November 15, 2023

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National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmlist@nse.co.in **Symbol: DEVYANI**	**BSE Limited** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Email: corp.relations@bseindia.com **Security Code: 543330**

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 November 7, 2023, post declaration of Unaudited Financial Results of the Company for the Quarter and Half Year ended September 30, 2023, is enclosed.

The same is also being uploaded on website of the Company at www.dil-rjcorp.com.

You are requested to take the above on record.

Yours faithfully,
For Devyani International Limited

Pankaj
Virmani
Digitally signed by Pankaj Virmani
Date: 2023.11.15 16:54:19 +05'30'

Pankaj Virmani
Company Secretary & Compliance Officer

Encl: *As above*

Devyani International Limited
Q2 & H1 FY24 Earnings Conference Call
November 07, 2023

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 now 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 Q2 & H1 FY24 Earnings Conference Call. We have with us Mr. Ravi Jaipuria, Non-Executive Chairman of the Company; Mr. Raj Gandhi, Non-Executive Director; Mr. Virag Joshi, CEO and Wholetime Director; Mr. Manish Dawar, CFO and Wholetime Director; and Mr. Rahul Shinde, CEO, Yum Brands and Wholetime Director of the company.

We will initiate the call with opening remarks from the Chairman, followed by key financial highlights from the CFO. Post that, we will have the forum open 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 all of you to the Earning Conference Call to discuss the business performance for the Q2 & H1 of the financial year 2023-2024.

I am pleased to share that DIL has maintained its store opening at pace. We opened 115 new outlets in H1, taking the store count to 1,358 as on 30th September 2023. Out of 115 stores in H1, we have opened 68 stores in quarter two across our brand portfolio. We are making consistent progress in investing in our core brands and expanding our reach to cover our target customers to capitalize on the available growth opportunity in India. We are now present in more than 240 cities in India.

The consolidated revenue for DIL stood at INR 819 crore for the quarter with a growth of 9.6% on a year-to-year basis. India business witnessed a growth of 12.4% over the same period of the previous financial year. For H1, the consolidated revenue was INR 1,666 crore with a growth of 14.7% over H1 of the previous year. Quarter two is seasonally a low quarter for the QSR industry. Apart from that, quarter two also saw an extended one month of Shravan or Sawan period where a sizable part of the Indian population turns to vegetarian food consumption for a temporary period of time.

As you are aware, Nigeria, one of the countries that we operate in, saw very significant currency devaluation in the previous quarter. As a result, we have seen an all-round impact on Nigerian economy. The devaluation has led to a contraction in the local disposable income levels and hence lower discretionary spending and consumption. We may have to support our Nigerian business financially, given the local situation for the next couple of years until the local situation stabilizes.

We continue to introduce a range of new menu additions and innovative campaigns for our core brands. The market response and consumer acceptance to these new offerings is positive. Our innovation pipeline remains healthy and strong.

High inflation across industries and categories from a macroeconomic perspective has led to a short-term impact on consumer sentiment and depressed consumer spending in the last few quarters. Despite this, our performance is resilient, and we continue to invest in the business for long-term growth. Looking ahead, we are hopeful that the rebound in consumer spending will take place in the next few quarters. We are poised for success in the dynamic and evolving QSR landscape by optimizing menu pricing, reducing wastage, cost controls and improving operational efficiency.

To sum up, our store addition strategy stands as a testament to our belief in the long-term potential of the Indian QSR industry. As we actively grow our presence, we are strategically positioned to tap into the vast opportunities, ensuring sustainable growth and value creation for our stakeholders with the ambitious goal of reaching 2,000 stores by 2026.

We are on track to inaugurate 250 to 275 new outlets in the current fiscal year. This ambitious expansion coupled with our commitment to customer satisfaction and innovation positions us for success in the dynamic and evolving QSR landscape.

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

Manish Dawar: Thank you, Mr. Jaipuria. Good evening, everyone. A warm welcome to all of you and thanks for your valuable time for attending DIL's Q2 FY24 Earnings Conference Call, our ninth such call since the listing in August 21.

In Q2 FY24, we opened 68 new stores across our brand portfolio. We now have a footprint of 1,279 stores across our core brands with a total store count of 1,358 stores across DIL. This consists of 594 stores for KFC, 539 stores for Pizza Hut, and 146 stores for Costa Coffee in our portfolio as at the end of quarter two FY24. Our store distribution in India continues to remain marginally in favor of non-metro destinations with 51% of the total core store count.

Operating revenue for quarter two FY24 stood at INR 819 crore, representing a 9.6% Y-on-Y increase. This was supported by a strong growth in the new store openings. Indian business witnessed a growth of 12.4% over the same period of the previous financial year.

