



Restaurant Brands Asia Limited
Q1 FY26 Earnings Conference Call
July 31, 2025

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**MODERATOR: MR. NAVEEN TRIVEDI – MOTILAL OSWAL FINANCIAL
SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Restaurant Brands Asia Limited Q1 FY '26 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. 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 this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Naveen Trivedi from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Naveen Trivedi: Yes. Hello. Good evening, everyone. On behalf of Motilal Oswal, I'm Naveen Trivedi would like to welcome you all to the Restaurant Brand Asia's 1Q FY '26 Earnings Conference Call. From the management today, we have Mr. Rajeev Varman, Whole-Time Director and Group CEO; Mr. Sumit Zaveri, Group CFO and Chief Business Officer; Mr. Gaurav Ajjan, Head of Corporate Development and IR; Mr. Kapil Grover, Group CMO; Mr. Sandeep Dey, Brand President, Indonesia; and Ms. Cicily Thomas, Brand President, India.

I would now hand over the call to the management for the opening remarks. Over to you, sir.

Rajeev Varman: Thank you very much, and thanks, everyone, for being on the call. I know there's competing calls, so we really appreciate everyone joining here. Look, I'll give you a little strategic summary that I usually give on the onset. Sumit will carry you through the numbers. Kapil will carry you through brand and sales. And then we will hand it over to Sandeep to carry you through the Indonesia business, and then Gaurav will kind of wind it up in the end. We are all here to answer the questions as well. So Cicily Thomas will also join in, in handling any questions post the presentation.

So let me just first start with the India business. The India business continues to get stronger. It was strong. It's getting stronger. Our growth -- revenues growth was 12.6% on the top of SSSG of 2.6% and then a growth of 63 new restaurants, net restaurants. The total revenues were INR 552 crores Restaurant EBITDA, INR 53.6 crores, which is 23% higher than the same quarter last year. Company EBITDA, which is final and all these are pre-Ind AS numbers I'm sharing with you, was INR 22.5 crores, which is 28.6% higher than same quarter last year.

So these results were on top of our strategy, which I've communicated on an ongoing basis. It hasn't changed. We continue to grow and strengthen it. The first one is top line, how do we continue to grow the top line. We have been now positive in sales for many quarters, and we've been reporting it and you have been kind of seeing those numbers as we have reported them.

So 2.6% SSSG driven by dine-in traffic. So we continue to focus our energy around bringing more people into our restaurants and Kapil will share how we have progressed on that, but some very good results in bringing people and growing the business, SSSG on top of SSTG as we call it, which is traffic growth.

So the strategy there hasn't changed. We continue to build and strengthen each of the layers. The first, we call this the barbell strategy. So on the entry level, we have our 2 for 79 and 2 for 99 promotion. We call it 24x promotion, which has been now running for over a year. And if you remember, before this, we had the INR99 meal, the crispy Veg meal, which had grown traffic the entire year the previous year.

And then after -- I'm talking about F '24. And FY '25, we grew on top of that with this value meal, the 2 for x meal. And now this year, we continue to grow on top of that. So this is a traffic growth year-over-year over now another year. And so the entry level, which was 2 for 79, 2 for 99. And then in just a few weeks ago, we introduced for 4 weeks, INR99 cafe just because we have now covered the entire landscape here in India with cafes.

We are -- we have a very strong cafe portfolio. We'll share those numbers with you as well in a few seconds. But we then went out to start talking about the coffee, and we did some very stellar numbers, and Kapil will share our progress on that side. So that was on the value side.

We continue to drive through not only products on the burger side, but also on the cafe side to make sure that there's people coming in. On the other side of the barbell, we had a strong menu on -- we call it the Kings Collection, which is a range of premium burgers, which included 4 burgers. So what we have done in the last 6 months is we have done extreme customer surveys and research, and we have enhanced the quality of those burgers, and Kapil will talk more to it.

But that Kings Collection now 2.0 is a fantastic range of very high-end good quality burgers at INR200. And then we launched the Korean range, which is a limited time offer. And what we will be doing is this limited range will change every quarter or every 3 months, and there will be a new limited time offer, and we'll continue this to keep strengthening our premium layer.

And the Korean burgers we are selling higher than INR200, and they really did well. It was -- and we'll share those numbers when Kapil gets on. So there's the premium Kings collection and then there's a limited time offer of premium burgers and as the Korean, and we will share with you what we have done in that.

So this is a barbell strategy. And as we move forward, we'll continue strengthening both these pillars, but also build a very strong middle layer, which we will talk to you about on the next quarter after we have done some work on it.

Now we also talk about digital-first brand. Today, very happy to report to you that 93% of our restaurants have self-ordering kiosks. That's 93%. And that was done in a little over 2 years. We have installed SOKs, trained people, got everyone on speed on our SOKs. We call them SOKs, self-ordering kiosks. And also table ordering and app ordering is available in 100% of our restaurants.

So there's -- we are completely digital. In fact, 90% of our sales comes from this digital platform. Only less than 10% of the sales is manual or run on a POS system. 95% is digital. So good work

done by the entire team in operations as well as our beautiful team in technology and our construction who have worked together in moving this in such a rapid pace.

