



“Restaurant Brands Asia Q2 FY'24 Earnings Conference Call”

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MODERATOR: **MR. NIHAL JHAM – NUVAMA INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Restaurant Brands Asia Q2 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 '*' then '0' on your touch tone phone. I now hand the conference over to Mr. Nihal Jham from Nuvama Wealth Management. Thank you and over to you.

Nihal Jham: Yes, thank you, Sagar. On behalf of Nuvama Institutional Equities, I would like to welcome you all to the Q2 FY24 Conference Call of. 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 & Chief Business Officer; Mr. Kapil Grover -- Chief Marketing Officer, and Mr. Prashant Desai -- Head of Strategy & IR.

I would now like to hand over the call to Mr. Rajeev Varman for his opening remarks. Over to you, Rajeev.

Rajeev Varman: Thank you, Nihal. Really appreciate it guys. Happy Diwali to everyone and thank you for taking this time out this evening to join us on this call.

Just generally tell you what Burger King India and then Burger King Indonesia combined under the umbrella of Barbie has been doing for the last couple of quarters and how the summary of the results for Q2.

So, the initial strategy as we outlaid before this year started FY24 was basically to bring in the traffic back into the dining business and back into our Burger King restaurants. So, we usually don't share traffic numbers, but I'm going to take the liberty just to give you directionally what we have done. So, both the quarters that have gone behind us, Q1 and Q2, both these quarters, we have increased our traffic in our restaurants with high single digit numbers and not just in India but also in Indonesia. So, that has been basically the way forward for us is to bring more people into our restaurants to drive SSSG, not just through by check. And I'm very happy to report that we continue with that strategy into Q3 and Q4 with very similar elements that have given us the results in Q1 and Q2 with traffic increases.

This also happens to be one of the great quarters for India. This is a quarter where we ever delivered the highest EBITDA in India and I wanted to thank my team that's out in the field and everyone that's working in the office for all the hard work they've done in producing these numbers.

Generally, as we look into Q3, Q4 reflecting back on Q1, Q2, our strategy is no different. We'll continue to drive traffic into our restaurants, and we will continue to build our sales and our same-store sales through traffic. That's the main headline objective moving forward.

Now, If I look at the India Q2 Results, we grew year-over-year 23% on revenues, delivering Rs.453 crores in total revenue. This is on the head of SSSG of 3.5, which, as I already said, was led by very good traffic growth, specifically in our restaurants. So, thanks to all the work, Cicily Thomas is doing leading the India business.

If I also look at the ADS, we delivered in Q2 1,26,000 ADS, which is a 6,000 above the previous quarter, which is at 1,20,000. So, again all check marks on sales, on SSSG and ADS, right.

Coming to profitability:

I have already articulated that this has been a good quarter of our restaurant level EBITDA and company level EBITDA. So, the highest ever EBITDA we delivered, if I give you the post India's numbers, that is Rs.63.5 crores which is 51% above the previous quarter. And if you're interested in the pre-AS 116 numbers, that number was Rs.24.3 crores which is 138% above what we did in the previous quarter? So, thanks again to the team for delivering that. PBT first month that we have broken even I know Prashant always ask me when are you breaking even on this one. So, Prashant there, that's the number for you.

Growth:

We have built 10 new restaurants in the quarter, and we closed two. So, a net result of eight restaurants that were (NRG) Net Restaurant Growth as of September 30th. Now, we have got 46 restaurants that are in construction, right, and we are well on our way to deliver more than 450 restaurants by the end of Q3 by December 31st. so, that's the key and Kapil and Sumit will go through the detail numbers and so forth, but I just wanted to throw the key highlights here.

The other thing that we're doing and you might have seen this as you go through our restaurants if you're visiting our restaurants is we are now going completely digital in all our restaurants, it will take us a little while to cover all of them, but we'll spend the better half of next year and maybe a little bit more doing this. We are turning away and going towards self-ordering kiosks, ordering at the table service. So, this new digital parameter that we have already tested, we've got the equipment rolling and this will be rolled out into all our restaurants across the country here in India. So, a great initiative by Kapil and Kapil will speak more to that when he comes to the marketing section. So, great revenues. SSSG on top of STG, which since I started doing this business many years ago traffic was always called the blood of the business. If you're growing the sales through traffic, then you're doing a good job and we have delivered that in the last two quarters and our focus to do this in the next two quarters as well.

On EBITDA front:

I told you; we have delivered a fantastic number and PBT break even. So, thanks, Sumit for all the hard work on making sure that we are very effective and efficient on our line items.

