



“Restaurant Brands Asia Limited
Q1 FY ’24 Earnings Conference Call”
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MODERATOR: MR. NIHAL JHAM – NUVAMA WEALTH MANAGEMENT

Moderator: Ladies and gentlemen, good day and welcome to the Restaurant Brands Asia Q1 FY24 conference call hosted by Nuvama Wealth Management. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nihal Jham from Nuvama Wealth Management. Thank you and over to you, sir.

Nihal Jham: Yes, thanks, Zico. On behalf of Nuvama Institutional Equities, I would like to welcome you all to the Q1 FY24 result earning call for Restaurant Brands Asia. From the management today we have Mr. Rajeev Varman, Whole Time Director and Group CEO, Mr. Sandeep Dey, Brand President Indonesia, Mr. Sumit Zaveri, Group CFO and Chief Business Officer, Mr. Kapil Grover, Chief Marketing Officer and Mr. Prashant Desai, Head of Strategy and IRR. I would now like to hand over the call to Mr. Rajeev Varman. Over to you, Raj.

Rajeev Varman: Thank you, thank you, Nihal, and thanks, everyone. Appreciate your interest in our company, and thanks for joining on this Tuesday call. What I'm going to do is I'm going to give you a quick roundup on our journey forward, both here in India and Indonesia. And then I will hand it over to Sumit who will then carry you through the numbers for both the countries and the consolidated P&L as well. And then we will go into each country, India and then Indonesia. First Kapil Grover will give you the marketing strategy here in India and then Sandeep Dey will give you the strategy up in Indonesia.

And then finally, we will go back and open up for questions. So with that said, just a little bit, you know, in the past, you've heard me speak about, you know, the India strategy, which is to continue to drive value. We started with value many years ago when we had the 2 for offer. People might still remember the 2 for 50 rupees offer that we had. Subsequent to those offer, we went to a stunner menu, which you saw the

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groundbreaking advertisement that we did, which was applauded all across the world with Hrithik Roshan. And then the next chapter, 2.0 on the value strategy, is what we have running right now, which is the INR99 menu, which is doing extremely well.

Actually has driven a lot of traffic into our restaurants. High 7% kind of traffic in dining, and Kapil will share more and so will Sumit. But it's this value platform is integral part of our strategy in both Indonesia and India. And here in India, we continue to strengthen that and we will, you know, from time to time, you know, upgrade and improve the strategy, but the intention is to make sure we have a ground, good, stable strategy on value. Then we came up with cafes, right? We built, you know, 240 cafes last year to top it up to 275 cafes, and now we are sitting at about 280 plus cafes in India.

And also very happy today to report to you that yesterday we completed opening of 400 restaurants in India. So congratulations to Cicely Thomas, the development team, the construction team, Sameer Bedi, and the entire construction team for doing a fantastic job and all the operations people for opening all these 400 restaurants and we continue our journey this year to go to 450 restaurants. So cafe being integral part of our business now moving forward, all restaurants open with cafes on a standard basis. So that's one thing that, you know, we have already installed and we are working and we continue to grow the ADS on that.

If you look at the last quarter, we kind of climbed up the ADS from the previous year that we ended up by another thousand, you know, to fifty bucks at about upwards of INR15,000. That ADS continues to climb and, you know, roughly about half of that is incremental. So it's like, you know, incremental sales coming into the system. Then also we spoke about, you know, introduction of, you know, the premium menu, King's collection. We spoke about, you know, the wraps and so forth.

So Kapil will talk to you about that. Now moving forward as we go into this balance of this year and into the next two, three years, we are going to be expanding our total consumer base by including families and kids. And you will start to hear from, first hear today from Kapil, and then you will hear about this more in subsequent quarters. But you will find that expansion to continue our journey, to climb from our existing ADS towards our target in the future. And then the final thing is the walk on leadership, which is something that we have invested a lot of, both money and time in building a fantastic product.

You will find in the next quarter or so, you will find also news on how we're going to go forward with the Whopper. And so having a premium layer, having the Whopper layer, having the value layer and having the cafe, all these things are in place for India. So now what the work is, is a single laser focus for the balance of this year in India to increase top line sales and to increase the four walls we've done.

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So the team in India has put over the last, I would say, 24 months, all these basic modules in place, whether it's the value strategy, the premium strategy, the Whopper strategy, the Cafe strategy, all these have been completed and rolled out training has been completed. And now the focus will be laser on top-line revenues and on four-walls [EBITDA 0:06:23]. And you'll hear a lot about that from Kapil as we move into his presentation. Now on the growth side, you know, there's – and, you know, similarly, Sandeep will speak on the Indonesia side.

Indonesia has been a fantastic – I mean, last we've been speaking about Indonesia, about, you know, rolling out of value, rolling out of new products, rolling out of the chicken menu. You know, we used to have only one chicken handheld, but that's a country which has a classic and a spicy. We introduced the spicy version. We rectified a lot of our products, which we tested. All that was done last year, and as we were doing that, we went up in SSSG of 1.7% last year, and this last quarter, we further improved that by going up 5.5% SSSG, which is all driven by almost 10% of traffic in the dinette.

So and Sandeep will talk more to that. But also there's a very clear strategy in Indonesia now to move that business to a positive in this year, to break even and then go past that in this coming year. Now on the growth side, one of the things that we are doing in India is obviously a journey towards 700. We are at 400. We have crossed the midway mark and we continue to kind of march forward towards getting that 700 by December of 2026. On the Indonesia side, we have two brands there, we have Popeyes and we have Burger King Indonesia.

The Burger King Indonesia, we are rationalizing that, you will see that we have closed a few restaurants and we'll close a few more, very few more restaurants, rationalize that these poor restaurants or you know, malls that died after COVID or some events that happened that kind of put the compromise the location of those restaurants. And you will see that that rationalization will be completed in the next little over the next quarter. And then, you know, the Popeye story, which is we continue to build restaurants.

