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Devyani International Limited

dil

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May 21, 2024

To,

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 May 14, 2024, post declaration of Audited Financial Results of the Company for the Quarter and Financial Year ended March 31, 2024, 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
DN: c=IN, o=Personal, title=2659, pseudonym=RMiYpdHy7f8dLXcxKPxs2gKTewdo4tgl, 2.5.4.20=039b8b79599311a1663813cc5616228df6997ba3966868e27bd5278bd188095c, postalCode=121001, st=Haryana, serialNumber=662a532e90644d78d21acc7a66f8fa746a569f819b8498cde6d1a476746030b2, cn=Pankaj Virmani
Date: 2024.05.21 16:32:05 +05'30'

Pankaj Virmani
Company Secretary & Compliance Officer

Encl: *As above*

Devyani International Limited
Q4 & FY' 24 Earnings Conference Call
May 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to Devyani International's Earnings Conference Call. As a reminder, all participants' 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 quarter 4 FY' 24 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 & Whole-time Director and Mr. Manish Dawar, CFO & Whole-time Director of the Company. We'll initiate the call with opening remarks from the Chairman, followed by key financial highlights by the CFO. Post that, we'll have the forum open for a question-and-answer session.

Before we begin, I would like to point out that some statements 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. 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 of DIL for the fourth quarter and the financial year 2023-24. In a tough consumption year, we have diligently focused on our strategic expansion goals over the course of the year. We opened 256 new stores, including 47 in the fourth quarter.

As of March 31, our total store count has reached 1,782, including the 283 KFC stores we acquired in Thailand on January 18, 2024. The year was also marked by successful acquisition and seamless integration of the Thailand KFC business. The transaction which was completed during quarter 4, has been a significant milestone for us. This development has expanded our international footprint, and the same is in line with our long-term growth objectives of having a mix of international businesses. The business in Thailand is performing reasonably well and the results are in line with our expectations.

Alongside our global expansion, we have also been working on a strategy to enhance our domestic footprint of Food Courts business in response to India's emergence as a major destination for travel, tourism and shopping. The domestic travel market is picking up very well and we are seeing religious tourism as one of the important thrust areas. India is also gaining importance in the international market for medico tourism and the value-for-money shopping destination.

All these changes are structural in nature and here to stay. There is a common theme that runs across this phenomenon that is Food, on-the-go. With this strategy and to cater to the rising quick trend, we are making food courts as one of the important pillars of our growth aspiration across various consumption channels and touch points of travel and shopping.

Our existing bouquet of brands will help us with this strategy. We have also tested the concept of food courts in multiple locations across such touch points. Needless to add, that we are pleased with the consumer response and performance of our existing food courts.

With this objective, I'm pleased to state that DIL has entered into a strategic partnership with PVR INOX to develop and operate the business of food courts at shopping malls across the country to co-promote movies and food. This will not only help us strengthen our presence at various malls in the country, but will also give a boost to our brands and the food court business. This agreement is in addition to other existing strategic tie-ups for food courts across highways, malls, railways, apart from some of the airports and highways that we already operate.

As I said before, food courts will be one of the key focus areas for us going forward apart from our existing core brands. Consumer sentiment continues to be weak throughout the year, weak disposable income, tight liquidity position, local consumption, geopolitical situation were the major drivers for the weak consumer demand. The Nigerian currency continues to significantly depreciate during quarter 4, resulting in a significant impact on the full year results of DIL.

Coming to India, we expect things to improve, post the elections and some stability on the West Asia geopolitical situation. In our view, the weak consumer sentiment and depressed consumer spending is temporary and short-lived. Amid these challenges, our operating and financial performance has remained stable and we continue to invest in the business for long-term growth. To successfully navigate the dynamic and evolving QSR landscape, we have implemented multiple initiatives this year, including menu optimization, reducing wastage, enhancing cost controls and improving operational efficiency. These initiatives have helped us to deliver the results.

To sum up, we believe in the long-term potential of the Indian QSR industry. As we actively grow our presence, we are strategically positioned to tap into this opportunity, ensuring sustainable growth and value creation for our stakeholders.

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 very warm welcome and thank you for your valuable time for attending DIL's quarter 4 & FY’ 24 Earnings Conference Call, our eleventh call since the listing in August 2021.

Having completed the Thailand KFC acquisition our total store count now stands at 1,782 stores as of the year-end. We have a footprint of 1,692 stores across our core brands out of a total store count of 1,782. This consists of 941 stores for KFC, 572 stores of Pizza Hut and 179 stores of Costa Coffee. Our store distribution in India continues to remain marginally in favor of non-metro destinations.

