



“Burger King India Limited Conference Call”

August 27, 2021



MANAGEMENT: MR. PRASHANT DESAI - HEAD STRATEGY & INVESTOR RELATIONS – BURGER KING INDIA LIMITED
MR. RAJEEV VARMAN – CHIEF EXECUTIVE OFFICER & WHOLETIME DIRECTOR - BURGER KING INDIA LIMITED
MR. SUMIT ZAVERI - CHIEF FINANCIAL OFFICER - BURGER KING INDIA LIMITED



Burger King India Limited
August 27, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Burger King India Limited 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prashant Desai, Head of Strategy and Investor Relations from Burger King India Limited. Thank you and over to you, Sir!

Prashant Desai: Thank you. Thank you everybody for joining this conference call by Burger King. Thank you so much for joining at such a short notice. All of us truly appreciate this. Today, I have with me Mr. Rajeev Varman - CEO & Wholetime Director and Mr. Sumit Zaveri - Chief Financial Officer on the call, along with me.

Friends all of you would have got a chance to go through the announcement that we have made to the exchanges. I will take you in brief through the announcement after which I will hand over the call to Rajeev to take you through the salient features of the Indonesian business and post that we will open up the call for Q&A.

Friends, we had received an invitation from F&B Asia Ventures the holding company of BK Indonesia, Burger King Indonesia to participate on a non-exclusive basis and to put in a non-binding offer for acquiring majority controlling stake. This is some information that we have prima facie received from them.

After going through the information deliberating on this, the management liked what we saw and the management then went to the board seeking board's approval to put in a non-binding offer as well as the valuation to this. Subsequent to this, we put in a non-binding offer to acquire up to 85% stake in Burger King Indonesia by way of a secondary purchase as well as a primary infusion of up to \$40 million for the expansion of the Indonesian business.

The non-binding offer was made at a pre-money enterprise valuation of US \$183 million on a cash free, debt free basis. Just to give you a perspective, basis the advice that we received from our advisors CLSA and PriceWaterHouseCoopers this is roughly single digit EV EBITDA on a FY2023 basis. There is certain amount of debt that will get reduced from the enterprise value because of the equity value.



Burger King India Limited
August 27, 2021

Another thing that I would wish to inform you as most of you know Burger King India went public in December and at that time we had raised a primary for expansion of our Burger King India Business so that money that we had raised will be utilized for the expansion of the Indian business. Should we go through with this transaction, subject to the due diligence and all the other efforts that the internal team will make we have a 90-day exclusivity of the transaction and subject to everything going through and further subject to the Board and shareholder approval, should we decide to go ahead with this transaction we will at Burger King India need to raise a further equity capital, which will be in the range of anywhere between \$180 million and \$200 million depending on our renegotiated or the negotiated price that we do and subject to Board and shareholder approval.

Friends, this is prima facie on what we bid, how we bid, the EV EBITDA basis our bid. What I will do is there was a link mentioned in the exchange notification giving you insight about the Indonesian business but because it was too short, I am sure a lot of you would have gone through and some of you may not have been able to, I will hand it over to Rajeev to take you through prima facie why we find this business very exciting. Why are we all very excited about this opportunity and after that we will take on the Q&A. Over to you Rajeev!

Rajeev Varman:

Thank you Prashant. Thanks everyone for joining in on a very short notice. I hope you are all doing well and getting yourselves vaccinated to stay safe and mask up and sanitation as we have been talking about. Good luck on that. Just really quickly I wanted to share our vision has always been as a company to be the largest QSR in this kind of a geography, Southeast Asia geography. So we started this and we are building a platform on which we will continue to grow and become a large QSR. When we say large, we just do not talk about number of restaurants that we open, but we are specific to two numbers, which is one is what kind of sales we are generating, what kind of a business revenue we are generating and second is what kind of cash flows is coming out of this business, what kind of EBITDA we are generating. Those are the kinds of parameters we measure ourselves on. It is not just open more and more restaurants but profitable restaurants.