The dine-in app, which is our other tool, which does both delivery business as well as dine-in business, and Kapil will speak a little bit about how we are gathering information is between 80 to 90 transactions that we do every day are on that app. And these are people that are repeat customers and they keep coming back and their information, what they like, what they want to buy, all that is available to us.

So this is a very strong platform for us, and we continue to kind of enhance that more downloads. We have worked in the last, I think, 3 months, 4 months to increase the downloads. Again, Kapil will share those numbers with you. And the next generation out of this digital platform is to integrate this into the AI. And we are doing a lot of work where they will be AI facing the consumer, AI facing our restaurants.

And also, when I say restaurants, our staff are people that run our restaurants, people that work in our restaurant support centers. Also, it will be facing towards our vendor partners, people that supply food to us. So this is, again, a 360 degrees as we have always spoken about technology being at 360 degrees. We are working on all 360 degrees, and we will talk about this more in the future quarters as we start rolling these out in modules.

Then the next piece is profitability. And here, we have spoken about 2 real big elements. One is to drive profitable delivery sales, and we have continued to do that. In fact, our margins in delivery sales have gone up by 1 percentage point. So delivery profits have gone up. Also, the revenues have gone up by 11.5% on top of new restaurants being added, but also SSSG and delivery.

So a good work on the profitability part of this, where we are making the delivery sales not only profitable, but also increasing the volume of the sales. The second part that Sumit has spoken in the last call and actually speaks on most calls is about the middle layer of our P&L, which is where we have utilities, we have rents, we have all these line items. And we continue to work on those line items, especially the effort that we have made on the front of our utilities, and you will find that we have saved a lot of money there and brought it down into the bottom line.

Restaurant EBITDA margins improved by 0.8% year-over-year through these initiatives. Also, we have renegotiated a lot of contracts on the IT front. where our technological partners, we have rearranged our technology, the way we have consumed it. And those have also attributed to a lot of profitability focus in that layer. So these are the 3 pillars that I wanted to talk about, and you will hear a lot of detail both from Sumit and as well from Kapil.

Now just quickly moving over to Indonesia, what is happening in Indonesia. So Indonesia, as you know, that we had the 3 focus points, and we have always spoken about those 3 focus points. One is to revitalize and drive top line. And I'm very, very happy to see the progress. We're not there. There's a journey ahead of us. We will continue driving it.

But if you look at our sales in the last 9 months, 8 out of those 9 months, we have driven higher ADSs from the previous years. If you look at the -- from November to July, November 2024 to July 2025, we have grown 5% year-over-year in ADS. So we continue to grow that top line. We have done it. Initially, when we spoke to you, there was only one chicken offering. There was a classic layer. We had brought in a spicy layer in there.

And now Sandeep will tell you what we have done further because we first fixed the menu. We had challenges when we went into the business about the quality of products. We did the surveys. We fixed all those products. But then you start inviting people back in through bringing in new products and cheese and spice is the way the country runs.

So we will share with you what -- Sandeep will share with you what we have done in the last promotion, which has driven high volumes of people coming back into our business. So 1 million more in ADS that we have driven and we have bought that home. And we are really literally at the point where this business -- actually, this business in this quarter has actually, at the restaurant level, generated money. And this is the first from the last several quarters that we have been reporting to you. So good job there, Sandeep, and he will talk about it.

The other pillar that we continue to talk to you about is the portfolio itself. So we have rationalized the portfolio. We have cut down additional 4 restaurants. We spoke about 8 that we had closed last year. So on top of those 8 restaurants, we have closed another 4. And I think we're kind of at the end of that rationalization journey.

But the other journey will continue, which is about reducing rents, and we continue to renegotiate rents of all our restaurants over there. So that work will continue, and we will continue to try to optimize that as well. So the portfolio optimization, I think we are in the last phase of it, and then we will continue the rent optimization as we go forward.

The third pillar that we have spoken to you about is about the reduction in corporate overheads. So as of today, we have reduced already 25% of the corporate overheads. That's about 15 crores. This reduction will continue as we are looking at this year to reduce that by a further 10%, which is another INR 4.5 crores. So overall, when we started this journey, I shared with you that we will remove 1/3 of the corporate overheads.

And we talk about corporate overhead, it's just not people. It's a lot of things that we have done, whether it is contracts, whether it is the facility itself and so forth, that has reduced this by INR 15 crores, and it's going to further reduce between INR 4.5 crores to INR 5 crores. That will have reduced the total corporate head by 35%. I think that's a good safe place to be in. So that journey continues and the work on that continues with Sandeep and his team, and he will speak to it when he gets online. So with that said, I'm going to turn it over to -- basically to Sumit to carry you over the detailed numbers. So over to you, Sumit.

Sumit Zaveri:

Thank you, Raj. So I'll be using -- I'll first take you through India numbers and then take you through Indonesia numbers. The idea while talking about India and Indonesia would be to really

talk you through the journey that we've been having across both the geographies. While coming and I'm using Slide number 8 first to take you through the India performance.

As far as the store count is concerned, Raj mentioned that we added 63 restaurants in a span of over the last 1 year, which translates to 6 more restaurants during the quarter. We had some store closures during the quarter, around 5 restaurants is what we closed. We've always been saying that we would add around 60 to 80 restaurants on an annual basis. We remain focused on that growth journey, and you will see us growing at that pace as we progress further into the later part of the year.