Just coming to Indonesia business and Sandeep will take the major chunk of the weight on this one, but I will share again with you the work that he is doing and his team is doing and frankly Sumit has spent a lot of time there in putting together a fantastic strategy moving this business forward. So, if I look at the Q2 numbers, we delivered 19.1... and I'm talking IDR numbers now, Indonesian rupiah, 19.1 million, which is as you remember from Q2 of FY23, that was 16.9, that grew 13% year-over-year again on the head of some very good traffic numbers. Q2 again on the SSSG, they were +6.5%. So, Sandeep is now giving a run to Kapil and Cicily over here in terms of SSSG is climbing at a faster rate there. Listen to this number; 17% increase in traffic in dine in in Indonesia in Burger King. Fantastic job, Sandeep. Thank you for all the effort over there. So, you see those numbers.

Coming out to revenue:

We did IDR of 287 billion which is 5.6% year-over-year. So, we had a higher revenue by 5.6% despite closing 17 underperforming restaurants. So, we closed these restaurants and yet we did a higher revenue. So, great job there as well.

Continue to generate some healthy ADS. If you look at the ADS on the Popeyes front... I'm now speaking about Popeyes, we are now kind of stabilized at about 46.3 million which is about 6 million higher than what the Burger King business is doing. And now, Sandeep has stuffed to move this from 46, upwards towards 30.

Total revenues in these 12 restaurants that we have in Popeyes was 27 billion. Here, as we are moving forward, we are approximately now at restaurant break even. So, the Burger King business, and the Popeyes business does not lose any money at the restaurant level. So that's the kind of crossroad that we have passed.

When I look at the growth bucket, we have 162 restaurants as of September 30th in the Burger King business and 12 Popeyes restaurants by September 30th. So that's the portfolio over there. Again, Sandeep will talk about this.

But we rolled out the chicken in Burger King. When we told you that was a big gap that was there and we have moved those volumes of chicken by 50% in those restaurants, that is where all that 17% traffic is coming from.

And also, on the Burger side, because Burger King continues to be a burger business over there, we have moved those volumes up by 35% as well. So, Sandeep will talk more about that and kudos to the entire team in Indonesia to continue moving this in the positive direction.

So, with that, what I'll do is, I'll hand it over to Sumit to kind of go granular on some of these numbers and then and then we'll go to Kapil.

Sumit Zaveri:

Thank you, Raj. What I'll do is, I'll just kind of talk about the key financial numbers and then also go a little more deeper to explain what we've achieved through this quarter in India and then also I'll cover Indonesia as well.

As far as same-store sales, as Raj mentioned, we ended the quarter at 404 on our way to get to over 450 by end of this quarter. This was generally by design that we did it where this quarter we grew 8 and we kind of put as a part of the initial plan itself the growth, which was towards Q3 of the year, so that's by design.

We continue to open all our new stores with cafe. We're currently at 297 cafes, which is 75% of our portfolio. Now has cafes and Kapil in his part of his discussion will take you through what cafes are now contributing as far as overall business is concerned. On the back of a strong growth in terms of new stores, we added 70 stores over the last 12- months period. We've been able to sustain the ADS at the portfolio level in line with what we had achieved last year. If you really look at it Q2 FY23, we did 127 after effectively adding 70 more stalls, we are still at 126. ADS which effectively reflects that the stores that we've added, have come much closer to the portfolio average in terms of ADS.

Our overall ADS growth was led by traffic for the quarter, then we could see that over last two quarters itself has been 3.5%. We feel fairly confident of this number and as we go along and as we get to the later part in terms of what we expect to end, you will only see that our positivity towards what we will achieve in essentially going forward is only going to be better than what we've done in Q1 and Q2.

As far as overall revenue is concerned, we grew by Rs.31 crores quarter-on-quarter, moved from Rs.422 crores in the previous quarter to Rs.453 crores in the current quarter.

Gross profit margins or COGS as we could call it which go away has always we strongly believe has been our strength area. If you go back and see last four to six quarters of ours, through these entire inflationary pressures that we saw we maintained the gross margin at 66.4% through that period. And while we were doing that, we also ensure that we are building efficiencies to be able to take our journey to what we have been sharing as a part of our guidance that we will start making the journey towards that. This quarter is our first step towards that and we reported or achieved a gross margin of 66.8%. So, if we really look at it from the perspective of consistent

66.4% that we've been maintaining over the last four to six quarters, we've moved the needle now by 0.4% and got to 66.8% and this is our first step towards achieving the guidance or the target that we've set ourselves for gross margins.

Happy to share that as far as restaurant appetite is concerned, we are reporting early double digits for the quarter; we did get 10.7% in terms of restaurant level EBITDA and a substantial shift at the company level EBITDA where we got to Rs.24.3 crores, 5.4% at a company level, a shift from 10 or 11 crores that we did last quarter or as compared to previous year. So, it's a shift of almost around 12 to 13 crores in this quarter. One is that it is effectively a very strong base shift that we've made in our overall company EBITDA numbers at Rs.24 crores with the seasonalities hopefully in our favor we should only be able to kind of do better if we sustain these numbers. So, that's how we really see Rs.24.3 crores, as Raj said, is the highest ever company level EBITDA numbers that we've reported so far. But certainly, this is not the end of it. We feel that this is just the beginning of the better quarters as we go along.

