Annexure A

# “Restaurant Brands Asia Limited
# Q1 FY 23 Earnings Conference Call”

## August 12, 2022

**MANAGEMENT:** **MR. RAJEEV VARMAN - WHOLE TIME DIRECTOR AND GROUP CEO, RESTAURANT BRANDS ASIA LIMITED**
**MR. VAIBHAV PUNJ - CEO OF BURGER KING, INDONESIA**
**MR. SUMIT ZAVERI - GROUP CFO AND CHIEF BUSINESS OFFICER, RESTAURANT BRANDS ASIA LIMITED**
**MR. KAPIL GROVER - CHIEF MARKETING OFFICER, RESTAURANT BRANDS ASIA LIMITED**
**MR. PRASHANT DESAI, HEAD OF STRATEGY AND INVESTOR RELATIONS, RESTAURANT BRANDS ASIA LIMITED**

# MODERATOR: MR. NIHAL MAHESH JHAM - EDELWEISS SECURITIES

**Moderator**

Ladies and gentlemen, good day, and welcome to the Q1 FY '23 Earnings Conference Call of Restaurant Brands Asia Limited, hosted by Edelweiss Securities Limited.

As a reminder, all participant lines will be in the lesson-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star"*" then "0" on touchstone phone.

I now hand the conference over to Mr. Nihal Mahesh Jham from Edelweiss Securities. Thank you, and over to you, sir.

**Nihal Jham**

Yes. Thank you so much. On behalf of Edelweiss, I would like to welcome you all to the Q1 FY '23 Earnings Conference Call of Restaurant Brands Asia. From the Management today, we have Mr. Rajeev Varman, CEO and Whole Time Director; Mr. Vaibhav Punj, CEO of Burger King, Indonesia; Mr. Sumit Zaveri, Chief Business Officer and Chief Financial Officer; Mr. Kapil Grover, Chief Marketing Officer; and Mr. Prashant Desai, Head of Strategy and Investor Relations.

I would now like to hand over the call to Mr. Prashant Desai for his opening remarks. Prashant, over to you. .

**Prashant Desai**

Thank you, Nihal. Thank you, everybody, for taking the time and joining the call today on a Friday evening. Before I take you through how the call is going to be – we'll take you through the call, I just want to wish everybody a very happy 75th Independence Day in advance, a long weekend. So we'll try and wrap this call up in 60 minutes. The way we will do this call is I'll hand it over to Raj first to make his opening remarks, both on the India and the Indonesian business. Then I'll take you through some slides on the business and operating metrics.

Subsequently, I hand it over to my colleague, Sumit, to take you through numbers on the pre-IND AS basis. Sumit will then hand it over to Kapil to take you through the developments on the marketing side and our strategy from a menu and marketing perspective. Post which I'll take you through the guidance. And then I hand it over to Vaibhav Punj to take you through the developments on the Indonesian side of the business.

With this, I'll hand it over to Raj to make his opening remarks, both of the India and the Indonesia business. Raj?

**Rajeev Varman**

Yes. Thank you, Prashant. And as well, I wish you all a very, very happy in Independence Day as well as Raksha Bandhan. I hope everyone had a good Raksha Bandhan as well. So good evening, everyone, and thank you for joining and affording your evening to us. I'll quickly walk you through the highlights for India and then for Indonesia.

So just on the revenue side, we did INR336 crore, which is 125% year-over-year growth, also a 25.4% quarter-over-quarter growth. So revenues continue to grow in the right direction. SSSG wise, we were 66% over the Q1 FY '22 ADS and 21% over on the FY '22 ADS as a whole. Now as we have guided at 45% SSSG over last year, I think we are seeing these numbers. And hopefully, next quarter, we will try to better the guidance as we are seeing some good sales coming our way.

On the margin front, gross profit margins improved 122 basis points year-over-year to 66.4 in Q1 of FY '23 and 30 basis points quarter-over-quarter. So this is in spite of all the inflationary headwinds that we have, we continue to stay disciplined moving our business forward on the gross margin front.

Reported restaurant EBITDA, and this is all on a cost basis, was INR49.9 crore, 14.8% for Q1, improved by 410 basis points year-over-year. Also, the company EBITDA and our -- we delivered INR33.2 crore, which is 9.9% for Q1 F '23 improved 880 basis points year-over-year.

On the development front, we are at 328 restaurants as of June 22, 13 restaurants opened in this Q1. Today, we have 19 restaurants in construction and another 40 restaurants in the pipeline. Last time, we had reported 50 restaurants in the pipeline. Some of them have moved into construction.

Our pipeline continues to be strong 40, and with the number of restaurants in construction with the pipeline, we are very good to hit our yearly targets. On the BK Cafe front, the news is also very good. The BK Cafes, we continue to build 51 BK Cafes opened in Q1. A total of 86 BK cafes are right now open as of June 22. Actually, as you speak today, we have 129 cafes open. Now all these are very young cafes, -- some of them have been opened only for a week or a couple of weeks. This last 43 days, we have basically opened a cafe every day.

So that's the kind of speed we have picked up on the cafes. On the BK app, this revenue growth is about 13% quarter-over-quarter, continuously growing this double digit for the last 5 quarters. Also, the app downloads and so forth installs $3.7 million, which is a 25% growth over the last quarter that we reported to you.

On the Indonesia front and Punj will give more color on the Indonesia site, and Prashant will give you the details on the India site as well. On the Indonesian revenues, we were at INR152 crore, which grew 16.2% quarter-over-quarter. 69% recovery over F '20 ADS, July '22 ADS recovery now as we see it as 78%. So that continues to grow over the 69%.

Strong investment in marketing. We've just gone into the market after a break of almost 2 years to put in a very strong marketing program. Punj will talk about what we have done there. You've seen the ads here in India with Hrithik Roshan, he will share with you a similar kind of celebrity and the amount of both money as well as the strategy we are putting behind the communication strategy in Indonesia.