We have got 11 restaurants, 10 up as of last quarter, and then we opened one just in the last few days. And this journey will continue to get to 25 restaurants by December of this year. So that growth journey continues, and you will hear more from Sandeep on that. Finally, you know, we are going to go into a digital phase too. So while we have fixed the product side, we have fixed all those things in Indonesia and India we already had a winning menu. So we continue that journey but we are going to step up what we are going to do.

We are already doing this by the way in Popeyes and we are now going to instill this in India, Burger Kings, as well as Burger Kings in Indonesia, which is twofold. We call it Digital 2.0, with one ordering kiosks in all locations, and you'll hear that from Kapil as well. Table

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ordering, that's something Cicely Thomas, our president in Burger King, India, is rolling out. And then 100% known guests, which again Kapil will address in his speech. So this is the way forward, right? Top line growth in India, four walls EBITDA in India, rationalize the portfolio of Burger King in Indonesia, get to break even in Indonesia, continue the journey of Popeyes.

By the way, the Popeyes restaurants are doing twice the sales of the Burger King restaurants over there with a very high double-digit four-walls EBITDA. So we have really cracked that menu well. We are starting to build those restaurants. Can you imagine when we get to 25 restaurants, it will be equivalent to 50 Burger King restaurants.

So great job to Sandeep and his entire team over there launching a great brand over there and doing a good job launching it and the fruits of that are starting to roll in. So with that said, I'm going to turn it over to Sumit Zaveri. Sumit will carry you through the numbers for the quarter and then he'll hand it over to Kapil. Over to you Sumit.

Sumit Zaveri:

Thank you Raj for the usual perspective to where we stand. I will take some time to just explain and take you through how we performed as far as the financial matrix is concerned. Firstly starting with the revenue which is actually the key driver for us in terms of our business and profitability. We moved from 365 crores in quarter four last year to 422 crores in the current quarter in India. So I'm first covering India's standalone financials and then subsequently go into Indonesia. Part ones have covered the perspective on India. There is an overall growth of 16%.

Raj initially mentioned that we have very clear, sharp focus on our value strategy. And the perspective of getting into value strategy was to very clearly drive in traffic and there also dovetailing back into what really meant by drive in traffic. We actually also wanted to make sure that the traffic that we are driving is on the dine-in part of the business. Really looking at how we performed on that part of the strategy, our SSSG at an overall business level was at 3.6%, and I'm really happy to mention that this was which we are the back of growth in Dine-In traffic.

Our Dine-In traffic SSTG, as we call it, or same store transaction growth, was at in excess of 10% for quarter one. So we really kind of remain sharp on our strategy to grow traffic and revenue through Dine-In, and that is what we've been able to kind of remain sharp on our strategy to grow traffic and revenue through dining and that is what we've been able to kind of achieve. That gave us an improvement in ADS from 108 in quarter 4 to 120 in quarter 1, a substantial increase of 11%. Growth, coming back on to growth, as Raj mentioned, growth has been one of our key pillars. We have now reached 400 stores as we speak.

We remain focused to get to 450 by end of this financial year. And the target of 700 by December 26th continues to be one of the key milestones as far as growth is concerned.

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While we, you know, went really strong at value strategy, our key was and key focus was that we should not and we should make sure that we continue to also simultaneously remain stable or move in positive direction on gross profits. Very clearly, there is no reason internally for us that we said that, okay, because we go strong on value does not mean that we can actually take a shortcut to the margin side and we continue to remain strong at 6.5% for the quarter.

We strongly believe that this number is a stable state and only move in the positive directions as we go along. Coming on to store EBITDA, and I just want to kind of stop back and just kind of put saying that why did we put this kind of marketing expenses part of our performance results? We felt that, you know, if we really look at it from the perspective of commitment that we have towards the spend, on an annual basis, we spend 5% of our revenue. But obviously, all of you would understand that in business, it is not easy to spread out marketing spend.

We would rather spend the money where we feel we will have maximum impact. Generally, we've always been spending higher on marketing in quarter 1, and then it kind of averages out at 5% for the full year. But in order to make the quarters comparable, we've put that number of marketing spend that we have done in the last year quarter one, previous quarter and this year.

If you really look at it from the perspective of stable state marketing, which is where literally the year would go down to, we have in current quarter delivered 9.8% on store EBITDA level, which compared to quarter 4 adjusted for marketing would have been 7.3, which is very clearly an improvement of 2.5% on a store EBITDA level. On a company EBITDA level, if we were to adjust for marketing, we would be at 4.2 as compared to 0.6% in previous quarter. This is coupled with two things. One is a shift in the marketing cost or a baseline in the marketing cost. At the same time, as the revenues have grown, we've also seen the baseline of the leverage effect of the corporate costs by almost 1% point over the previous quarter.

Looking at -- and I'm on slide six, looking at the overall numbers, as I mentioned, revenue of INR422 crores. At the store level, we had been talking, saying that we have brought efficiencies on the labor line side, and we are at 10.1% as compared to 11.1% over last quarter, and we continue to kind of make sure that we build efficiencies on different lines of costs as we go along.

And then on the corporate cost side, as I mentioned, we have remained at a stable state of INR34 crores. This is as we internally target. This is likely the cost at which in and around these levels of cost at which we will remain on corporate costs on a quarter-on-quarter basis over next quarter as we report our numbers for the year going forward.

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All in all, we feel that it was a good quarter with a company level EBITDA at INR10 crores. Adjusted for the marketing -- incremental marketing spend that we did in quarter 1, we felt really -- we could achieve on what we call it as a stable state at this levels of ADS of close to around INR18 crores at the company level EBITDA and a substantial shift from what we have seen in quarter 4 of FY '23.

Going into Indonesia, and this is something which is what we strongly feel and believe that this is the beginning of the journey of -- on the positive side as far as Indonesia is concerned. If you really look at it from the perspective of average daily sales, which is actually the key driver for us to be able to pick the business towards of its surely to profitability.