The operating revenue for FY’ 24 was INR 3,556 crore, a growth of almost 19% over the previous year. Indian business witnessed a growth of 12.3% over previous financial year. quarter 4 FY’ 24 revenue stood at INR 1,047 crore, representing a 38.7% Y-on-Y increase. This was supported by the Thailand KFC acquisition and new store openings. We have consolidated Thailand numbers with effect from January 18, 2024.

The gross margin for the consolidated business including Thailand was 70.3% for the full year versus 70% for the previous year an improvement of 30 basis points on a full year basis. The margins for quarter 4 were lower because of Thailand consolidation and a significant currency impact in Nigeria. As you know, structurally Thailand and Nigeria operate at a lower gross margin for KFC business versus Indian business.

The brand contribution for the full year was at 15.5% versus 18.7% for the previous year. The deleverage in top line because of lower ADS numbers across KFC and Pizza Hut along with Nigerian currency issues has led to the impact on brand contribution margins.

The pre-Ind AS margins for the full year for the consolidated business was 10.7%. Reported EBITDA (post-Ind AS) (including Thailand) for the FY' 24 was 18.3%. During the quarter the same number was 16.6%. Consolidated operating EBITDA on a pre-Ind AS basis was INR 96 crore versus INR 79 crore in the previous quarter.

The Nigerian currency continues to weaken in quarter 4. During the financial year Nigerian Naira has got depreciated by almost 200% versus the USD. As a result of this, the Nigeria business has recorded an impact of INR 236 crore forex loss on account of USD denominated liabilities. Out of this amount, INR 90 crore has been recorded as exceptional item in the P&L for the full year and INR 147 crore has been recorded under other comprehensive income. The impact of significant depreciation in Nigerian currency has been taken as part of exceptional items in quarter 4, unlike the previous quarter.

In view of the above, DIL has also taken a full impairment of its investment of INR 116 crore in Nigerian business through its subsidiary, RV Enterprises Pte. Ltd. There is no impact of such impairment in the consolidated financial results of the Group because the impairment has been taken in standalone books.

The PBT for FY' 24 on a consolidated was INR 3.7 crore. The main drivers for the variance compared to the previous year has been significant currency impact out of Nigeria, deleverage impact coming out of Indian business and marginal impact because of Thailand consolidation.

With respect to RD Thailand acquisition, DIL has recorded the purchase price allocation on a provisional basis. As per the IND AS, DIL has a measurement period of up to 12 months from the date of acquisition and hence to that extent, this is subject to final adjustments.

The total debt in the books at a consolidated level is INR 910 crore as of March 31, 2024. Out of this, INR 835 crore in the bank debt consisting of INR 470 crore at international and INR 365 crore in India. The gearing position, despite this debt on a consolidated basis sits comfortably below 1 as of the year-end and debt-to-EBITDA coverage is almost 1.28x.

Taking the discussion to our core brands, KFC in India added 106 new stores in FY' 24, reaching a total count of 596 stores at the end of the year. Average Daily Sales for quarter 4 was INR 93,000 versus INR 104,000 in the previous quarter. Revenues at INR 494 crore during the quarter grew 11.3% on a Y-on-Y basis. Gross margins for KFC during the quarter was 69.9% thereby reflecting an improvement of 50 basis points over the previous quarter. Brand contribution remained healthy at 19% for the current quarter.

During the year, Pizza Hut added 61 new stores reaching a total count of 567 stores in India. Revenue for the full year was INR 709 crore versus INR 700 crore in the previous year. ADS was INR 32,000 versus INR 37,000 in the previous quarter. Gross margins for the quarter came in at 77.3% versus 75.8% in the previous quarter. Brand contribution was INR 7 Crore for the quarter with margins at 4.4% which was slightly lower on a quarter-on-quarter basis mainly due to the ADS deleverage impact.

Costa Coffee added 67 new stores during the fiscal year reaching a cumulative store count of 179 stores. Quarter 4 FY' 24 revenue was INR 45 crore with a growth of 13.6% on quarter-on-quarter and 36.3% on a year-on-year basis driven by expansion of new stores. The gross margin was 76.7% in quarter 4. Brand contribution in quarter 4 stood at 17.9% an improvement of 3% versus the previous quarter.

To conclude, we want to reiterate our commitment to the ambitious growth plans within the Indian QSR market. As we continue to expand, we remain committed to improving our financial performance, 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 very much.

Moderator: Thank you very much sir. We will now begin the question and answer session.