Gross margins for Indonesia, these have improved 140 basis points FY '22 over FY '22, and that's at 59.9%. This is, again, we are restructuring the menu over there, a lot of work is going on, and this will continue to improve as we move forward. There's a few work streams that are going on in Indonesia. One is menu architecture that, again, Punj will talk about, introduction of value strategy, and then build on the other side of a premium menu. So all these are in place. You will find some of the work we are doing in whopper, which he will share with you. So all the basic things that will move the business forward there.

On the growth and profitability front growth we are going to continue to build both the brands, I will talk about Popeyes in a minute over here. We just signed that one, so I'll come to that. But continue to grow the brand. Our focus right now as a brand over there in Indonesia is to first get back to 100% of our pre-COVID sales. And once we kind of get there, then our focus will be to continue building those freestanding drag through restaurants that were so successful pre-COVID when we were building them there. Now great news on the front of the Popeyes, as I alluded to, we have signed the master

franchise agreement for Popeyes in Indonesia. So I congratulate my entire team, especially Sumit Zaveri, who's been instrumental in this negotiation, and that has been completed. We expect to start launching the first restaurants in this calendar year as well on that.

The plan on the MFDA that we have signed has 300 restaurants in the first 10 years. So that's -- and USD 5 million has been deposited into that account as per the requirement on the MFDA. We have also appointed a leadership to head the brand over there, Popeyes brand over there, Sandeep Dey, who's been with us for 8 years and who has 20 years of experience in the industry. We call them expert in chicken, we call Mr. Chicken in our business. He is taking over as the President, Brand President for this business. We wish him well. He's already moved there with his family and has started to work on the menu and architecture of launching the first restaurant.

With that said, let me transfer you back to Prashant to carry you through the detailed slides. Over to you.

**Prashant Desai**

Thank you, Raj. So as if you come to Slide number 8. Before I go into the details on Slide number 8, a couple of remarks. One, if you will notice from the Q4 presentation, we have deleted the slide on recovery, given that the business is now significantly recovered. We are now back to our pre-COVID SSSG reporting. And hence, going forward, I think it's a better metric for all of us to kind of track and measure our progress. Number two, when we were showing the recovery data, we were giving you regional details from a competitive dynamic perspective, we will not want to share the region-wise ADS data. So just keep these 2 pieces in mind.

I'll first talk about our store opening. As we had last time told you our target this year is to end the year with about 370 stores. One big change in strategy we spoke last time is unlike previous years, where a lot of our store openings were bunched up in the third quarter and fourth quarter from starting this year, our endeavor is to kind of open stores more evenly. To that end, this quarter, we opened 13 new stores, account, as you know, is 328. One big change from what we spoke last time -- we had guided that we will open 200 BK cafes by end of March. We are now upping that guidance to 250 by end of March 2023 in terms of BK Cafés.

If you go to Slide 9, ADS trend, we ended July with the run rate of July of 131,000 very promising growth. We are seeing month-on-month. And as you guys know, for us, the October, November, December quarter and Jan, February, March quarter are 2 very big quarters. Before that at 131,000, looking very, very promising, which is where Raj mentioned that give us just 1 more quarter. Hopefully, when we come back to you with our September results, we will revisit our 25% SSSG growth targets.

But as of now, if you take April to July, we have delivered a 23% SSSG. The delivery and the dining mix currently stands at 58%, 42%, almost in line with what you saw last quarter. And our endeavor is with the great work the marketing team has done and Kapil will be talking about it. As that effect begins to kind of pay dividends, the idea is to take dining closer to -- between 60 and 65 as we move forward.

I'll now hand it over to Sumit to take you through the pre-Ind AS numbers. Sumit?

**Sumit Zaveri**

Thank you, Prashant. Before I just take you through the numbers, just 1 call out. During our few calls that we've had in the past, we realize that you would want to see the pre-Ind AS there. So from -- starting from this quarter, we'll be sharing the pre-Ind AS numbers with USB as we kind of go along quarter-on-quarter as part of this call. Raj already covered that we've moved our overall revenue to INR337 crore. And we continue our growth journey on the gross profit side, taking it to 66.4%.

Our restaurant EBITDA for the quarter stands at 6.1%. And when Kapil will talk about some of the things that we've done on the marketing side this quarter, and that has resulted in some of the entire production cost that we incurred for the purpose of development of Stunner Menu ad have got recorded in quarter 1, and that has effectively resulted in incremental spend over normal levels by almost 2.2%.

So adjusted for that, our EBITDA for the quarter would stand at 8.3% at a response level. And at the company level, it would be at 3.3%. And the amount that we spend effectively will get evened out in later parts of the -- later part of the year as we go along. So moving on to next slide, Slide number 11, which kind of really show the numbers in a tabular form, what we spoke earlier. Our major callout honestly is still company level EBITDA at 1.1%. You would see a slightly higher employee-related costs, and that is because of some of the investments that we have started doing in terms of the focus on morning breakfast and an early investment on account of the cafe launches that we are doing. We believe that as we go along, this should kind of start normalizing over next couple of quarters.

So with that, I'll just hand it over to Kapil to take us through the marketing initiatives.

**Kapil Grover**

Thanks, Sumit, and good evening, everyone. So as Sumit just shared that we've been improving sales and efficiencies across the panel over the last few quarters, I will talk about our top line driving initiatives that have started to show very good traction of late. We saw our ADS improved from 104 previous quarter to 120 and now trending at 131 in July, and we will continue to drive these programs over the next coming years. So moving to Slide 13. This slide outlines the key growth drivers of our business. Our first pillar was Stunner, which will be our long-term play to drive everyday value credentials for brand Burger king. We are on-air in quarter 1, and that has significantly improved our dine-in traffic.

The second pillar is about continuing to promote and build a strong menu that is relevant to our current and potential guests. The third piece is the Cafe menu, which is what Raj and Sumit spoke about, it started off very well. and we are very confident that it will be a big driver of incremental occasions and sales in the coming years.

The delivery channel remains a very strong business for us, and we've seen strong growth on that channel on third-party platforms and as also on the BK App platform. Finally, the brand that we are building, a very strong, relevant brand for the zillennials.