We moved ADS from last year, 17.6% to 19.4%, almost 10% increase in overall ADS with an SSSG of 5.5%. So this is a strong positive SSSG that we grew. And there are no seasonality variations. So these are literally like-to-like quarters very clearly. At the same time, we continue to look at our portfolio of stores in a very hard manner. And wherever we feel that we need to rationalize the stores, we rationalized.

We will continue to look at this. So coupled with rationalization of stores and SSSG, we've been able to move the overall ADS from 17.6% to 19.4% and we will continue to build on to these sales. And Sandeep and his part will certainly cover why we feel confident of this baseline number and what will be our path to grow from go.

As far as Popeyes is concerned, we are at 10 stores. Our journey is to get to 25 by end of the year. And we are -- we remain focused in terms of making sure that this ADS has continued to remain on a higher side. We are currently at 40 million ADS. This seems to be a strong 40 million for us. Margins -- gross profit margins on this brand is something which has been one of the big positives for us, and we will continue to build and grow from there.

So if we -- going on to slide number nine. If we really look at it from the perspective of quarter 1 performance for Indonesia, we did a revenue of INR189 crores as compared to INR150 crores last year or previous quarter, very similar numbers. But at a company EBITDA level, we are at INR12.5 crores loss. But just similar to like the way we invest ahead at the start of the year on marketing side, we've done similar investments in Indonesia as well.

In the current quarter, our investments in marketing for Indonesia stood at 7.7%, which is 2.7% ahead of what our annual plan is. If we really adjust for that, then the loss at the company EBITDA level would reduce down to around INR7-odd crores.

We had very -- at the beginning when we started the year, we had very clearly laid out that we are working towards reaching to profitability in Indonesia, that's our very sharp,

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clear focus for the year. We strongly feel that the performance in quarter 1. We see some retailers we are on that path to be able to get to achieve the profitability for the financial year of FY '24 as we go along.

So with that, just a quick on the consolidated performance between the two countries, we are at INR610 crores of revenue up from INR514 crores over last year, a marginal company-level EBITDA loss of INR2 crores. But as I explained, some parts of it as on account of investments, higher investments that we did in India on the marketing side, which was around close to INR8 crores and incremental marketing spend that we did in Indonesia, which was around INR5 crores.

So it really exist for some of the money that we've invested ahead of the curve at a company EBITDA level as well, we are standing positive or we feel confident of the numbers that we want to achieve going forward.

So with that, I will hand it over to Kapil, who will take this through the initiatives that we have on the marketing side of these. Over to you, Kapil.

Kapil Grover:

Thanks, Sumit. Good morning, everyone. As you heard, Raj and Sumit share quarter 1 results where we're seeing about 3.5% SSSG, which is on the back of system sales of 25% and 91 new store openings. I just want to reiterate how the team has stayed focused on the key strategic pillars.

Now on slide number 12, -- number one is our ambition to be the value leader in the market, and we continue to offer our guest, great value for money and drive additional footfalls in our restaurants. And value is not just about tactical promotions. It's a constant endeavor to offer food, experience and service that is really worth it. I will share how the 99 meals promotion helps us drive strong dine-in traffic growth this quarter.

The second pillar is our endeavor to offer differentiated products. On our core menu, we have the flagship product Whopper, and I will also share how we continue to build the premium end of the menu kings collection over time. BK Cafe is a new incremental layer that we've now added to 286 stores, and this will continue to grow over the long term as a strong innovation and a very profitable menu.

The third pillar on the digital side, we have committed to significantly improve our guest experience and offer them even more convenient ways of accessing Burger King at stores or at the convenience of their homes. Last but not the least, we continue to build a strong brand with the Gen Z, which will relate very strongly with our audience.

Moving to slide number 13. Our key initiative this quarter was the launch of Tasty Meals promotion starting at INR99 available in dine-in and takeaway. This menu is an extension of the stunner menu whereby we improvised the proposition by offering a complete meal

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around our winning stunner products like Crispy Range, the Makhani Range and the Crunchy Tacos.

In April, we rolled out a complete 360 program around 99 meals with television, digital media, out-of-home branding and mall sandwiches wherever we have stores. We also leveraged the cricket season with a moment marketing campaign, which is very engaging. As a result, this campaign helped us drive incremental timing traffic growth, same-store traffic growth of over 10% in this quarter, which is a very strong sign of how we progress on this business in the future quarters.

Slide 14 talks about the launch of the new innovation on our menu. We strengthened the King's collection portfolio by adding premium wraps to revenue. Now this is a loaded wrap with a soft paneer patty or a crispy Fiery Chicken Patty along with fresh salads and very delicious sauces and it offers a great meal solution on the go.

Now this is based on consumer in fact that wraps and rolls, whether you look at the kati rolls the north or the Frankies in the West or the Calcutta rolls, it's -- there's a demand for filling satiating product of this format. So this product got added to our menu last quarter, and we continue to build the premium menu.

In addition to that, we continue to build Whopper franchise by offering new case experiences every quarter, last quarter was the twisted whopper, which was a limited time offering. This there allows us to win with the Whopper fans, they come back and they can try a new variant every time. So it helps us to build frequency over time.

Slide 15 talks about the cafe menu. Cafe, we continue to build awareness through very innovative either social media, influencer marketing and a lot of focus on driving at store awareness and trial cases. This has helped us drive income revenues of 8,000 through the cafe menu across 286 operating stores.

Well Raj mentioned about almost 15,500 total cafe areas. Of that 50% is almost incremental. This cafe business in the long term as we grow awareness and trial will help us build new occasions in between meal-day parts and build a new line of business over time.

Moving on to the digital experiences. As I mentioned in the beginning, you will see that Burger King stores will now offer three new experiences to our guests. The Burger King app continues to grow and offer consumers a very convenient way of ordering timing or delivery. We have now started to improve our loyalty program, the Crown rewards, and you will see more progress on that in the coming time. This will help us drive more frequency with our guests.