Looking at SSSG, we've had -- we've been consistently to an extent, largely have been having positive SSSG trends. Those have been in the region of around 2.5% to 3.5%. This quarter as well, we've had a 2.6% SSSG positive growth with an overall portfolio average ADS of 120. At 2.5%, just even when we look back into when I cover the EBITDA numbers as well, it allows us to cover for the effective inflation that we have on our P&L cost lines.

And hence, it also -- at these levels of SSSG, it also allows us to make sure that the entire efficiency gains in the middle of the P&L, which Raj was alluding to, gets transferred or is starting to reflect in the restaurant EBITDA and the company EBITDA numbers as well.

Just looking at the overall revenue numbers, we ended the quarter at INR552 crores, an increase of INR62 crores a combination of the new stores, 60-odd new stores that we opened during the previous year, plus the SSSG of 2.6% and the positive SSSG that we've had through the earlier quarters as well.

As far as gross profit is concerned, we have maintained the gross profit trajectory in a tight range of 67.6% range or thereabouts through these last 5 quarters. We feel happy about being at this because in spite of strong inflationary pressures, plus being focused to driving traffic through the value strategy, we've been able to kind of maintain the trajectory of gross profit in a tight range. We feel that strongly about it.

This, in any case, does not take us away from our long target of 70% over the next 3 to 4 years and which we've always been speaking about, and you will see us progressing towards that as we've always been mentioning about in the past as well. As I was mentioning that at 2.5%, it allows us to fully absorb the inflation that we have in the middle of the P&L.

And hence any efficiency gains that we have at the restaurant EBITDA gets translated into the profitability, which is what is a reflection of our 8.9% profit improving to 9.7%, an improvement of 0.8% over the previous year. This is largely led by the cost efficiencies that we've got on the utility side of the line. We've always been talking about that, that we have plans to overall improve our utility cost lines as we go along.

This is just first quarter where some parts of the implementation, we've started to see some improvements, and this journey will continue going forward as well. Plus we've got some cost efficiencies through negotiations on the IT side of the costs that we incur at the stores, which

obviously sounds counterintuitive after making substantial investments on the digital side. But honestly, those investments have also helped us make the cost lines also efficient as the operation parallelly becomes efficient. So it was positive for us on both sides.

And then as far as company EBITDA is concerned, there is a translation of efficiency gains from restaurant EBITDA to company EBITDA. There are certain one-off expenses that are there on the corporate side, which has kind of brought making the numbers slightly lower as far as the company EBITDA is concerned.

Going on to Indonesia, I just want to kind of reflecting the performance so that we can understand the progress in a slightly different manner as compared to the way we've spoken in the past. So I'll just quickly talk about the summary lines and then go on to the ADS trends and the P&L trends for Indonesia in Slide 10 and 11. So I'm on Slide 9. As far as Burger King is concerned, we are at 159 restaurants.

The rationalization of the portfolio continued through the quarter. But from the substantial reductions that you would have seen earlier, it has now come down to 3 or 4 restaurants. We feel that we're kind of coming to an end of journey in terms of further rationalizations there. And then at the same time, as we kind of rationalize our portfolio, we feel good where we stand at the moment in terms of our ADS at INR19.7 billion for the month, not that this is where we would want us to be. But from the perspective of the trajectory that we've taken, we feel that, yes, we've kind of at least moved the needle upwards from where we stood.

As far as Popeyes is concerned, 25 stores, that's been the store count now for quite some time. We've not been adding any more to the portfolio as we still need some answers to be solved or get before we go back to the growth side on Popeyes. There. Overall, revenue stands at INR280 billion with loss reduced over the previous quarter at the company level by INR2.2 billion.

I just want to kind of go and spend a little bit of time on Slide number 10. As you could see that we've consistently now been remaining higher than the previous year over last -- since literally November, right up to July 28, almost till the end of July, we've consistently been ahead of our overall revenue in Burger King as a part of the Burger King portfolio.

You all would be wondering that why did we start the chart from November there. It's honestly, the reason why we put it is because that was really when the new government kind of took charge in Indonesia, and that was -- that there was a symbolic announcement of ceasefire in October.

So really speaking, that's when we started putting our investments back in the market on the marketing side as well. So real action from our side literally started from November and which is when we've been literally kind of leading to continue to have performed better as far as our ADS is concerned. On an average, we've kind of grown at an average ADS of around 1 million if we look at on an average for the period of 9 months.

So -- and as you can see in the chart below, it has largely come through improvement in dine-in, which is what we always wanted to focus on as we go back and start putting money back in

the business. Now what does it do on the P&L side, if you look at Slide number 11, you could very clearly see that over the last 4 quarters, our overall ADS, which used to be at 17 million has got to 19.7 million.

You will see that when we look at numbers, when Sandeep takes you to that, you will see the plan that we are going to have to maintain and then grow our ADS going forward as far as Burger King is concerned. And as you can see that as we have improved our ADS, obviously, not only the revenue continues to be higher than the previous periods, but it has also helped us improve our gross margins by a percentage point. And a store EBITDA level where we had lost around INR8 billion in quarter 2 last year or 4 quarters back, we've from there got to a positive store level EBITDA of INR6.4 billion.