On Slide 14, I'll talk a bit about the Stunner menu. Some of you are familiar with the Stunner menu, but just for the new people on the call, I'm reiterating the Stunner is an everyday value menu with a range of products at INR50 and INR70. So there is a choice of format and taste for our guest. It's a profitable layer and hence a sustainable layer over time. And this was really the first quarter that we promoted the rear layer properly. The primary goal is to drive awareness and traffics, and we saw significant improvement in that.

On Slide number 15, we were on-air in April 22 in one of our earlier commercials, which is functionally delivering the news on Stunner. In June, we produced a new campaign with Hrithik Roshan; Sumit allude to that cost of additional marketing this quarter, which will normalize over the full year. Now this is a full year contract with Hrithik, we went on-air with the commercials early June. But I'm sure all of you saw the headlines where it said Burger King hacks Hrithik Roshan. The content went viral on Friday, which was tenth of June, and this is when we have not even gone on TV. And then we add the 3 commercials up until early August.

The result of this was that we saw about 20% growth in dine-in traffic over pre-campaign period, which is very significant, and we leveraged social media platforms of the celebrity digital PR to create massive impressions and awareness about the campaign.

Going to Slide number 18. We've started to now build a very strong premium layer in our menu. It's led by the Whopper and the relaunch of The King's collection. Just to jog back, we had relaunched the Whopper in November 20 with the new recipe, which is more like for the Indian pallet, went on television to promote in January and February '21, and then continue to keep the innovation pipe now of limited time offers, social media engagement over time.

Earlier this year, in April, we relaunched the whole new King's collection with an improved product and new masala buns. Now this portfolio put together is a very strong premium core menu portfolio. Over these 2 initiatives, if I compare this to the pre COVID period, we have more than doubled our volumes in this premium portfolio. These initiatives will help us appeal to a different segment of consumers and also help us drive APC via a very balanced menu offering.

Moving to Slide 17. I also wanted to share this big momentous occasion that happened early last week, early this week. We have launched the world's first 100% veg Burger King restaurant with no onion and no garlic menu. It is especially developed for our guests in Katra, Vaishno Devi temple. Now this menu was a big challenge. So we have to develop the entire menu without onion and without garlic. It took us about 3 months to develop the whole menu, and this makes the Burger King concept so much more relevant to the local audience throughout the year. And this is something that we intend to carry forward to other similar locations where consumers may have similar preferences.

The third pillar that I'll talk about is the BK Cafe on the Slide number 18. Now happy to report, as we mentioned, we've got 129 cafes live as we speak. And we continue to save 7% incremental revenue, which is approximately INR11,000 on the 86 store base, which was open as of last quarter. We've also started trials of leveraging Cafe for the breakfast day part. We started to open all our cafe stores, especially the high street stores at 7 or 8 a.m. depending on local nuances and experimenting with the breakfast menu created with coffee and our core menu items paired together.

Now this becomes very relevant as we see changing lifestyles over time as people see convenience even in this day part. And we will keep you updated on how this experiment progresses over time. Given the great results from the cafe, we now continue to expedite the Cafe expansion, and we will be launching 250 Cafes by the end of this financial year ending 31st March FY '23.

Lastly, I want to talk about how delivery continues to be a large business for us and a growing business for us. We know the consumer habit is changing towards convenience, and we've seen that channel grow for us over 50% in several quarters over the last 1 year. In addition to the third-party platform, we also continue to grow BK app, which has grown 15% quarter-on-quarter. It is now close to 4 million installs.

Slide number 21 talks about how we are building a youthful and differentiated brand relevant to the zillennials.

Our social media content, a cornerstone like the Sober Whopper that we did on the New Year's eve. The fact that our menu has no synthetic colors, no artificial flavors, raises the expectations of these guests, and we'll continue to innovate and satisfy their expectations. Just to give you another example, the -- that we did in quarter 1 also included the release of NFP, which is the first ever in this category by any other brand. So in summary, great value for our guests. Offering differentiated and relevant innovations, establishing and

growing BK Cafe, a strong delivery ecosystem and a brand that resonates with the youth will be our focus over the next few years. I will hand it over to Prashant to talk you through the future outlook.

**Prashant Desai**

Thanks, Kapil. As you will see on Slide 22, ex BK Cat where we've upped the guidance from 200 to 250 stores. We are not changing any other guidance as yet, but we believe there is a high probability to change the SSSG guidance. Probably we'll come back to you -- when we come back to you with the September numbers. So the rest of it is absolutely the same. I now hand it over to Vaibhav to take you through the Indonesian business update. Over to you, Vaibhav.

**Vaibhav Punj**

Thank you, Prashant. Since I'll be speaking to you for the first time, so I thought I'll give you a little context on the Indonesia as the country, but also where we are currently in terms of COVID situation there. The country -- it's the fourth largest in the world in terms of population, 270 million people big chunk of them are millennials, which is very similar to what we have in India. Very high eating out ratio, so people leaned out about 16 to 17 times in a month.

Our business there is about 50% malls, and 50% outside of malls, which we call as FSDTs and what we have seen over the last 2, 2.5 years is that even during COVID, the FSDT portfolio has continued to perform better than the malls.

Now currently, where we are in terms of COVID, COVID hit the Omicron wave hit about a quarter late in Indonesia. We are still in a recovery phase, so to say, all the malls in Indonesia require people to be fully vaccinated to enter to the malls. They use the app to track and in fact in which is the national capital region, you're required to have the third booster to get into the mall. So this means that our recovery is a little bit more sort of staggered compared to what we've seen in the India business, but we are working towards 100% recovery now.

So if you look at the slide here, pre-COVID, our average daily sales was at 135,000. We have seen consistent recovery from the last 2 quarters. In fact, our July exit was at 105,000. Still work to do, but we are in the right direction. In terms of the number of stores, we are at 175. Like Raj mentioned, our focus right now is to bring the sales back and post that, we're going to focus on growth.