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The self-ordering kiosk is a new interface, which will -- the new way guests are adopting this interface very rapidly. It allows them to explore the menu, pay and order via a very seamless digital experience. And you couple that with the new initiatives that we're testing on table service -- so effectively, as we scale this up, the guests can walk into a Burger King store, use the Burger King app or the kiosk or the QR code that are placed on the tables, right?

They can select their favorite menu items, avail very exclusive offers on the BK app or Crown rewards and get their food served on the table. So this has become a very sort of elevated experience for our Burger King guests.

On Slide 17, I shared a few examples of how we continue to bring a very engaging brand through social media, a lot of innovative content, and we continue to build brand love with Gen Z. And the effort has been recognized on Indian and global platform, the Stunner campaign won a silver at the New York Clear Awards, and also got shortlisted at the Cannes Awards as one of the top 10 campaigns in the world for most effective use of influencers.

At this point, I'll hand over to Sandeep to talk you through the Indonesian business update.

Sandeep Dey:

Thank you, Kapil, and a very, very good morning to all of you from Indonesia. See you heard both Raj as well as Sumit talking about the overall business performance for the Indonesian market and the progress we have made in the last quarter. Now what I'm going to do in the next few minutes is share with you some of the work we are doing to move our key strategic growth pillars forward.

But first thing first, let me reiterate that for the Indonesian market, our single-minded objective continues to be building back a profitable company. And in order to deliver that, we will continue to focus on three of our strategic pillars.

Number one, it is an extremely strong chicken market, and one of our key strategies is to build our credibility in chicken. Second, we will continue to establish leadership in burgers. And third, we are building a comprehensive dessert menu which will help us drive incremental locations and over a long period of time, incremental traffic. And I'm going to talk about each of these three pillars in a bit.

But most importantly, the bedrock for all these strategies are having a very solid foundation with regard to operational excellence, products, people capability processes, and they are ensuring that we provide best-in-class guest experience every single time. And we will always continue to provide a very strong value proposition to all our guests across the entire menu layers.

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Now I'm going to talk about each of these strategic pillars. So first, let me talk about the chicken. See Indonesia as a market is where the staple food is fried chicken and rice. And we have identified a gap in our menu both with regard to taste as well as the variety. The team did a fantastic work. We work very hard, improve the quality and taste of the classic chicken and also develop a spicy variant.

Now both variants, by the way, we did a detailed research with guests and both these products performed extremely well in Consumer Research. After that was understood, we launched these products in the last quarter and afford a very aggressive trial price of IDR25,000 for a meal.

And just to give you a context, the normal price for such meals in any other QSR chain are typically in the range of IDR35,000 to IDR36,000 -- and we supported the launch with a very comprehensive 360 degree marketing campaign. And we are quite encouraged to see the initial results. In fact, the biggest indicator is that the incidents of chicken improved by 25-odd percent and, of course, helping us increase in both sales as well as traffic.

Now I'm moving to the next slide, which is slide number 22. See, our next strategic priority is to build Burger leadership -- and we have to build that through taste credibility, build that through clever innovation and also offer strong value propositions across the entire menu layer.

Now we have built a robust menu architecture, offering trade testing over across all the price bands. It starts at IDR29,000 for a burger meal. By the way, this idea, I'll just give you some numbers so that we can understand from the INR perspective, IDR29,000 for a meal translates to over INR155 in INR. And we call this, branded-value layer as king deals. And then we also have offerings at a price gap of every IDR10,000 which is every INR50, INR55. And going all the way up to IDR79,000 for a gold collection bill which is our premium layer. So these burgers are pure taste indulgence and at the same time quite affordable pricing.

Now our strategy is to promote these products and generate trials across all these layers. So we have created some aggressive offers like 2 for 39, which by the way include the junior whopper as well, where a guest can enjoy a very deep discount, almost to the tune of about 45%. We also have a bunch of other aggressive offers, and now we are promoting them through social, through digital, through coupons.

Now I'm moving to the third pillar, which is the desert pillar. Now desert is a very big business opportunity in this market. And a couple of quarters back, when we launched a branded desert partnering with Nestle, KitKat Fusion, we got some fantastic results. Our volumes of desert went up almost 3x and the incidence grew almost about 10%. So based on that learning, we are building a pipeline of branded desserts in partnership with both local as well as global partners. And at the same time generating trials for these indulgent

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desserts through a very aggressive pricing. The final objective is to drive incremental locations and in the long term drive incremental traffic.

Now I'm moving on to slide 24, which is my last slide and I'm going to talk about Popeyes. Popeyes brand we launched in last December and it's been over seven months and we continue to drive reasonably high sales and a very, very profitable for our EBITDA. So go forward, our focus is to build on three strategic pillars.

Number one, our number one priority is to make sure that we continue to deliver blockbuster new store openings. Now, you know, we have a lot of global best practices across multiple markets and we have our own learnings from the previous successful launches. And based on all those learnings, we have built what we call it as a new store launch playbook. So we plan to follow that playbook for all our new store openings to ensure that every single launch is a successful one.

And our plan is to open 25 stores by the end of this year. So last July, I mean the last month, we opened one store. So our store count is at 11. We have another five stores under construction. And almost about 10 to 12 stores which are at various stages of pre-construction and lease signing. So we have a robust pipeline to ensure that we build about 25 stores of Popeyes this year.

The second pillar is to build this brand into a chicken destination. See, we are basically a culinary brand and we got not only winning products with regard to taste, but at the same time, an enormous amount of variety of products to address different occasions. 'So our priority now is to generate trials for all our iconic products. We are taking one product at a time and running campaign with attractive offers to generate trials. The intent is to get our guests to try all our iconic products and then eventually find their own personal favorites and over a period of time they will become loyalists of our products and eventually the brand.

The third pillar and Raj spoke about it, the digital 2.0, So our third pillar is to build a brand with digital first experience. All our restaurants, by the way, have kiosks. Every restaurant has video walls, which runs brand content, product content, and all our drive-thru menu boards are digital menu board. Our long-term ambition continues to have 100% non-diner sales, right? And we are moving quite positively in that direction.