If I were to just quickly turn to Slide #7 and talk about the overall numbers as far as India is concerned, we generated revenue of Rs.453 crores. Some of these numbers are slightly repetitive, but I'll just kind of summarize these numbers. With the gross margins of 66.8% and a restaurant level, early double-digit numbers are close to 11% and company EBITDA at 5.4%.

There have always been some discussions on the corporate G&A side and we've been saying that we would remain in the region of around 23, 24 crores. Keeping that trajectory in mind, we were more or less flat at a corporate G&A level at 24 crores and with the revenue growth over quarter-on-quarter, we've only got better in terms of percentage to revenue from 5.6%, we've gone down to 5.3%. We believe that this trajectory, again similar to in line with company EBITDA, will only get better as we kind of get the benefit of the stores that we've opened or we plan to open, plus the growth that we see in the existing portfolio.

Quickly going on to the Indonesia part of the business:

As compared to last year, we grew from 156 crores in INR terms to 171 crores for the quarter. Our concentration as far as Indonesia is concerned has always been to kind of make sure that the business gets to start seeing the positive trajectory in sales. We've seen a substantial shift almost by 2.2 IDR million, which would translate to around Rs.10,000-odd in Indian terms over last 12 months. These are probably our early successes that we've seen over the six-month period, and we feel that we've only created a stronger base on which we will continue to build. At a restaurant level, we were close to breakeven at country between both the brands, and the company EBITDA level we were at around -15 crores, but we believe that as we continue to build on to the base that we have, we'll only be able to take this trajectory onto the breakeven side as we go along over next few quarters.

As we look at the consolidated performance, overall revenue Rs.525 crores in last year we moved to Rs.625 crores. Last year overall at a company EBITDA level, we were at a (-15.6) crores, we reported a positive close to 9.4 crores for the year. So, we've certainly, as Raj said, has been a good quarter for us. We have shifted the baseline needles practically in all key financial parameters and we believe that we will only take the journey forward in the positive direction as we go along.

With that, I'll request Kapil to take us through the key highlights for the quarter on the marketing side and from there on to Sandeep to take us through the Indonesia journey.

Kapil Grover:

Thanks, Sumit and good evening, everyone.

Let me start by reiterating the pillars of our growth that we've aligned at the beginning of the year. #1 being the value strategy. It's a key driver of traffic and growth to our stores, followed by innovation on the core burger platforms, premium offering and building adjacent categories like Cafe. The third focus area is about building digital experiences for our consumers and growing known diner sales. And last but not least, building a strong, engaging brand for Gen Z and millennials.

Now I'm on Slide #12. Our value proposition is focused on a satiating meals platform, the tasty meals at 99. You heard Raj talk about how we run that initiative for the last two quarters and that was the focus here for Q2 as well. The campaign has clearly helped us drive dine-in traffic growth and offer consumers great value for their money. Again, you heard that we delivered 3.5 percent same-store sales growth in a very challenging environment on the back of this program.

The next slide showcases a few pictures of the execution, which helps us drive awareness about this program across mall locations, high street locations and building a traffic to our stores through this program.

The next layer I want to talk about is the Whopper. It continues to be a strong part of our portfolio. We continue to build this platform through a consistent string of innovations which we call the limited time offers. The last quarter was the Mexican Whopper, which had the Salsa Zing and the Nacho Chips, and we got a lot of appreciation from our whopper fans as they tried this new healthy offering. Every year we launch five to six such new ideas on the Whopper platform to continue to drive our innovation credentials.

Slide #15 is about how we continue to build BK Cafe as a concept and generate trials around with that concept. With 297 cafes on ground as of 30th September, we continue to build awareness about the platform through social channels through digital programs, effective use of influencers. Now, Please note here that since cafe is now a standard part of the BK store, every new store, unless there's exception opens with a cafe, right, so we now start reporting KPI of

total sales coming from this business. Hence you see on the slide the number that's Rs.16,000 is the contribution to the areas from BK Cafe range of products which is all the coffee-based beverages and the thick shakes. So, our guests continue to pair this new range of beverages with their favorite burgers and enjoy the taste of very good quality 100% Arabica Coffee at very affordable prices.

The next Slide #16, last quarter we also saw the expansion of a very well thought through program of making our stores a new digital experience for our guests. We call this the King's journey model, where our guests are offered fantastic experience through digital ordering through the kiosk, app-based ordering from the table. So, they don't necessarily need to queue up at the counter; they can either go to the kiosk or take the mobile app, just scan the QR code which is placed on the table, place their order, and they will be served their food on the table. So that's the new convenient digital experience that we're building for our guests in all our stores. And as we speak, we are rolling this experience out in flex stores. The intent is that we will cover almost 100% of our estate over the next financial year.