**Kapil Grover**

On the numbers of operating performance, if you were to the next slide, you will see that we ended the quarter with a 16% quarter-on-quarter growth ended the quarter at INR152 crore. Our gross margin improved by 1.4 percentage points. Our restaurant EBITDA was at 5.9% compared to just 0.5% of the quarter before. And our company EBITDA was minus 2.6% compared to minus 7.6% the quarter before. So all moving in the right direction.

Now what we need to see is or what I want to take you through is what is our go-forward stat, which is important not only for the recovery of the business but also to build a very strong baseline for the business as we go forward. Now 4 broad parts, right? One, we want to make sure that we are the most innovative brand in the country, and that's specifically in Indonesia, where innovation is the key, indulgence is the key to bring the guests back.

Second, which is very relevant to the category, value has to be a strong pillar for our business. And last, we've already made some great inroads on digital where we need to continue to work on. If you look at the next slide, in terms of innovation, there are 2 parts we are talking about. One is on our core menu. We already have -- in fact, in Asia, we were the first market to launch the 100% clean Whopper. We are now sort of reworking,

revamping the Whopper to suit the Indonesian taste and the idea is to have a complete new Whopper launch in the next few months.

On the other side, we'll be very aggressive in terms of innovation. So you could see the pink and the black on the right-hand side, these are installations from Japan and Korea, two sort of flavor profiles, which worked very well in Indonesia. The term we have it for these innovations tardilicious people like to click the picture first, and then they want to taste it. And the idea for us is to continue in this direction, making sure that the guest has something new to come back to us every quarter.

If you go to the next slide, value, which is going to be extremely important for this category and for us in Indonesia, we have 2 broad value menus. The first value menu is King Deals, which is essentially the cheapest meal deal in the country. So you get a burger, a fry and a drink at 27,000 rupiah, which is about 30% to 40% cheaper than the competition. Now to promote this meal deal, we have signed up with Raffi Ahmad who is, by far, the biggest celebrity in Indonesia. He is across television, across movies, across reality television. You would see that he had about 63 million followers, which is one of the top in the world, I would say. He has a youtube channel with 24 million followers. We've just gone on television with him about 15 to 20 days back. This is for the first time in 2.5 years that we are actually going back on television going -- doing a 360 campaign and we have a high expectation that this will bring traffic and sales sort of back to us.

The second value layer that we have is what we call it menu bouquet. Currently, this is focused on a la carte snacking and snacking in We are now working to make this layer more robust because this drives a lot of value traffic to us. So we spoke about innovation. We spoke about value. The next part I want to speak you about was winning across the day part. Similar to India, we are working on our breakfast strategy introducing the BK Cafe and also opening our stores 24 hours so that we can have the midnight which would be a strong growth driver for us.

If you go to the next slide, 1 piece, which is actually I'm extremely proud of the team, what they have done in the last 2 years, is really building a very solid CRM and digital data stack at the back end. So we are one of the only brands, in fact, only QSR brand to have a very evolved loyalty program because the BK Crowns, we use CleverTap for our tech stack. So we have about 6.4 million data points at this point in time, 1.7 of those are rich data, where we know the customer's name, details, phone number, transaction points, we can retarget it. This is something which we think is going to be a huge growth driver for us in the future. So again, the 4 parts when it comes for us to win would be extremely strong innovation, extremely strong value, a lot of work on CRM to bring guests back and winning through all the day parts. We do all of this consistently. I have no doubt that we will impact to 100% level, the pre-COVID glory, in the next few months. Over to you, Prashant.

**Prashant Desai** Nihal, we can open up the floor for Q&A now.

**Moderator** We have a first question from the line of Chirag from CLSA.

**Chirag** Good job really on the Indonesia gross profit margin expansion. My question is on Indonesia. So if I focus on Slide 25 of your presentation, there is a sharp increase in the restaurant EBITDA that you have done sequentially. And obviously, I do understand that year-on-year numbers are not available because they might not be comparable. But given that there are multiple moving parts on the restaurant EBITDA that we have seen in the last couple of years, what is the trajectory of margins that you see here going forward? And what are the key levers for the improvement in the Indonesia restaurant EBITDA, please? .

**Management**

So thanks, Chirag. Thanks, Chirag, for that question. So I will answer this in 2, 3 manner. One, as Raj has been consistently since IPO trying to educate people that number 1 strategy at Burger King India and now which includes Burger Indonesia to drive traffic. You guys have gone through a lot of similar business QSRs all over the world. This is a business where it is a very high operating leverage business. And hence, traffic will become a very important driver for us. Today, if you see the business is almost about 78% recovered, we had mentioned this to all of you last time that we expect this business to make a full recovery by September.

Now Chirag, if you actually go back to the presentation, we had shared with you guys when we had bid for the Indonesia business. On a calendar year '19 basis, this business had a pre-Ind AS restaurant level operating margin of roughly about 11.3%. Assuming the same -- when we hit the September numbers, when we are fully recovered and we do the same number of same restaurant operating margin, that's about 11%. One massive effort that the team has put while the business is taking its own time to recover, is to work what Vaibhav mentioned extensively on the -- on the menu side, also on the sourcing side, and you have seen gross margin significantly expanding.

We are now almost touching the 60% kind of a guidance that we want to achieve during the year. When we acquired this business in that same presentation, you will see our gross margins were in that 57.5%, 57.6% kind of thereabouts. So if you overlay that another 200 basis points there, I -- currently, a 13% restaurant level EBITDA margin on our Indonesian business looks very, very doable. So that's the kind of trajectory we can look at going forward at least for this year.

**Chirag**

Sure, sure, Prashant that's very helpful. But just staying on that point, right? If you look at the 2 key levers that possibly we are seeing in Indonesia and correct me if I'm wrong, is one, expansion in gross profit. And then Secondly, in operating leverage really kicking in from corporate and general administration expenses not growing as fast as possibly the way the sales growth will grow going forward.

So I'm hoping there are these are the 2 levers that you're looking at. And in that context, if you can just elaborate a little bit around the fact that there has been a INR20 crore, INR24 crore increase -- sorry, I think these are in million numbers, about INR3 crore to INR4 crore increase in the corporate expenses quarter-on-quarter. So are we seeing the corporate and general expenses stabilizing at this level? Or given the expansion, it will further increase before we see the operating leverage really kicking in?