At this moment, almost 37% of our dining sales is done through Kiosk. And each of those sales actually comes at almost 18% to 20% higher check. And our near-term plan is to take that number from 37% to close to 60%, 65%.

So that is all from my side about the Indonesia business and now I hand it over to Prashant to share the overall outlook for our business.

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Prashant Desai:

Thanks, Sandeep. Friends, there is no major change in the outlook that we had presented last time around, but I'll just reiterate that we remain committed to delivering a 10%-plus same store growth in the current year, taking gross margins to 67 this year into about 69 over the next two more further years. In Indonesia, as we had guided, we remain committed to delivering a cash break even make a little bit profit this year and to open about 325 restaurants between Burger King and Popeyes over the next four years' time.

So with that I'll open up the floor for Q&A.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal:

Sir, hi. Thanks for the opportunity. I just wanted to understand the gross margin performance better. So despite this launch of value offer at INR99, we have been able to sort of maintain our gross margin. So, just wanted to understand how we have been able to achieve that and is there any sort of price hike that we have taken for the rest of the portfolio?

Rajeev Varman:

Yeah, so, thank you for your question. So, we haven't taken any price hike. In fact, as you can see, we are on national TV and across the entire country talking about INR99. So that's our strategy on the marketing side. But you're absolutely right. We have maintained a gross margin. There's a couple of things. As you would have known from our presentation, that we continue to grow our cafe business, right? So we have grown that business, and that comes at a higher margin, and we continue to kind of use that to make sure that we're moving in that journey.

So there are a lot of programs that are in place within the supply chain department, whether it is from procurement, whether it's on rate decrease on delivery or transportation, or whether it is on the ingredients itself. Multiple buying, we continue to do that by introducing newer and our supplier base, we continue to grow that. The second thing is we also continue to make sure that our patties and so forth are efficiently delivered.

Now, as we have moved from 300 restaurants to 400 restaurants, those synergies are also playing in, right, because each distribution center is now not delivering five or 10 restaurants, maybe delivering 15 restaurants or 20 restaurants. So we save a lot of that as we amortize the primary cost into all those restaurants. So you will continue to see this either stabilize or continue to move in the north direction. Our objective as we have outlined is to move this to about 67% this year and then we are kind of fully confident that that's where we are going to go.

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Prashant Desai:

Just to add to what Raj mentioned, the question, had the INR99 offer not been there, we believe we would have delivered a further 100% increase in gross margin. So you can say broadly that's the impact.

Devanshu Bansal:

Got it. And you mentioned that the SSTG in dine-in channel was in double digit. I just wanted to check if you could mention what is the kind of SSTG in the dine-in channel?

Prashant Desai:

So, Devanshu, SSTG was in the region of around 10% on the dine-in channel, on the transaction growth side. And SSSG of around 10% on the dine-in channel side.

Devanshu Bansal:

Sir, one question I wanted to understand, so we have also sort of on our overall business level we have seen about 6% SSTG and about 3.5%, 4% SSSG and the competition itself has seen about 7% SSG and largely they have also indicated that their transaction growth was largely has driven the SSG for them. But our margins have sort of gotten more impacted vis-a-vis the competition. So just wanted to understand why is there such a sort of investment that we have to do for generating similar amount of transaction growth? And why the competition is able to achieve at a lower investment? So any thoughts on that please?

Prashant Desai:

We don't like to talk about competition. It's not fair on our part. All we will tell you is we started this business in 2014. We've been running this business for about nine years. You know when they came and the number of years that they have taken to reach where we are. We also believe as we continue to build scale, coffee which is still just about IDR8,000 of incremental ADS to our number, as our overall product mix gets better, we are confident of delivering better cross margin. So from that perspective, just look at what we are or where we are, keeping that metric in mind.

Devanshu Bansal:

Got it, Prashant. So it's more the time and journey which is making the brand content. And the third one, we haven't provided this contribution of channel wise sales for India business if you could just give me that number, and I'll be done.

Prashant Desai:

Sure, Devanshu, so, the back off strategy of putting dine-in traffic back in store, for what they were getting dine-in traffic in store. We were at 40% delivery share, so it has come down from 43% in the previous quarter to 40%. So the journey that we had embarked upon to kind of make more sales in the dine-in part of the business is something which we are doing. And we will make sure that this number is forming part of our presentations going forward. So, a point is in on that.

Rajeev Varman:

Just on what Prashant was speaking, I just wanted to make sure that you're clarifying. See, the ADS of Q1 of FY '23 and the ADS of Q1 in FY '24 is exactly the same, 120, right? So the ADS basically drives the volume and all the numbers below it, right? Let me explain to you what happened there. We added about 70-plus restaurants. 90 stores, 91 stores. 91 stores between that quarter and this quarter, the quarter of FY '23 to the quarter of FY '24. Now

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these stores always start at a lower ADS. In most businesses, most concepts they start because they're in, the traffic slowly picks up, right?

Now the SSSG stores are the stores that were comping, they delivered ADS of 126, right? So when we put these new stores, obviously with the lower ADS, they got down, the total ADS down to 120. Now, as these stores mature over the next two quarters, you'll find that they will go towards the average ADS as well, right? So that's the difference between adding a whole bunch of brand new stores to your portfolio versus not adding them. If you don't add them, then your existing portfolio which climbed to 1.26, of course that's going to deliver much higher margins. I hope that really clarifies the difference that you were asking.

Devanshu Bansal:

Thanks a lot.

Moderator:

Thank you. Our next question is from the line of Soham Samanta from Centrum Stock Broking. Please go ahead.