So we've kind of made gains in Burger King. It gives us -- it makes us feel positive that, yes, we should really be slowly, but certainly be able to kind of move forward on our journey in Burger King and Indonesia with the plans that we have. While we are moving positive on Burger King side, Popeyes, obviously, yes, is an area where we need some more work to do.

We are seeing the ADS there falling from 14.6 to 13.2. And earlier -- if one was to go back to earlier periods, it was higher than -- it was almost closer to maybe 3 - 4 million higher than what it was 4 quarters back.

So that's literally where our current challenge is, and we want to kind of take this back up where we believe we should be able to do that. We have some plans, and we will share back those plans as well to you. Gross margin is a journey that is similar to BK. We've improved it by 2 percentage points on gross profits. But because of lower ADS, our loss in Popeyes still continues to be in the region of around INR6 billion for the quarter.

So there is positive news on BK. Popeyes, we still have work to do. And overall, Indonesia on a consolidated basis, while there is positive movement on the store EBITDA and the company EBITDA side, just to kind of -- there is still work for us to do, but at least there are positive trajectory that is available on BK and Popeyes side.

So with that, I'll just hand it over to Kapil if there's anything more that we can obviously discuss later.

Kapil Grover:

Thanks, Sumit. So on the marketing side, just to share that we've had a very exciting start to this year. Quarter 1, as Raj mentioned, we had this barbell strategy really getting executed. The quarter started with the launch of the Korean range. You're all well aware, Korean is a big fad across culture, music, pop, drama.

We leveraged that insight and built out a very authentic range of Korean products, including burgers and chicken sides. fabulous response in the product, great response in stores from consumers. We did a complete 360 campaign, really reflecting the Korean culture across digital, social, app store, and we got a fabulous response across both the channels. Our SSSG is reflective of that result.

On the other side of the barbell, while we are doing the Korean range as a part of our premium range, we also have the value program running consistently to continue to drive more footfalls to the stores. 2 for INR79 and INR99 continues to drive traffic, and it's one of the most affordable deals in the market.

The second lever of our value strategy is the crazy app deals, which is where customers walking into our stores can download the app and use exclusive deals available only on Burger King app for dine-in. And that helps us drive loyalty and frequency over time. The third component of our value strategy is the shareable value meals, which are meant for a different occasion where you have large group sizes, so people can buy a great value meal, which is shareable between 2 to 3 people.

On this page, I just want to talk about one more thing. The Kings Collection, Raj mentioned that we relaunched that. It's a 2.0. It just got rolled out in the month of June. But we have significantly improved the quality of our products beyond where they were.

This is obviously backed by a lot of consumer research on what consumers consider as premium, the Brioche Bun, the whole muscle and like a whole cheese patty, right? Those are the ingredients that have been introduced in these products now. They're great value, great quality and yet at a fairly value for money price at INR200 where you can get these great-tasting products.

Moving on to the next section of innovation. I'm moving to Slide number 16. While we did a lot of work on the burgers at the premium end, value continue to be a strong pillar for growth. We opened up the innovation a lot more in this quarter. Cafe, big pillar, for us as a sales driver. There was a promo on the cafe, which is INR99. Raj spoke about that to drive trials.

Now opened 480 cafes. How do we get people to try our cafe products? How do we make people aware that 480 Burger Kings have cafes in there, right? So the INR99 promotion was done in the summer months, 4 weeks of promotion, very good response, improvement in trials, improvement in units sold. And we saw a big uptake of our coffee and shakes, which are very high-quality products by our consumers.

We've added to that range by introducing the co-branded Kit Kat BK Fusion. It's our first step into launching co-branded products. BK Fusion is our global property and Kit Kat is our first partnership, and we will continue to build on this in future with more brands and more partnerships.

The last bit, which just got rolled out pretty much 2 weeks ago is the Whopper Deluxe range. Now this is a whole new range of burgers. It's inspired by what was the Whopper Junior earlier, but it's got improved quality with glazed buns, better patties, and new proteins. We've introduced the Paneer, cottage cheese. We've introduced cheese, and we've introduced a fried chicken Whopper Deluxe.

Now these 3 products strengthen the range in the middle of our menu. Now we have a range of 6 Whopper Deluxe burgers starting from INR139 all the way up to INR199. It makes our menu a lot more variety. It's still great value for money at that price point and expands our strongest pillar in the menu, which is Whopper, right? So we've introduced that earlier this month, and we'll have more to share in the following calls on that.

We continue to build our awareness through local store marketing, buying impact media. Social media remains a strong pillar of building consumer engagement. Our content is very organic. And in the month of April with the Kurin campaign, we saw one of the fastest growth in our social media followers on Instagram, which is sort of an indication of how popular the campaign was.

On the digital transformation side, self-ordering kiosk, Slide number 19, we now have 484 restaurants with SOK and customers really loving the new experience of ordering digitally and controlling that experience themselves table ordering available in all stores except food courts and so is table service, which significantly enhances the customer experience inside our stores.

The BK app journey continues to be very, very strong. We saw a lift in installs almost 50% quarter-on-quarter and also the orders on the app jumped up by almost 60% quarter-on-quarter. So that continues to be a strong pillar of building engagement with consumers and over time, building frequency and loyalty. That's the update from my side, and I hand over to Sandeep for the Indonesia update.