**Sumit Zaveri**

Chirag, this is Sumit here. So I think to your question on operating, general and administration expenses at this -- this is actually the normalized levels that we see to remain for the next 3 to 4 quarters. There could be some marginal adjustments as we kind of add people for the purpose of a Popeyes business. But if I was to just look at it from the perspective of only Burger King Indonesia business, than this is -- these are the stable state level progress.

**Management**

And Chirag, if I could add to your first part of the question, One other operating leverage lever you will see is as we continue to grow our FSDTs, you will see, as we had explained, when we had acquired this business, FSDTs have a significantly better margin profile compared to malls. And as we move forward and we open more and more FSDTs is that's where you will see another lever of operating leverage kicking in.

**Rajeev Varman**

Yes, Chirag, just -- this is Raj. If you look at the mall restaurants over there, their ADS pre-COVID was about INR1.4 lakhs, if you convert into rupees and if you look at the FSDTs, they were at INR1.8 lakhs. So we started building FSDTs towards a couple of years before COVID, and we build about 52 in those 2, 2 years. So all these FSDTs and if you look at the competition over there, the portfolio and the landscape is driven by

FSDTs, Freestanding Drive-through location, FSDT that's what is the fabric of what QSR is in Indonesia.

We are skewed over there by malls because the initial ownership in 2008, when it was owned by a different owner, they were mall operators, so they build all their restaurants in malls. But once Punj took it over, Vaibhav Punj, he has been building FSDTs, which are coming at a significantly higher volume. So that is lever number 1, which is to drive higher volume stores, which are FSDTs. By the way, they come at lower rents as well. So that's a double kind of advantage. The second lever that you will see as we go -- continue to grow in this business is the launch of cafes, right? That's a country of coffee. I mean, this cafe culture in Indonesia is second to none in the world. And that we are kind of behind the eight ball on that. As we pick up and start building up cafes over there, that will become an added massive advantage to the ADS levels over there.

Now they have got an inherent advantage on their commissions on aggregators. They work on much lower commissions, so that's a big plus, rents are at 8.5%. So that's a massive big plus. In fact, FSDTs are between 6% to 7% rents. So that's a massive advantage as well. So overall, as we move forward, I think all the effort we are putting around gross margins and trying to move that in the right direction with all the synergies we have between the 2 countries, I think there's several levers that are there that we can kind of over the next 6 months put in place, so that we can move the business not only forward on the top line, but also on the bottom line.

**Moderator**

We have our next question from the line of Jaykumar Doshi from Kotak.

**Jaykumar Doshi**

My question is on BK India business and store level operating leverage. Now when I look at current quarter numbers, between gross margin and restaurant level EBITDA margin of 8.3% adjusted for onetime brand level expenses, it's about 57% of sales is the OpEx at store level other than RM cost, 58%, I guess. That number was 57% even 3 years back in 1Q FY '20 or full year FY '20. So I'm just trying to understand that with 75% more sales versus 1Q FY '20 and roughly about 10% higher ADS at 120,000 ADS, that operating leverage is still not kicking in. So at what ADS do you think the 57%, 58% of store level operating cost will start moderating? Or if you can give us a sense? Should we understand the gross margin expansion that you will see with scale and also the corporate overhead leverage. But is store level unit leverage and when I again compare Burger King versus, let's say, KFC or McDonalds, I think the key difference of 10% to 15% point or store level EBITDA margin is largely because of this cost bucket?

So just trying to understand whether this 120 has to go to 150 for you to start seeing those benefits like it is for the other brands? Or there are some opportunities to reduce costs on this front?

Sorry for the long question, but just want to understand the matter a little bit.

**Prashant Desai**

No, no, it's a fair question. Broadly, one thing you and everybody listening, you guys need to, one, put a certain context to us when we compare with other guys. One year, we are just still a 7-year-old brand, right? And if you actually look at our store portfolio, which is 328 stores, so if you actually go through that slide and do the math, almost 114 stores of this were opened just around 1 year prior to COVID, and then COVID hit. So from that perspective, almost 140 of the 328 stores are just under 1 year. And as they move into the year 2, year 3, you will see a significant operating leverage kicking in. Also, if you look at our total portfolio today, and we were doing some numbers here internally. The average age of this portfolio is roughly about 3.5 years. And this number would be significantly, significantly different for all the brands that you are comparing to us. .

Coming to your question, as I was mentioning to Chirag also on the Indonesian side, this business is all about getting traffic and getting to a decent ADS. What that ADS number is where we will come closer to the brands that you mentioned, tough to answer, but one thing we can tell you is even going forward 1 quarter, 2 quarter, you will see a significant change in the economics that you are seeing, as we had mentioned this last time, ourselves will be a little surprised if we don't deliver between 6% and 7% pre-Ind AS EBITDA margin at a company level this year.

So from that perspective, we are there in the right direction and -- more importantly, when we opened up 250 cafes this year, the impact of which comes in next year, we will really see a big impact and the closing of the gap with the brands that you mentioned very, very soon, starting next year as well. Raj, you want to add anything?

**Rajeev Varman**

Yes. So yes, thanks, Prashant pretty much covered most of the items. But just -- again, I'd just go back. See, this is a brand that is growing. It's not just growing in a number of restaurants, it is also a brand that is growing within each restaurant, right? So for example Cafe, why are we speeding up the cafes because it's adding to the top line, right? So our targets are to move to INR1.5 lakhs very quickly ADS and then continue our journey upwards towards INR2 lakhs, which is kind of a game plan that is in our minds, right? So that's how we think as a company.

But if you look at our P&L, right, if you go line by line items. When you start looking at the percentage levels, they are very different than when you start looking at the value, the rupee value levels, right? So this probably is one of the most efficient P&Ls that you will see in the market. Right? .

We have gone through line by line, and given a very, very efficient P&L. Once you increase the top line from the 120 to the 150 or whatever number that you want to test on your model, you will find that the numbers on the percentage side will grow rapidly, right? Even today, if you look at our spending on labor, for example, per restaurant the rupee value of what we spend on labor is significantly lower than most of what you will see out there.