Last but not the least, Burger King social feeds continue to drive very engaging content, whether it's for spreading awareness about our national campaigns like the 1990 celebrating Indian or international festivals, moment marketing, product stories, and we make an attempt to speak the language of our fans and stay connected with them in their tone antenna.

So that's it from my side. I would hand over to Sandeep to share the Indonesia update.

Sandeep Chaudhary:

Thank you, Kapil and a very good evening to all of you from Indonesia. In the beginning, Raj mentioned that we continue to have a laser sharp focus on our three strategic pillars for Burger King business and those continue to build credibility in chicken, establish and retain our leadership in burgers, and build a comprehensive dessert menu and drive incremental locations through that.

So, the next few minutes I'm going to share with you some of the work we have done to move forward these strategic pillars. As Indonesia is a very, very, very strong fried chicken market and having a winning product is a key motivator in this category. And we are a gap in our menu both with regard to taste as well as variety. So, in the last six months, we addressed those gaps and then launched this product of about two quarters back and offered a very aggressive trial price of 25,000 for a meal and also supported that with a comprehensive 360 deg. marketing campaign. The results are quite positive. In fact, Raj did mention in the beginning that incidence of chicken improved by 20% and volume grew by almost 50%. But what is more encouraging is that these numbers are not just the initial numbers, but these numbers have sustained for over six months now.

I'm now moving to the next slide, which is Slide #21. The next strategic priority is to establish Burger leadership and that we intend to do through taste credibility, flavor innovations and very importantly offer strong value propositions across the entire menu there.

Now for this category, we have a two-pronged strategy:

1. We call it value LTO strategy. Here we offer some of our flagship and preferred products at very aggressive pricing of 17,000 for a burger where a guest can practically enjoy discount of as high as almost up to 50%-odd. Now, this is helping us not only drive a massive amount of dine-in traffic back into our restaurants, but also building the Whopper equity. The volume growth for these burgers have increased by more than 35% and an overall increase of 11% in burger incidence.
2. The second part of the strategy on the burger category is on the premium side where we continue to provide new excitement through taste, innovation and branded collaboration every two to three months at an alternate basis.
3. The third growth pillar is the dessert category. That's a big business opportunity in this market. And our strategy was to have indulgent dessert innovation every quarter, which we religiously do either through branded dessert or local favorites. And for the last six months, we have witnessed a sustained volume growth of almost 2.5x.

Finally, I'm going to give a quick update on Popeyes, which is my last Slide #23. It's been 10 months now since we launched this brand. And as we speak, we have 15 operating restaurants. We continue to deliver very strong new store launches and have already put 10 stores under construction. So, by the end of December we should have 25 Popeyes. And our strategy is to build this brand into a chicken destination. See, basically, we are a culinary brand and we got not only winning products with regard to taste, but also variety to address different need taste. We are actually the only QSI in this category to have a grilled chicken on bone product, and this unique Louisiana grilled chicken contributes to almost 30% of our chicken onboard portfolio. And we are building this brand with digital-first experience. All our restaurants have kiosk. Every single restaurant has video walls which run brand contents and product videos. All our drive-through menu boards are digital menu boards. So, our long-term vision is to have 100% known diners sales.

In Q1, I did mention that 37% of our dining sales were through kiosk. And we continue to encourage that guest behavior and by end of Q2, that number has grown up to 70%. So that's from the Indonesia side of the business.

And now I hand it over to Prashant to share the outlook for the overall business.

Prashant Desai:

Thanks, Sandeep. From an outlook perspective there are two changes:

One, as you would observe, our SSSG guidance given the first six months have been challenging for the industry, we are revising that to 6%, which still means given that we are now entering the festive period we are expecting a great festive season in the first quarter of next calendar year, which will be very high single digit same-store growth and hence the overall yearly same-store growth is at about 6%. No other changes except the Indonesia business, which, as Sumit mentioned, we are hoping to break even that business closer to the end of this year. So, otherwise all the guidance remains the same.

With this, we can open up the floor for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: First thing, if you can give some idea about the economics of popeyes, what is the CAPEX, how do you look at the payback, those kinds of things? Since we are on a low base, we need to add a lot of stores and we need to incur a lot of CAPEX. So, considering that most of the QSR brands in the early years kind of spend money to grow, do we need to get capital from Indian business to grow popeyes?

Prashant Desai: So, we are currently popeyes is still very early in the infancy, the business is still stabilizing, so too early for us to share details with respect to paybacks and breakeven, but the CAPEX for the store is approximately US\$400,000, so that is the data that we can share with you as we speak. As we had explained, when we had acquired the Indonesia business, the capital for Indonesia business will be provided by the Indonesian balance sheet and India business grows on its own balance sheet. So, there is no major allocation of capital from India business into Indonesia business. It will grow from the strength of its balance sheet and the cash flow that the business will generate.