As you all know, for the QSR industry in general, Q2 is seasonally a low quarter. Apart from that, Q2 saw an extended one month of Shravan because of the lunar calendar adjustment. During this period, the consumption of meat comes down in the country. Further, there is competition emerging in the pizza category at the local and regional levels.

We are also seeing some marginal consumer preferences shifting in favour of non-pizza category within the largest QSR space. This is being observed mainly, because of the after-effects of inflation where the consumers have tried to balance their wallets and down trade to lower entry points within the QSR industry. In our view, this phenomenon is probably temporary in nature.

The Nigerian economy, where we have DIL operations, is currently in a difficult phase. The local oil prices have shot up multifold coupled with very significant currency devaluation in the previous quarter. This has resulted in a contraction in the local disposable income levels and hence a dent on discretionary spending and consumption. This has led to an all-round impact on our Nigerian business performance as far as the revenue and the margins are concerned. We may have to support Nigeria business financially given the local situation for the next couple of years until the local situation stabilizes.

All of the above has impacted the overall consolidated performance of DIL. Slightly lower SSSG and ADS numbers have resulted in lower brand contribution margins in quarter two FY24 at 15.4% versus 18.2% in the previous quarter, because of the de-leverage.

Reported EBITDA post IND-AS for Q2 of the current financial year was INR 159 crore with margins at 19.4% versus INR 173 crore in the previous quarter. Company operating EBITDA on a pre-IND-AS basis was INR 95 crore versus INR 111 crore in the previous quarter. Operating EBITDA margin at 11.5% for the quarter was lower by 1.6% on a quarter on basis.

During the quarter, we also got the final approval from NCLT for merger of our two wholly owned subsidiaries and the financial results of these subsidiaries have been consolidated into the standalone results. Because of this consolidation, we've had to take some impairment of goodwill appearing in the subsidiary books and the same has been reflected as the exceptional item in the current quarter P&L.

At the same time, this consolidation has also resulted in a one-time gain arising out of the defer tax recognition as part of the tax expense line in the P&L. Profit before tax for the quarter stood at INR 19 crore versus INR 13 crore in the previous quarter.

Taking the discussion to our core brands, KFC in India added 30 new stores in quarter two FY24, reaching a total count of 540 stores at the end of the quarter. Average daily sales for quarter two FY24 was INR 109,000 versus INR 117,000 in the previous quarter. Revenues at INR 509 crore grew 14.9% on a year-on-year basis. Gross margin for KFC at 69% were consistent. Brand contribution margin at 19.4% for the current quarter was lowered by 1.7% on a quarter-on-quarter basis, mainly due to adverse leverage arising out of lower ADS across the portfolio. On premise consumption was 61% versus 63% in the previous quarter.

During the quarter, Pizza Hut added 14 new stores. Revenues at INR 184 crore was flat quarter-on-quarter and grew 1.5% on a year-on-year basis. ADS was slightly lower at INR 39,000 for the current quarter. Gross margins for the quarter came in at 75.7% with an improvement of 0.8% versus the previous quarter. Brand contribution was INR 14 crore for the quarter with the margins at 7.7% which was lower by 2.4% on a quarter-on-quarter basis, mainly due to higher marketing and ADS deleverage impact.

Costa Coffee added 23 new stores during the quarter, reaching a cumulative store count of 146 stores as of September 30th. Quarter two FY24 revenue was at INR 35 crore with a growth of 7% on quarter-on-quarter and 57.4% on a year-on-year basis, driven by expansion of new stores. Gross margin was 76.3%, slightly lower versus the previous quarter, because of slightly marginal adverse mix. Quarter two FY24 brand contributions stood at 14.6%, lower versus the previous quarter. The new stores take some time to stabilize and reach the maturity level. Hence, the rapid expansion of Costa stores has impacted the overall brand performance. We expect this to stabilize as we go along.

To conclude, we want to reiterate our commitment to our ambitious growth within the Indian QSR market. We have a target of reaching 2,000 stores by 2026, a milestone that signifies the tremendous potential and demand for our brands. We would like to highlight that the entire organic capex required for this expansion is primarily being planned through our internal accruals, our ability to self-finance growth underscores the financial strength of DIL.

Furthermore, despite our aggressive expansion, we have remained focused on maintaining strong financial performance. As we continue to expand, we remain committed to sustainably increase the ROCEs, reflecting our emphasis on prudent financial management and creating a 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 very much.

Moderator: We take the first question from the line of Tejash Shah from Spark Capital.

Tejash Shah: My first question pertains to the demand environment in general. You specifically called out pressure in pizza category, but just wanted to know post Adhik Maas and then Shravan, have we seen any revival? And I just want a qualitative comment if you can. And the whole expectations which were built up around QSR category getting boost from World Cup and all, have you seen any of those materialize in any form for the sector?

