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CIN: L15135DL1991PLC046758

August 10, 2023

To,

<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: <a href="mailto:cmlist@nse.co.in">cmlist@nse.co.in</a> <b>Symbol: DEVYANI</b>	<b>BSE Limited</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Email: <a href="mailto:corp.relations@bseindia.com">corp.relations@bseindia.com</a> <b>Security Code: 543330</b>
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**Sub: Transcript of Investors & Analysts Conference Call**

Dear Sir/Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of the Investors & Analysts Conference Call held on August 4, 2023, post declaration of Unaudited Financial Results of the Company for the Quarter ended June 30, 2023, is enclosed.

The same is also being uploaded on website of the Company at [www.dil-rjcorp.com](http://www.dil-rjcorp.com).

You are requested to take the above on record.

Yours faithfully,  
**For Devyani International Limited**

**Pankaj Virmani**  
**Company Secretary & Compliance Officer**

*Encl: As above*





## Devyani International Limited

### Q1 FY24 Earnings Conference Call Transcript

August 04, 2023

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- Moderator:** Ladies and gentlemen, good day and welcome to Devyani International's Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.
- I would now like to hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.
- Anoop Poojari:** Thank you. Good afternoon, everyone and thank you for joining us on Devyani International's Q1 FY24 Earnings Conference Call.
- We have with us Mr. Ravi Jaipuria – Non-Executive Chairman of the Company; Mr. Virag Joshi – CEO & Wholetime Director; Mr. Manish Dawar – CFO & Wholetime Director and Mr. Rahul Shinde - CEO, Yum! Brand and Wholetime Director of the Company.
- We will initiate the call with opening remarks from the Chairman, followed by financial highlights by the CFO. Post this, we will open the forum for our question-and-answer session.
- Before we begin, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.
- I will now request Mr. Ravi Jaipuria to make his opening remarks.
- Ravi Jaipuria:** Good afternoon, everyone. I warmly welcome you all to our Earnings Conference Call to discuss the business performance for the 1st Quarter of the Financial Year 2023-24.
- I am pleased to share that we have started the new fiscal year on a healthy note despite facing challenges from a difficult macro environment and depressed consumer spending. Our commitment to “Customer First – Always” driving product innovation and enhancing scalability has been instrumental in supporting our overall consistent performance.
- DIL consolidated revenues reached a new milestone of Rs. 847 crore for the quarter, backed by store additions across brands and continued healthy performance from existing stores. On the operational front, our efforts have been marked by the

successful opening of 47 net new stores in Q1 FY24, each contributing to the growth of our diverse portfolio of brands. Our core brands have a presence in more than 240 cities across India. We are actively seeking opportunities to expand into new trade areas and simultaneously deepen our presence in existing locations. The strategic expansion aims to bring our brands even closer to our valued customers and further solidify our foothold in the domestic market. This will also help us to reinforce our position as a key player in the industry.

As on June 30<sup>th</sup>, 2023, DIL network was expanded to encompass 1,290 stores across our portfolio of countries and brands.

Overall, we are confident of achieving our goal of opening 275 to 300 stores this fiscal year, as we continue working towards our ambitious target of reaching 2,000 stores by 2026. With the dedicated focus on customer satisfaction, innovation, and growth, we are poised for success in the dynamic and evolving QSR landscape.

Vaango, our own South Indian cuisine brand, is shaping up nicely and we are bullish on this brand given the popularity of South Indian cuisine in the entire country. South Indian food is considered to be a healthy meal option and therefore it resonates well with the age groups amongst our target customers. We have opened 52 stores in Vaango so far and Vaango is expected to become a Rs. 100-crore brand by the end of this fiscal year.

The consistent performance and potential of DIL India was acknowledged by Franchise India and DIL has been awarded the prestigious “Master Franchisee of the Year Award for 2023.”

In addition to operational excellence, we have successfully introduced a range of new menu additions and innovative campaigns for our core brands. The market response to these new offerings was highly positive, with stronger consumer acceptance. Our innovation pipeline remains healthy and strong. We are eagerly waiting to introduce our new products in the upcoming quarters.

High inflation across industries and categories had led to a short-term impact on consumer sentiment and demand in the last few quarters. Despite this, our performance continues to be resilient, and we have continued to invest in the business for long-term growth.

To sum up, our store additional strategy stands at the testament of our firm belief in the immense long-term potential of the Indian QSR. By continuously expanding our footprint and staying attuned to emerging opportunities, along with maintaining the financial discipline and operational excellence, we remain poised to capitalize on this huge opportunity and deliver a sustainable growth and value accretion to all our shareholders.

With this, I would like to conclude my address and now I hand over to Manish for the financial highlights. Thank you.

**Manish Dawar:**

Thank you, Mr. Jaipuria. Good evening everyone. A warm welcome and thanks to all of you for your valuable time for attending our Q1 FY24 Earnings Conference Call, our eight such calls since the listing of DIL in August 2021.

In Quarter 1 FY24, we have opened 47 new stores across our brand portfolio. With this, we globally now have a footprint of 1,212 stores across our core brands. This consists of 564 stores for KFC, 525 stores for Pizza Hut and 123 stores for Costa Coffee in our portfolio as at the end of Quarter 1 FY24. Our metro and non-metro

distribution of stores in India continues to remain marginally in favour of non-metro destinations with 52% of total core store count in India. We are planning to add 275 to 300 stores in the current financial year across our portfolio and geographies.