We also in our vision believe in only going in with global brands, so you will find that Burger King as we have done here in the consideration of Burger King Indonesia which is a similarity of not only the brand but in a minute I will tell you about the market as well. So those are the visions and the way we look at it building this business because this business as I have said in the past when we were doing the IPO and on road shows, it is a business of scale and if you build a large scale then you amortize your GNA and admin expenses over a



Burger King India Limited
August 27, 2021

larger number of restaurants which means increasing cash flow and profitability at the company level. So that is why we continue to build this around the world and this is a great opportunity for us to do this in our market.

Now moving away from strategy why strategy we go into the market attractiveness, so if you look at the market, Indonesian market and the Indian market, both these markets have a lot of similarities. One is a very, very young millennial population. In fact 60% of the people in Indonesia are below the age of 35 and these are the people as we understand in India as well are the ones that are eating more often, so it is a massive-massive comparable in both these markets. Both the markets have very similar kind of clientele.

Burger King as a brand is positioned with millennial, so our communication, our product, our efforts are all run millennial. Now out of home eating is growing, we all know that. It is several reports we can go into and so forth but if you consider that between India and Indonesia, if you do go through with this transaction we do takeover Burger King India we will control or we will be serving Burger King products in 20% of the world's population, Indonesia being the fourth largest country in terms of population in the world. The per capita is twice what it is here in India, so it is a very, very good lucrative market and this is the reason that we have a company took some very serious notes into this opportunity.

Now just about the business if you look at the business of Indonesia today we sit at about 174 restaurants and supposed to end the calendar year at 185 restaurants. If you see the efforts of the company in the last 5 to 7 years, they have moved their business significantly from what used to be a mall based business to a free standing drive through business, we call it FSDT and FSDT restaurants are significantly more profitable because they drive higher revenues and higher tickets and higher number of checks through those restaurants.

In fact, if you look into the details of the document up link you will find that the rents over there in Indonesia is significantly lower than the rents here in India in fact the gap is almost to the tune of 8 to 9 points. So a significant inherent advantage that you have in that business there that you acquire, if you do go through with this transaction. There also in spite of the fact they run higher ADS, if you look at the pre-COVID numbers they do drive higher ADS which is driven by a higher check than Burger King India. So it is a business that has higher revenue per restaurant and higher EBITDA at the restaurant level as well as the company level so it is a very profitable, lucrative business that we are looking at.

Now just coming back very quickly to the opportunities of that business, if you do not see the opportunities what are we doing. So the opportunity today you see are GP gross margins



Burger King India Limited
August 27, 2021

in India, we have moved these gross margins over the last 7 years from where we started at 55%, 56% to now at about 65% and the journey forward to move to higher numbers that is the big opportunity there as well. There GPs right now run significantly lower than our business here in India and there is massive opportunity for us as a business.

The second opportunity that we really have over there and this is basically to drive gross margin, it is a big chicken market and right now we have the opportunity to skew our menu which is what we call menu architecture towards a more lucrative higher margin product which is the chicken, you will see if you do get in there how we do that and you have seen that already in India. Also the barbell strategy we keep talking about it. We have mastered that here in India, done a great job by driving value on one side and premium products and the other side which gives you a very rounded possible gross margin.

So all these things are there and what is great on the other side these opportunity areas, the strengths over there we have a very, very strong management team in place. In fact, this management team took these restaurants over in 2014. There were only 37 restaurants in place at that time and then started going the restaurants with some very strong leadership in both development and marketing and leadership roles. So that is done not only just by growing but profitability growing but they have also like Burger King India has won a lot of operations, awards and recognitions in the past seven years for what fantastic job they have done in terms of taking operations to a whole new level.

So these are some of the business in short so you have time to question us but higher radiuses driven by higher checks, a little bit opportunity in driving more traffic, great free standing drive through locations which started building in the past few years and a massive opportunity. The infrastructure by the way is better suited and better ready for free standing drive through restaurants over there. In India we are moving at a pace, the real estate is developing but there the real estate is more available in the pipeline for free standing drive through is much higher so that is the other advantage of building more and more free standing drive through restaurants. GP opportunities I told you that a gap we need to narrow. Now EBITDA margins, I spoke about company level EBITDA margins.