Sandeep Dey:

Thank you, Kapil, and a very good evening to all of you. As you heard from both Raj as well as Sumit that we are witnessing a strong momentum in the Burger King business, consistently now delivering close to 1 million higher ADS for the last few quarters.

We remain confident in our ability to maintain this trajectory and are also staying laser-focused on driving traffic, more and more traffic back into our restaurants. Our strategy continues to be rooted in offering great taste, clear differentiation, and exceptional value to our guests, powered by our unique twin engines of burgers and chicken.

We have observed that Indonesian consumers have a strong preference for both spicy and cheesy flavors. So leveraging this insight, we introduced spicy and cheesy variants across both burgers as well as chicken, priced it attractively and supported that launch by a comprehensive marketing campaign. The response was very encouraging, and we have seen sustained results even after the campaign concluded.

We all know it's a very strong chicken market, and we are committed to strengthening our relevance and credibility in this category. We identified a large opportunity in catering to a group dining occasions by offering whole chicken meals. Drawing inspiration from a local favorite, we developed something called Ayam Nusantara.

It's basically a whole chicken non-breaded seasoned with local spices, fried and served with rice and a variety of sambals. Sambals are basically Indonesia's version of Indian Spicy Chutney.

Now this exciting new product will be launched next month. Following that, we will also introduce a Western-style breaded whole chicken. And we strongly believe that these innovations will not only drive incremental business, but will also reinforce our position in the chicken category.

And not to forget, we will continue to focus on delivering strong value propositions across all our menu layers and across all our sales channels. Now I'm moving to the next slide, which is about the Popeyes business. Now we understand that it's a tough market. It's a competitive fried chicken market and a strong amount of competition from both global as well as local QSR players. Now winning in this space demands substantial investment in scale, in reach and brand awareness. Now recognizing this, we have actually pivoted our strategy.

We are leaning into our strength as a chicken destination and providing an elevated guest experience more like a fast casual restaurant, all while maintaining our digital-first approach. Now we piloted that concept in a couple of stores and now for over a quarter of -- yes, about 4, 5 months and are seeing early positive signs.

Dine-in business has increased and our gross margins have improved by a few points. Now encouraged by these results, we have expanded the model to 4 additional restaurants. We are in the process of learning from diverse store formats and diverse trade areas. The goal is to gather all those insights and eventually scale this model across the entire portfolio. Now that concludes the update on our Indonesia business, and I will now hand it back to Gaurav to share the outlook.

Gaurav Ajjan:

Thanks, Sandeep. Good evening, everyone. We can move ahead to Slide number 28, titled the Way Forward India Operations. There is no change in our guidance for restaurant openings. We will continue to add 60 to 80 restaurants every year to reach approximately 800 by FY '29.

While we have added a net 6 restaurants this quarter, you will see the pace of growth increasing in subsequent quarters as we have several sites already in construction. Now on gross profit. I would want you to note that our GP is an all-in number. And apart from the food cost, it includes paper and packaging, along with primary and secondary distribution.

Our GP guidance is the same as we target a 70% margin by FY '29. Please note that we will not see a linear increase every quarter as we aim to strike the right balance between sales growth and margin increase. However, we are confident that we will continue our margin growth trajectory seen over the past several years that will take us to about 70% by FY '29. Thank you all for joining in. I would request the moderator to please open up the floor for questions.

Moderator:

Thank you very much. The first question is from the line of Pranay Chatterjee from Burman Capital. Please go ahead.

Pranay Chatterjee:

Firstly, one comment by CFO, sir, he mentioned regarding India's corporate overheads that there were some one-offs this quarter. Would you be able to share what these one-offs were and ballpark what the quantum would be?

- Sumit Zaveri:** Yes. It was one impacted by the...
- Pranay Chatterjee:** I'm sorry, your voice is getting cut.
- Sumit Zaveri:** So one is because of the G-SEC rate reductions, we saw some actual valuation liability increases, which was to the tune of INR 1 crore -- and then there was some ESOP grants that we did during the quarter. So that's really the line, which was higher than what you would see it on a recurring basis.
- Sumit Zaveri:** What was the quantum? If you said it probably got cut off, what was the quantum?
- Rajeev Varman:** The actual valuation was around INR 1 crore because of the G-SEC rate adjustments that happened during the quarter.
- Pranay Chatterjee:** Okay. It's just crore. Got it. Great. My only other question is on the overall demand environment that you are seeing. Obviously, we have not seen any sort of traction in some of the other results that have come out in our sector. And I'm also sure that June because of rains might have slightly dampened the summer vacation spike that you guys usually see.
- But still, how do you see it as you go into Q2? Obviously, you have been doing your own initiatives and offers and menu upgrades to drive dine-in traffic. Keeping that aside, from a macro point of view, how do you see it progressing? Is it to -- is it still similar as we were, let's say, last quarter or a couple of quarters back? Or do you see some improvement?
- Rajeev Varman:** Yes. I think, Pranay, we basically are seeing very similar trends. It's -- there is some limited demand and it's a tighter market than usually we see at this time of year. But the demand on the lower end of the menu at the value layer continues to be strong. So we don't see very big there. It's on the premium layer where we have seen a little bit of a shrink or tighter, and that's reflective in our SSSG, which is only 2.6%. Yes, that is where we are seeing the market overall.
- Moderator:** Next question is from the line of Gaurav Jogani from JM Financial.
- Gaurav Jogani:** Sir, my question again is similar to what the previous participant had asked. It's more on the demand side only. But if you can dissect given that the value layer is increasing, are you seeing at least the transaction or the number of guest count increasing? And if that is helping, how much of that is then getting converted to a sticky customer base for you going ahead?
- Rajeev Varman:** Yes. So yes, I mean, our dine-in traffic continues to be strong. It's been strong now for a couple of years, actually more than a couple of years. That traffic continues. And like I said to Pranay earlier, that is on top of some very good value promotions that we are doing and the app that we have rolled out, which we are doing about 80 to 90 transactions.
- Those are what we call, as you kind of rightly portrayed, sticky customers that build our future sales as well. So we continue to kind of get those downloads going as well. Like Kapil was