Operating revenue for Quarter 1 FY24 stood at Rs. 847 crore, representing a 12% quarter-on-quarter increase. This was supported by a 4% increase in store footprint and remainder as higher throughput led by KFC. Improved gross margins in ADS numbers resulted in better brand contribution margins in Q1 FY24 at 18.2% versus 16.4% in Q4 FY23.

Reported EBITDA, which is post IndAS, was Rs. 173 crore with margins at 20.5% versus Rs. 151 crore in the previous quarter of 15% quarter-on-quarter growth. Company's operating EBITDA on a pre IndAS basis was Rs. 111 crore versus Rs. 91 crore in the previous quarter. Operating EBITDA margin at 13.2% was up 110 basis points on quarter-to-quarter basis. Profit before tax stood at Rs. 13 crore versus Rs. 41 crore in the previous quarter.

Please note that there has been a very significant devaluation in currency in our Nigerian operations. The devaluation in the month of June is more than 60% on the base official currency rates that prevailed in the country. As a result of this, we have had to take a hit on account of outstanding USD denominated liabilities at the local level. This has been accounted for as an exceptional item in the P&L and has impacted our consolidated profit before tax and profit after tax numbers to the extent of Rs. 47 crore during the quarter. On a normalized basis, therefore, the PBT and PAT would have been Rs. 60 crore and Rs. 46 crore, respectively. Please note that there is no cash impact because of the aforesaid devaluation impact.

Taking the discussion to our core brands, KFC in India added 20 net new stores in Quarter 1 FY24, reaching a total count of 510 stores at the end of the quarter. Average daily sales for Quarter 1 FY24 was Rs. 117,000 versus Rs. 106,000 in the previous quarter on an expanded footprint of stores. Revenues at Rs. 516 crore grew 16.3% on a quarter-on-quarter basis. Gross margin at 69.7% was higher by 1.1% due to a marginal price increase at the beginning of the quarter along with a stable input material cost regime. Brand contribution margin at 21.1%, improved by 3.6% on a quarter-on-quarter basis mainly due to better leverage. On premise consumption was 63% versus 62% in the previous quarter.

During the quarter, Pizza Hut added 15 stores. Revenues at Rs. 184 crore, up 8% quarter-on-quarter. ADS was slightly higher at Rs. 40,000. Gross margins for the quarter came in at 74.9% with an improvement of 1.6% versus the previous quarter. Brand contribution was Rs. 18 crore for the quarter with margins at 10.1%, which was up by 80 basis points on a quarter-on-quarter basis.

Costa Coffee, our third core brand, added 11 stores during the quarter, reaching a cumulative store count of 123 stores as of June 30<sup>th</sup>, 2023. There was a slight revenue drop in Costa during the quarter due to lower ADS at Rs. 33,000. Gross margins were 77.3% because of some milk and coffee bean price inflation during the quarter. Quarter 1 FY24 brand contribution improved by 70 basis points and stood at 20.9%. We are expanding Costa at a rapid pace. You would have noticed that we have more than doubled the store count over the last 4 to 5 quarters. The new stores take some time to stabilize and reach the maturity level and hence this has impacted the overall brand performance and we expect this to stabilize as we go along during the course of the financial year.

To conclude, I want to reiterate our commitment to our ambitious growth within the Indian QSR market. We have set a target of reaching 2,000 stores by 2026, a milestone that signifies the tremendous potential and demand for our brands. I would

like to highlight that the entire capex required for the significant expansion is primarily being planned through internal accruals. Our ability to self-fund this growth underscores the financial strength of DIL.

Furthermore, you would have also noticed that despite our aggressive expansion, we have remained focused on maintaining strong financial performance. It is noteworthy that our store expansion has not had any significant impact on our operating margins. We have efficiently managed our operations leading to an accelerated breakeven for these stores. Moreover, as we continue to expand, we remain committed to suitably increasing the ROCEs, reflecting our emphasis on prudent financial management, and creating long term value for our shareholders.

On that note, I would like to request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vivek Maheshwari from Jefferies.

**Vivek Maheshwari:** A few questions. First on the demand environment, Manish, what is your sense, how the next few quarters will be because last quarter you did highlight that because of seasonality, IPL, thing started looking up, what is your outlook for next 2-3 quarters now?

**Manish Dawar:** Vivek, you would know that quarter two normally is seasonally the lowest quarter, and because we have Sawan also in this quarter, a lot of people turn vegetarian. But we do expect with the input material inflation also stabilizing now, things will improve. For KFC, the input material prices are very stable. Pizza Hut in the quarter that has gone by, the cheese and milk prices continued to increase. Whereas now with good monsoons, and if you were to look at some media reports, even the cheese prices and milk prices have started to stabilize. Therefore, we are hoping that the demand environment will start to pick up from quarter 3 onwards. Let us see how the other things shape up and that is how we are also planning our business.

**Vivek Maheshwari:** And Manish, I did see the SSS for let us say KFC, but when we look at ADS, which is down quite a bit on a Y-o-Y basis, which will be a function of SSS plus the incremental stores as well?

**Manish Dawar:** You are right. And again, Vivek, you also know that last year quarter one was one of the strongest quarters and we were riding back on the Wave 2 and Wave 3 of COVID. Therefore, the dine-in was very strong, and the overall demand was high because people were kind of coming out. Quarter one last year was very strong and therefore the comps are kind of in that zone. But if you were to look at our performance in the current quarter, KFC at 117,000 ADS, fares much better versus 106,000 in the previous quarter. We do believe that the overall demand is coming back, but I guess we will take another 1 or 2 quarters to kind of stabilize these numbers.