Dhwanil Desai: In the opening remarks that was mentioned that in spite of 70-odds getting added over ADA is almost at the same level. So, can you give us some color as to what kind of ADS growth we have so seen in more mature stores, which are three years and older vis-à-vis some newer stores,, how does the gap look like? As the proportion of the newer store reduces and the vintage increases, naturally, the ADS growth has to be significantly higher. So, can you give some insight into that?

Sumit Zaveri: While I'm presuming you are talking about Indonesia, so Indonesia, we grew 0.5% in terms of SSSG. That is one. And if I were to look at the same numbers from India perspective, the newer stores we will see slightly better as you said sheets which is what we are also seeing as they move into SSSG after the end of 13-months period, that's what we kind of take, we will see with respect to those and hence those would also contribute to better SSSG at the portfolio level. Secondly, as far as H2 is concerned, we'll also see that because there was a baseline effect in H2

two last year, a better SSSG in H2 as well. We are guiding the overall full year SSSG at 6%. Our expectation is that overall portfolio would be closer to around anywhere between 9% to 10% number of SSSG for H2.

Kapil Grover:

Really just to add to what Sumit mentioned, one of the things that we are experiencing, one, as the brand is getting more and more stronger as we are opening more stores both on the high street side as well as spending money on television to kind of build the brand. As your size is increasing, all of us have to spend 5% of our revenue or marketing. As the brand is becoming stronger, one big trend that we have observed is all the new stores that we are opening are doing significantly better year-on-year. So, earlier it would take us three years to reach the portfolio average, now, we are seeing this timeframe shortening as the brand is becoming stronger and that's the bigger point that Sumit was trying to make that despite opening 70 new stores, we have seen an increase in ADS.

Dhwanil Desai:

I think in earlier interactions you indicated that the more mature stores have generally 20% higher ADS than the average number. So, that benchmark remains or are more mature stores growing faster, any sense on that?

Kapil Grover:

Yes, we are not sharing quarter wise data, but by and large we are on track.

Moderator:

The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi:

I think it's really a good experience that you maintain the SSSG 3%-plus in the first half. However, the guidance was revised lower. What makes you confident because if I see the average of 6%, the second half has to be pretty strong, so could you share what is the confidence level -- is there a lot of innovation which you are planning to launch or already launched or is the optimism because of the base because last two quarters were very weak for the entire QSR industry? And maybe some color how the current World Cup has added to the numbers in the month of October? I'm not looking specific, but the trend if you can share.

Rajeev Varman:

Very nice question. Thank you very much for that. See, couple of things. One is obviously the festive season is in front of us, right. Second is in spite of the fact that we're sitting at about 3.5% SSSG, 3.6 in Q1. What I said on the onset of this call is, it's driven by some very fantastic traffic numbers. So, it's not on the basis of check increases. So, this year we have been driving more traffic into our restaurant. And generally, if you look at the burger industry, the word out there is... most of the experts that have written around is that the burger category continues to grow both in dine-in as well as in delivery, this category continues to grow. So, we're just kind of leveraging and working on those numbers of driving more and more traffic. And also, you see there's a whole bunch of restaurants we opened last year in this Q3 which will start to comp and obviously as you know they start at lower numbers, and they start going to higher numbers in the following year. So, again, we are confident on the traffic because we have got a very good

promotion in place which is driven by Kapil and his team that continues to drive traffic and on the head of this traffic number, the fact that the last year the quarters were kind of a little soft as you remember Q3 and Q4. So those are the driving factors in where we think we're going to move this forward.

Shirish Pardeshi:

Just to get a little more clarity on the question was in the beginning what I asked, you mentioned in the beginning saying that you've seen a traffic growth of single digit. So, I was more curious that this traffic is basically from the dine-in or delivery, maybe some quantitative explanation if you can give will be able to help us?

Rajeev Varman:

I can tell you that our dine-in traffic is growing. I will not split those numbers. We don't share this. I don't think anyone shares those numbers. For competitive reason, we want to kind of keep them close to our chest. But I can tell you that both in Indonesia and India, if you just look at the strategy, the offer that we have is in dine-in. It's not available in delivery. So, you should understand that's to drive-in traffic, not delivery traffic.

Shirish Pardeshi:

I'm referring slide 6 and I'm trying to do some mix and match of numbers. Prashant did mention that on a YoY we have added 70 stores in Burger King India. But when I look at, we have added 117 BK Cafe. So, I look at and again, reference point is that ADS increase from BK Cafe is about 16,000. But when I look at the YOY ADS number, 127 and 126, which is now this year, it's remained largely flat. What explains or maybe if there is qualitative explanation if you can help us?