I just want to take a few seconds over here just to give you some synergies. When you put two little companies together, you put two markets together, you do that with a plan that there is going to be synergies, there is going to be things that you can share and there is going to be advantages to you as a company. So we have built a fantastic technology base here in India when it comes to consumer facing technology, technology facing the restaurants, technology facing the management, and technology facing our vendors who we



Burger King India Limited
August 27, 2021

call supply partners and that technology was built in 2014-2015 with a view of 700 restaurants and we are sitting at 260 restaurants right so there is a massive opportunity, massive headroom over there for us to accommodate and spread the love between the two businesses.

Back of the house extremely strong again build to capacity, build to build 700 restaurants, supply chain and capex these are other synergies we look at when you are buying equipment, when you are buying food products, when you are buying furniture, there are lot of synergies when you are buying for X number of restaurants or X plus X number of restaurants so lot of these synergies as well that come together so this is the excitement that we see in considering this business and as Prashant just said in a nonbinding offer stage we will start due diligence and digging in further into the business but I say extremely excited about this. Over to you Prashant! Thank you. Thank you guys and I will be here for all questions.

Prashant Desai:

As Raj mentioned we have submitted a nonbinding offer. We have an exclusivity of 90 days. During this time a lot of work will be done by the team to go and do the due diligence and a lot of work of the synergies that Raj mentioned and subject to all that work happening and if the board kind of accepts it and we go ahead then we will go ahead and raise capital as well. So friends with that we will open up the floor for Q&A. Would request if you guys have any questions, feel free to ask and to the best of our abilities we will try and answer them.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Just some clarification on the numbers, You mentioned that the acquisition is at single digit EV EBITDA multiple but if I look at your 2019 company EBITDA it is 12 million and your purchase is 183 million I mean it is definitely higher right along 15 times.

Prashant Desai:

Percy two things, one I mentioned that we are buying this at a single digit FY2023 EV EBITDA and I will help you do the math. So I think it is a fair point that you picked the 2019 numbers, so if you see in the same presentation by FY2023 the company is supposed to have 225 restaurants, of that 225 restaurants if you put the ADS that the company achieved in 2019 and multiply that by the company EBITDA that the company achieved in 2019 and do the math, Percy you will see it will come to single digit EV EBITDA, so that EV EBITDA was FY2023 and not FY2019.



Burger King India Limited
August 27, 2021

Percy Panthaki: Secondly, can you give some idea who are the shareholders of this company in which you are acquiring the stake and why they are selling of and since you are acquiring 85% stake the remaining 15% is going to remain with whom and does that also come to you over a period of time?

Prashant Desai: Great question Percy so if you go through the announcement you will see F&B Asia Ventures holds 65.79% stake currently in Berger King Indonesia. The balance stake is held by an Indonesia partner called Mitra Adiperkasa Group. They are one of the largest retailers there in Indonesia. When we acquire it is their decision how much they will probably give us, but our understanding is we are currently bidding for up to 85% which is some of their Mitra Adiperkasa's stake will come to us should we choose to go ahead with this balance 15% they will continue to own and as we continue to grow the decision would be theirs to sell and obviously as part of the negotiation on shareholder agreement we will have the right to even purchase that at that point of time but as of now our nonbinding offer is up to 85% of this plus this our stake will go up as we put further primary capital into the company for expansion.

Percy Panthaki: Pardon my ignorance here but F&B Asia is it a private equity held company. What is the background of this company?

Prashant Desai: If you go back one step you were at Berger King India. We also have QSR Asia, QSR Asia is indeed held by F&B Asia Singapore. This is a similar business F&B Asia Ventures. If you remember when we had done the road show we had said that besides Berger King India, F&B Group also owns Berger King Indonesia and Domino's Indonesia so yes there is a common promoter of promoter over here which is also mentioned as part of the release to the exchanges, you are right Percy.

Percy Panthaki: While you are buying the stake ultimately you are owned by F&B Asia, so F&B Asia is not really getting rid of the stake it is just sort of routed to them in some other manner so just what is the rationale behind this deal?