Manish Dawar: Tejash, we will not be able to talk about the specific numbers. But if you look at, Q3 versus Q2, it's seasonally a very strong quarter compared to Q2. We are having a World Cup which is having some impact whenever the big matches are there.

At the same time, we have Diwali and Christmas in this quarter whereas in the previous quarter, Adhik Maas not only impacted the non-vegetarian category, but also the population, when they typically try and consume the food inside the home.

So, there is a small shift which kind of impacts the overall performance. Therefore, from an overall perspective, Q3 should be a better quarter than Q2.

Tejash Shah: Sure. And second on KFC, when we see the gross margin expansion or gross margin movement versus EBITDA margin movement, it slightly looks not in tandem. So just wanted to know is there any one-off or is there any additional cost headwind that has come in that particular franchise?

Manish Dawar: Tejash, there's no headwind as such. If you remember our previous comments, we had said that as far as KFC is concerned, the basket on raw material and packing materials is very stable and is probably in our favour, but at the same time as said in the last quarter we shall continue to open more stores, as we need to address the population which is not currently covered by KFC.

And, therefore, we need to introduce the value layers and also create a test market for KFC Lunch, and KFC Snackers range. So, it's a little bit of mix, but, overall, there is nothing to worry as far as the KFC gross margins are concerned.

Moderator: The next question is from the line of Saurabh Kundan from Goldman Sachs.

Saurabh Kundan: Yes. The first question is on KFC. Your SSSG went from minus 1% in the previous quarter to minus 4%, but when we look at the other KFC franchisees, they were 0% last quarter and 0% this time as well. So, could you help us understand the deterioration in your case? And I'll come to my next question later.

Ravi Jaipuria: Saurabh, we have different geographies between the two franchisees carved out and we are very strong in South. Shravan, the traditional month, or Shravan period has a higher impact in South India versus the other parts of the country.

In West, it's probably lower versus even the rest of the country, we've seen typically it's South followed by North and then that's where the West comes in. So, because of our presence in South and the mix of the stores depending on where they are located, you see a differentiated performance between the two franchise partners.

Saurabh Kundan: Sure. Sure. Understood. And, sir, the next question is on this JV announcement that you have done. I know, it's a bit early, but still if you could just share with us maybe the revenue potential or whether the economics of these food courts are going to be similar to your current store P&Ls or are there going to be any additional cost lines involved? Anything that you can mention on the JV will be appreciated?

Manish Dawar: Saurabh, we'll not be able to share the business plan as of now. But, you know, that the government has announced a modernization of Indian Railway stations. And if you look at the intent from the Indian Government, they want to modernize the railway stations to match with how the airports look and feel is. And, therefore, given that announcement and the fact that there are so many introductions of fast-moving trains and the entire train tracks are getting upgraded, we see this joint venture to be giving us a big opportunity.

We know that as the railway stations modernize, government is going to be allocating space for the food courts on the railway stations. And that's the reason we formed this JV with somebody who had great experience as far as working with the railways is concerned.

Furthermore, they have their existing businesses, and it's going to be a big asset and big plus for us. However, there is a public tender process that is going to be conducted by Indian Railways, and therefore we will have to bid each and every railway station and food court as it comes along.

But we have our expertise on somebody who knows the Indian Railway system very well, has a great experience of dealing with the railways, and then we bring in our established brands, and our expertise of running the operations at the food courts. So therefore, it's a win-win situation for both of us.

To your other question, in terms of topline, we will be in line with the rest of the food court portfolio, we think it could be in line or it could be slightly better because of the captive very high traffic.

Saurabh Kundan: Right. Understood. One last question on Pizza Hut. I understand your performance is actually better than the other franchisee, but the question is, it's still negative, and are there any initiatives that you are going to take or we are more or less relying on the macro to turn for Pizza Hut to start posting better or positive same store sales growth?

Manish Dawar: See, we've taken initiatives in terms of the new menu introduction by giving a premium appeal to the overall menu. We've taken some initiatives in terms of additional promotions, through value layers and additional marketing spends.

When the market turns, we will be seeing a better than the proportionate results, as all these initiatives are getting rolled out, and they would start showing the results as we go along.

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

Nihal Mahesh Jham: Manish. The first question was, I think in the opening comments you mentioned about pricing. So has there been any pricing adjustments in either of the brands?

Manish Dawar: There's no pricing adjustment, Nihal, in the current quarter.

Nihal Mahesh Jham: That's helpful. Taking another question on Pizza Hut itself, what I noticed is obviously there's been a significant deceleration in the brand margins and that is very much commensurate with what we've been highlighting about the competitive intensity and maybe a preference shifts away from where we're seeing more preference towards some of the other QSR categories. But if I had to ask you that, even when I compare, say, versus the market leader, the deceleration in the SSSG or maybe the ADS performance has seen a much sharper fall.