The first question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: I wanted to pick your brain on how are you seeing demand scenario evolving now for both the brands in India or rather all the three brands in India and how should we think about this year both on store expansion and SSSG? How are you kind of budgeting for this year?

Manish Dawar: So Tejash, as we said the last 1 year demand has been weak and we do hope that, post the elections we should start to see some improvement. At the same time, you know that quarter 1 is seasonally a better quarter compared to quarter 4. And therefore, you will see some better numbers in the next quarter.

Having said that, there is no change in our overall thinking. We remain bullish on the QSR space in medium to long term and that's the reason we continue to kind of invest in our brands, in the new strategic tie-ups, in Thailand acquisition. As far as we are concerned, there could be some quarterly adjustments here and there, but we are absolutely bullish on the overall opportunity that is there in QSR especially in India, and therefore we continue to press ahead and invest.

Tejash Shah: So just elaborating on that. Elections should not be a trigger, right? In the sense, post elections is it just a hope or you have some granular data which you can't share obviously which gives you hope that demand will bounce after election?

Manish Dawar: Tejash, we'll not be able to share that granular data, but on the ground again it's too early to comment, but we are seeing some green shoots and we hope that they are kind of lived long.

Tejash Shah: And second and last this pivot that we are making towards aggressive or more focused expansion on food courts. So just wanted to know what consumer insight, the market insight have led us to kind of make this pivot?

Manish Dawar: See, if you look at the new generation consumers or if you look at the current trends, people want more choices. They want quick choices. At the same time, travel is gaining a very significant movement within the country. Shopping is gaining significant movement on an overall basis.

And therefore, through this whole strategy we want to be available at all the channels and touch points. Despite the overall slowdown the travel and tourism traffic is almost at an all-time high. India is becoming a good international destination for reasonable shopping also. We are seeing a lot of tourists coming into the country and they've started shopping in metro destinations. And you would have also noticed that with this strategy we talked about a small railway joint venture. We've talked about a strategic tie-up for highways openings. We already have talked about PVR, as Mr. Jaipuria has alluded in his speech. We are trying to kind of make food courts as a comprehensive strategy which will span across the airports, the food courts, the highways, the malls and everywhere. So that is how we are approaching it. And within the tourism also if you see there's a lot of religious tourism which is gaining momentum. And at some point in time we've already started working on in terms of how do we get to these religious sites also with the initiatives we've taken.

Tejash Shah: And sir how does the store economics of food court works out versus let's say our traditional store?

Manish Dawar: We've been operating food courts for a reasonably long time not at a scale that we are now anticipating, because the footfalls are high and the consumer choices are available. It's a mix of our own brands and international brands. The profitability is better than the traditional brands and the payback period also for the food courts are very attractive.

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

Jay Doshi: A couple of bookkeeping questions to start with. What was the revenue contribution and EBITDA contribution of KFC Thailand in quarter 4?

Manish Dawar: Jay, we've disclosed the consolidated results and India results. So, therefore by subtracting the India numbers you can get to international numbers. Now within that if you look at this predominantly it has come from Thailand only. As Nigeria is sitting in a negative zone as far as the bottom line is concerned. So, it is predominantly all contributed by Thailand. And what we talked about at the time of acquisition, the business is more or less in line with that. We've seen some bit of impact of the geopolitical situation in some of the stores in South, but barring that, the business is doing very well.

Jay Doshi: So you mentioned predominantly the entire international EBITDA is KFC Thailand?

Manish Dawar: Largely.

Jay Doshi: Understood. So that would be close to INR 30 crore in that case or somewhere around INR 27 crore, INR 28 crore?

Manish Dawar: I am not putting a number.

Jay Doshi: So Manish, how do you propose we evaluate the progress of this transaction? Normally, companies sort of share performance of inorganic acquisitions for at least a year.

Manish Dawar: Jay, we can evaluate that and come back to you. As of now, we are considering the India piece as one and the international piece as another. But we take your suggestion on board, that for at least a year we should look at Thailand being given separately. So, we will evaluate and come back to you.

Jay Doshi: It will be very helpful, thanks. Second is this partnership with PVR. Essentially, if you can give us some color in terms of what would be the contribution of PVR

INOX to this partnership? What would be the role of both the entities, Devyani as well as PVR INOX? And what is the investment you can get from them?