Prashant Desai: Rationale behind is F&B Asia being in turn head by a private equity fund have their own considerations when they choose to exist businesses because they chose to exit the Berger King Indonesian business maybe because of their fund life, they went out and invited people to participate in that and one of those nonexclusive invitation was also given to Berger King India which when we evaluated and what we liked what we saw is after taking the consent from the board we went ahead and offered a nonbinding bid for the same asset.



Burger King India Limited
August 27, 2021

- Percy Panthaki:** That is all for now. I will come back in the queue if I have more questions.
- Moderator:** Thank you. The next question is from the line of Deepak Gupta from Reliance Nippon Life Insurance. Please go ahead.
- Deepak Gupta:** Thank you for taking my question. I just wanted to understand again on the rationale for the Indian entity to acquire the Indonesian operations given the fact that there is so much of opportunity available in India at present and we are going through pandemic so things are pretty uncertain so why would Burger King India look to expand into Indonesia when there is so much of uncertainty in the environment?
- Prashant Desai:** So two, three reasons Deepak which Raj kind of highlighted I will reiterate that to you. One our vision at Burger King India is to build one of the largest QSR vertical or platform in India that is first point and when we say largest it is not just in terms of number of stores but in terms of revenue and in terms of profitability so that is the first point. Second when this offer came to us what we liked about this is the opportunity which the country represented. If you look at Burger QSR penetration in Indonesia it is still Deepak in its infancy over there. Second what we liked was the team over there. Like you have met some of my colleagues over here in Burger King India, they have a very strong management team with a multiyear QSR experience, which meant that I would not have to stretch my bandwidth in India to do that. Third, if you see I am not going ahead and starting a Greenfield kind of an expansion in Indonesia as a market. Fourth, for all the opportunities that Raj mentioned one we bid for this asset, Deepak in a very, very attractive price single digit EV EBITDA plus we see lot of low hanging fruits whether it is the gross margin that Raj spoke about, the company has now renewed focus on opening and expanding through free standing drive through, they have still not opened cafes. When do you open a free standing drive through it is 24 hour operation, breakfast will come over there, currently the chicken in terms of the contribution to the entire product mix is very low. Indonesia is a predominantly a very large chicken eating market. They probably eat chicken for breakfast, lunch, and dinner and some of the work they have done in our ability to add value on the chicken product is going to be very interesting. Last but not the least if you see the delivery and the digital business in Indonesia is significantly far more attractive than what we are currently seeing in India. It would be about 30% of their business pre-COVID but the way the business is structured over there, the commission that they pay to the Zomato, Swiggy equivalent over there in Indonesia is sub-10% compared to what we pay over here and if you kind of put all of this things into perspective we at Burger King India feel it is a great opportunity because of the management team that we have.



Burger King India Limited
August 27, 2021

Rajeev Varman:

Just to add to what Prashanth was saying look here we are not going to stop growing here in India, we have a fund raise, we have money here that is stipulated to grow in India. We have a team in place. We have MSDA agreements with our franchiser. We are going to be including 700 restaurants by December 2026. We would have 700 restaurants at the end of that tenure but by this purchase can you imagine that you would be over 1000 restaurants if you follow the MSDA of that country as well, so there is famous saying walk and chew gum at the same time. This is not exclusive. We do not need just to do one we can do both. Give you a little background on myself if you look at my past you will see that I was based out in London running the North West Europe business which had multiple countries, multiple different languages, multiple currencies, and in that environment we were building restaurants all across 9 countries at that time, so this is something we do. It is a scale business. It is a business about building a nice platform. We bring similar businesses, familiar businesses. We do not try to create brands from scratch. We are taking over brand Berger King is a great brand and we are going to build a great business with that brand and that is the way we approached it, so it seems like this is a great opportunity for us, we will do our due diligence and that is where we are kind of seeing this going forward. Obviously, we have a fantastic board of independent directors that help us in guiding our decision making in India.

Deepak Gupta:

I hear you. My next question is about funding this transaction, are you all open to the idea of leverage buyout given the fact that the transaction is quite large and it will imply meaningful fundraise if you are looking to do it only for you?