And that in a way points to a much sharper market share loss for Pizza Hut as a whole, whether looked at for you or for the other franchise. So, what are those specific aspects beyond competition and the category which would have impacted the overall market that is specifically impacting Pizza Hut in your opinion, Manish?

Manish Dawar: Nihal, see in our case if you remember, around the same time last year or little later, we had introduced this fun flavour pizza and therefore the comparisons are a little different. So, as that one-year anniversary kind of goes out for the fun flavour pizza, we will start to see the improvement on the SSSG numbers.

Because the fun flavour got introduced when the inflation was almost at its peak, we saw a huge downtrend or a downshifting for the consumers from premium category to value layer category. And as we kind of go along, we've tried to address that. We've tried to bring down the mix of the fun flavour. We've introduced the new menu through the premium pizza. So, all of that is showing results and therefore we expect in the next couple of quarters, it should kind of get finalized.

Nihal Mahesh Jham: That's helpful. Just one final question was, you did announce the Costa tie-up with PVR in the middle of the quarter. Just would it be significant in terms of how the potential could be? I'm assuming it will be a lower margin business given it's still a B2B arrangement, but just your comments on the same.

Manish Dawar: Yes, it will be slightly lower margin business as you allude to, Nihal. Right now, we are in the test market phase because PVR also wants to upgrade in terms of their offerings at the food counters that they have within the prime. So right now, we are in the test market phase which will continue maybe for the next couple of months and then we will take a final call and discuss our plans also in detail.

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

Ashish Kanodia: So, the first question was more around demand. So, you know, Q2 and again this time Q3 both will have, you know, some one-off impact. So Q2 had Shravan and then Q3 we will have, you know, Shradh month as well. And, you know, that is why maybe a Y-o-Y comparison is difficult, but just wanted to get your sense that, you know, when you look at just the pure underlying demand on, you know, non-festive days and non-Shradh days or non-sawan days, you know, what are you picking? Is it that the demand environment is, you know, muted similar to what it was maybe a quarter or two back? Is it deteriorating or is it kind of improving? Just, you know, wanted to get more sense around the, you know, underlying demand rather than more from a festive period or a Sawan perspective?

Manish Dawar: Ashish, see there are two ways to look at it. I mean, on some specific days, we see some big numbers coming in and that shows the indication that the consumers are there, they form their habits and they're wanting to come back and so on and so forth. At the same time, if you see on an overall basis, there was this announcement on the savings ratio in the country and the savings are currently sitting at almost all time low.

Now that shows the consumerism in the country setting in, because if you go back by 10-15 years, savings probably was one of the biggest priorities as far as the Indian population is concerned.

Now as we see the spends are higher on the durables as the premium category is doing well, the savings will be lower, which is kind of positive. At the same time, we also need to understand that we've come out of hyperinflation and the consumer wallet sizes have remained the same.

So, it will take a couple of quarters for the consumers to fully come back, as still we are still seeing some job losses in the IT sector. However, overall, we are very bullish. But there are these minor irritants or the bumps which are there, which will get sorted out as we go along.

Ashish Kanodia: Sure, Manish, that's helpful. The second thing, specifically on KFC, you know, if I look at the ADS between the on-premise and off-premise, you know the on-premise decline in ADS, you know, both on a quarter-on-quarter basis and on a Y-o-Y basis is much severe versus, you know, what you have seen in the off-premise ADS. So, any specific thing or is it just, you know, a seasonality or something like that?

Manish Dawar: See, we are in the middle of World Cup and the other things. Leading up to that, people start to kind of order, and you will see even in the current quarter also, that delivery ratios will be slightly higher. So, it depends on how many weekends are there or what kind of festivals are there or what kind of particular days are there.

As I have kind of pointed out in the past, I mean, for QSR, the bias remains slightly in favour of delivery because, see, it's a fast-food consumption item. And if let's say we are fully back to working from office post the COVID phase and all, the preferences are coming back as far as home delivery is concerned.

Ashish Kanodia: Sure, Manish. And, you know, just last week, you know, you talked about financial support for Nigeria. So just wanted to get a sense in terms of, you know, right now, what kind of, you know, financial support, you know, you are kind of building in from a, you know, year-to-year perspective?

Manish Dawar: See, we will not be able to give the exact numbers, Ashish, because we don't even know the extent of how deep it is. Because Nigeria, if you look at the fuel prices, they've shot up by almost 4x to 5x. The currency has got devalued by almost about 64% in the previous quarter. And Nigeria is a dominant import economy and there's a huge amount of transport reliance.