Utilities, you will see that we are very efficient in the rupee value that we spend on. As you raise the top line, the revenue lines, all the percentages will fall in place. So while we spent this time in the COVID years, we perfected, we went through our, we spoke about this a couple of quarters ago. But we took a lot of time in building a very efficient P&L. And now we are -- with couples plan that you outlined to you with the 5 pillars, we are set with Cafe and the growth in the traffic through our -- Stunner menu.

We are completely set to now move forward with top line with a very efficient P&L moving forward. And again, please be reminded, it's a very young organization. A lot of our restaurants have just recently opened before COVID. In fact, December -- between November, December was that 141 number of restaurants, November, December pre-COVID is when those restaurants started opening and then they closed for COVID.

So a lot of those restaurants haven't seen a complete 12-month run, complete annual run of business. And the other part is the Cafe business, right? We have just opened 129 cafes. We are running very fast and opening them up because we see some good synergies and good movement in those, right? So once you put all the Cafes in place, we'll be set next year with 250 Cafes humming. We will have the Stunner menu that would have been on-air for several months. All the other levers that will be in place. So these are things that you'll start seeing. And if you go back and reflect on infancy of some of the other brands years ago when they started, you will see that this is a very, very efficient P&L.

**Jaykumar Doshi** Understood. Thank you so much for a very detailed response. And thanks team for disclosures on pre-Ind AS-116, resuming those disclosures.

**Moderator** We have our next question from the line of Prateek Poddar from Nippon India Mutual Fund.

**Prateek Poddar** A couple of questions. One is on the India part, right? And I think this is in relation to what Jay was also asking. Look, if I were to look at your business on a quarter-on-quarter basis or maybe even on quarter 3 FY '22 versus quarter 1 FY '23, the ADS has increased substantially. Your dine-ins has increased substantially. That I don't see the gross margin expansion, which I should have seen, right? because -- or the contribution level margin, they could lie in another higher contribution margin.

And at the same time, even if I were to adjust for this marketing expenses which you have called out which to my understanding would be only for 20 days because I think on June 10, you set up the cafe, yet margins adjusted for that versus Q3 FY '22 on a pre-Ind AS basis have not gone up much. the question again is when do I see real operating leverage, which you guys are saying will come out even if the ADS moves from 120 on a portfolio level to 150, and what are the line items? Maybe if you can help me with that to?

**Prashant Desai** So your line item, Prateek, remain the same. So our answer is not very different to what we kind of mentioned to Jay. But first, I'll give you the big picture answer and then break this piece for you. One, you will start seeing this probably next quarter or the October, November, December quarter, big changes of what you -- the way you calculated them, right? Two, as Raj mentioned, we will need to bump up our traffic. Today, if you look at pre-COVID to now, we are short on traffic by about 100 to 125 customers. Our APC today is about 308 to 310 as we -- as through the marketing campaign that Kapil has done and this incremental traffic keeps coming to us at the APC that we are doing, you will see a significant jump in ADS, whether it will happen, when it will happen I wish everything was in our control.

But as you move towards that direction, as I mentioned, to Jay also, we've spoken last time, you will see a company-level's EBITDA margin of about 6% to 7% this year itself, in double digit next year. So the trajectory is what we are looking. It's looking like we are absolutely on the right path from that perspective, Prateek. So broadly, no, very -- not a very different answer to what we mentioned to Jay, but the levers continue to remain the same. The traffic is a lever as all these restaurants that are, which are currently under a year, almost 140 of them as they get into their first full year, second full year, rent as a percentage of sales will come down. Our corporate overheads, which are now almost fixed what Sumit mentioned. From that perspective also, if you see there is operating leverage that will come in -- so when we've been meeting with you guys, we've been saying these are the broad 3 levers, right? Gross margin, operating leverage on account of rent and third, corporate overhead. So this traffic continue to remain the 4 levers?

**Prateek Poddar** Yes, Prashant, I understand that, and that's my question, right, that gross margins have not gone up despite dining is going up. Operating leverage on a quarter-on-quarter basis despite from 104 to 120 million, I can't see that. So that's the question, why am I not able to see this? Or what am I missing?

**Prashant Desai** You're not missing anything. Prateek. One thing, our gross margin on both dining and delivery are the same. So gross margin, if you now compare us with all the peers who have reported their numbers, we probably are the only...

**Prateek Poddar** So maybe I should have said contribution margins because I understand that there won't be 20% or whatever...

**Prashant Desai**

Current level operating margin, yes, that's what we are saying that that is -- 2 things. One, it is dependent on the traffic and the ADS that we spoke to you about. And the second piece that I mentioned, as these restaurants, which are now currently about a year, as they get into higher ADS, the rent as a percentage of revenue will come down. That is what is going to happen the way. Prateek we are looking at this business is very simple. The quality of this business is the quality of the gross margin that we delivered. Our single focus is to get the gross margins where they are.

And if you see across the board in this quarter, if you look at the margin profile of every single product, gross margin profile has remained uniform across the basket, which also if you compare now with all the people, it is a fairly interesting achievement that we have done.

Rest are all maths that will fall in place as our ADS improves. And as our ADS improves starting next quarter and quarter after that, you will see that maths flowing through. The lever is being rent, the lever is being corporate overheads.

**Prateek Poddar**

I'll wait for it. Secondly, just on Cafe. Maybe if you can give us more context as to -- I know it's very early days, but for your early cohort, what kind of -- you did callout for 7% uplift in ADS, but I don't know what base it is -- and maybe some thoughts around what was the base for which you are calling out that 7% increase? And how do you see this part of Cafe moving?

**Prashant Desai**

So Cafe, as Kapil mentioned, if you look at the incremental ADS that we do on the coffee side is between 10,000 and 11,000 currently on the cafes that we are operating. So if you do that 10,000 multiplied by 365 days, you can look at another 30, 40 next in the first year of Cafe coming from each cafe operating at that incremental 10,000 ADS. Our gross margins are northwards of 75% in coffee.