Manish Dawar: We are still working on the entire business plan and will not be able to share the investment numbers as of now. But the whole thesis is that the footprint of malls is huge, and PVR is a very strong contributor. PVR is one of the favoured tenants whenever a good mall is coming anywhere and is the first ones to get approached for a cinema. The entire cinema space functions like an anchor tenant and they are informed about the mall's timeline much earlier than we are. By the time the food courts get ready and the rest of the mall gets ready, and brands are given spaces for fit-outs and other preparations, the cinema is already well aware of the schedule. This is where we saw a significant strategic advantage in partnering with PVR. Also, there is a captive footfall that PVR has in terms of people who are coming to watch movies, people who are PVR loyal fans & customers, and therefore, our objective is to combine the food courts along with PVR so that we can co-promote the movies and foods. And if you look at other countries, it's a great concept, and it's a very, very significant value creator.

Jay Doshi: Understood. So primarily, the focus to start with will be on the pipeline of malls that are currently under development, and where there would be opportunity to sign contracts, long-term contracts or operations of food courts. Devyani's role would be largely operating the food court part and PVR's role would be, given the relationship with the developers and they already would have a lot of leases pertaining to that, is that right understanding?

Manish Dawar: Yes. That is the right understanding. Plus, all the brands will come from DIL, we have the operational capability and the expertise. PVR on the other side, have a strategic advantage in terms of how they are located and their relationship with the landlords and the mall owners. So, it's a great win-win combination for both of us.

Jay Doshi: Sure. Lastly, there are a few investor questions and perhaps concerns around some of the senior management exits that happened in the March quarter. So your thoughts on this and whether we should expect stability going forward? And if there was any slippage in execution associated with this attrition that you can share.

Manish Dawar: Jay, see, we are a large company now with a huge management bandwidth and a vast talent pool available. So therefore, there is nothing to worry about. Virag was handling it earlier while Rahul was there, and Virag continues to handle. So, from that point of view, there's no big change. At the same time, Rajat has been with the Company for almost 13-14 years, and he wanted to move to South to be closer to his family. He gave his best to the Company in any case. So we don't expect any disruption or significant changes because the strategy remains the same. We've all been working on that defined strategy. And therefore, if at all, things should be better.

Moderator: The next question is from the line of Abneesh Roy from Nuvama Institutional Equity.

Abneesh Roy: Yes. Further to the questions on PVR deal, one is, in existing properties, is there any kind of an opportunity available? Second is around nine months back, PVR and Costa Coffee had signed the deal. So, because that one is doing well, we are now at the next level of the relationship, is that what is happening? And if you could give some kind of an update on that deal also. Third is, in existing property, just like Costa Coffee is also there. Now more such brands of DIL, can they come there?

Ravi Jaipuria: Well our first tie-up, which was with Costa and PVR is doing extremely well. We are very happy with it, and we are expanding our plan with them. We are opening Costa Coffees with them on a weekly basis practically. And we have already opened close to 80 Costa Coffees in the PVR, and it will be expanded and adding great value to our business. It's a great advertising place, because all the customers who are coming to PVR, are the right consumers for Costa Coffee. So, I think it's a great thing for both of us, and we are definitely looking to add more products with PVR. And especially with this JV, which is for the food courts, I think it will add a lot of value for both of us.

Abneesh Roy: And in the previous question, you mentioned outside India, this co-promotion of foods and movies is far more prevalent and far more successful. Any particular country you want to highlight so that we can get more examples how this can pan out in India also?

Manish Dawar: So you can look at a country like U.K., UAE, U.S., for example, I mean, all of the cinemas and screens are surrounded by the food courts or eating joints, and they have a strategic tie-up in terms of combo deals and so on and so forth.

Abneesh Roy: Sure. And the genesis of this, is it because slowdown is being felt both by PVR and for you also? So, is this more because of this, because PVR and you both have existed for many years. So why now? Is the slowdown one part of the reason? Because you did mention the co-promotion, you did mention that both can promote each other. So, is the slowdown one of the reasons for doing this now?

Ravi Jaipuria: No, it's nothing to do with slowdown. It's just that it takes time to build relationships. And we started our relationship by having a joint venture with Costa. And then both of us felt happy and it was successful. And partnering with PVR is the next step we have taken.

Abneesh Roy: Understood. So, the last question on Thailand. So wanted to understand competitive intensity there versus India, in that part of the business. And second, the gross margin seem to be lower there, as you said. So, what's the reason for that? And any progress we can see in three, four years in terms of the margin gap between the two businesses?

Ravi Jaipuria: There will be some scope to improve the margin, but the volumes per store are much higher there than what it is in India. The rentals are much lower there. Overall, that's what the margins are in that part of the country and it's a very good business. KFC is the market leader in Thailand. Against 1,000 stores of KFC, they have most probably 200-250 stores of McDonald's.