Prashant Desai:

You are right Deepak but we are not very big fans of leverage. Again this will be a decision that we will take with consultation with our board and our shareholders but as management team we prefer the equity route. It will be a meaningful dilution Deepak you are absolutely right but we are also buying a very large meaningful and fast growing asset that is currently our point of view, so no we will not be taking leverage to acquire this.

Deepak Gupta:

Thank you.

Moderator:

Thank you. The next question is from the line of Shivam Bajaj retail investor. Please go ahead.

Shivam Bajaj:

Good afternoon Sir. First of all Sir I am proud shareholder. Today only in fact I have added Berger King into my portfolio and this call it is a very delicious to have in my portfolio. First question is how much reserve do we have in terms of the acquisition for the Indonesian business?



Burger King India Limited
August 27, 2021

- Prashant Desai:** Shivam, as I mentioned, we are not utilizing any amount that is currently lying in our reserve in Burger King India to acquire the Burger King Indonesian business point number one, point number two as Raj mentioned, we still have 90 days of due diligence work to do. Point number three subject to our board and shareholders' approval we will require anywhere between \$180 million to \$200 million to not just acquire this but to put further capital to grow the Indonesian business in the Indonesian market, all of this will be done through a new fund raise that we will do at an appropriate time once the due diligence exercise is over and subject to confirmation from the board and from the shareholders.
- Shivam Bajaj:** Sir my second question I have read about the acquisition with Tim Horton the merger Tim Horton so in the future at anytime Burger King can expand the Tim Horton presence in India?
- Prashant Desai:** If Shivam you will go through our previous two conference call transcripts you will realize that we have already announced the launch of our own café within Burger King India stores so we already have cafes so from that perspective I do not think that Tim Horton's is an attractive proportion from our perspective.
- Shivam Bajaj:** One suggestion I would like to give, if we could offer some coupons to the shareholders also in the future.
- Prashant Desai:** Sure Shivam this was a suggestion made by a lot of shareholders at our AGM. The board has taken note of it and will come back to you Shivam.
- Shivam Bajaj:** Thank you so much for letting me speak.
- Moderator:** The next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Agarwal:** First of all congrats from the acquisition. I have two, three questions first being in the PPT, you have given the store level EBITDA and company level EBITDA numbers up to say 2020 and first half 2021, can you share with us the numbers below that say your depreciation, I mean your interest burden which is there on company and where does the PBT of that company stand?
- Prashant Desai:** Amnish we have currently shared the data that has been made available to us as we are saying we have now embarked on a detailed due diligence exercise currently those are numbers we will share with the broader market at a later point of time, but this is a primary



Burger King India Limited
August 27, 2021

cursory view of the business and the numbers so you will have to be little patient with us for the next 60 days as we complete our due diligence post which we will share all this details with you.

Amnish Agarwal: Now my second question is that if we go by the total cost of acquisition is \$183 plus \$40, \$40 million we will invest to grow the business and \$183 is the base cost, so the total cost will be around \$225 million is this judgement right?

Prashant Desai: Amnish as I mentioned in the initial 183 million is our nonbinding offer on a cash free, debt free basis, currently the debt would be in the range of about \$25 to \$30 million so if you reduce that the equity value would be around 155\$ odd million and if you go through the announcement we are acquiring up to 85% of that so that number would be somewhere in the range of about \$130 million to \$135 million over and above that we will require about another \$40 million for the expansion of the Indonesian business.

Amnish Agarwal: That is really helpful. The second question is slightly I would say strategic. So you are saying in 4Q 21 we will be launching the breakfast menu as well as the café so is it calendar year or financial year?

Prashant Desai: I did not say Q4. What we are saying is that café and breakfast is on the cards. See all the free standing drive through that they have both breakfast can get into that very easily. They are almost in the verge of launching that. Café will also start a lot of initial work is going. The Q4 when it comes to FY2021 to your question is the India Q4 which is the calendar Q4. But Amnish one clarification on your first point we have still not acquired Burger King Indonesia. They have accepted our nonbinding offer. They have now given us 90 day exclusivity to do all our work and then we will put in our final bidding offer for the acquisition of that so I just wanted to correct you on that.