And because there are no significant incremental other costs at a restaurant, you will see the flow through, for example, we were discussing right the restaurant operating margin currently, as you were mentioning, which is roughly about 8.5%, which will go closer to about 11%, 12% by the end of this year. The coffee restaurant operating margin will be northwards of 30%, 35%. And then it flows, everything flows into the company level EBITDA. So the contribution of coffee on the ADS side, though it may be incrementally for the Cafe that we opened, 10,000, but the contribution on the restaurant level is significantly higher.

Also, another thing that Kapil mentioned in his commentary was, interestingly, what we are seeing when we look at stores where we've opened Cafe, versus store where we have still not opened Cafe, and taking out this incremental 10,000, we are seeing a 7% increase in the ADS at those, which is giving us a sense again, very early days, right? Again, we experimented with coffee just last November. But the insight that we are picking up, talking to all our guys at the store is so positive that we've now gone in talking of opening about 250 cafes, not to mention the team is already working on a breakfast menu, all our high street restaurants are now open at 7 o'clock. So you will see going into '24 and '25 coffee will probably provide a significant differentiator in from a margin standpoint.

**Prateek Poddar**

So sorry. So when you say 7% ADS uplift, it is x of Cafe in the sense your organic areas because of capital, you're getting a cross-sell opportunity, hence your ADS has moved up by 7%. Is that what you are trying to say?

**Prashant Desai**

How much of that 7% is coming largely because we opened CapEx is up to break, but a comparison between a cafe and a non-cafe yes.

**Prateek Poddar**

And 2 questions. One is on Indonesia and one for Kapil. On Indonesia, I think you called out in the month of May, 85% recovery. And in the month of July, so I'm not able to get that. That's one. And second, to Kapil. You've talked a lot about targeting zillennials, millennials, et cetera. But when I look at the social media followship or followers, you have just 71,000 subscribers in BK India, while Indonesia 1.6 million, and you're talked about that figure -- so I would have thought that, that should have gone up. So why is that not gone up?

**Kapil Grover**

So I can take the India question first. I think one of the things that's a data point on all India followers that 0, none of those followers are paid followers. So all of these are organic loyal fans are working. We spent INR0 for marketing budget on gaining followers or buying our followers, which is the way we can build a significant follower base over time.

But that said, the engagements that we get, just to give you a number, I mean, typical engagement rates of social media content in the category average is about 4% to 6%. The engagement rate that we get on our content is about 10% to 12%. So we are able to generate much more impressions because of the quality of the content and conversations we have. Follower base is easy to increase. I mean, it's a commercial spend. We don't intend to do that. So our base is a very strong loyal base and our engagement rates are very high. You had a follow-up question on.

**Prashant Desai**

On Indonesia, the thing is that we've been tracking our recovery, the denominator has been consistent. So it's basically the 2000 -- FY 2020 ADS. May, incidentally in Indonesia is actually one of the highest sales period because of Lebaran. So it moves every year by a few weeks. May in this case and this year was where Lebaran was or Eid was...

**Prateek Poddar**

What's Lebaran? I'm not aware. Maybe -- sorry, my understanding is limited. Is it like Diwali or is it a seasonal effect, which is why 85%, I could see over there?

**Prashant Desai**

Yes, yes. So it's basically the end of Ramadan. And then after Ramadan, there's basically a 2-week sort of period where everybody goes out and goes back to family. So it's -- yes the impact is what you will have in Diwali in India. So it's very similar.

**Prateek Poddar**

And on the trajectory side, you're saying that by, let's say, September end, on an aggregate basis, you would be back to 135,000 ADS on Indonesia. So in the next 2 months, the recovery is very strong, is it?

**Prashant Desai**

That's the recovery is more than same recovery, that's the sense that we are getting. But as I said -- as Vaibhav mentioned, right, Prateek, that some of this is also dependent on policies like from double vaccination, a third booster is required to get into malls and stuff like that. But yes, as of now, the hope is by September, we'll have full recovery.

**Moderator**

We have a next question from the line of Percy Panthaki from IIFL.

**Percy Panthaki**

My question is that let's assume what you're saying actually happens, let's say that you go to 150,000 ADS and you do a 10% pre-Ind AS EBITDA margin. that gives me about INR55 lakhs per store EBITDA, let's say, post tax, the profit that the store makes is about INR45 lakhs. Against this, you have an investment of about INR3 crore, including store level CapEx and some renovation, corporate CapEx, et cetera, et cetera. So if I do the math of 45 divided by INR3 crore, that gives me a return on capital of about 15%. So even if what you're saying everything pans out according to that, we are still a 15% ROIC kind of a company. So I mean -- and that's including all the levers that you spoke about. So question is, is there any upside to that number? Or this is a 15% ROIC company in the medium term?

**Prashant Desai**

At 150 and at a store level post tax, yes but at 150, we don't stop right, Percy. Because if you look at it, Cafes have just started, cafes is incrementally higher margin business, impact of cafe is going to come we felt first in '24, then going forward in '25, all the work that the team is doing. As I mentioned, again, I'll repeat, the stores are -- the average portfolio is about 3.5 years. So let's say, in the 18 months, I touched the 150 number; at year 5, I'm at 150, you know competition at year end where they are. So yes, at the 150 year 5 weighted average after-tax the math that you did is matched, so I can't dispute the math, but the levers are there. We don't stop at 150 in terms of ADS, and number two, we don't stop at 10% in terms of margin.

**Percy Panthaki**

But there are certain structural differences right, like the rental cost that you pay are higher than the peers, et cetera, not just as a percentage of sales, but even on a per square feet basis. So I mean -- and if your direct competition today is, let's say, 13% pre-Ind AS after the advantage of lower rentals, et cetera, how much more do you think we can push over that 10% mark?

**Prashant Desai**

Yes, there is a lot we have to do. And you are right, I can't bridge the historical advantage a lot of players have over us because they came 25 years back and signed rentals in those years. But if you look at it from our perspective, if you look at our gross margin profile, even without coffee kicking in, we are at a gross margin of about 66 plus as Raj has mentioned, directionally, we want to go towards 70% gross margin.