All this has impacted the consumers a lot, but the business continues. The profitability of the business has come down. Because of our small store expansion requirements, we are just kind of putting a line in place.

So, it's not going to be big amounts. It will be a small amount in the overall context of the DIL size. But since in the past we've stated that Nigeria is completely self-sufficient and therefore we are pointing it out very clearly that Nigeria could need some financial support for the next one or two years.

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

Devanshu Bansal: Best wishes for the upcoming festive season. Manish, we have maintained that we'll be continuing the expansion through internal accrual. So, wanted to check on what kind of margin recovery is built in our model for KFC and Pizza Hut for the upcoming years?

Manish Dawar: Devanshu, see, if you look at the good days of KFC, we used to get to a brand contribution level of 20-21%. And once the entire situation is stable, the overall macros will start to fire back. We are confident that we'll be able to get back to those numbers. I'm not saying it will happen immediately. It could take a few quarters, but we are confident that KFC can get back to those numbers.

Devanshu Bansal: And for Pizza Hut, Manish?

Manish Dawar: Pizza Hut will take a little longer time because at Pizza Hut the issues are slightly different versus the KFC. It will probably take a little longer journey.

Devanshu Bansal: Got it. Manish, we also have a higher rural exposure versus the rest of the pack. So, wanted to understand how is the trajectory among rural region versus the urban region? Any color that you can provide here?

Manish Dawar: Devanshu, let me slightly correct you that we do not have any exposure to as we define the rural areas.

Devanshu Bansal: Okay.

Manish Dawar: Because, I mean, I agree with you that we have higher exposure as far as non-metros or maybe Tier 2 or Tier 3 cities are concerned, but we are not even close to touching rural. If you look at overall QSR industry, we are probably addressing about what 15-16% of the population which is far away from where the rural India is. Having said that, if you were to ask me is there a differentiated behaviour between a metro versus a non-metro, it is not so much. The trends are very similar and if at all the hunger and the aspiration is stronger in smaller towns and that's a good situation for us. Because, if India has to develop, the non-metros and the smaller towns have to develop faster. The way we look at our business, we are well positioned to capture that growth phenomenon.

Devanshu Bansal: Fair point, Manish. Last question from my end. Sapphire sort of indicated implementation of this kitchen solution called Dragontail. What is the outlook here, do we also sort of plan to implement this going ahead?

Manish Dawar: So, we are also working on that and it's an overall solution. Dragontail, I'm sure you must be aware, is owned by Yum!. And they had acquired it a few years back, which kind of obviously optimizes the delivery times and the time it takes for a rider to come to the store versus the handing over of pizza, which kind of ensures that we are able to deliver a better-quality pizza to the consumer with a lower delivery time. We both are working on that initiative, and it will get rolled out simultaneously for the franchise.

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

Shirish Pardeshi: Two questions. In the beginning, when we see there is a consumer sentiment which are weaker, the burger segments are doing little better than the pizza category. So, does that mean that if the last year Diwali or quarter three was weaker? So base is absolutely benign. And I'm giving the context because last five quarters, Pizza Hut has seen a consistent decline in ADS and also in terms of the

SSSG. So, in that base and given these events and the festive season and momentum which is picking up, do we think we will report a positive SSSG in quarter three or we will be still in a negative territory? I know it is too hypothetical at this time.

Manish Dawar: See, I will not be able to give you any numbers as far as the current quarter is concerned.

Shirish Pardeshi: No, will it decline further, or will it remain less than 10%? That's what the question is.

Manish Dawar: As I said earlier, it was around the Diwali time we had introduced the fun flavour pizza and it was the part of the quarter, therefore we will be able to cycle out of this whole thing from Q4 onwards. And that's where we see that things will probably turn.

However, on a macro level, there's nothing wrong with the pizza category. If you see any of the environments where hyperinflation has taken place, not only in India, but any part of the world, people try and downgrade to the lower entry segment. And that's the reason why we are saying, as you pointed out, that's the burger category because that's a lower entry point into the QSR segment and therefore the consumers have switched into that.

But on an overall basis and on the entire concept behind premiumization and upgradation. We all are very confident that the population or the consumers will come back and It's only a temporary piece that we are seeing.

Shirish Pardeshi: Okay, that's helpful. My second question on the post in this EBITDA, we are around at 19.9%, but in this quarter, particularly when I look at, our employee cost has gone up by 26% and other expenses ahead of our revenue growth. So, is there any one-off? And how should we look at the employee cost for the rest of the year? Because other expenses I can understand, that could be temporary.

Manish Dawar: There are multiple things which is happening in the employee cost, Shirish. One is we continue to expand in terms of the number of stores, on an year-on-year comparison, our stores have gone up by about 25-26%, there is a large component of the employee cost increase which is because of the overall store openings. And because of the lower ADS, the deleverage sets in and your ratio looks kind of slightly adverse versus where it would have been.