Amnish Agarwal: Secondly, when it comes to the chicken market, now their chicken product is it different from the chicken product which other QSRs whether you can say Burger King India or McDonald's have?

Rajeev Varman: This is a very unique Burger King market and it is unique because of some of things we shared with you, which is it is highly chicken market so back of the house actually set up in a way that we actually build the product in the restaurant, the marination and the breeding is done at the back of the restaurant, so it is a very fantastic product. It is a significantly higher quality product and you would get if you are taking a frozen product and then frying it, not only the opportunity to learn from the Indonesia business what they are doing there and



Burger King India Limited
August 27, 2021

maybe even use that to our advantage here in India but also to take that menu and skew it so that is a more menu within two proteins so that we are selling more and more chicken which is considerably a cheaper product over there in Indonesia in terms of cost to the business which will increase the gross margins in the business and get us closer to where we would like to see it.

Amnish Agarwal:

This is really helpful and my final you referred to the low charges they are paying to third party distributors like Zomato, Swiggy etc., so what sort of synergies can we expected over in India for example there if the cost is around 10% so can we see gradually the cost in India also moving towards that or there is low probability of that happening?

Rajeev Varman:

First of all there is a massive difference, the revenue to cost of distribution or using these delivery sales is about 2%, ours is 7%, so there is massive, massive gap between the two and this basically due to the maturity of that market with the aggregators. There is two very good companies over there and this upcoming budding companies but they have been there for a long time and they do more than just deliver products from QSR. They do a lot of things and you can Google and see Gojek and Grab these are companies that have been doing this for very long time, so that is where the advantage is. See the synergies come because we have an app, right we have a Burger King app here in India. We have teams that build it. There is a team that built the Burger King app in Indonesia, what if we are using the same synergies right we are using the same kind of background back of the house, we are using the same vendor for the technical production of these apps, we are using the same promotion companies, so there are lot of synergies there that you will see advantages in the technology side of the delivery business, where it comes to logistics they will continue using the companies that work there and we will continue using the companies that work here but if you follow Burger King India's earlier AGM presentation we had outlined that our vision is to take about one-third of the delivery business sales and put it into the Burger King app so we want to do the Burger King sales. We have made significant progress just after launching the app very recently. I have million downloads of the app. We are shifting a lot of that sales on to our app and we will continue doing business with aggregators but we think in the long run we should have balance between aggregators and our app and that kind of synergy if we do take over the Indonesian market we will carry the same kind of efficiency into that market.

Amnish Agarwal:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.



Burger King India Limited
August 27, 2021

- Suraj Nawandhar:** All my questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir so I was just looking at your P&L which you have given and the number of stores so if I take the average number of stores for 2019 and \$100 million of revenue the average sales per store comes to roughly about Rs.5 Crores which pre pandemic in India I think you average sales is around Rs.4 Crores given that it is a chicken eating country, they are eating chicken breakfast, lunch, and dinner only 20% higher sales per store does not the store efficiency seems to be poor given the cultural context?
- Prashant Desai:** Percy, as Raj mentioned here that business is just the whole QSR Berger QSR piece in Indonesia is just taking off. Also if you see our ADS pre COVID was about Rs.110000 If you see the math that they have mentioned on the same page their ADS is 1900 so on that basis if you will see it will be about 145,000 in terms of ADS, so it about 30% 35% higher and not 20% 25% higher and as I said there are massive opportunities right that is what keeps us excited. One the fact that is predominantly in Indonesia, we as in Berger King Indonesia still predominantly selling a lot of beef products, chicken we are just beginning to first make a mark in this ADS breakfast is not included, in this ADS café is not included so if you pull up all of this one you will get a direction that is point number 1. Point number 2 if you see 2019 weighted average ADS of about \$1900 you will see my FSDT were only 58 at that point of time and mall restaurants were much larger as we are moving forward a large part of your incremental restaurants that Indonesia is planning to open are free standing drive through and the free standing drive through ADS are much larger or higher compared to mall so if you extrapolate this going forward obviously the number will be higher but if I am buying this business in a single digit EV EBITDA with an ADS which is about 25% to 35% higher than my India ADS I will take that with the kind of opportunity there is there for me to further scale this up.
- Percy Panthaki:** Sure makes sense. Secondly, I do not know if you mentioned this and I was browsing through the presentation maybe I could not find it there also but can you give some idea on how many stores you planned to open in 2022 and 2023 is this a calendar year company or March ending company?
- Prashant Desai:** Percy, if you go to slide number 9 in the presentation, we are talking about 330 stores by 2026 and if you look at our Berger King India MFD a target about 700 stores by FY same calendar 2026 is what Raj was saying that that number will look northward of 1000 Crores