If you look at our corporate cost as a percentage of revenue with any peers that is listed, we run a frugal operation, that's how Raj has built this organization. So there is -- we may miss out to a certain extent on the rentals, and we can't do much on that, but you will see us bridging that gap on the rental side of the corporate over time. Also Percy one other math I would request a lot of you guys to do is one way to look at is the absolute math that we report. But if you look at the incremental math that we are doing, I don't think we are worse than some of the peers that you are comparing to. And that is the bigger point. Going forward, our incremental economics is only going to get better because as Raj mentioned, we are still a relatively very young brand compared to a lot of that. And having said that, to feel that I top up at 150 in terms of ADS, and then I top at 10% company-level EBITDA margin, I think there is a lot of things to do. At 150 as our last year annual report said we are just getting started in 150.

**Percy Panthaki**

Sure. Got it. My second question is on Indonesia. Forgive me if you've already answered this question, but can you give some idea as to, let's say, on a 2-year, 3-year kind of a horizon what kind of ADS and what kind of pre-Ind AS EBITDA margin, including -- I mean, after corporate overheads, would we be targeting in Indonesia, let's say, by FY '24 or '25?

**Prashant Desai**

Indonesia, Percy is one place where we will not currently be in a position to kind of guide you and I tell you why, Percy. Since we've kind of taken over this business, the team is now spending a lot of time getting a lot of the foundational pieces from a next 3, 5 years in place. As we told you last time when we launched coffee in India, we would like to do a few things, see where that is landing and then kind of come back to you. But even if you go back to my -- when we acquired this business on a pre-COVID basis, this business had a 200 basis point better company-level pre-Ind AS EBITDA margins than India. And even if you overlay that on what India would be over the next 2 to 3 years' time, you'll get that answer.

But in Indonesia business, there are a lot of moving parts. How many FSDTs we open, how does the new menu do? How does a new campaign do? where does our gross margin land at that point of time? How does my coffee do? The moment I do freestanding drive-throughs, I will launch my breakfast as a menu. So the moving parts in the Indonesian

business are a lot more than currently India business. So from that perspective, I will refrain from kind of giving you where we see this. But it's a great business that we've acquired financially. Now we are trying to see how we can better what we acquired, Percy.

**Percy Panthaki** Understood. And pre-COVID, what was the pre-Ind AS post corporate overhead EBITDA margin pre-COVID in Indonesia? How much was it?

**Kapil Grover** I think about 4.3% or 5.3%.

**Percy Panthaki** 5.3% okay.

**Management** That was also Percy at the GP level that was between 56% and 57%.

**Percy Panthaki** How much was it? I didn't get you.

**Rajeev Varman** Gross margins, when we were reporting 5.3, we're giving you that number, those were at gross margins of 56%, 57%. So the last call, we mentioned that we will start talking about Indonesia in 6 months. We are just putting our numbers together. This is a massive growth story for us there. because as we started building FSDTs as Vaibhav Punj started building them 2 years ago, we realized that the arrears of those restaurant was almost INR40,000 per day over the mall restaurants and the rents of those was 6% to 7%. So we are not building any mall, we hardly -- we maybe will pick 1 or 2 major malls coming up in the future. But this business, as we look around the competition, look at the fabric of what they've built, it is all FSDTs, they have the opportunity to run 24 hours. They have lower rents. They have higher drive-through business. They are least affected by COVID. All these elements that we will start building. So we needed the 6 months' time period to set down, set up a model, investment model, return on investment model, what we are going to build, what is the size, all that stuff. So we want to be effective when we come back and give you guidance on this one.

**Percy Panthaki** Just one small question. Are you on ADS basis, Indonesia, is it higher than pre-COVID levels yes?

**Management** No, no. We said we've just recovered 78%, right? There is a slide, Percy, when you go detailed into the presentation, we have given that.

**Rajeev Varman** July, we have recovered about 78%. There was a question earlier on that in May, we had a higher recovery and that was because the Lebaran, Ramadan shifting from one year to another year. In that month, due to the festivity, we were -- recovery was higher because it was against lower numbers of the previous year.

**Percy Panthaki** But on a like-for-like basis, adjusted for festive season, et cetera, we are still below COVID, so what's the reason for that? Because now I think as far as mobility, et cetera, is concerned, it's back to normal for most people's lives, right?

**Rajeev Varman** As Vaibhav was outlining before, see significance of our business, that is the existing business, has been in the malls. And with that, the restrictions are still. In fact, in the greater Jakarta area, all the restaurants that we have there about, I think, 80-some restaurants we have there, many of them in malls. To go inside the mall, you have to have a booster shot in addition to the 2 shots. So that you have to show in all those restrictions.

So we are looking at the industry as large, not just our own restaurant. The recovery is about a quarter behind India. And that's why we gave the September guidance. you see yesterday, I heard that Delhi has bought back masks mandatory for all day. So we -- that's why we are always careful in trying to give you forward-looking guidance. If things stay

the way they are, we are moving in the right direction, we should start recovering some of that sales.

This business is a fantastic business. Once it comes back to its original ADS, and with the work we are doing on GP and the work we will start introducing the cafe because most of the cafe work has already been done here in India, so fungible, just have to take that work and apply it to the Indonesian market. So we will see bigger and faster success over there than we are seeing here because here we are kind of starting off scratch with the less guidance and less information. But when he has this information, this experience and he carries it over to Indonesia, you will find a much rapid recovery.

**Moderator** I now hand over the call to the management team for closing comments. Over to you, sir.

**Nihal Jham** Thank you so much for taking the time on a Friday evening, everyone. Understand it's late. We really appreciate. We wanted to do this because of our extended weekend coming up. So we said let's do the call. So thank you, once again. I know we've not been able to take a lot of questions. You guys have my e-mail. If there are any further questions, feel free to reach out to me. I'll be happy to answer all of your questions. Thank you once again and wishing everybody a very happy 75th Independence Day Thank you.

**Moderator** Thank you. On behalf of Edelweiss Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.