Sumit Zaveri:

Yes, we've added all the new stores have come in with Cafe and hence effectively you've also seen the total overall cafe ground going up from 180 to 297. So, that's one part. Secondly, just to kind of clarify that number, as Kapil was mentioning, when we said Cafe contributes to 16,000, that is share field that is not naturally an incremental sale number. If we refer back to some of our earlier presentations or discussions, you would realize that the incremental sale on the cafe portions have only been around in the region of around Rs.7,000 to Rs.8,000. So, if we kind of do the base effect of those additional 100 stores, then it will only be affected around Rs.1,000 to Rs.1,500 on the ADS, just to kind of build up the numbers there. Referring back to what Prashant was mentioning that our newer stores generally would come slightly lower than our portfolio average. We've only been getting better. So, we've been able to maintain the ADS from 127 to 126 largely because the newer stores that have come, one is especially of 3.5% that we got over last year and the newer stores that we opened, plus a marginal increment that we got on account of cafe and then overall portfolio level, we've been able to maintain the ADS at 126. So newer stores coming closer to or better ADS than what we've seen as the brand matures. Cafe margin impacting and 3% SSSH is why we've been able to maintain the ADS at 127 to 126. Otherwise, in the past as we were growing rapidly and the base of new stores being higher, we've generally seen that while we would have positive SSSGs, the portfolio averages would be equal or negative. So, this is literally now with the weight of existing stores increasing, we've been

able to sustain it at the 127 level. So, this is larger a positive shift, is how I would see it rather than saying that while we've not been able to move the needle upwards.

Shirish Pardeshi: On the guidance front, Prashant mentioned that we have revised downward the SSSG. But I'm more curious because we have already achieved 8 closer to 67% gross profit margin in India and you're still holding that guidance. So, what is the hesitation -- Is the volume growth, the strategy which we are employing so will not give us the margin lever or we are being conservative at 67% at this time?

Prashant Desai: We always said 67%, right. So, it's none of the things that we've mentioned. I'm saying what Sumit was trying to explain in his commentary was that you guys are aware of the inflationary challenge, you guys are aware of the fact that we launched the Rs.99 value bill, despite that, we are retaining our margin guidance of 67%. It's not conservative, it's not optimistic, it's realistic and we would like to remain at 67%. A couple of things I will still add, maybe you were not part of the earlier calls that we did, our cost of goods sold includes are primary and secondary distribution cost. So, that is one thing you will need to keep in the back of your mind when we talk about 67%.

Shirish Pardeshi: I got that what you're saying, but directionally the milk and cheese inflation is expected to come down very sharply. That's what at least the other players are -

Prashant Desai: Appreciate it. As I said, yes, we meet you guys every quarter, should we choose to up the guidance, we will come back to you, as of now factor 67% as your gross margin guidance.

Moderator: The next question is from the line of Mr. Tanmay Gupta from Motilal Oswal. Please go.

Tanmay Gupta: Sir. I'm looking at the slide 22 where I see that we have introduced a lot of desserts menu in the Indonesia site. Just wanted to understand what is our collaboration or strategy to launch the KitKat or Oreo kind of desserts in India in order to improve the ADS?

Kapil Grover: That's a very good initiative that the Indonesia market has done and we obviously will continue to explore similar opportunities in India as well. It's just a matter of time that we strike a good co-branding opportunity. So, we continue to explore. At some point in our calendar, you'll see those innovations in India as well.

Tanmay Gupta: So, any other innovations lined up like other than these desserts or something like in order to improve ADS?

Kapil Grover: In the India business we will continue to launch new products. In fact, if you visit our stores today, we have already introduced a couple of. new products. We've recently not launched Nuggets, which is a new addition to our menu. You can go and try them in all of our stores as of

today. And we've also, in the last quarter I shared, introduced premium wraps in our menu. So, we'll continue to find these consumer insights and gaps on our menu and make sure we keep plugging them and offering consumers the products that they need for a good experience at Burger King.

Moderator: The next question is from the line of Mr. Mayur Gathani from OHM. Please go ahead.

Mayur Gathani: I'm just wondering on the Indonesia side; do we still see more closures on the Burger King stores or this is going to be an ongoing thing?

Sumit Zaveri: While it will be an ongoing thing as a part of our current assessment that we went through at the start of the year wherever we failed in a part of the portfolio not warranted to be part of our going forward portfolio. We've already taken that call there and we are now at around 162 stores as we speak. We will continue to look at Indonesia part of the portfolio very closely. But as we speak today, we will take the journey forward from here at 160 stores. As we continue to review, if we feel that we may want to prune any part of the existing 160 store portfolio, then we would take that call, but the risk on that site at the moment is still not... we don't see now going forward a substantial shift on the downward side on store portfolio in Indonesia. But if there is a need, then we will certainly continue to take that call to make sure that the portfolio remains healthier.

Mayur Gathani: Quarter-on-quarter, the revenue was down in Indonesia. So, is that 17 stores closure is the reason that you would give?