Burger King India Limited
August 27, 2021

for the combined company but currently that is where the company is currently shared information of about 330 stores by 2026 and if you see the slide that you were talking principally they are talking of opening about 35 stores every year so currently the Indonesian business, Percy runs on calendar year basis. Should we chose to go ahead and acquire this business then this business will consolidate on a financial year basis from a India reported number perspective. What Raj is coming from is if we are able to execute well both the India and Indonesia business in another 2 to 3 years time we will emerge as second largest QSR brand in India both in terms of revenue and EBITDA.

Percy Panthaki:

One more question on this valuation you are saying single digit EV EBITDA multiple for FY2023 so how was this valuation arrived at was there a benchmarking study done for similar QSR companies in Asia pacific or what was the methodology to really arrive at this valuation?

Prashant Desai:

I will not be able to share everything but Percy I will share exactly what you are asking in that sense, so we appointed CLSA as our financial advisor and PriceWaterHouseCoopers valuation advisors both of them used various benchmarks including discounted cash flow including not just benchmarking the Indonesia business with the Indonesian listed QSR space but also the broader FMCG players in Indonesia and at what multiples they were trading also a lot of impetus was given on the some of the transactions that happened on the M&A side in the Indonesian market, we then broadly expended this from Indonesia to South East Asia so all of those were considered a valuation was arrived at, at which our board felt comfortable to go and put in a nonbinding offer, not one particular matrix but all of these were put to test to come to what we thought would be a fair price to kind of go and bid for this asset, Percy.

Percy Panthaki:

That is all from me. Thank you.

Moderator:

Thank you. The next question is from the line of Sushruta Mishra from Kotak Securities. Please go ahead.

Sushruta Mishra:

Two questions from my side. What is the reason for lower gross margin in Indonesia? Are there other QSRs in that geography operating at similar level of gross margin or is it more due to the lifecycle of the burger QSR industry in that market? The second question is the post IFRS 16 accounting similar to Ind-AS 116 so the EBITDA margin that has been shared in the presentation is that comparable to the EBITDA margin is reported on post Ind-AS basis?



Burger King India Limited
August 27, 2021

- Prashanth Desai:** Yes. To answer your second question is yes. Both are comparable, similar to Indian adjustments. On the lower gross margin, I tried to answer that question previously because they have predominantly currently large part of their burgers being beef burger and beef in Indonesia is imported as a result of this the gross margins are currently low. As Raj was mentioning in his initial remarks that as more chicken makes entry into the menu and into the revenue, chicken is locally sourced in Indonesia, the margins have a potential to go up. Also as you keep scaling up the business you will also get other synergies, but currently the gross margins are that because of beef being imported.
- Rajeev Varman:** If you look at where we were right when we started this company in 2014-2015, we were sitting at very similar gross margins right. Gross margins are just an element of how cheap you buy or how much you sell for. There are a lot of things that go into gross margin predominantly menu architecture, what is your menu, and what are you selling right. If you sell something at a low price then higher then you are going to have low gross margins. So lots of things go into it and that is what we have done in the last seven years here in India to move the gross margin to where it is now. We have moved it almost eight to ten points. A lot of work goes into to do the same things, but I think as Prashanth summarized towards the end, it is a cheap chicken market where chicken is cheaper available but our menu is skewed towards beef so I think there is an opportunity to do it little better over there.
- Sushruta Mishra:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dhiraj Mistry from Antique Limited. Please go ahead.
- Dhiraj Mistry:** Sorry I joined a bit late to the call, but can I know from where we are likely to fund this acquisition? It would be from the debt or from the fresh issuance?
- Prashanth Desai:** Sorry. No need to apologetic that you joined late. We also gave a short notice, but we wanted to do this call and we are very excited about this development so we wanted to share with all you. So Dhiraj we did mention early on that the fact that we are generally risk averse from taking leverage to buy a business. If we choose to go ahead with this transaction, we will go ahead and raise equity capital at appropriate time subject to board and shareholder approval. So the funding will be through equity and not through debt.
- Dhiraj Mistry:** Given that one \$183 million is the enterprise value and you are acquiring 85% of the stake plus \$40 million of infusion so it is \$183 million plus \$40 million or 85% of \$183 million plus \$40 million?