Secondly, between, let's say, the year-to-year numbers, we've also seen an increment cycle, not only for the supervisory and the management staff, but also for the team members because of the minimum wage inflation. So, that comes in as an increment. And if you remember last time, Q4 we had said that we've taken a provision on account of statutory bonus because of the Payment of Bonus Act and now we've started providing for that on a regular basis. So that is the other impact which is setting in.

So, therefore, if you have to ask me what is that one-time, there's no one-time as such, but the moment, let's say, we kind of cycle throughout, once this whole year passes and we've started providing for the statutory bonus on a monthly basis, all of those pieces will kind of cycle out. And as we continue to kind of see the improved sentiment in macro and the ADS numbers improve, we will see the ratio getting better as far as the employee cost is concerned.

Shirish Pardeshi: Wonderful. Just last question on the JV with R.K. Associates. Now this has happened between DIL and R.K. Associates. So that means more than Yum! brand, we are also looking at opening food courts with the other brands, our own brands also.

Manish Dawar: See, if you look at, Shirish, our current food courts are in Mumbai, Delhi, and in some highways, we do deal with the brands outside the Yum! Portfolio. We have taken specific approval from Yum! for dealing with these brands and therefore that will continue into a new setup as well.

Moderator: The next question is from the line of Deesha from Ankhonia Advisors.

Deesha Jain: I just had a question on Costa Coffee. I wanted to understand if you have taken any price hikes on your products considering the price of milk in the last six months?

Manish Dawar: No, last six months, Deesha, we've not taken any price increase. The milk prices have strengthened in some pockets which has impacted the margins. We've seen a very small similar phenomenon on the coffee beans also, but we've not taken a price increase as yet.

Deesha Jain: Also, just could you elaborate your pricing strategy? Does your pricing strategy of Costa differ from region to region? And also, is there any room to increase the prices of coffee considering that a millennial is willing to pay or is willing to afford today?

Manish Dawar: See, we do not have a region-based pricing, but we do have a pricing which is based on the channel. So, for example, the airports could see a premium pricing versus the normal Costa outlet. At the same time, for example, if you are present in a premium mall, that could see a slight premium versus the normal pricing, and we are indexed to our key competitor as far as the pricing strategy is concerned and we try and maintain that.

But at the same time, we also need to balance out, because the consumer sentiment is weak for the last few quarters on account of hyperinflation. And we've seen the overall impact on the QSR industry as well. Hence, we are kind of holding ourselves back. As far as the Costa pricing is concerned, we want to address the deeper markets here. We want to enlarge the consumer base for Costa coffee. So, therefore we've not taken any price increase yet.

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

Devanshu Bansal: Manish, sequentially there is a significant drop in head office cost for us. So, is it a usual phenomenon where Q1 sees a higher sort of head office cost and then things normalize in the rest of the quarters?

Manish Dawar: See typically in Q1, you have the impact of increments which is there, but otherwise there's nothing specific. And as things kind of go along, it normalizes. But otherwise, there's nothing specific to call out as far as corporate office is concerned.

Devanshu Bansal: Okay. So current levels should sustain, right?

Manish Dawar: Yes. I mean, we are hoping as, let's say, the ADS comes back, the leverage will be better because it is a fixed cost. Therefore, as a ratio, it should start to increase and plus, we do have to take some cost initiatives also, that is what we are currently working on.

Moderator: The next question is from the line of Dhiraj Mistry from Antique.

Dhiraj Mistry: So, I would like to ask the question, I am aware that you have guided for 2,000 stores by the end of 2026, but the mix change like the store addition between KFC and Pizza is going to be similar or it would be different from the long term as well as from the near-term perspective?

Manish Dawar: See, we've talked about this in the past. KFC is going to see a stronger store addition in terms of the net new stores, we will see almost 120 to 130 stores getting added every year, whereas Pizza Hut we've brought down the guidance from where it was around the IPO time. We have always said that we have a dynamic store expansion strategy, depending on what the environment is and what is happening on the brand, we continue to adjust that.

Dhiraj Mistry: Okay. Second question is regarding profitability of Pizza Hut. So, if our ADS goes back to, like, two quarters back like somewhere around INR 46,000 or INR 48,000, our profitability is likely to get back to 10% or it would remain in single digit only?

Manish Dawar: We would not like to speculate on where the ADS numbers could go, but what you're saying and the scenario that you're painting, if the ADS numbers go back to the same numbers, you can see the similar brand contribution levels getting achieved.