**Vivek Maheshwari:** Got it. And on the gross margins, overall numbers are also quite good, the expansion that we have seen and in both the core brands, KFC as well as Pizza Hut, there has been a smart recovery. So, can you elaborate on that, as the worst is behind on the gross margin side because whatever we are reading, hearing about food inflation and all, it seems like at least looking at your number for this quarter, the worst seems to be behind. Is that a fair position?

**Manish Dawar:** Vivek, if you look at, let me kind of give you the perspective for KFC and Pizza Hut separately, because they both behave very differently given the current situation. In KFC, the bigger ingredients are chicken, oil, flour and packing material. All of these

4 materials which constitutes big material input on KFC. We have seen stabilization happening. At the same time, if you also remember we talked about a small price increase in the last earnings call that we took, I think sometime in the beginning of April, so that has also flown in. At the same time, we also talked about introduction of the value meal layer in KFC, which was slightly margin dilutive. But on a combo meal basis, that kind of gets neutralized. We think if the current situation were to prevail from the input pricing perspective, the worst on the gross margin as far as the KFC is concerned is behind us. Coming to Pizza Hut, as I have talked about earlier, we are hoping that in the current quarter, the milk prices and the cheese prices will start to stabilize because the monsoons have been good. There is an excess supply of milk now in the country. At the same time we also took a very small pricing on Pizza Hut, just to balance the overall mix and the headwinds that we faced from the fun flavor launched last year. In Pizza Hut, I would not like to say with certainty that the worst is behind us because we are still experiencing the input inflation, once we have a clear visibility on the cheese and milk prices, we will be able to talk from a certainty point of view. At the same time, you have seen in the current quarter vegetable prices going up, the tomato prices which again is one of the important ingredients for Pizza Hut brand has gone up. Overall if we were to look at let us say from an overall portfolio perspective, I think we are in good shape.

**Vivek Maheshwari:** And couple of more if I may. One is on staff and the other expenses. There is a reasonable rise on both Y-o-Y, Q-o-Q basis, anything to call out or are these the numbers that we should work with, seasonally adjusted?

**Manish Dawar:** Vivek, there are 2-3 factors that I think you need to understand as to why the staff cost is behaving the way it is. As you know we normally affect our increments in the month of April and therefore compared to let us say last year, the wage will kind of goes up a little bit and that impact is coming in. Secondly, we have seen in quarter one, there has been some significant minimum wage increases in some of the states and that also kind of tends to take place, although there are some states which kind of go about the minimum wage revision even twice or thrice a year as well. But Karnataka is what I would like to kind of call out specifically where we have seen a huge amount of impact coming in for our business. As you know, Bengaluru and Karnataka are a big play for us. So, that has also impacted. And as you know last year from a management perspective, our performance was a little behind our internal plans and therefore in quarter 4, we reversed some of the variable pay provisions which were not payable. I think it is a combination of these three. As we kind of go along and the business fix up, it will kind of come back to the original levels.

**Vivek Maheshwari:** And anything on other expenses, Manish?

**Manish Dawar:** I think other expenses are broadly in line. There is no big material difference which is there. I think you can assume those to be in the in the range we are in.

**Vivek Maheshwari:** Got it. And last very small question on Vaango, you have had detailed slides this time around anything to read into that also?

**Manish Dawar:** Vivek, we have been kind of continuously getting this feedback from various investors and analysts that you do not share the Vaango numbers, and we would like to see what is happening on that brand. We as a business and as a group remain bullish on the South Indian cuisine opportunity in the country and that is the reason, we have started disclosing Vaango. At the same time, we think by opening about 52 odd stores, I think we have experimented, we have seen how the brand is performing, we feel confident about the brand, we have stabilized the entire supply chain piece and that is the reason we started disclosing the numbers specifically for Vaango. We believe by the time we exit this year, which is the financial year 23-24,

we should be seeing a run rate of almost about Rs.100 crore for Vaango, which I think was a significant number. And that is the reason we thought we will talk about Vaango separately.

**Vivek Maheshwari:** So, that does not signal anything, although I know it is still a very small part of the business, but that does not signal anything in the next few years being a big focus for you, it's more of the same, it's just the disclosure, no change or let's say incremental positivity compared to where we were until last quarter?

**Manish Dawar:** We are seeing some incremental positivity and you will see that in the numbers also. But again, given the way KFC and given the way the other core brands are growing, obviously Vaango would remain a small part of the business.

**Moderator:** The next question is from the line of Nihal Jham from Nuvama.

**Nihal Jham:** The first question was on the gross margins in PH, while you have highlighted how things are looking ahead. Even for this quarter, there has been a slight improvement. So, is it that from this quarter itself, we have already seen the benefit of RM prices or was there a mixed impact which you alluded to in the last quarter?

**Manish Dawar:** Nihal, as I said, we have taken a very small price increase also in Pizza Hut and plus I do not know whether you remember I talked about the premium range of pizzas in terms of that whole Pizza Hut Refresh menu that we talked about in the last call and we were introducing at that one in time. The whole idea was how do we increase and how do we focus on the premium side so that the value contribution from the value layer that we introduced gets balanced out. And obviously, once that starts to happen and with the combination of a little bit of price increase, you will see the gross margins improving. As far as the raw material prices are concerned, even in quarter one of FY24, we have seen a small hit on the milk and the cheese prices, which we are expecting to stabilize because now they are not going up. We are expecting that milk and cheese prices should start to stabilize from the current quarter.