Burger King India Limited
August 27, 2021

- Prashanth Desai:** Dhiraj I also shared that math, \$183 million I mentioned is the enterprise value and our nonbinding offer is on a cash free debt free basis. From this based on the preliminary information that we have you have to reduce the debt which is currently, which is \$25 million to \$30 million. That will be bring you to equity value of \$155 million for the entire business. We are currently putting a non-binding offer to acquire up to 85% of that. That would be somewhere in the range of \$130 million to \$135 million and over and above this is what we will raise primary of \$40 million.
- Dhiraj Mistry:** This infusion will be for further expansion?
- Prashanth Desai:** That is correct?
- Dhiraj Mistry:** Thank you very much. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** One more question. Just one question on the regulations of this transaction so since the selling shareholder FMG Asia is also sort of indirectly sort of promoter for Burger King would be classified as a related party and if so would this transaction require approval from minority shareholders?
- Prashanth Desai:** The answer to both the question is yes. It is a related party. Because it is a related party transaction when this transaction if we chose to go ahead with this comes to the board only the independent directors will be voting and at the end of the day this will be also approved by the shareholders as well so you are absolutely right.
- Percy Panthaki:** Thanks.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.
- Manish Poddar:** Sir just one question. So what would be the cumulative losses and is there any **inaudible 48:44** because of this acquisition?
- Prashanth Desai:** Sorry I did not get you Manish if you could repeat your question once.
- Manish Poddar:** I am just trying to understand what is the net worth of the company and would it be right that you have tax losses over here, estimated losses which can be offset by the tax? I am just



Burger King India Limited
August 27, 2021

trying to understand what is the net worth of the company if you can help me with that because I believe given the size and scale and let us say if you take the cost of debt and tax rate and the depreciation alongside you will incurring losses in let us say 2019 also? I am just trying to understand what the network is and do you have any losses which can offset the tax outflow incrementally?

Prashanth Desai: Manish as I said we are still undergoing due diligence that data will be available to us starting in the next few days. We will come back to you with an answer to that.

Manish Poddar: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Prashanth Desai. Thank you and over to you Sir!

Prashanth Desai: Thank you everybody for taking the time and joining at such a short notice. At the cost of repetition, I will still once repeat that we have just submitted a nonbinding offer, which has got accepted. We now have 90-day exclusivity. We will be doing due diligence through a lot of agencies. Once the due diligence is completed, we will go to the board and subject to board and shareholder approval we will be taking these transactions forward. Should we choose to take this transaction forward it will require an external capital raise. Our current sense is that capital raise including expenses everything could be in the range of \$180 million to \$200 million including \$40 million of primary infusion into the Indonesian business for their expansion. As Raj started this call, we all are liking what we are seeing. We see the whole burger space in Indonesia is still in its infancy. It is a great management team, which resides there. There will be no constraint on the Indian management team. From that perspective, we are very excited to do more work on this and as the deal develops further, we will take the opportunity to come and brief all of you. Once again thank you so much for joining at a short notice and good evening guys.

Moderator: Thank you. Ladies and gentlemen, on behalf of Burger King India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.