Soham Samanta:

Hi Rajeev, thanks for the opportunity. Just two questions in the beginning. Starting from you and it's up to Kapil also. We have spoken a lot about driving traffic. I just wanted to understand on the ground, what are the currents you are getting? Is the consumer down trading and that's why the traffic is becoming more important? Because what I see that our value strategy over the last two, three years has remained steady. So there are two parts. One is that what is the consumer traffic is saying is there is a down trading and that's why this value proposition is becoming more important and that's why they're driving the traffic?

And the second part is that if you can say that, what is the impact of this strategy driving traffic in terms of quantitative numbers? Is the traffic is gone or any quantitative number you can share?

Rajeev Varman:

Yeah, thank you first of all for joining the call. See traffic and on the value platform, see we have been doing value now for the last eight years, right? So it's not that we have started doing value because there's a downturn or it's just part of the way that QSR operates. They have a value, offering, they have a premium offering, and then they have the core menu, which is a ladder menu. So this is not specifically because the market is down or so forth. In fact, you see both the competitors, both the companies in the burger sector, both reported a higher traffic. And that's got to tell you more about the market. There's a higher traffic out there, especially to our burger business.

So I don't think that's an issue or that's a downturn. You will have a month here, a downturn. For example, when you have Shravan going on, you will have every Monday will be down because most people are fasting on that day. And then, this year we have two Shravans, two months of Shravan versus, every 10 years, I think, instead of just having

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one month of Shravan, you have two months of Shravan. So all these nuances come and go.

But generally, the way we are seeing it is, we did 2 for 50, and then we did the Stunner Menu, and now we're doing the INR99 menu. You can see that we have only kind of done value at a higher price point, right? Not at the INR50 for 2, now we are at INR99. So I think the strength of the market is there and all information out there in the market industry is that it's going to continue to grow at double digit numbers, especially the chain restaurants, both in Indonesia and India are going to be growing significantly faster than the entire food industry.

So, we are confident on that, that's why the growth that we have planned for this year and then for the next two years as we kind of make our way to 700 restaurants.

Management:

Kapil, you want to add anything else?

Kapil Grover:

No, just to add to what Raj already shared, consumers will continue to seek value for money or as they call it, worth it. We are not just offering value at the INR99, we continue to have a very balanced menu. We actually were able to sustain volumes of every layer of a menu through the promotion. So wherever consumers find that the price they're paying for and what the experience they're getting or the product they're getting is worth it, they will continue to sort of invest and grow that brand.

Soham Samanta:

That's helpful Kapil, but again, I'm asking quantitatively, what is the traffic growth, which has happened? Or maybe if you can say, or spell it out, what is the MAU growth, we have seen?

Management:

So, we don't share traffic data on a quantitative basis, only on the percentage basis is, what we share.

Management:

Yes, as I shared, we have seen Dine-in traffic growth in excess of 10% in quarter one.

Soham Samanta:

Okay. My second question on Indonesia, I think it's heartening that Sandeep has done a lot of efforts, but what is it that impact, we will see? Because today with 10 stores in Popeyes, you can't really guess, what kind of ADS we'll see. And obviously as compared to BKI, the ADS is double. But I'm just curious, is the BKI will show the higher growth or Popeyes will see the higher growth? Because obviously, Popeyes has a more relevant menu in terms of local population. So when you run 25 stores, what kind of ADS, we can expect?

Management:

Yes, so first of all, let me just kind of tell you that, the Indonesian market, very similar to India market, it continues to grow. The chain restaurants are projected to grow at 16% each year for the next five years, right? So that is the expectation of that market generally,

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right? So in that market, and that's why it's such an exciting market for us to grow in there and establish this business.

We have now got access, our company has got access to two great markets, India and Indonesia. So we were there at the right time, we did the deal, we got access to this market. Now we have two strong brands to build there. Now Burger King, look at this, the last year, as we were turning around, as Sandeep was putting in all these things like the menu, the back to basics and so forth, as he was doing it, he got a 1.7% jump in SSSG.

Now that was completed by the end of last year and then this first quarter of this year, he jumped up 5.5% again SSSG on top of that, right? And that SSSG is on top of all the restaurant, the dine-in traffic that is coming in. The ADS went up from 17 plus to 19 plus million, right? So we know that, that business is now on track because all the elements have been fixed.

The menu has been fixed, the restaurant's been fixed, the operations, the team, everything has been, all in place. And over the last four quarters, five quarters, I've been talking to you about all these things, we were doing, and now they're complete, and we are now marketing it and getting the product out.

Now, the Popeyes story is fantastic because, you saw we started off at, 50 million kind of ADS on those restaurants and we were doing those are the launch ADS. When we opened the restaurant, the whole town was there in the first day. Now, of course, we have settled down to between, 40 million kind of business over there. And this is a stable business moving forward.

And as we build these restaurants, just imagine in a chicken market, 25 restaurants is a drop in a bucket, right? There's a journey towards 300 restaurants, we're going to build there. Both these businesses are strong businesses. We have opened several of these Burger Kings along with Popeyes together and we have seen that, that is a winning combination. They're doing really well.

Even the latest, the last restaurant, the 11th Popeyes, we opened was a joint restaurant with Burger King and two together are doing a fantastic job sharing, rents, sharing a lot of our capex and so forth, and delivering some very high volume on either side. So, it's a winning combination.

You will see, now, entirely will we build them that way? No, but we will try to see, wherever the opportunity exists to combine those two restaurants and put them together, so we can supervise them better, we can get the inventory to them at a cheaper price and so forth and deliver those values. I hope both your questions to that were answered on this.

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Moderator:

Thank you. Sorry to interrupt Mr. Samanta, we request you to rejoin the question queue for follow-up questions as there are several participants waiting for their turn. Thank you. Our next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar:

Good morning, sir. Thanks for giving me the opportunity. I just have one question on our SSSG guidance. So this year for India business, we are, we have maintained our guidance of around 10% SSSG. In quarter one, the SSSG stood at around 3.5% and Q2 because of the extended shower season and demand is yet to recover fully. So Q2 is also expected to be little on the moderate side. So considering that, the second half should be quite strong for us to achieve double-digit kind of efficiency. So can you just help me on that line?