**Nihal Jham:** That's helpful. The second question was on corporate overheads. Now there has been a reasonable increase. Is this purely explained by the salary revisions or there is some other aspect also?

**Manish Dawar:** Again, as I was talking to Vivek, the primary reason is the employee cost and the reasons for that are increments which come in the month of April. We have talked about the minimum wage revision and so on and so forth. We are hoping it will get balanced out as we go along, but those are the main reasons why the corporate overheads look a little high.

**Nihal Jham:** But the minimum wage could only be applicable for the store employees like corporate overheads would be more for the employee base, which would be beyond that, and it would be more the divisions I would assume?

**Manish Dawar:** If you look at the employee expenses line, Nihal in the financials, that line is inclusive of because that is how as per the accounting standards, we are supposed to disclose, whereas in the management's presentations when we come to the brands, obviously it gets treated a little differently.

**Nihal Jham:** Just one final question, Manish was that, Vaango in an earlier discussion was at that time primarily a food court and an airport brand. Does it still stay that way or is there a change in terms of how things are going to play out and between Costa and Vaango, would any of the two as per you be bigger off?

**Manish Dawar:** In Vaango, the broad strategy remains the same because as we have communicated earlier, we still believe that Vaango can do well in the high footfall locations and therefore the focus is the airports, the focus is also on the the high footfall locations like food courts in the mall, hospitals. It is confined to environments where the footfalls are very significant. And once we have a basic brand size, we would like to spend some money on marketing and that is what we will start to get into little bit of bigger stores on High Street and so on and so forth. But that journey is to be covered. It is not going to happen on an immediate basis.

**Moderator:** The next question is from the line of Ashish Kanodia from Citi.

**Ashish Kanodia:** The first question was on the KFC side, so you know from the chicken roll range, can you just highlight in terms of performance, how that is panning out and is it basically helping you to get more footfalls or is it driving say higher ticket size and also from a margin perspective, is it kind of diluting the overall margin for KFC?

**Manish Dawar:** The entire focus behind this introduction was to how do we utilize the assets that we have and as you know, KFC works very well towards the evening hours, and hence the lunch hours were muted. The whole promotion in terms of the value layer in terms of a combination for KFC lunch is to focus around the lunch hour, so that we can get better daytime utilization for the brand. So, it is little margin diluted, but if you look at the way we have built the combinations on a standalone basis, little impact is there. But on a combination as KFC lunch, it kind of gets neutralized. So, therefore there is no dilution when it comes to a lunch combination meal, which comes at Rs. 149. Therefore we want to build the layer because as you know it has been an inflationary environment. During the inflationary environment, people tend to kind of downgrade, so we are trying to build a value layer for KFC also so that we can focus on the number of transactions, and we are able to get more footfalls into our stores, which will be good for the brand as we go along.

**Ashish Kanodia:** That's helpful. And then on Pizza Hut, I think the brand contribution margin remains weak, right? So, just wanted to understand that when do you expect the overall impact of say the fund of flavor range to kind of taper off and maybe the premiumization, the range Refresh to kick in. So, what I am trying to understand assuming that the gross margin remains stable, and you do not see any further inflationary training, milk, and cheese prices, when do you expect this brand contribution margin to move back to say 15% plus kind of a range?

**Manish Dawar:** I guess it will take a few quarters more, Ashish, because obviously one is one big piece was on the gross margins on the material cost side which we are seeing, the stabilization is happening, and we do expect that the milk and the cheese prices will stabilize in the current quarter. Apart from that, obviously there is this whole comparison issue because if you remember, the value layer was introduced last year July and that is where the dilution started happening and around the same period, the inflation was also hit very high and therefore our own consumers kind of down traded and the value layer was having an impact on the margins. Now with this whole Pizza Hut menu refresh, which is the premium end of pizzas, we are getting a very good response from the consumers. Once that starts to build up, we will see that brand contribution margins will start to improve. At the same time, we do believe that now, with the inflation regime kind of stabilizing, people will start to come back in the next few quarters in terms of what their regular spends have been on premium end pizzas. As far as the media is concerned, we are going to be breaking in very shortly. Having done the value layer and the premium end refresh, I think we are now talking about a mass communication around that whole thing so that the awareness gets build up and people start coming into the stores. So, there will be some additional funding that will go to marketing, about which we are talking. But overall, you will see that in the next few quarters, the brand contribution will start to improve.