Sumit Zaveri: Yes, it was probably because of the store closures. If you look at it from the perspective of ADS, then we've been on a quarter-on-quarter the ADS has been in the region of around 19.5 and that is how seemingly a very strong case that we've been able to establish there and hence effectively the number to really look at is the shift that we've been able to do on a year-on-year basis from almost on 16.9 to 19.1 over last year there. So, the other thing is that what we've seen in terms of seasonality and what we've really been able to beat in Indonesia is, Q1 has a very strong holiday seasonality last year as well as this year, we got to 19.5-odd in Q1 last year. And then as soon as the seasonality went off, we had dropped the needle down to 16.9 after Q2. This year the same seasonality but post the seasonality we have really been able to hold on to... and what Sandeep mentioned initiatives that we took on the menu side on the offer side, we've literally been able to hold on to the ADS similar to Q1 and Q1. So, we believe that we've been able to create a very strong way to build on going forward there. So, the reduction is in store closures, but a much stronger base of 19 million for us to build on from here for all the initiatives that Sandeep mentioned.

Mayur Gathani: Which is fair and a great job on that side. You had a positive kind of restaurant, just a kind of flat EBITDA on this initial business and you are negative in Q2. So again, I would relate are there any closure costs that are added on to this and hence it is lower negative?

- Sumit Zaveri:** No, as a part of these numbers the closure costs we've kept it out, we make that remark as well on Slide 8 as well. This is more because really speaking from the perspective of pushing the sales and get more traffic into the business, we had to take some calls on the pricing side or the offers that we run and the drop is purely on account of the gross margins coming down quarter-on-quarter but no any other reason for that. I wouldn't be able to share that some of the numbers, but on the cost side we have certain upsides that are available which we should be able to see going forward into H2 as far as Indonesia is concerned.
- Mayur Gathani:** Seasonality wise, Q1 is the best for Indonesia, just for our understanding?
- Sumit Zaveri:** We would see Q1 and Q3, the upcoming quarter acts very similarly. So, one is the local holidays that they have, what they call this Lebaran, whereas Q3 will have Christmas as another positives seasonality. But one other thing is that... and just going a little more granular on this, we have been able to kind of beat the needle in Q2 like us in India, August is their independence month and we literally kind of did the very, very similar ADS to what we did during the Q1 peak seasonality. So, those are some of the positives that have worked in our favor in Indonesia. But seasonality wise, Q1 and Q3 are the peak seasonalities to your question.
- Moderator:** The next question is from the line of Mr. Prateek Poddar from Nippon Asset Management Company. Please go ahead.
- Prateek Poddar:** You cut down the prices of whopper, right, on dine-in, which is 129 versus the 199. I am just trying to understand what happens to your margin when you take such a sharp cut and how does it overall play out sequentially or from a longer-term perspective as well as from the brand perspective?
- Prashant Desai:** I think exactly the point I was actually trying to make to Shirish, right, when we are guiding 67%, it factors into account all the initiatives that we spoke about, whether it was the Rs.99 meal or the new value promotion at Whopper or in terms of its performance, very, very, very early days just launched, now this is the first weekend of Diwali that we will be entering. So, just give us some time to kind of come back to you on that. But from a margin perspective, when we are guiding 67%, it factors that into account.
- Prateek Poddar:** When you say Indonesia cash peak, you would break even on run rate basis, do you mean exit basis in the sense Q2 FY24 is where we see Indonesia cash breaking even, is that the way to think about it?
- Prashant Desai:** Yes, you are right. What we are trying to communicate is we are just following up on what we saw last time. If you see quarter-on-quarter across Burger King, across Popeyes, we are only making progress, we are feeling reasonably confident about that. The worst is behind us. And yes, ideally, we would have wanted to break even this business this quarter. But yes, some of

those things are not under your control. But directionally, I think, we believe by the time we end this year, we should not be losing money and hopefully make some money for all of you guys next year. So, directionally, yes, Q3, Q4, we should hopefully break even at a company level.

Prateek Poddar:

I think Sumit was also highlighting this. Just wanted to ask whatever improvements we have seen in terms of employee cost, other expenses, corporate cost and the operating leverage playing out, is that something sustainable in Q3 we are adding a lot of response and I think 45-odd that you're adding, will we again see a step jump in terms of other expenses or you believe increased margins which we have achieved that kind of sustainable and we will only build from here on, we will not go back?

Kapil Grover:

The better way to probably answer this question for you would be, despite all the challenges that we saw in the first two quarters, you have seen the operating leverage playing out and we've been consistently mentioning this that you need a base of about 400-odd restaurants for the size advantage to pick in, whether it's in terms of the brand build and ADS impact and its impact across line items. What we would probably want to conclude is that, if the festive season goes well, which we are all touchwood hoping for the festive season to go well, all we would say is your next six months will be significantly better compared to the first six months whether it's at a restaurant level or at a company level for India business.

Moderator:

The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal:

Just wanted to understand, you launched this Rs.99 meal. So, despite that, gross margins improved on QoQ and YoY basis. Just wanted to understand how did you sort of manage the negative impact of this launch on the gross margins or was it positive sales if you could explain that?