saying earlier, the Korean campaign actually bought down -- bought a lot of more downloads in that period. And that actually increased the number of transactions on that.

But this quarter, Q2, we have Shravan, we have Shradh, we have Navratri, a lot of spec is also there. So there will be some vegetarian skewed kind of a demand for a while, and we know that. And we are actually pleasantly happy with the -- because the margins are higher on that side of the menu, and we have a very strong vegetarian menu. So we feel good about that.

Gaurav Jogani: Sure. But sir, at least can you infer now that the deceleration in the demand has now at least dropped? And if not, it's been stable for quite some time now. Would that be right...

Rajeev Varman: Yes. As I said to Pranay, it's very similar to what it has been for the last couple of quarters. And it's a very similar trend that we are seeing, and it's more focused on the value side of the menu.

Gaurav Jogani: And sir, what according to you is leading to this demand softness? It is largely the macro environment? Or is it some of the shift is happening to other cuisines, other menu parts largely because of the Swiggy's and Zomato's of the world that the options are increasing and people are down trading to some other cheaper options than cuisines?

Rajeev Varman: See, because we continue to increase our dine-in traffic, right, we are getting more and more dine-in traffic. Kapil has been reporting positive dine-in traffic now for so many quarters. So people are still coming into the restaurant, right? So we -- I think generally, if you look at the industry, there has been an APC decline across the industry.

And that is what I would say is the potential or the buying power is kind of a little bit depleted, but the transactions are happening. People are coming in. And if you have a good, strong value promotion, which we have, which, again, with cafe also, we introduced the INR 99 cafe and did really awesome for us.

So I think demand is there. Demand is on the value side, and it is continuing to grow in that value side. I think as things kind of loosen up and we are hoping that by quarter 3, which is the October, November, December months, I think we would have put the I think the general market would have shifted by that time to a little more positive tailwinds towards more in traffic on the premium side.

Gaurav Jogani: Sure. And sir, my last question is with regards to -- you have been doing a good job in terms of cost reductions, and that is reflecting in the overall margins as well. How much more room do you see, especially on the India side to drive margins on the EBITDA side? I do understand that there is a good headroom on the gross margin side, but specifically on the other cost line items other than the gross margins.

Rajeev Varman: Yes. Very good question. So there's a couple of things, right? One is the top line. As you continue to build the top line, all the other margin levels will go up. So that we continue to do. And to do that top line on the head of traffic is the right way to do it because that is something that will stay with the company for the long run, right? And that's the one that you can actually elevate

as you move into the future quarters. So that's -- first is the top line. We need to continue building that top line on the base of good traffic.

Now coming down to the P&L lines, you did say we kind of outlined that we are going to move the 67% to 70% over the next few years, hopefully sooner than later. But the other line items like the rent deals that Cicily is now signing up are way below what we signed up 6, 7, 8 years ago, right?

So these rents that are coming in as they come in more and more properties this year, she will take the total to about 580-some restaurants will continue to bring the overall rent ratio down. And as the top line climbs, you will find those rent margins even the rent lines even going lower and lower.

Utilities, Sumit has been talking about utilities now for the last few calls, and that work continues. We can't do that work in 580 restaurants on 1 day. We started those with a handful of restaurants, then we climbed and did a city, went to the next city. So the total impact of all the work we are doing on utilities will come after this whole program is over.

And all those restaurants are on the full utility -- discounted utility charges for a whole 12 years -- 12 months. So that work is continuing, and we'll continue to see those benefits coming in the utility line. The labor line, we usually used to run about 10%, 10.5%. We have now intentionally taken that by 0.5% above to about 11%, 11.1%. And that is on direction from our operations team.

Sumit said this is the right thing we need to do. And I believe completely that we need to invest this money now in training people on SOKs, the self-ordering kiosks. We need to make sure that happens. We have rolled out a new premium layer. We have rolled out cafes in 480 restaurants. We have brought in the Korean. We have brought in this new shakes with Kit Kat. So there's -- and the new menu in the middle layer.

There's a lot of stuff that we have thrown at the restaurant, and we want to make sure that proper training is going on in the restaurant and so forth. But that line in future as the top line increases, will go down to between 9.5%, 10% kind of a range. So that room is available to us. We just don't want to avail it now. We want to avail it in the future.