Manish Dawar: So Abneesh, Thailand is more mass market for the brand. And therefore, that's the reason the focus is more on the number of transactions rather than the margins. If you see the eating-out culture in Thailand is very strong and fried chicken is one of the important contributors for the street food. So that's the reason the KFC positioning is a little different in Thailand versus India.

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

Devanshu Bansal: Congratulation on a good margin execution in the quarter. Just a small bit on the food court, is it like food courts within theatre premises? Or the common food court that is there in the malls? Just wanted a clarification on that?

Manish Dawar: So, it is the new properties that we are discussing, Devanshu. It is the common food court in the mall, not inside a theatre, whereas if you look at the Costa Coffee tie-up we have with Costa, that is inside the movie premises. The way we design and make it contiguous varies from property to property.

Devanshu Bansal: Got it. And will it be like only our brands? I just wanted to check with competing brands be comfortable with such kind of a relationship because there are global precedence? So any views here?

Manish Dawar: See, it depends on the nature and size of the property. We would prefer to include our bouquet of brands that are already there. We have a good bouquet of brands available. If there is a space available, we can consider adding other brands too. For instance we do run some of the mall food courts in Calcutta and Noida, where we also feature other brands.

Devanshu Bansal: Got it, Manish. And secondly, I wanted to check there has been a strong sequential improvement in gross margin across our core format. This is like all-time high gross margins in our limited reporting history that is there. So, I wanted to check what are the steps that we have taken to improve this? And is this a sustainable trend?

Manish Dawar: It is a sustainable trend, Devanshu. Since the hyperinflation we experienced, things have stabilized, they have not come down dramatically. However, with our negotiations, we are seeing good results. We've also done menu optimization, as Mr. Jaipuria mentioned in his speech, which is helping. We continuously evaluate how we look at the promotions at all three pieces. In the middle of the current consumer sentiment, we are taking all the steps to ensure that the margins are protected and that is what we are continuously kind of striving towards and delivering.

Devanshu Bansal: And a follow-up on this, so Manish, under such weak demand scenario, is this a significant savings on promotions? Or is it like more cost cutting, etc., supply chain efficiencies that we are building?

Manish Dawar: See, promotion is a small element, but there are opportunities available to tweak. Because when you're coming out of a hyperinflation, the consumer also is looking for more value-for-money products. We've introduced the value layers as we have talked about in the previous calls. But wherever the opportunity is there, we just keep refining the promotions, make it more effective and targeted. And at the same time the cost saving opportunities which are there are clubbed in.

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

Percy Panthaki: First question is on Pizza Hut. Now that it's been many quarters into the slowdown, have we and when I say we, I mean both the franchises as well as Yum Brands put together, the 3 parties of you, done some kind of soul-searching as to what is really going wrong with the Pizza Hut format? I understand that there is an overall slowdown, I understand that these are the categories affected more. However, if you look at the difference in performance of SSSG versus Pizza Hut versus the other competitors that you have, the difference in SSSG is very stark, like 15% points, 10% points and so on. So why is it that on a competitive basis, we are losing out? I can understand the overall macro trends and the consumer being under pressure, etc. But at least on a market share basis, we should not be performing so badly. So what is the reason for that? And what are the steps we are doing to address it?

Manish Dawar: Thanks, Percy, great question. Let me just give you a little bit of history to help us understand the current situation with Pizza Hut. So, Pizza Hut has always been a premium brand in the mind of consumers. Be it the quality, pricing, overall look and feel of the store. During the period of hyperinflation, we tried to experiment with Fun Flavour pizza, which lowered the overall pricing structure. In hindsight we can call ourselves wiser, but this move impacted the brand positioning. Premium consumers who came to Pizza Hut with a particular expectation, found that the Fun Flavour pizza, despite its attractive price point, did not meet their expectations. And probably that's the reason we think it impacted the brand so much and will take some time to recover. We have taken initiatives in terms of putting more money on the premium side of pizzas, advertising and marketing to win back the consumers. We are doing product innovations and are taking all the steps to make sure that Pizza Hut kind of comes back to its original positioning. But we are still seeing that in numbers, and that's the reason we've kind of slowed down Pizza Hut expansion a little bit, and we are a little more cautious there.

Percy Panthaki: So, 2 sub-questions to this. In light of the fact that Fun Flavour is basically what you've identified as a culprit, is that something that you would want to discontinue? And second sub-question is that we have seen this happening across many brands over the last 2-3 years, that all the brands have launched more affordable variants. Even in KFC, which has been a premium brand, you have launched meals at INR 99, and you've launched that roll at INR 119 or something like that. And we have not seen an adverse effect on that for the overall brand and the other offerings. So why is it that this kind of an adverse impact is happening only in Pizza Hut?