Management:

I agree with you and we completely concur with you. Also, you get into October, we have the Cricket World Cup coming up in India. Plus, interestingly for us, because we have a fairly decent mall portfolio. The malls have now begin to do well because of the way, the movies are doing. So overall as I said, had we seen a significant challenge to this, we would have probably gone and corrected that SSSG. As you move forward month on month, the cohort of a store perspective, it also changes and more store coming to the SSSG bucket.

Kaustubh Pawaskar:

Thanks. And just one question on the value offering. So this value offering would help us to achieve incremental footfalls, as you said. And you don't expect it to be a gross margin kind of a dilutive, if your number of transactions or number of footfalls increase. So that is the reason, why you don't expect gross margins to dilute this particular strategy or there would be a mixed improvement, which should help to negate the impact because of the increase in sales of the value offering.

Management:

Yes, so Prashanth was saying earlier, if we've been doing this value offering, we would probably be way past 67% right now, right so. You're taking some of that gross margin and invested into this traffic, right? But we have a lot of work streams right now in play. And some of the work streams you will see over the next two quarters coming because they were already put in place.

The benefits of that are going to start coming in now. And then some of the work streams will go in next quarter, which will bring benefits into the next balance of the year, right? So we are very confident that, as far as the gross margin, we have always been on the money on this. If you go back and look at all the quarters, since we went public, every single time, we report better or stable gross margins because we have built a good kind of infrastructure to deliver that and we continue to do that.

By the way, just remember, our gross margin includes paper products, it includes food, it includes complete distribution, secondary and primary. Everything is in there. So it's something that, we believe strongly in, and we will continue our journey towards 67%, and then we'll give you guidance for the next two years, three years post that.

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Management:

Just to add to what Raj mentioned. I guess because of the 10% traffic growth that the team spoke about a lot of focus has been because of the 99, but Kapil mentioned extensively in his commentary that, for us, value is one pillar. Building Whopper and premium King's collection is also a very important part of our menu architecture, right?

As you come into the festive period, you will see Whopper coming to television. So, what I'm trying to say is, our product mix also spans across a premium menu, which is very, very strong at Burger King and we will continue to invest and build this. With coffee incrementally beginning to show its presence is, where we feel that, we will be able to deliver the gross margin guidance of 67% despite the 99 offering.

Kaustubh Pawaskar:

Thanks and all the best for the future. Thank you.

Moderator:

Thank you. Our next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead with your question, sir.

Aliasgar Shakir:

Yes, thanks so much for the opportunity. I had a question on your store-level EBITDA margins in India, which is somewhere about 8% odd. If you could just share over the next three years, four years, how will the journey be for this store-level margin? So you did give a lot of indication of your growth, SSSG, and store additions.

But also, if you could share how the store-level margins should behave in the next three years, four years, and how much time, we should reach probably mid-teens or higher teens kind of number. And just a follow up there, so if you could also kind of explain, what could be the levers, so productivity, gross margin as you mentioned, will also be improving, so what could be the levers of that? Thank you so much.

Management:

So Aliasgar, as you know, and people, who have been listening to our calls, we don't guide on restaurant margins. We don't guide on company level EBITDA margin. However, because you have enough history of a lot of the QSR plates, you will understand. A lot of the operating leverages is very directly linked to the growth in ADS.

We have shared with you our SSSG guidance for this year and our long-term SSSG guidance of about 8%. If you overlay this to the ADS number that we have shared, you will get a sense in terms of the operating leverage that will kick in, which will expand our store EBITDA margins and our company EBITDA margin. So from that perspective, I don't want to go beyond this, and if you will, for some reason, understand where we are kind of coming from.

Aliasgar Shakir:

Understand. No, this is helpful. I know the question, I was asking is more from that point of view that productivity-wise, see, because we have a smaller store related to some competition. So productivity-wise, where would you benchmark yourself today? And how much scope do you see that improvement basically in the next three years, four years?

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Management:

Just to let you know, there is no restriction on our stores to do any kind of ADS right now. So we are not building small stores. Our average size is about 2,400 square feet, right? So we don't have any constrictions coming in from that. So we're not worried about that. Traffic is coming in slowly into our restaurants because like I said, 91 stores that build in the back of this Q1 FY '23 to Q1 FY '24.

Those 91 stores usually take a little while to kick and get speed up and then they hit the average and then some of them go way beyond the average. So this is what it is, right? The SSSG guidance is for this year, then there you have SSSG long-term guidance. You know that our gross margin continues our journey to 67% and then beyond. You know that labor is more kind of a fix to a variable expense, so that keeps shrinking as the productivity goes up.

All the other expense except variable rent, will become a lower percentage of margin efficient. So you should be able to guide that. But to make a forward looking on the growth on the margins of the restaurants, probably won't be proper for us to do. But you understand the model and you've seen other concepts of year that have been there for 30 years. You should be able to put all this together and kind of make your guidance over there. If you have any other questions as you're doing this, feel free to call Prashant or Sumit and we'll be happy to help you.

Aliasgar Shakir:

Absolutely, No, this is very, very detailed and helpful. Thank you so much. Just last one question is on BK Cafe. I wasn't very clear, so the incremental sales it is doing is about 8000 right but overall is about 15,000. Can you just explain that point? So is overall in a cafe about 15% contribution is coming from BK Cafe. Is that understanding correct?

Management:

See the reason we also -- we're kind of a little bit strict on ourselves right. We can just report 15,000 ADS, 16,000 ADS and so forth. But, every time we sell, a cafe, sometimes it cannibalizes not buying a soda. So then we take the difference between the price of the soda and the soda as in, CSG carbonated drink versus the cafe price, and we only report that as incremental sales, right?

So while our ADS has now grown up to over 15,000 per store per day. By the way, a lot of these cafes are new. They've not even got a quarter behind their belt, right? Not even a quarter behind their belt. So when we report 15,000, we generally, half of that is incremental, the other half is potentially cannibalizing something else, the person could have purchased, which they have opted to switch to Cafe. I hope that makes it clear.