We want to invest right now that 0.5% that we have initially not planned to make sure that all the initiatives are working well. So all those are the line items where the rooms are there. And the top line is the biggest one because you take the same rent and have a bigger top line, your margin improve on the same rent. So that's the answer to that.

Moderator:

The next question is from the line of Aditya Soman from CLSA.

Aditya Soman:

So just one question from me, actually. So if I see you've done an incredible job in ramping up BK cafes at all the stores. So we've gone from 77% of stores having cafes to sort of over 90%

now, 93%. However, when I look at the ADS, obviously, that increase has been far more limited year-over-year.

I understand one of the factors you mentioned was sort of at the premium end, growth has been slower and maybe even some sort of down trading. Is there any other factor given that you've got an increase in cafe increase in sort of also more footfalls coming through? So any reason why the ADS hasn't moved up as much?

Rajeev Varman:

Yes. As you just said it and as we are reiterating, we moved on cafe very rapidly, right, within little over 2 years, 2.5 years, you can say, we roll out all the cafes. So there are a lot of cafes that have been on the ground for a few months or maybe even a few weeks.

So there's a whole bunch of cafes that have not really had the experience of consumers coming and tasting coffee and enjoying the cafe. So that will take time as it grows up there. If you look at the first few cafes we opened over 2 years ago, they're doing healthy ADSs in the cafe side, I would say, average about 20,000, 22,000.

And then if you look at the younger new ones that we have just rolled out, they're doing maybe 6,000, 7,000 kind of ADS over there. So there's a graduation. And if you can see those 22,000 in 2 years, that's the kind of a cycle that we see for cafe as it graduates, and it will not graduate in all markets at the same level. But we see as an average that we will move that forward.

And that will be on the back of promotions like we just did with the INR99 cafe. And then next year, again, Kapil is planning another one during the summer with some cold coffees and stuff like that. So we will continue now building into our calendar, a cafe calendar as well to kind of continue building that portion of the business.

Aditya Soman:

That's very clear and very useful. So just to sort of summarize, so you -- over time, we'd expect all these additional cafes to get closer to that 20,000 mark right? Like you said, there could be some differences, but closer to the INR20,000 mark and then beyond. And then that should be a driver of sort of ADS. And in terms of that impact of the premium growing slower, would there be any meaningful impact coming through from there?

Rajeev Varman:

No, I think premium used to sell at levels -- unit levels, and we don't share unit levels, but significant unit levels. And we have seen some kind of contraction on that in the recent few quarters. And that's driven just -- and the products have been -- Kapil has actually elevated the products. Both Kings Collection is elevated.

The Korean range was phenomenal. I mean this was -- the research showed us that this was one of the best products that we have rolled out. And we did well with that Korean range. But in the head of where we look at the entire premium menus with the Kings Collection, the Korean and the Whopper itself, there is a little bit of stress in that range, and we see that if it comes back to our numbers that were about 1.5 years, 2 years ago, which I think we will start seeing towards the quarter 3.

We are estimating that that's what's going to happen. Then I think you will find a good balance. The barbell will be very well nicely balanced. And you will see that impact also in gross margin. You will also see that in restaurant level operating profits.

Moderator:

The next question is from the line of Amnish Aggarwal from PL Capital.

Amnish Aggarwal:

I have a couple of questions. First being that what is the ADS in our Cafe business because we have been promoting it a lot. So what has been the trajectory over there? And what's the way forward? That is the first part of the question. The second is on some of the -- you can say, expense heads because, say, for example, manpower cost has been, say, in a range from the last 2, 3 quarters, INR 70 crores, INR 75 crores.

But this quarter, it has suddenly jumped from INR 75 crores to INR 85 crores, whereas we have hardly added 6 stores on a stand-alone basis. And similar is the other expenditure where the jump has been very sharp from INR 182 crores to INR 220 crores. So these are, I would say, the 2 other parts of the numbers. And the third one is the financial other income where there has been a very big jump from INR 7 crores to INR 27...

Sumit Zaveri:

Sure. So Abneesh, I'll just take some of these questions that you've asked. One is as far as Cafe is concerned, our ADS in Cafe stands at INR 13,000 for the overall portfolio. I also saw some of the earlier participants asking in terms of the trajectory of Cafe. The earlier portfolio, obviously, the growth in any kind of category that we add depends on how the longer the category remains in the store and as part of the portfolio.

The older stores -- and when I say older stores are the first 200 stores, which came -- which literally are almost around 2 years into the launch of Cafe. Those -- those stores have seen cumulatively around 10% improvement in the overall cafe sales since the time we've kind of launched Cafe into those stores.

We feel confident that we should be able to build on to this. As we've seen, we have been introducing products into that category last year, towards later part, we added products on the cold side of the portfolio. This time, we've launched the co-branded beverage. So the focus on improving the overall sales continues to be very, very strong as far as the cafe part of the portfolio is concerned.

As far as employee cost shifts that you've kind of asked for, when you look at the employee cost on an overall basis, that is the -- I'm presuming you are looking at it at a store level there. On a quarter -- on the last year to current year, the overall employee cost has moved up from INR 51 crores to INR 61 crores on -- at the store level, which is on account of the 60-odd new stores that we've opened.

That's one. Secondly, as we've launched the entire digital initiative at our store, in order to kind of educate the customer through this entire digital journey because what we've done is that we've literally shifted the customer to order what he wants to consume at our stores himself. We want

to make sure that the customer understands the journey and the asset that we have put into our hands.