Manish Dawar: See, it's a different proposition, Percy. For KFC, the core consumer is all about chicken on the bone. And we've not touched the pricing or the quality of chicken at all. Now in consumers' mind, pizza is a pizza, if you can get a pizza at INR 79 or INR 99 versus a pizza at INR 200, it will be perceived as the same pizza. However, the ingredients, toppings, and cheese varies from one pizza to another, but from a consumer point of view, a pizza is still a pizza. Whereas, when we talk about KFC, wraps and rolls are considered side dishes, it's a very distinctive proposition. This is probably why we are experiencing more challenges with Pizza Hut.

Percy Panthaki: Understood. Second question was on the margins. As someone just mentioned, your gross margins are at an all-time high, and this is at a time where consumer sentiment is poor, demand is poor, we are in negative SSSG zone on both the brands. So, don't you think it would be sort of prudent to give back value to the consumers in terms of lower pricing or higher promotions, probably bring down the margins, which might hurt in near term, but that would lead to some kind of revival on the top line? Your thoughts on that.

Manish Dawar: Percy, it depends on how you want to get back to the consumer. If you look at KFC, we've launched entry-level pricing range or a value proposition for consumers with items like rolls and wraps. This help us attract new consumers and build our consumer base. With Pizza Hut, we tested with Fun Flavour pizza with that objective, but it did not succeed. Therefore, we need to keep experimenting with various models, some will work, and some will not. Also, It is not just about increasing the price to achieve margins. Pricing is a very small component. It's the whole efficiency which is coming in.

Percy Panthaki: But like have you done some kind of sensitivity? Supposing you cut your pricing on an average by 2% to 3%. What kind of impact does it have on your overall sales? So what is the price elasticity of demand? Is it more than minus 1, less than minus 1? How does it affect?

Manish Dawar: See, this category is all about large big-bag announcements, so let's say, 2% to 3% will not make any difference from a consumer point of view.

Percy Panthaki: No. I'm saying at the portfolio level it will be 2%, 3% and for some of the other products it might be more also.

Manish Dawar: Correct. You can consolidate that from a different promotion level. As we keep on experimenting with promotions. There are promotions which are working, where we can continue to be aggressive. Whereas the promotions which are not working and are a drag, we continue to cut it down. So that's how the margin optimization happens.

Moderator: The next question is from the line of Srinath V. from Bellwether Capital.

Srinath V.: Yes. Just looking at the reported numbers of the food aggregators and whatever newspaper articles we're able to get of the unlisted aggregators, seems to be growing at a much faster pace than most of the listed QSR universe. And so I wanted to understand how is the competitive dynamics stacking up? Is there a shift in palette towards more Indian cuisines? Or how do you kind of read this data broadly? Would like to hear your thoughts.

Manish Dawar: If you look at the market that you're trying to address and the market that the food aggregators are addressing, that's a far bigger market. For example, if I were to talk from Mumbai perspective, a vada pav guy who's putting a cart, in Dadar, he can reach the Andheri consumer and vice versa. Whereas in our case, they can capture a much bigger share of the unorganized market by making sure that the delivery is seamless, by making sure the logistics are working well. If you look at food services market, it is not that it is mirroring whatever is happening on the food aggregators. It's just that they continue to expand, they continue to penetrate more. And it's a combination of listed players, it's a combination of unorganized market, it's a combination of local competition and so on and so forth.

Srinath V: Got it. Because if you kind of look at the outlet growth or restaurant growth these platforms are growing north of 20%. So, is it that there is a significant new addition of say new pizza players or local chicken players? Have you seen an escalation of competitive intensity which is periodic. In a 10-year window you do tend to have a couple of years which have heightened competitive activity. Are we in one of those zones right now?

Manish Dawar: See, it is there, but at the same time please understand and I'm quoting something from what was available in public domain. If you go back a couple of years, there was this unearthing whereby at one address, there were some 160 restaurants which are being run. And so here you will take 160 restaurants as the restaurant addition all with different GST numbers and so on. If you come to the brand with listed players, it's all kind of available. You can see it, you can touch it, you can feel it.

Srinath V: Got it. My second set of questions would be on Costa Coffee. Our excellent performance both in SSSG and store addition. So, again is there a big trend change because we are seeing multiple unlisted players getting funding and at this time we are also seeing very good numbers roll out.

So is there some sort of coffee culture change or cafe change? One would be that. And second, I wanted to understand how the food menu qualitatively, how the food menu is playing out in Costa Coffee broadly? That would be great.