Aliasgar Shakir:

Got it. This is very clear. Thank you so much.

Moderator:

Thank you. Our next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

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Harsh Shah:

Hi, good afternoon sir. First question is on the Indonesian business. Since we are down to 169 stores, just wanted to understand on the BK side, how many more stores do we plan to rationalize there?

Rajeev Varman:

Yes. It's not a lot. I mean we're looking at single-digit number of stores. We have basically rationalized the portfolio. We are just working on a few of them. We'll probably be successful. The reason we can't give you the numbers, we are trying to keep them all open, right? We're trying to negotiate rents down.

And if you do then we'll keep them all open, if you're not able to, then we'll rationalize a few of them. A good part of Indonesia is its turnaround, right? We have worked -- we put in a year. We put in a -- we fixed all the stuff. We put it all in place. Now it's all turned positive. It gave a whole year of positive SSSG. Now it's double that -- more than double that SSG positive for the first quarter.

Sandeep's got a great team. He's a great leader. He's building a strong business over there and then coupled with Popeyes, I mean, Popeyes are coming in and doing a great job. So, we are very, very confident with the business there. I always was, I mean, today, we purchased this to two date, I completely and very confident this is a strong business in the long run because the market is very strong, right? So, both these businesses, we continue to drive in the northward direction.

Harsh Shah:

Okay. And on the innovation side, as you mentioned that the strategy -- strategic initiatives on the menu side is done with the chicken menu and we are also introducing the range of desserts and also value offerings. So, just wanted to understand on the ADS side, currently, we are at around 180 million IDRs, 190 million IDRs. So when do we see the -- what is the ideal target for the Indonesian Burger King ADS?

Prashant Desai:

Yes. We are not guiding currently, as you know, on the Indonesian business because we just, over the last 6 months made all the strategic changes or big picture internal target and what we have shared with you guys is to ensure that we break even this business, which will be INR100 crores string from last year.

We are now seeing some stabilization coming back on the BK Indonesian side, as you know, we reported at 19.4 million ADS. But today to sit here and guide will be a little tough for us. Just give us another couple of quarters once we kind of get a bit of true sense in terms of the visibility, we will come and revisit this over the next 2 quarters.

Moderator:

Thank you. We move to our next question. Our last question for today's question-and-answer session comes from the line of Krishnan Sambamoorthy from Nirmal Bang. Please go ahead.

Krishnan Sambamoorthy:

Yeah, can you hear me?

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Prashant Desai:

Yes Krishnan.

Krishnan Sambamoorthy:

Yeah Prashant, there was a mention of building relevance and credibility of the chicken menu in BKI. And here, the aim initially was to increase the proportion of chicken and reduce the proportion of mutton in Indonesia. How -- what is the stage of progress that has been made over the last year and where do you intend to be from a year time?

Rajeev Varman:

Yes. So, first of all, it's not a mutton. It is a beef over there. So they sell beef and then they sell chicken. If you look at the market generally, where the burger players, there's a few burger players there, 70% of their sales is chicken and 30% of their sales is usually in the beef sector. So, that's generally where the industry is.

In Burger King as we took the business over, where we saw the opportunity was, we saw that the chicken business was at about 30%, and the beef business was at about 70%. Now we're not trying to decrease the 70% beef business. I think we actually want to grow that business as well because we are a leader in delivering Whopper, and we are the leader in burger taste and quality all around the world as we are known for it.

So, there's no intention in decreasing that portion, we will continue to increase that portion. But if you look at the pie, you will find that slowly as the chicken because we did not have both the chicken element, right? We only had one, which is a classic chicken, but wasn't really classic wasn't really spicy, it was sitting somewhere in between those.

So, now we have a proper classic for those that don't like spicy products and even for the kids we have a classic version. And then the Spicy version, which really kicked off and started doing really well is on generating new people coming in that never had that spicy version. So, you will see that this 30% portion will start to grow, and it will not grow at the expense of the 70% beef business.

But as it grows, you will find a proportion of the pie will be more evenly split. My conversations with Sandeep and Sandeep is on the call as well is the first step is to make sure that at least we start selling 50% of our portfolio as chicken. So, we'll start working towards that and then beyond that. I don't know, Sandeep, if you want to add anything else.

Sandeep Dey:

I just want to add one thing. If you actually walk into a restaurant, you would see the way the consumer is actually consuming this chicken. So, I said in our presentation that chicken actually is fried chicken is a staple food here. So, what is happening is they are buying burgers and adding a piece of chicken on to their meals.

So, the chicken incidence is just coming as an incremental incidence without compromising or cannibalizing our burger sales. And that is how actually the overall

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business is increasing. So, that's the beauty of this market having a combination of burger and chicken as the overall portfolio. I hope that answers to your question Krishnan.

Krishnan Sambamoorthy: That's useful. Any time line of what Raj mentioned roughly equal contribution from chicken and burgers maybe it's a 1.5 years, 2 years, 3 years? Would you like to hazard a guess there?

Sandeep Dey: Sorry, Raj. At this moment I can tell you is during the campaign period actually our chicken portfolio almost reached to the tune of about 50%, right and then after that, we are stabilizing, but we have moved the base, and I actually said in my presentation that the overall chicken incidents from the pre-campaign period to post-campaign has gone up by about 25%. So, it's not going to take a long period of time is all I can tell you at this moment.

Moderator: Thank you. Ladies and gentlemen, that brings us to the end of our question-and-answer session. Due to time constraint, that was the last question of our question-and-answer session. I now hand the conference over to the management for closing comments.

Prashant Desai: Thank you, everybody, for taking the time and joining us. I know we've not got a sense to answer everybody's question. As you know, my e-mail is on the presentation, feel free to write an e-mail if you have any further questions on this, and we'll be happy to answer. Thank you.

Moderator: Thank you. On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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