Dhiraj Mistry: Okay, the reason why I was asking that is that because of you highlighted that there's a downtrading which has been witnessed in Pizza Hut. Will that materially impact the profitability if the ADS goes back to the original level?

Manish Dawar: We have taken steps to kind of address that mix because when we introduced this, we saw a rapid mix in favour of the fun flavour or the lowest price category because we're in the middle of a hyperinflation scenario. We've taken conscious steps to kind of bring consumers back to the premium category. We've taken some price initiatives also. And again, let's say, INR 47,000 is not going to happen overnight. So, by the time we hit that number, we think things should be normal and we should be able to hit close to the same brand contribution levels or similar brand contribution levels.

Dhiraj Mistry: Okay. Sir, next is regarding last quarter, you highlighted presentation on Vaango also. And in this quarter, you have discontinued that. Can you highlight some reason for that?

Manish Dawar: Vaango is a small business compared to the overall DIL size. I think about less than 3% of the overall DIL. There was a strong demand from the analysts and the investors that we would like to see the Vaango numbers. It's not that we are not going to show the numbers, but what we thought maybe once every few quarters we'll be able to give you the Vaango numbers so that you are able to see how the business is progressing.

So, it's not that we've completely stopped. It could well be once every year or coinciding with the year-end that we will give the Vaango performance regularly. And if you see in terms of the store numbers, we've kind of given the Vaango store numbers also.

Dhiraj Mistry: Yes.

Manish Dawar: Since it is a small part and that's the reason, we thought that, I mean, from analysts and the investor perspective to save their time.

Moderator: The next question is from the line of Marut Chaudhary, an individual investor.

Marut Chaudhary: So, sir, my question is about Costa Coffee. Like, we have just started Costa Coffee, [Femex] Costa, in all stadiums. But why did we start in November, World Cup started in October. So, why didn't we start proactively? Plus, we are still serving only in three stadiums. So, this is my first question.

Manish Dawar: We have set up a kiosk at stadiums in Mumbai and Calcutta. We have not done this before, so we wanted to experiment and see. We are opening new channels, for example, we have tested with a stadium, we are collaborating with PVR to introduce Costa there, we are already doing it at the airports. So, the whole idea is to experiment, test what is successful and what is not. What is the consumer demand. And then we will expand it accordingly and bring it into a regular strategy.

Marut Chaudhary: Okay. I got the same question. The World Cup has started. And the last 12-13 days are just starting. Okay. Quite excellent. Thank you.

Moderator: The next question is a follow up from the line of Saurabh Kundan from Goldman Sachs.

Saurabh Kundan: Yes, just a couple of questions on Pizza Hut. So, is there a very large divergence between your Pizza Hut SSSG in the states that you're present in? Are some states really very bad versus others? Or is it similar across the states?

Manish Dawar: It's similar across the states, across metros, non-metros. There are some pockets which are always an exception, but largely the trends are very similar, Saurabh.

Saurabh Kundan: Okay. And another question, if I remember correctly, in the previous quarter call, I think the management had mentioned that Pizza Hut will return to mid-teens margins in a couple of quarters. If I understood your comments today correctly, now you're saying that it might take a little bit longer for that to happen. Is it?

Manish Dawar: Yes, because we have seen continuous weakness, and it is a matter of what ADS levels can we get to. As we have managed to arrest the decline, through our initiatives on marketing, promotions, menu introductions. You will start to see the ADS improving and coming back, we will also see the margins moving in tandem.

Moderator: The next question is a follow up from the line of Ashish Kanodia from Citi.

Ashish Kanodia: Manish, so on Pizza Hut, you know, as you recalibrate your store expansion for maybe, you know, next two year, three years given, you know, maybe macro slowdown plus competitive intensity. I mean, you know, when you maybe, you know, interact with the brand owner, maybe with Yum! Brands, you know, is there a discussion or thought process that maybe, you know, instead of kind of, you know, reducing the store expansion, you know, maybe Yum! Brands can kind of support in terms of lower royalty, etcetera?

Because, I mean, at the end of the day, it boils down to, you know, ROCEs and cash flows and, you know, opening less number of stores makes sense because demand is weak, but whenever demand kind of picks up, you know, having kind of deeper density of stores, of course, helps, right. So, had there been any discussion, or do you think this is a feasible model to work on?

Manish Dawar: We and Yum! are continuously engaged as far as any of their brands and the businesses are concerned. If you look at the introduction of value layer, premiumization of the pizzas, the new menu introductions, all of that is in collaboration with Yum!, they are equally concerned as to what is happening to the brand and the brand performance. So similarly, for example, while we've spent additional money on marketing, Yum! has also kind of pitched in with the additional marketing money from their side. So, it is not just that it's only our baby. I mean, we work in parallel, and we work together to kind of ensure that Pizza Hut comes back.