Manish Dawar: Sure. See coffee is an aspirational category that appeals to the youth, and therefore has a great scope. Globally, coffee is a large category. For example the Chinese market has not fully transitioned from tea to coffee, but If you look at the performance of Starbucks or some local players in China, it shows the coffee market is thriving. You cannot get the same quality of coffee sitting at your home as you can get from a Barista, whereas tea is something you can easily make at home. So therefore, coffee market has that unique niche and it's here to stay.

Coffee is a category which is growing and has a huge potential. You would see multiple players are entering the market, including local players, which are doing very well. We are serious about Costa Coffee and that's the reason Mr. Jaipuria also talked about that we started experimenting with PVR for putting up coffee machines, Costa Coffee machines in their cinemas, which is doing well. As far as food part is concerned, I would say food contribution is going up. It is still not at the ideal stage, that it's still a little bit of work in progress. But if you go to any of the consumer panels and look at their studies, the common feedback is Costa Coffee is the best coffee available in the market.

Srinath V: Yes. So in the Mumbai airport, it is absolutely fantastic. Just want to slip in a last one, is the delivery of coffee being a trigger point for Costa growing as well as the whole segment growing? Is it moving from a 100% dining kind of format to a pro-delivery format, at-home consumption of outside brands? Any views?

Manish Dawar: We have consumers coming in and ordering for home delivery. But you cannot have the same experience at home. I mean, if you deliver Cappuccino at home, by the time it reaches home, it's probably 30% of the top is gone, there are those challenges. But there is this increasing traction, which is coming in, whereby consumers are asking for coffee to be delivered at home.

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

Ashish Kanodia: Hi, Manish. So, first on the Thailand business part. So, if I look at the last 4-5 quarters data, which was reported earlier, the brand contribution margin was between, 14% to 15%. So just maybe not exactly on a number, but was there any meaningful deviation from that kind of a brand contribution margin versus what you have reported this quarter? Because on the international part, the brand contribution margin now stands at 10%. So definitely, there's a bit of impact on Nigeria, but I mostly wanted to check if Thailand was still in that ballpark 14%, 15% range?

Manish Dawar: Ashish, it is still in that range. As I said, there was a little bit of impact in South because of the geopolitical situation, but that is a handful of stores. So, there was a very slight dilution. But directionally, it is absolutely the same numbers that we talked about earlier. There's no change.

Ashish Kanodia: Sure, Manish. And secondly, in terms of store expansion. So I think, you have alluded earlier as well that there will be more calibrated store expansion. So looking at FY’ 25, what are the thought process in terms of expansion across the core brands in India?

Manish Dawar: So Ashish. Overall, we are looking at a similar number, which is 275 to 300 stores. I know, and I do realize that in FY' 24 we were a little short. But overall, on an operational basis, I think we've done exceedingly well in the middle of slowdown and all. We are not changing any of our numbers. It remains same at 275 to 300. KFC remains a similar number, no change at all. Pizza Hut, as I said, we'll be a little cautious in terms of how we are opening the store given the overall brand performance. And obviously, we've taken initiatives there, so let's see how it pans out. But otherwise, no big change in the strategy.

Ashish Kanodia: Sure, Manish. That's helpful. And last bit, this entire discretionary slowdown has been sustaining for almost, say, 1.5 years, 2 years now and has impacted across categories. So when you look at the new real estate deal sign-ups, are you seeing more lucrative offers? And especially if you can just throw some light that, do you see that some of the other non-international brands, are they feeling more pain and they are locating to some of the good real estate. So is real estate availability and cost becoming accretive hereon?

Manish Dawar: Ashish, as I talked about earlier, if you look at India overall as a market, the real estate probably is only in top 50 to 70 locations. Beyond that, real estate is not a challenge. If you look at prime commercial areas in Delhi, Mumbai and other metro towns, the prime retail space is heavily fought for. But the moment you step out of the metros, or you go to even, suburban areas of metros and the smaller towns, real estate is not such a big challenge. There is availability, you can negotiate, the brands are respected, landlords are willing to tweak their terms and are willing to sit on the table and so on and so forth.

Moderator: The next question from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: My question one is with regards to the slowdown that you're seeing in the overall ADS numbers. Would you allude it more this on the pricing of the value format or it is largely due to the reduction in the transaction size across performance?

Manish Dawar: Gaurav, it's a combination of both. The transactions have not fallen dramatically. It is the overall pricing coming out of the hyperinflation scenario because the consumer wallets sizes have remained the same. When this kind of hyperinflation happens, especially as we were coming out of COVID, it takes longer for consumers to reset both in terms of rebuilding their income levels, as well as the whole sentiment and emotion. At the same time, if you look at the overall credit offtake in the country, the consumer credit offtake is sitting at almost all-time high, this also puts pressure on consumers. We do feel that we are towards the bottom of it and things should start to improve.