- Ashish Kanodia:** Sure, Manish. Just the last bit is on the subsidiary which is being set up in Dubai. So, I mean it says to hold overseas investments and end up business related management and technical services. So, if you can throw some more light, is it just to hold your Nepal and Nigeria business or are we looking at something else as well within that subsidiary?
- Manish Dawar:** As of now, there is nothing there, Ashish, but our view is that whenever, let us say something were to come up or the expansion happens on an international side, we have set up a legal structure so that we are able to kind of use that subsidiary operation. But the whole idea as of now is to kind of stabilize and put Nepal and Nigeria there. That will be the next step. At the same time, you would have noticed that on the corporate restructuring side, we have got the approval from NCLT as far as the two other subsidiary operations are concerned and we are planning to file because we are going to get the certified copy from the court. I think probably in the next 1 or 2 weeks we will file that with ROC and therefore those two subsidiary operations will get subsumed into the main parent Company. So, it is a corporate restructuring exercise that we are undertaking.
- Moderator:** The next question is from the line of Arnab Mitra from Goldman Sachs.
- Arnab Mitra:** My question was on KFC where while YoY, we have a deterioration in the SSSG, you mentioned it is possibly due to the base effect. So, from your understanding, sequentially, between March and June quarter and as we speak now, is the demand environment stable largely or has it worsened a little bit because you have also added some parts of the value layer, but it has not led to the SSSG improving. So, just wanted your sense on the sequential stability?
- Manish Dawar:** Arnab, look overall KFC continues to be the number one choice as far as the consumers are concerned. But again, during the inflation time people were trying to downgrade. We are coming out of strong comparisons because if you see the quarter one of last year was a very strong quarter for KFC. And then, because of the inflation and the demand environment that the business got impacted a little bit. Overall, we do not see any big issues as far as consumer sentiment or the demand environment is concerned, it is only temporary in nature. And the way we look at it, for example, let us say, if this is the kind of environment, you need to build the capacity on a very judicious and prudential basis and that is the reason we keep on adjusting the store counts between KFC and Pizza Hut. Overall if you are bullish on the Indian market, we are bullish on the brand and KFC has a very strong leadership position. We will not be able to create that capacity overnight.
- Arnab Mitra:** My second question was on Pizza Hut. You mentioned you have taken a small price increase in Pizza Hut also, is that correct and could you quantify how much it is and is it only you or has competition also taken up prices in the category?
- Manish Dawar:** I would not say it was a price increase. I would say it was more of a price adjustment, which has had a positive impact on us and that is the reason I called it out separately. On an overall basis, you can say it is a little under 1% as far as the pricing was concerned, because we were trying to resolve in terms of some bit on the delivery option versus the dine-in options and some bit of reorganization on the fun flavor range, it just had a positive impact.
- Arnab Mitra:** And my last question was again on Pizza Hut. Given the very weak kind of comparisons that everybody in the pizza industry has been giving, you have already obviously slowed down the expansion a little bit. Is this merit further slowing down Pizza Hut expansion till the category kind of shows some stability in the environment?

**Manish Dawar:** Arnab, we continuously evaluate what you are saying and therefore, as I have said, I mean earlier we used to talk about 100 plus Pizza Hut stores in a year. We are talking about close to 70-75 stores now, so let us see how the next few quarters go and if need be, we will consider what you are saying.

**Moderator:** The next question is from the line of Percy Panthaki from IIFL.

**Percy Panthaki:** Manish, since we do not have a very long listed history on a quarterly basis, I just wanted to understand pre-COVID because looking at your numbers post COVID on a quarterly basis really is throwing up a lot of noise. So, pre-COVID, what was normally the sequential increase in ADS in Pizza Hut for Q1, so Q1 versus the preceding quarter of Q4, what did generally Pizza Hut see as a sequential increase in the sales per store, percentage wise?

**Manish Dawar:** Sure. Percy, look, even if I were to give you the numbers, the numbers would not make sense because as you know, just before COVID, we had started restructuring the brand. Pizza Hut earlier was focused on dine-in large format stores and then we were working on small format levy focus stores. At the same time, we kind of shut lot of large format dine-in stores during that period and obviously the ADS was a little higher when that time was there. But if you were to look at it on a per square foot basis on Pizza Hut, we are much more efficient versus where we used to be both from topline and bottom-line perspective.

**Percy Panthaki:** So, I will tell you where I am coming from, Manish. If I look at Domino's, where we have the data and look at 3-4 years Q1 before COVID, the general trend is that Q1 sales per store was about 7%, 8%, 9% higher than Q4. Okay, now this quarter again, Domino's Q1 this quarter versus the immediately preceding quarter, the growth is only 3% and we have seen similar outcomes for Pizza Hut from Sapphire or Pizza Hut from Devyani, they are all up Q-o-Q in this 3% to 4% band versus a historic trend of about 7%-8%. So, what I want to ask is that is it just on a Y-o-Y basis that we are seeing a slowdown or is it even incrementally on a sequential basis, the numbers seem to suggest that we are seeing incremental slowdown because the normal quarterly jump on a sales per store which should come in Q1 is not coming.

**Manish Dawar:** Percy, if you go back, let's say pre COVID which is where your starting point was and therefore let me kind of answer from rather than a pre COVID, let me just take a scenario of let's say if you were to go back say 3 to 5 years from now, if you look at the Indian QSR industry, it was equivalent to only pizza. Whereas over the last 5 years, the other formats have rapidly expanded. KFC is much bigger compared to where we used to be earlier, McDonald's has expanded a lot, Burger King was very small at that point of time. Therefore, from a consumer perspective, there are a lot of additional choices which are available, what used to happen, say pre COVID and obviously, let us say, once that starts to happen, the demand also gets shifted to some extent. There is nothing fundamentally wrong with the pizza market as such, because the pizza market is still growing, the fact that it is the largest QSR segment in the country. So, the demand is getting balanced out with the other choices available with other brands and the fact that all the other brands are also now expanding very rapidly and aggressively.

**Percy Panthaki:** So, I agree with that Manish, but here we are just talking about a short period of 3 months, so with the fact that other options were available, was there even in Q4 FY23 versus that a normal seasonal uptick in Q1 FY24 is expected and that has come lower than expected. Do you understand what I am saying, right, Manish?

**Manish Dawar:** Yes, I agree with you and that is what I said. For example, if you remember my earlier comments, I mean within the QSR category, pizza is one of the most expensive subcategories. Whenever there is high inflation it gets impacted depending on which

region and wherever you are, people tend to downgrade. There are cheaper QSR entry options available and people have shifted there. So, coupled with that in terms of the additional brands and choices available to the consumers, it tends to get impacted.