Ashish Kanodia: Got it. But, I mean, what I'm just trying to understand is, you know, for example, they kind of have, you know, some benefits in terms of accelerated store expansion, right? And at a time when sentiments are weak, I mean, you know, this is a time when brands normally invest to come out much stronger, right?

So, one way, you know, in which Yum! can, you know, help and it's, you know, ultimately everyone's decision there, but to have lower royalty rates and, you know, kind of leave more in the pocket of maybe the franchisee partner to drive that, you know, aggression. So, both are discussing, but do you see this as a feasible model if that has to happen?

Manish Dawar: So, Ashish, we are engaged with Yum!, but so far there is no output as far as royalty discussion is concerned. But again, your point is valid. Because see what happens, let's say, when the ADS is down and the brand is the same, their income levels also come down through the royalty, because it is a percentage of the revenue and it's not a fixed royalty. We are engaged with Yum! on that. So, let's see how that goes.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak.

Jaykumar Doshi: So, in case if this question was already answered, I'll go back. Now my question is Manish, when you look at your store portfolio, let's say, in two years, you've gone up from 300 stores to 540 stores in KFC 2Q FY22 versus 2Q FY24. And two years back, brand EBITDA margin was 22.4%. Right now, it's down 300 basis points. Gross margin is almost comparable.

So, for the original 250-300 stores that you had, the portfolio of stores you had two years back, has store level profitability or EBITDA improved, it has remained at a similar level? I just want to understand, you know, the numbers that we are looking at on profitability front, is that largely the drag of new stores or is it also slightly lower profitability in other stores versus what you used to do two years back, in quote?

Manish Dawar: Sure. Jai, see there are multiple things at play when you look at either of the brand performance. So, for example, we have doubled the store count and the new stores take time to mature. They take time to reach the overall brand averages in terms of the top line and the bottom line. And that impacts the overall mix. The old stores are stable and are performing well. But at the same time, we are also seeing the external or the macro factors in terms of the inflation, which kind of impacts the overall portfolio. And we've seen the inflation is not just on the food side, it is all across, which has impacted the consumer sentiment and the consumer wallets. Therefore, this impacts the old and the new stores. Similarly, for example, if, let's say, we take new initiatives in terms of value layer, that new initiative will be kind of taken at all the stores. So overall the portfolio is doing well, it is getting stronger, and if we all believe in the QSR opportunity in this country, I think we are in a good place.

Jaykumar Doshi: So, when you think about the next two or three years now, you know, inflationary pressure at least for KFC is almost entirely East. Your gross margins are tracking at a fairly decent level. So, do you see, you know, brand EBITDA margin remain at these levels as you continue to add 100, 125 stores a year? Or will it move up directionally a little up or can it go down further?

Manish Dawar: Yes, as the new stores mature and as the macros kind of improve a little bit, we are confident the ADS will improve. And as the ADS improves, the deleverage that we are seeing currently will kind of go off and so I kind of addressed this question earlier on also that as the ADS improves, if you see in the past, we've seen KFC brand contribution coming in at 21-22% level. And as the macros improve, we think we will be able to kind of hit those numbers back again.

Jaykumar Doshi: So SSSG recovery will translate into margin expansion?

Manish Dawar: Yes, SSSG recovery, because again remember that as the base is expanding, the new store as a percentage to the base and in terms of dilution also keeps coming down. So, therefore, that is also going to be helping the brand on an overall basis.

Jaykumar Doshi: And final one, on KFC portfolio, you know, now that you are at 540 stores and you're going to be adding another 120, 130 per year. So, are you seeing any impact of cannibalization at all on some of your existing stores? Or it's still, you know, there are enough white spaces, that you see that will ensure that your existing network does not get cannibalized by the new stores?

Manish Dawar: Jay, it's a combination of both, because, for example, it really depends as to where are you opening the store. As we go deeper into the metros which are big consumption hubs, we do see some kind of cannibalization in the neighbouring stores. But overall, as a metro it is not. If you go to a new town or a smaller city, there is no impact at all. So, it's a combination of various kind of factors. On an overall basis, we think India has a huge potential as far as KFC is concerned because of the macro in terms of the non-vegetarian population, the chicken consumption amongst the non-vegetarian population. If you're going to consider that, we are highly underpenetrated as far as the current KFC penetration is concerned, but also there is a small impact which is there depending on where you're opening the store.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Raj Gandhi: Thank you so much for your participation in our quarterly results presentation call. We do hope that we have been able to manage all your questions to answer satisfactorily. And should you need any further clarifications or would you like to know more about our company, please feel free to contact our Investor Relations team. Thanks again to all investors, analysts for your time to join in our growth story. Thanks.

Ravi Jaipuria: Thank you so much.