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Gaurav Jogani: Sure. And Manish, with regards to the Pizza Hut performance, your margin performance has been much better versus the other peers that you have in the country and they alluded for higher marketing spends during the quarter. So have you not been mandated by Yum to do similar marketing spends? And how do you look at the margin trajectory for the brand going ahead?

Manish Dawar: Gaurav, as far as you know Yum very well. It cannot be that Yum can favor one franchisee and not the other one. So, because we all want to revive Pizza Hut brand between Sapphire and Yum. It was a common effort with common funds contribution from both the sides, and that is how we are trying to build the brand back. But despite the additional contribution on marketing and all the common initiatives, our performance is better in our view.

Gaurav Jogani: Yes. So I mean, actually, the question was why it is better versus them? What has led to this? And how are you looking at the margin profile for the brand ahead? Do you think that the margins are now bottomed out and should pick up from here on?

Manish Dawar: See, from a cost efficiency standpoint, Gaurav, we are almost there. The top line needs to pick up to give us the leverage to rebuild the margins at pervious levels. We've taken initiatives from both a marketing and menu perspective. So let's see how it kind of pans out. We think the margins can only improve from here.

Moderator: The next question is from the line of Robert Marshall from Cusana Capital.

Robert Marshall: Just a question about same-store sales growth. Obviously, in terms of customer segmentation, there's a distinction between premium and mass markets, as well as behavioral factors. Have you observed that in many consumer areas, premium customer segments tend to be more robust, but conversely, you're seeing the opposite with Pizza Hut? It seems there's a specific aspect at play here. I'd be interested to hear your perspectives on the same-store sales growth you've observed, and whether it's more influenced by competition and new market additions or by consumer behavior in general.

And secondly, how are you assessing the margin return on capital for your expansions? Once again, the slowdown in Pizza Hut's expansion seems to suggest something in that regard, but it would be intriguing to understand your insights into the potential margin returns, especially in high-format ventures.

Manish Dawar: Rob, it's always good to have a premium positioning when you can appeal to more and more consumers. Getting the consumers into your fold with a premium positioning, is always the best proposition. And that is how KFC, Pizza Hut and, Costa Coffee brands are being positioned in the minds of the consumers. However, when you get into a hyperinflation, the consumer wallets and the disposable incomes get impacted, you start to think in terms of how can I increase the value layer.

Moreover in India, if you look at from a consumption point of view, we are probably addressing the top portion of the market of consumers. So from that point of view, a value layer is important because you are able to get more and more consumers into your fold, and that is how you'll be able to build the brands into mass brands and bigger brands. There is always this whole delicate equation that needs to be balanced between premium positioning. I'm not saying that we'll be able to appeal to 100% of the population, but given the way India is growing, we should be in a position to appeal to maybe 40-50% of the population. And that is where the whole thin balance comes in. And this is where we come into the value layers as far as KFC or fun flavor pizzas is concerned. So we kind of keep on working on both sides to be able to maintain the positioning and get more consumers in.

Robert Marshall: In reference to the previous question about the same-store sales growth you're seeing between the different brands, how is that impacting them? What role does competition play in this scenario? Additionally, could you elaborate on the differences in capital between the various brands and what implications that holds for your expansion plan?

Manish Dawar: If you look at the same-store sales growth, the competition, and the overall market, it's more or less in the same zone. We've seen the market leader in the burger segment reporting a negative SSSG, as well as our peer competitors were in similar situation. We are in similar situation and the entire market is facing these challenges. We do expect the consumer sentiment to recover, which should bring things back to normal. Despite whatever is happening, the KFC at a unit level economics, maintains the payback period of 2 to 3 years. While it was closer to 2 years before, it is now in the 2.5 to 3 years range. It's a good and attractive ROI from that perspective, and that's how we continue to expand.

Robert Marshall: And could you just compare that against the other brands, what are you, you're seeing in terms of their payback period?

Manish Dawar: I would not have any insights on other brands in the market. But within our portfolio, Costa Coffee and Vango sits in the same ballpark numbers of 2 years. KFC it is 2 to 3 years. Pizza Hut, given the current situation is longer around 5 to 6 years.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing remarks.

Raj Gandhi: Thank you. We hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the Company, please feel free to contact our Investor Relations team. Thank you once again for your interest and support and taking the time out to join us on this call. Look forward to interacting with you soon. Thank you.