**Percy Panthaki:** My second question is on pricing versus the input cost. So, if let us say the input cost, you are saying the input cost has stabilized right? Now in a scenario where hypothetically the input cost sees some amount of deflation. What do you think you would pass this on, either in terms of additional offers or anything else? Or would you like the benefits to flow to the EBITDA and you can answer this separately for KFC and Pizza Hut?

**Manish Dawar:** Our fundamental philosophy is that we would not like to kind of reduce the headline pricing because if you look at as of now, things are only stabilizing. There is not a huge amount of deflation, which is kind of happening within our categories or within the economy, the hyperinflation or high inflation scenario has started to stabilize. At the same time, our focus always remains that we should have more transactions, more population coverage and more footfalls in our stores. With more consumers coming to our QSR portfolio, we try and give it back in some shape and form. This could be additional offers, some promos, value meals and that is where we introduce the Pizza Hut value layer and the KFC value layer also. The whole idea is that how we continue to expand our footprint as far as the consumer footfalls are concerned, and we have continuously done that.

**Moderator:** The next question is from the line of Kaustubh Pawaskar from Sharekhan.

**Kaustubh Pawaskar:** Sir, my question is again on the competition front, as you just mentioned that during the inflationary environment, you normally see downtrading happening to the other value brands available in the market. So, in that context, what kind of strategy you are trying to implement, because we have seen competition launching pizza in the mid-price range. So, on many front, are we also looking to have such kind of a gap bridger going ahead or something which will help you to compete better with those brands which are available at a lower price on other platforms?

**Manish Dawar:** Kaustubh, as I have said, we have also done pretty much similar things. If you remember last year around quarter 2, we had introduced a value layer in Pizza Hut which we called fun flavor pizza, this has gone very strong and very well with the consumers, at the same time it has helped us to build the transactions. On the KFC side, we recently launched KFC snacker range which starts at Rs. 99, further we have a focus on KFC lunch which starts at Rs. 149 as a meal combo. We are doing the same thing and this is the best way to expand the market and get the consumers into the stores.

**Kaustubh Pawaskar:** And on the KFC value meal, it was supposed to be launched in fewer stores earlier just the test market, and then the plans were to launch Pan India. So, how is the situation now, is this product available Pan India?

**Manish Dawar:** We have done the test market, we have rolled it out to the stores and now we are going to be aggressively pushing that. And therefore, it will become widely available.

**Moderator:** The next question is from the line of Niket Shah from Motilal Oswal Asset Management.

**Niket Shah:** I have two questions. One is on the aggregator side. Has there been a price increase in this quarter and if yes, what would be the quantum for that? And the second is when you look at expanding some stores whether it is Pizza Hut or KFC, does human

resource availability become a challenge at some point of time when you want to grow at this pace?

**Manish Dawar:** Niket, we took a KFC price increase around April month and that was a little under 3% from a brand perspective and obviously we kind of compensated that pricing fees with the value layer from a rolls perspective, from the snacker range and lunch and so on and so forth. We did try to give some portion of that back to the consumers so that we are able to build the transactions and are able to get additional footfalls in our stores. We have done the same thing for Pizza Hut. In Pizza Hut, as I said, the price increase was somewhere in the later part of April and that was more of a price adjustment rather than the price increase, the overall impact was under 1%. To your other question on challenge in terms of the expansion of stores and the availability of staff, as you know this business is a people intensive business. As we open the stores, we need more and more people. Our HR engine is working very well, It's a well-oiled machine and therefore we've never faced any difficulty, issues and delay in opening of our stores. Also Yum has their processes in place in terms of training of the new employees and upgradation of the existing employees, they control that piece very closely to make sure we are well disciplined, and we are not taking any short-term calls. So, this side of the business works very well, as a well-oiled machine.

**Niket Shah:** Yes, my question was more from an aggregator standpoint, the price increase, have you given a price increase to the aggregator like Zomato and Swiggy that was actually the question that I had asked.

**Manish Dawar:** We have always had, Niket, some bit of pricing premium for the orders that flow in from Zomato and Swiggy and that has continued. So, there is nothing different that we have done recently.

**Moderator:** The next question is from the line of Sabyasachi Mukherjee from Bajaj Finserv.

**S. Mukherjee:** So, my first question is on the competition in the KFC chicken part of the business. In some geographies, especially in the southern market, we have seen McDonald's and other competition that has come up. So, in terms of specific impact, what is your thoughts in terms of the chicken business?

**Manish Dawar:** We welcome competition in the category. As you know, India is a large non-vegetarian market, 70% of the population is non-vegetarian and within that, almost 80%-85% of the people, chicken is the medium of choice as far as the non-vegetarian food is concerned. The kind of potential that this country has from a chicken QSR brand perspective, we do not think that a single brand will be able to do the justice. So, as the new brands come in, the market will expand, the noise will be there, the marketing efforts will be there, the onboarding of new consumers will be there. As a market leader, we are well positioned and in good shape and a healthy competition is the only way the market will get expanded in India. For example, let us say I am not saying that India is China, but in China, there are 10,000 KFC stores, it is not going to happen overnight in India, but the competition and the new brands that come in will help to open the consumer preferences and choices and it will help us to expand KFC also.

**S. Mukherjee:** Right. And coming to your store addition guidance of 275 to 300 stores per year in a Pizza Hut. I believe you are talking about some around 100 stores, couple of quarters back, but now that has kind of trimmed down to 70-75. Costa Coffee is another 60-70, then for KFC store opening, is it a fair assessment that probably we are looking at a number of 121-125 store additions per year going ahead?

**Manish Dawar:** Yes, you are right.

- S. Mukherjee:** Lastly, on the marketing campaign for Pizza Hut to increase the awareness, what kind of budget we are looking at and how long will it continue?
- Manish Dawar:** See overall from a brand perspective, we spend about 6% of the topline on the brand marketing and the local store promotions. Whenever we launch new products or whenever we take some initiatives, we do spend some additional money. The Yum! also puts in the additional money from their side, but on an overall basis, we try and balance it out. So, for example in the near-term quarters, we will see that the additional monies are being spent on Pizza Hut, on the menu refresh. Since this whole assessment is currently on, we can come back to you once we have crystallized the overall plan.
- Moderator:** The next question is from the line of Tejash Shah from Spark Capital.
- Tejash Shah:** Manish, you touched upon the sluggishness in pizza category from the customer behavior dimension. Just wanted to know would you attribute a bit of higher sluggishness in this category versus others because of very high intensity of organized retail competition that we have seen.
- Manish Dawar:** I do not think I talked about the sluggishness in the category. What I said was that pizza is the largest category for QSR in the country. It is still growing on an overall category basis. It is just that there is a very aggressive expansion which is happening with the other brands, and therefore from the availability perspective, the consumers have much wider choice available today. And therefore, there is some bit of rebalancing which is happening. At the same time if you see, and I am not saying that this is going to happen in India, globally, burger is the biggest category as far as QSR is concerned, whereas in India it has always been pizza because it got started very differently. There will be some rebalancing, which will happen in this category because there are other choices available and there are other brands also which are expanding very rapidly, but otherwise there is nothing wrong with the pizza category as such.
- Tejash Shah:** Second and last question pertains to Costa. So, just wanted to understand the interplay between ADS, gross margin, and margin here. So, when I see that last quarter, we were at 36,000 ADS with 78% gross margin, and we reported 20% EBITDA. This quarter, we had lesser ADS and lesser gross margin, but our EBITDA was higher. So, just wanted to understand how the interplay works out and considering that we have such good dynamic here, why are we not expanding this format much more rapidly than what we are doing at the current phase?
- Manish Dawar:** The gross margin line behaves very differently to the EBITDA because that is all about input material and the gross margin is a little lower because as I said, there have been some price increases during the quarter on milk and plus we have seen some price increase on the coffee beans also. This is what has impacted on the gross margins on the Costa Coffee side. As far as the brand contribution is concerned, because as we have undertaken rapid expansion and therefore once the store is in the maturity phase, the rent to revenue ratio for these stores is high and that kind of gets stabilized as the ADS starts to build up for the new stores. So, that is the reason why you are seeing that the brand contribution is behaving a little differently because there have been some old store openings where the ADS has started to stabilize and therefore the rent to revenue ratio is getting better.
- Tejash Shah:** No, on rapid expansion because when we are seeing brands like Third Wave Coffee, and they are like expanding very rapidly. So, just wanted to know what is our kind of, do we want to accelerate the pace here or we are comfortable with what we have guided?

- Manish Dawar:** We, are talking about Costa expansion at about say 60 to 70 stores every year. We are comfortable with that pace and therefore that kind of gives us a great opportunity to build this brand. This is how we are looking at. To be honest, I am not privy to the Third Wave Coffee plans and therefore I will not be able to compare Costa to that.
- Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.
- Devanshu Bansal:** Manish, just wanted to better understand the demand situation. So, wanted to check whether footfalls are being challenged, build size is low due to tighter wallets or if there are challenges on both the fronts. So, could you break the SSSG for Pizza Hut and KFC into build packs and build size?
- Manish Dawar:** In Pizza Hut, if you look at Devanshu, as we said that the fun flavor range was launched last year in the month of July and that impacted the APC, which is the ticket size, but the transactions have continued to build and that is what is kind of helping and going to be helping the brand in the long term. Similarly on the KFC side also with the value layer, with the Snackers range, with the KFC rolls, KFC lunch menu, we are building the transactions and therefore there is a small impact on the APC side.
- Devanshu Bansal:** So, volume terms both are positive and whatever negative SSSG is due to the build size process, is the right assessment?
- Manish Dawar:** Yes, absolutely because our priority is to get new, I mean more and more footfalls into the store. Our priority is to build the transactions and therefore wherever there are some menu gaps and product gaps and we have managed to find the right product; we are going to be launching that.
- Devanshu Bansal:** And for Q1 and coming Q2 quarter, can we expect the ADS seasonality that was there in last year to continue this year as well?
- Manish Dawar:** No forward-looking statement, Devanshu.
- Devanshu Bansal:** So, just to put it that way, last year was, I would say a common seasonality or were there any one-offs that you would like to highlight?
- Manish Dawar:** See, last year, apart from the seasonality and all, there was a huge amount of inflation also which we were seeing and therefore obviously that was getting impacted, that was impacting the consumer demand also. In this year also the other peculiarity you must have heard is Sawan seasonality and Sawan typically is a period where a part of the non-vegetarian population they turn vegetarian and this year we believe it is an extended Sawan period, too early to say but that could impact the numbers to some extent.
- Devanshu Bansal:** Got it. And last question from my end. Both KFC, Pizza Hut, the magnitude of increase is different in terms of sequential ADS, but for Costa Coffee, it is a dip. So, can you explain as in why that happened?
- Manish Dawar:** Costa Coffee, as I talked about Devanshu earlier, is mainly on account of the new store openings because new stores typically tend to open at a lower ADS and then they mature over a period of time. But if you look at, let us say even for the current quarter, the SSSG for Costa Coffee is sitting at about 9% to 9.5%.
- Devanshu Bansal:** Even Manish, on a sequential basis that plays out, I was asking more from a sequential basis.

**Manish Dawar:** Because we are opening the stores rapidly, so it does impact on a sequential basis also.

**Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.

**Shirish Pardeshi:** I have one fundamental question. If I look at the journey over last 15 months for Pizza Hut, we have done the pricing adjustment, we have introduced the value layer and in last quarter, we have introduced 10 new pizzas and we are about three quarters before we have fun flavor. So, maybe if you or Rahul can address this, is the competition is one angle we are seeing, and you have alluded to saying that there is a value layer which is picking up. But fundamentally, what is the consumer behavior telling us and that is why I wanted to pick brain from Rahul, if he can give us what exactly happening in pizza because there is a dichotomy and when we look at in the last 2-3 quarters, the burger guys are doing better. So, is there a permanent reset which is happening from the consumer point of view and as you said that there are more options which has opened after COVID?

**Manish Dawar:** See, the reset is happening again. As I said, there is nothing wrong with the pizza market. The reset is happening because, for example, there are additional choices. There are additional brands which are available to the consumers, right and therefore in that scenario, we need to kind of continue to do the right things. I mean, after we restructured the Pizza Hut brand post COVID time, our objective was how do we kind of build the ADS of the brand. For building the ADS it was very important that we have a strong value layer, Pizza Hut as you know has always been considered as a premium brand and we need to kind of balance that piece out by giving the value layer. The value layer, the timing was a little unfortunate because by the time we introduced, we were in floor for high inflation scenario and therefore there was this downtrading which kind of happened very rapidly and that is where we kind of decided to refresh the premium side of the range and we have done that. In any case, it was due and therefore this kind of pushed us into making a faster decision and we introduced that. So, we have balanced the portfolio now. We are going to be building awareness around that whole piece and that is how the Pizza Hut journey have been. I mean from a loss-making brand Pizza Hut is a positive brand today. The consumer demand is there, the expansion is happening, the consumer awareness and the consumer choice is there. So, therefore I mean, we are confident about this trend.

**Shirish Pardeshi:** Thank you, Manish. Just one follow-up here. Hypothetically, if you have not done these actions, what would have happened to SSSG?

**Manish Dawar:** I mean in hindsight because there have been so many variables, it will be difficult to just kind of remove one hypothesis and build on the other because I mean the markets are different, the competition is different. We have done multiple things within the brand, so it will not be right for me to kind of just remove one variable and hypothesize it.

**Shirish Pardeshi:** My second question on KFC, I'm looking slide 17, we have been able to manage the gross margin, but when I look at the brand contribution margin, which has declined on a Y-o-Y basis 130 basis points, I do understand there is a chicken inflation sitting in this and you have taken about 3% price increase, but what should we do it going forward, is this decline will get resolved and we look at the margin expansion or there are some more inflation element sitting in this quarter and that will also have the impact in the next quarter?

**Manish Dawar:** What is the base you are taking for your comparison?

- Shirish Pardeshi:** On Slide 17, I am using the comparison. So, last year quarter one, we had a gross margin of 69% in KFC, which was moved to 69.7%. So, understandably, there is a price element which is there, but when I look at the brand contribution margin, which is 22.4% has now become 21.1%.
- Manish Dawar:** There is a very strong element of leverage in these businesses as you know. If you look at last year's same quarter, the ADS number was 127,000, which has come down to 106k in the previous quarter and therefore there was a significant dip as far as the brand contribution is concerned. And now with the ADS numbers going back to 117k, we have managed to recover on the brand contribution piece also. So, I mean that is the other thing you need to keep in mind that there is a strong leverage which is there and apart from that, as we discussed, the employee expenses and the minimum wage revision in some of the states where Karnataka kind of stands out and KFC has a very strong presence in Bangalore which has also impacted. So, we need to kind of bear these things in mind and as we continue to build the brand, the ADS improves, and we are very positive that we will be able to get the brand contributions back to where they were for KFC.
- Shirish Pardeshi:** I got that. That is helpful. Just one little more follow up on KFC. When you say and when we want to deconstruct the SSSG which as the Company which has been flat or marginally negative, but since we are more dominant and we are seeing the benefit in semi metros we are going, so is this SSSG in semi metros or tier I towns is better than metros or this phenomena is pulling down the SSSG more in the metros?
- Manish Dawar:** We've seen the consumer behaviors are uniform, whether it is metro or a non-metro or a small town or a large town because remember that SSSG is also dependent and linked to the kind of store expansion strategy that we are following. So, if you look at for example in the current quarter, we have not grown the number of cities coverage that has remained the same. So, therefore that kind of tends to impact the SSSG a little bit. If I go to a completely new town and I do not open any additional store in my existing cities that will not impact the SSSG numbers. So, therefore there are some other variables also.
- Moderator:** Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.
- Manish Dawar:** Thank you so much. Thank you, Chairman and all the investors, analysts who have been on the call. We do hope that we have managed to respond to your questions satisfactorily. Should you need any further clarifications or would like to know more about our Company, please feel free to contact the Investor Relations team. Thank you once again for all your time today and joining us on the call and participating in our growth journey. Many thanks.

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