Prashant Desai:

Honestly speaking, this is a tough question to answer on an open call where we'll have everybody listening. Broadly, I can tell you, this is your marketing strategy to get people in at Rs.99. This offer was available purely on dine-in, not on delivery. Then you kind of get customer to add on to cheese, you make people switch from a Pepsi to a coffee for which they pay extra, non-veg part of the business does not come at the same discounted portfolio. There are a lot of levers that you pull to do that and hence I won't go deeper into each of these and I think Pratik was also coming from that point of view when he asked similar question on the whopper stuff that we've launched. Trust me, there are a lot of things that we do under the hood to kind of ensure that it's not gross margin dilutive for us. Unfortunately, it is tough for us to go further into detail on this for competitive reasons.

Devanshu Bansal:

Second thing which I wanted to understand is your marketing spends are down sequentially and your other expenses are also down by a similar amount in terms of percentage sale between Q1

and Q2. So, wanted to check is, is all other expenses that we incur on our store level, are all these variable and maybe we can get some sort of operating leverage going ahead?

Prashant Desai:

Marketing spend we mentioned this in detail in the first quarter that as a brand as per the agreement that we have signed with Burger King Global, we are mandated to spend 5% of our revenue on marketing and for a full year basis, this number will remain at 5%. First quarter is normally when you plan for all the shoots and the campaign and there is a production cost involved in that, as a result of that is high. So, marketing spend as you will move forward given that we have spent aggressively in the first quarter, you will see this evening out as we kind of move forward. As far as all other expenses are concerned, you will see, as we have been consistently saying, whether it is rental, whether it is people cost, whether it is utility cost, as you gain and grow your ADS, you will see leverage playing outcome there, which is what you are seeing a reflection of that whether it's in improvement in our restaurant level EBITDA margin or at a company level EBITDA margin. And as Sumit was trying to kind of allude to this, with this quarter under bag, we are feeling reasonably confident that we've now finally reached a base and hopefully if things were to go well quarter-on-quarter, you will see across the board operating levels go up.

Moderator:

The last question is from the line of Mr. Aditya Soman from CLSA. Please go ahead.

Aditya Soman:

Can you throw some light on consumer affordability? So, I get a sense that obviously we are seeing a pickup in footfalls when we drive promotions. First part of this is affordability similar in smaller towns compared with like the 10 stores in an existing town or do you see affordability in smaller towns also being high for the first store and then dropping off as you expand into more neighborhoods, any sense on consumer affordability?

Rajeev Varman:

Very, very good question. Look, here, we were just chatting here with some of the people in the industry this morning. And their belief was very similar to what I articulated in the onset. See, generally, one is, most of the people that have reported any positive SSSG, have told that this is on the head of growth in traffic. That's number one. Number two is that the burger sector and you can go back and reflect on all the studies that have been done, have continued to grow even this year and there's a history of 4-5 years of growth of this sector. This is continuing to grow. Obviously, this is not a planned purchase, it's more an impulse purchase. And when it's driven through traffic, you should feel that business is on the growth track. The other thing that I learned this morning and which was also my belief is volumes are increasing more in tier-2 and tier-3 towns. Look at the smaller towns, even during the holiday seasons, you'll find that if you are building a stronger portfolio, you're getting a bigger portfolio in tier-2, tier-3 towns, you're finding that those volumes continue to grow as well. So that's what we are sitting at and that's what we believe in and that's what I think the industry literature is on kind of supporting on that same lines.

- Aditya Soman:** To summarize it, you're saying that "Look, it's key to drive traffic even if it comes at the cost of average order value, that's not a runaway to the traffic over the longer term," is that the right summary?
- Rajeev Varman:** This is a long-term game, right? We have an agreement till 2039 and beyond that, right. So, our efforts are not here to try to hit the ball out of the park, it's about to make a very strong business in the long run, right, to build a clientele that has a repeat business, to build a good value strategy in the long run, to continue building products and innovation to drive those customers that come in for innovation. So, these are the platforms that we have put in place. and being a young company here, with the tenure of less than four years, if you take the average of restaurants that have been opened, this will all build and if you put the right tools in, if you put the right platforms in, if you support them over the next five years properly, this is become a very strong business. And I've seen this when I was in Europe, when I was in North America, it was the same thing. If you did the wrong things and you push the wrong buttons just to drive a single quarter or a single market, you usually hurt yourself in the long run. So, we have a plan in place, we put it in place in 2014, we strictly continuously to work on that plan adjusting for whatever things happen, for example we had a bad quarter in Q3 last year, no one expecting it, made adjustments and we keep doing that, right? The fact of the matter is the effort needs to be about building strong platforms that drive not only new business but also strong repeat business in the long run. Thank you for your question.
- Moderator:** We would take that as our last question for today. I now would like to hand the conference over to the management for closing comments.
- Kapil Grover:** Thank you, everyone. Wish all of you a Very, Very Happy Diwali and a Great Festive Period and look forward to again engaging with all of you with the Q3 numbers.
- Moderator:** On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us and you may now disconnect your lines.