yes, we are on track

Krishna Shah: Okay. Thank you, sir.

Moderator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, gentlemen.

Akshay Jatia: Thank you so much everyone, everyone. And see you next quarter.

Saurabh Kalra: Thank you.

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