So consciously, we've added a few more people at our store during this quarter, which was part of our plan. If honestly, like we spoke about some of the efficiencies that we've got, the actual efficiency that we've got on the cost lines on account of IT, on account of utilities and all is almost close to around 1.5%, which did get offset partially on account of the conscious decision to put more people into -- on the restaurant side that we've kind of done.

The increase in finance-related income, other income is because of the surplus investments that we had on account of the raising of QIP, which is what has resulted into a higher other income. The other part also is on account of the way the Ind AS 116 gets accounted, where when we kind of cancel out any kind of lease, lease liability also gets reversed and the liability on account of the finance cost, if there is anything that gets reversed comes into that.

So there is a nuance on account of Ind AS 116. I'm not getting you the details of it. And hence, when we speak in our initial numbers, we concentrate and talk more from the perspective of pre-Ind AS numbers because post-Ind AS numbers does make the readability a little more complex. But if you want, we can kind of share the bridge separately.

Amnish Aggarwal: On a Q-o-Q basis, the increase in other expenses, how much of that could be onetime due to this?

Sumit Zaveri: Roughly around INR 6 crores would be the increase in other expenses on a post-Ind AS basis.

Amnish Aggarwal: Okay. Because otherwise, from INR 182 crores to INR 220 crores, the jump is INR38 crores.

Sumit Zaveri: Yes.

Rajeev Varman: I think you can reach out to me. Gaurav will kind of walk you through those numbers. I think we can take a few more...

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Congratulations on a good set of numbers, so your performance has been relatively better versus the other listed entity in the burger QSR space. I wanted to check if there is any significant growth difference for you across regions, specifically, if you could share some thoughts on how the South region is performing for you vis-a-vis other regions?

Rajeev Varman: Generally speaking, we have grown traffic in dine-in across the board, whether it's South, North, West. There will be certain areas that grew larger than the others. But generally speaking, we basically grew traffic in our dine-in across the...

Devanshu Bansal: Fair enough. Fair enough. And secondly, sir, I wanted to understand from your trade payables perspective, these are relatively higher at about 30, 35 days versus under QSRs. So now with

cash on balance sheet, can we get some margin benefits from our vendors if we sort of reduce these trade terms?

Sumit Zaveri:

We are having approach, honestly, to our entire supply chain strategy where we kind of working through a 3PL partner from the perspective of holding off. So really speaking, it's not -- honestly speaking, the benefit on the supply chain side is not necessarily through the working capital management, but rather working closely with the vendors as we go deeper, as we kind of expand our portfolio.

We believe that both of us as well as our vendor partners should be able to kind of benefit through the growth journey that we are taking. As concerned, obviously, you will see us deploying that capital more from the perspective of growth side and certain other initiatives that we want to take that could bring further efficiencies on the utility side. So that's -- and that is where we believe the return would also be higher. That is how we are planning the deployment of capital.

Devanshu Bansal:

Understood. Sir, lastly, a small follow-up. So there is some 250 bps of increase in other expenses sequentially despite our revenue sort of increasing about 13% sequentially. You also talked about certain initiatives on the store utility side. So what has led to this increase? So Rent typically is below these line items. So utility has improved, rent is below. So what actually has led to this sequential increase of 250 basis points?

Sumit Zaveri:

So other expenses, we have -- as I was explaining even earlier as well, there is certain reversal. There is certain onetime cost in the other expense line that we have to the tune of around INR7-odd crores on account of some of the lease closures that we did. That is really the big impact that we've kind of seen.

The balance part is on account of the store additions that we did during the last year, which has got it to the current number that is there. So there is beyond that, that really exceptional cost that has kind of come into that line, which impacts the overall other expenses line that we have. It's just on account of the store closures that we had. We had around 5-odd store closures. So the costs associated to that is what has kind of impacted that line.

Moderator:

That was the last question for today. I now hand the conference over to management for closing comments.

Rajeev Varman:

Thank you. Thank you so much, everyone, for joining in. Really appreciated it. Again, the India business continues to get stronger. There's work to do. There's miles to go. We need to grow the top line. We need to continue working on our middle layers, whether it's rent, utilities, margins. We need to continue driving that. But we feel good about the business.

We feel good because our dine-in traffic continues to grow and at the neck of growth of 60, 70 restaurants every year. We are seeing some good green sprouts up in Indonesia. The Burger King business and the Popeyes business, the Burger King business is actually coming back nicely. I think there's ways to go there as well, but we like the turnaround, and we see that going in the right direction.

Popeyes, I think Sandeep has got a fantastic strategy now with the casual dining approach, which has taken the ADS up by 1 million for each – IDR 1 million for each of those restaurants. And I think he's moving now fast ahead to do that. I think there is also some works in Popeyes in the middle there where the margins are slightly inflated.

And we need to fix those so that the restaurant moves towards first breakeven and then hopefully from there growth. But we are happy with the work Sandeep and his team is doing. I think they have really endured the tough times and now in the verge of turning this business around. So thank you, everyone, for joining in. Wish you all good evening. Thank you.

Moderator:

Thank you, sir. On behalf of Motilal Oswal Services Financial Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability)