restaurant brands asia

February 10, 2023

BSE Limited
Corporate Relations Department
Phiroze Jeejeeboy Towers
Dalal Street, Fort,
Mumbai- 400 001
Scrip Code: 543248

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor, Plot no. C/1,
G Block, Bandra Kurla Complex, Bandra (E)
Mumbai- 400 051
SYMBOL: RBA

Sub.: Investor/ Analyst Call Transcript

Ref.: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 *('SEBI Listing Regulations')*

Dear Sir/ Madam,

Pursuant to the aforesaid SEBI Listing Regulations, please find enclosed the transcript of the Investor/ Analyst call w.r.t. the Unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2022, held on February 8, 2023 at 5:00 p.m. IST as **Annexure A**.

The same is being made available on the website of the Company viz. www.burgerking,in.

You are requested to take note of the same and disseminate to all concerned.

Thanking You,

For Restaurant Brands Asia Limited
(Formerly Known as Burger King India Limited)

MADHULIKA VIPIN RAWAT
Digitally signed by MADHULIKA VIPIN RAWAT
Date: 2023.02.10 19:34:38 +05'30'

Madhulika Rawat
Company Secretary and Compliance Officer
Membership No.: F8765

"Restaurant Brands Asia Limited Q3 Earnings Conference Call"

February 8, 2023

MANAGEMENT: **MR. RAJEEV VARMAN - WHOLE-TIME DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER, RESTAURANT BRANDS ASIA LIMITED**
MR. SUMIT ZAVERI - GROUP CHIEF FINANCIAL OFFICER AND CHIEF BUSINESS OFFICER, RESTAURANT BRANDS ASIA LIMITED
MR. KAPIL GROVER - CHIEF MARKETING OFFICER, RESTAURANT BRANDS ASIA LIMITED

MR. PRASHANT DESAI - HEAD, STRATEGY AND IR, RESTAURANT BRANDS ASIA LIMITED

Moderator: Ladies and gentlemen, on behalf of Nuvama Wealth Management, I would like to welcome you to the Q3 FY '23 Earnings Conference Call of Restaurant Brands Asia. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

I would now like to hand the conference over to Mr. Prashant Desai, Head of Strategy and Investor Relations. Over to you, sir.

Prashant Desai: Thank you, Ryan. Thank you, everyone, and welcome to the Q3 FY '23 Conference Call of Restaurant Brands Asia. We are 4 of us today with us. We have with us Raj Varman – our CEO. We also have with us Sumit Zaveri – our Chief Business Officer and Chief Financial Officer. We also have Kapil Grover – our Chief Marketing Officer; and I am Prashant, heading Strategy and IR at RBA.

I will now hand it over to Raj to give you an update on the India business, Indonesia business. And also, he'll give you an update on the launch of the Popeyes business, and then we'll take it from there. Over to you, Raj.

Rajeev Varman: Thank you, Prashant, and good evening, everyone, and thank you for your interest in our company as well as your time joining us here this evening.

So, highlights and summary for the India business first, and then I'll go into Indonesia:

So, same-store sales growth was 28.1% for the 9 months ending in December. And for Q3, it was 8.6%. So, slightly softer Q3 close versus the run rate from the previous two quarters. The revenues 9-month FY '23, Rs. 1,074 crores, and that was against FY '22, where we had Rs. 670 crores. So, this is a massive growth of 59.2%. Strong SSG, obviously, at 28%. And then on top of that, we had new restaurants growth as well.

The third piece is the revenues of Q3, which is FY '23, we ended at Rs. 370 crores. This versus Q2 FY '23 is the previous quarter at Rs. 368 crores, which is a flat kind of quarter we had. The expectation was to be at a significantly higher number, but kind of ended up flattish in this quarter in terms of revenues. Gross profit, we continue to drive 66.4%. I think the last 3 quarters, we have been reporting to you 66.4%. This is despite all the inflationary pressures on our business, we continue to maintain a decent gross margin. Again, I'll also tell you that we have not taken any price increases in this quarter. It is just through driving efficiency in our business.

Restaurant level EBITDA, and this is, again, post IndAS 116. So, the 9-month FY '23, Rs. 181 crores, 16.9% against the previous year 9 months, which is at Rs. 105 crores. That was at 15.5%. So, that's an improvement of 140 basis points. Q3 FY '23, Rs. 71 crores, it is 19.2% against the Q2 FY '23, which was at Rs. 60 crores, which is at 16.5%, which is again up 270 basis points.

Company EBITDA, again this is post IndAS numbers, 9-month FY '23, Rs. 123 crores, which is 11.5% against the previous year at Rs. 60 crores, which was 8.9%. This is 260 basis point improvement. Q3 FY '23 for the quarter was at Rs. 48 crores, which is 13%, against Rs. 42 crores previous quarter, which is 11.4%. So, another 160 basis points improvement. So, in spite of the slightly softer quarter in terms of revenues, our margins both at company level and at a restaurant level have improved significantly. So, a good job by the entire operations team and the growth team.

Now on the growth front, we are at 379 restaurants as of 31st December 2022, opened a net of 45 restaurants in Q3 FY '23. Now this 45 restaurants, the majority of which opened towards the last week of December, that I just want to make sure we highlight here. Now we additionally have 23 restaurants that are in construction and another 40 restaurants are in our pipeline. BK Cafe, we have been talking about being at 250 cafes by the end of this fiscal year. We actually achieved that already. December 31, 2022, we are now at 252 cafes, adding 72 cafes in this quarter. So, that's a good job done by our development teams.

Now the BK upfront, again, we have been reporting quarter-over-quarter improvements and increases for the past 7 quarters. This quarter is no different. We increased revenues by 16% this quarter again. 5.5 million app installs, 17% growth over last quarter in the installs again. So, that's on the front of the India business.

Again, just summarizing, in spite of a softer Q3, very good results and margins on all line items were improved on our P&L, and hence, we were able to deliver an improved gross margin, improved restaurant operating profit as well as our company EBITDA.

Now on the Indonesia front, there's a couple of things I want to update you. We'll come to Popeyes business later. Just overall Q3 FY '23, we did about IDR296 billion, I'm talking about Indonesian rupiah, versus Q2 FY '23, which was at IDR293 billion. This is approximately Rs. 156 crores. So, it was a very flat Q2 over Q3.

Now on the company EBITDA front, again, here, I think we did a very good job, again tightening up our belts in spite of the fact that you will see that Q3 loss was at IDR34 billion over the Q2 loss of IDR31 billion. This loss was actually only IDR22 billion. The other IDR 12 billion that is added on there is the launch of our Popeyes restaurant, which the 3 restaurants we opened were on 29th, 30th and 31st, and then we had another opening on 2nd of Jan. So, totally, we have 4 Popeyes right now.

Now just quickly, I want to spend a few minutes today on working strategy in Indonesia just so that everyone is updated on a business that we are building there for the long run. So, 4 basic strategy pillars that we are working on. One is we are going to be and we have started this work, and in fact, the product level work is already completed, which is to build the Whopper franchise. And this is through both the existing Whopper product that we have and innovations of the product that we do, which is we call the limited time offers, the LTOs. So, both this focus, the Whopper is already ready. It's tested and it's already moving into the restaurants. And then we are moving into the product innovation piece.

The second layer that I wanted to talk about is the chicken business. The chicken business today is sitting at about 30% of the Burger King sales. When I say chicken, I'm talking of BIC, which is bone-in chicken concept that we sell over there. That’s about 30%. We think that we can more than double this business, and the steps to take to move this is unlike the competition, which offers 2 levels of chicken, a spicy and a base classic level, both the competitions over there offer the same product, both classic as well as spicy. We only have one product there that we have been offering for the last several years. We are now launching the spicy version of it as well. So, we'll have this one additional BIC that we will launch. We will strengthen this layer and start building this 30% business onwards.

And then the building of the premium layer. So, beyond the Whopper, unlike here in India where we have King's Collection that Kapil has built, CMO has built over the last couple of years, in Indonesia, we have just started the process where we are now building a King's Collection layer over there, which will be premium burgers that will be available. So, that work is in place, and we should be able to get that to fruition before April 1, so that we are able to install that menu into our restaurants.

And the final piece is about the portfolio. So, there's 2 work streams that we are working on. One is obviously rationalizing the existing restaurant. As you know, a lot of our base over there is built traditionally from 2008 in malls. And if you see the consumption habits in Indonesia, there's more outside of the malls and freestanding drive-through locations. So, our movement strategy over the next 5 years will be to rationalize what we have in our mall restaurants and then to continue our growth towards the freestanding drive-through locations. So, these are 2 things that we will be working on and the 4 pillars is what we are kind of moving forward on.

And then comes the Popeyes. So, Popeyes launch in Indonesia was one of the best Popeyes launch that there has been globally for Popeyes. So, we were informed that our transactions in the first day in the first restaurant broke all records around the world in all Popeyes that were open. I'd like to congratulate our team in Indonesia, led by our President over there, Sandeep Dey, who's done a fantastic job building the products and launching that brand over there.

We are going to build 30 restaurants till 31st March 2024. These stores right now, if you look at the 4 stores we have opened, they are doing IDR60 million ADS. So, this is a fantastic business that we have started up. These 30 restaurants, as we build them, we expect to do a very, very high ADS compared to Burger King. We have also experimented one of the restaurants Popeyes by putting the Popeyes along with Burger King. And this is a Burger King that was doing about IDR23 million in ADS, and we put a Popeyes that we're doing north of IDR40 million in ADS, and combined is north of IDR60 million. So, base same rent, and the strategy seems to work. It will not work everywhere, obviously space constraints and all that, but this is another thing that we are exploring as we kind of continue to build that business.

So, on Popeyes launch. This turnaround has started towards the Burger King business. Work is in place to build a strong menu in the premium side and then to continue to drive the value strategy that we have installed in the last quarter.

With that said, I'm going to hand it back to Prashant, who will carry you through the India business. Over to you, Prashant.

Prashant Desai: Thanks, Raj. Raj extensively shared an update. So, I'd quickly go through a couple of slides. One on the store opening status, as all of you will notice, we had very strong openings across the quarter this quarter. We opened 45 new stores, taking us to almost closer to 380 as a number. As you will recall, our guidance for the current year is about 390. So, we are absolutely on track to deliver you 390. Another thing to highlight, that we've had 12 closures in the second quarter. Despite that we will deliver net addition of up to 390 this year.

Coming to Slide 11. Despite the 5% reduction in ADS because of the headwinds that Raj spoke about, we've still been able to maintain overall revenue trajectory thanks to the growth in cafes as a business as well as the store openings. As Raj mentioned, a lot of our store openings happened in the last week of December. So, the impact of that will happen in the next quarter. Our dine-in and delivery mix is almost very similar to what we had in Q2, which is 58% dine-in and 42% delivery.

I now hand it over to Sumit to take you through the financial performance.

Sumit Zaveri: Thank you, Prashant. Good evening, everybody. I'm actually just continuing from all the things that we have discussed last time when we were discussing our quarter 2 results. From the perspective of revenue, we saw that we are very similar to in terms of revenue over quarter 2 as compared to quarter 3. But we've certainly seen a shift in some of the cost lines, and I'll talk you through that and kind of go back a little bit into last quarter's conversation as well so that you would realize why that shift has also happened, and also understand that it will be sustained going forward.

Firstly, as far as gross profit is concerned, we continue to remain at 66.4% consistently, and we've really been able to kind of manage the inflationary pressures and deliver fairly robust gross profit margins. As far as store EBITDA is concerned, we've moved up from 8.2% to 10.4% on a pre-IndAS 116 basis. And I'll just now kind of go back to the last quarter. When we were discussing about our performance during last quarter, we mentioned that there were certain initiatives which we aggressively ramped up there, and in order to make sure that we deliver the right experience for the launch of those initiatives, which is one was Cafe. And you saw that we've kind of ramped up and achieved our target early. And the second one was improving the revenues through different day parts, the morning and the evening, breakfast and the late-night day parts.

In order to make sure that we are able to train the team properly, we have the right resources as we ramp up fast. We had structurally got more people into our system. We've now kind of, as we've now rolled out and gone to a large base, we have now come back to the normal levels of staffing at all our stores. And effectively, the headcounts, if I would say, or in terms of rupee terms as well, there is a reduction on a per store per month basis of around 16% to 17% over quarter from quarter 2 to quarter 3. So, that is something which is sustainable going forward, we believe there.

And the second one is, partially, it is on account of seasonality, but partially also we've now started looking at our utilities very, very closely, and we believe that we can get some efficiencies there. So, we're working on that. So, the efficiencies have started getting reflected in our results for the quarter as well. And that is what has helped us improve the store EBITDA from 8.2% to 10.4%, and company-level EBITDA moving from 3.2% to 4.2%.

Just quickly summarizing the India performance. We were at the revenue of Rs. 370 crores, very similar to what we had in quarter 2, with gross margins at 66.4%. While we can very clearly see employee rate expenses now coming down by 1.2% and the other efficiencies getting reflected in occupancy and other expenses. We've been able to improve our pre-IndAS EBITDA to 15% on a company level. And early double digits restaurant-level EBITDA for quarter 3, which is an improvement over quarter 2.

With that, I'll hand it over to Kapil to take you through the marketing initiatives that we kind of carried out during the quarter.

Kapil Grover: Thank you, and good evening, everyone. I'll start by talking about the Whopper. It's our core signature product. So, while we continue to build our value program, we stay focused on building our signature Whopper equity as well. This quarter was the launch of Boss Whopper. It is one of our most popular innovations or limited time products on the Whopper. It's an indulgent big eat which is apt for the festive season. Also, happy to share, that Whopper has been selected as one of the winners amongst 50-odd many innovation ideas that were evaluated by Nielsen basis independent study, and it's amongst the top 10 most innovative products in India. And relevance and uniqueness were the 2 key criteria used for re-evaluation. That just reinforces our confidence to stay invested in building the Whopper franchise.

On the next slide, BK Cafe continues to expand rapidly and is perhaps one of the fastest-growing cafe concepts in the last year. We've added 217 Cafes in the last 3 quarters and now have a strong footprint of 252 Cafes. This incrementality continues to be there in a relatively young concept, just the average age of our Cafe is about 5.5 months. This portfolio will help us build incremental revenues and margins in years to come, and we'll add fundamental strength of the business in terms of building new occasions and frequency with customers. The winter season, we launched some limited time season specials. I've shared those pictures here. These are cinnamon flavor drinks. More importantly, we've added Masala Chai, which now completes our hot beverage portfolio in the Cafe menu.

The next slide talks about the new initiatives we rolled out in the last quarter to build relevance in Southern markets. This is the Chicken King menu, which brings together our chicken favorite for our guests in Bangalore, Hyderabad and Chennai. We understand that the audience in South over indexes on non-veg consumption, and there is a liking for spicy flavors. We put together the assortment of our chicken burgers, fried and grilled, our wings in 3 formats, boneless, fried and grilled, with flavors of spicy and lemon chilli favor. All these variants are put together in a program called the Chicken King menu. We've seen early good signs of consumer feedback. People are really liking overall assortment and there's a lot of trials happening, and we'll keep our focus on this menu and keep you updated on the same.

Last but not the least, we continue to build a brand focus on millennials and Gen Z through a variety of engaging programs on social media. I've shared some examples here on how we celebrated international festivals like Halloween or an Indian festival like Diwali with our fans through a very interesting online version of a locally popular game.

With this, I'll hand over back to Prashant to talk you through the outlook.

Prashant Desai: Thanks, Kapil. As you will see in the outlook slide, no significant change from the outlook that we have been sharing with you. We continue to remain committed on our store opening targets. This year, we'll deliver surely 390. Next year, the target remains at 470. On our same-store growth, we are all set to achieve our 25% same-store growth for this year. And next year, we continue to currently maintain a 7% to 10% SSG, particularly in light of some of the macro headwinds that we've seen. Should we decide to change or upgrade this, we'll come back to you when we come back to report the full year numbers with you.

Our gross margin guidance remains the same, 67% for this year and 68% for next year. The Cafe guidance that we had given for full year we've already achieved. One of the other thing that we want to highlight to you is all the new stores that we are now opening, they are all opening with the Cafe. So, prima facie no major change in the outlook as we speak. We'll come back to you with a revised one if required next year.

I hand it over to Sumit now to give you some details on the Indonesian financial numbers.

Sumit Zaveri: Thank you, Prashant. I'll kind of just go little part here because Raj in his earlier part has covered Indonesia in terms of strategy. We continue to still remain at an overall ADS in terms of Indian rupee terms of 96,000 to 98,000 INR basis. Our endeavor is to kind of improve these from the current levels and take it closer to where we were on a pre-COVID level. So, that's something we are working on, and Raj has already spoken about the strategy there.

We currently have 179 stores. Our idea going forward, at least for the next 12 months, is to have a close look at the portfolio and if there is a need to rationalize the portfolio. We, at this point in time, are not looking at any substantial growth as far as Burger King Indonesia is concerned in the coming year. And our full focus would be actually to kind of turn the existing portfolio around.

As far as Indonesia is concerned, we did a revenue of 153 crores in Indian rupees. At the company level EBITDA, we were at Rs. 28 crores in terms of loss, but this Rs. 28 crores includes the onetime cost that we incurred when we launched the brand, Popeyes Indonesia. The brand was launched towards last week of December. So, obviously, there is not much, the revenue is not reflected here, but we've got a fantastic brand launch.

First month ADS of the 4 stores that operated through January average around IDR60 million in terms of ADS. That's actually 3x what currently we have in our other brand and that only kind of shows the potential that we have on the Indonesia brand side.

I'll not detail out Slide 23, 24 because Raj has already spoken about the strategy. Just a quick summary of overall consolidated revenues, the Rs. 526 crores revenue for the quarter, very similar to what we did in quarter 2. Our endeavor to kind of turn this business around, especially in Indonesia so that we can kind of show improved performance at a PBT level, which currently stands at a loss of Rs. 56 crores. So, with that, I'll hand it over to Ryan for the questions.

Prashant Desai: We can now take questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from the line of Sagar Shah from Phillip Capital. Please go ahead.

Sagar Shah: My first question was related to our India business. In this quarter, our ADS have fallen from 127,000 to 120,000. So, any reason for the same in spite of being so many festive days, naturally, it could have been a stronger quarter?

Rajeev Varman: Yes. Sorry, I think you were talking about the ADS drop from 127,000 to 120,000. There's a couple of factors. One is the traffic was softer in the month of December specifically. The industry has a very high December. We did not see that kind of a high December. So, that was one of the major reasons.

Mall traffic was also muted. It wasn't the kind of traffic that we have seen in the past. There's also this whole bunch of stores that we opened that kind of fell into the quarter, right, for 45 stores. And when you know we are now opening a significant amount of these stores in high streets and so forth. And they obviously take time to ramp up. Even if you look at last year, if you look at the entire year from January 1 to December 31, we opened 100 restaurants in the year, right? These are all young restaurants that are opened that will ramp up over the next year and so forth, right? So, this cumulative impact is where the ADS didn't make the cut.

But again, I bring you back to the earlier comments we have made, which is despite the drop in ADS, the team has built up and worked very hard to put some systems and processes in place, and we have made some sustainable changes to way forward, which is both in the labor line and the other operational expenses line, delivering a higher restaurant level profit EBITDA as well as the company level EBITDA. Anything else you want to add, Sumit?

Yes. You had another question, I think.

Sagar Shah: So, basically, for our India business, we expect the ADS to realize in the same level or next year and even in Q4 also since we are in a developing state so may be what you're pointing out gradual recovery. So, can we expect a similar kind of ADS in the next year?

Prashant Desai: Sagar, as we mentioned in the outlook, right, currently, we remain confident of delivering a 7% to 10% same-store growth for next year. And as I said, should the situation change, we'll come back to you with a revised guidance when we come to you with the margin numbers.

Sagar Shah: My second question was related to our Indonesian business. Our Indonesian ADS has remained almost quarter-on-quarter at the same level. And you had said that the Indonesian recovery is lagging Indian recovery by around 2 to 3 quarter. So, going ahead, do we expect the recovery of Indonesian operations to continue in the subsequent quarter or it will take even more time?

Rajeev Varman: So, you're absolutely right. It was a flattish quarter there as well. We have highlighted that in our presentation. And you can again appreciate the fact that we have started tightening the business with our cultural way of operating. And we saw a significant decrease in the losses there from 32 down to 22. And the 34 that you see over there is actually a 12 billion that we spend in opening up the Popeyes location. So, we have tightened our process systems there. Efficiency from the restaurants has improved. But there was a little softness there as well in December, which was the same here in India. We experienced it over there as well.

Look, I've outlined a very clear strategy of what we are doing there, right? We already had a value platform that we rolled out right after taking over the business. We continue to work on that platform and build it. It will take time to build that platform. We have now installed the Whopper platform with the product development that we have done in the last quarter. And we are also now working on the premium, which will take another quarter. By April, we should be able to launch the premium side of the menu as well.

On the best side of this is the chicken BIC improvements that we are making. See today, that business is about 30% and the market average of that business with the market is about anywhere between 60% to 70%. So, we can double this business. And what we didn't have was the product to do it. We were only selling one BIC product there. Now we will have a spicy version and a classic version. And we think that with those 2 versions as well as the strengthening of the Whopper as well as the premium products, we are setting up the business to grow in the future.

Sagar Shah: Okay. So, basically you are researching menu innovation products, basically the contribution of chicken portfolio, we moved from I see from 30% to 60% in the next 1 to 2 year. That's what you are telling, right?

Rajeev Varman: Yes. See, we are not going to move in a quarter, by the way. It will take time to do that business.

Sagar Shah: That's why I said it would take a couple of years to do so.

Rajeev Varman: Yes, it will take some time to build that business, right? But that's a strong business. We think it's a business that we have left out there in that business, and I think we need to capture that business. It's an audience that doesn't walk in today, right? So, it's going to be additional traffic coming in, additional sales coming in. But yes, it will take time to build that business. We are just building that product. We will be rolling that out into the restaurants.

Sagar Shah: So, my last follow-up question on the EBITDA front was EBITDA was (-70) for Indonesian. So, can you give us guidance for Indonesian EBITDA, actually at what levels of margins we will try to work in the next 2 years, at least for Indonesian operations?

Prashant Desai: Sagar, Prashant here. As you know, both for the India business and in Indonesia business, we don't provide guidance on an EBITDA level given the number of initiatives that we are running. At Burger King, we've chosen to kind of provide you guidance purely on a gross margin level. Indonesia, as the business is still recovering and initiatives are taking place, as we speak, we have chosen not to provide a guidance on the Indonesia business.

Moderator: Our next question comes from the line of Akshen Thakkar from Fidelity. Please go ahead.

Akshen Thakkar: If we go back to the original investment case, one would have thought at a brand like yourself could earn 10% EBITDA margins, and we've added café which should be margin accretive steady still. You are at about 4% margins today on a pre-IndAS basis. And I'm just looking at the India business right now, the gross margin moves up 100%. So, let's say our cost structure remain the same and you get to 5%. Is 7% to 10% SSLG enough for you to move towards the 10% margin? Or are you think the path to get to 10% margin is slightly longer? I mean, I know we generally stay away from EBITDA for guidance. But how do we look at margins getting to double digit? That's sort of potentially the question that I have.

Prashant Desai: So, one of the things, as we have interacted in the past, we've tried to impress upon you that at Burger King, we like to believe to do things which are very solid from a longer-term perspective, whether it is with respect to the menu and the menu architecture that we've built, whether it's the launch of standard menu or continued investments on the Whopper and the King's Collection, our imperative to launch Cafe, we believe it will be a significant value addition to the overall business over a longer period of time.

Some of these initiatives has led to us investing in the interim, which is exactly where Sumit mentioned. Two, three things, Akshen. If you broadly structurally see from where we are seeing this business from a pre-COVID to post-COVID, one big change we have seen is our check sizes have gone up significantly, but we are still to recover from dining traffic compared to where we were pre-COVID.

As we continue to invest in the brand, it's our hope that we'll soon get the traffic back. Now if we get the traffic back with the kind of check size that we have, you will see a robust growth in ADS. Difficult part of our business is it's tough to predict this on a quarterly basis. But if you look at it from a broader trend over the next 2, 3 years perspective, you clearly see all of this panning out.

We've been very focused to ensure that we don't slip up on our gross margin, which is really actually the qualitative side, the way we've built our business, including product mix, the way we’ve built our supply chain from scratch. As a result of this, despite not taking any price increase, we've been able to maintain our gross margin at 66.4%. As Sumit mentioned, had it not been for all the initiatives that we have taken, probably our EBITDA margin that we reported this quarter would have been a little higher or lower.

Now Akshen, coming to the point that you answered, where we were sitting when we spoke that there is a probability of us coming closer to a double-digit EBITDA margin for next year, given all these initiatives that we have taken, maybe probably instead of '24, we may probably go to '25 to give you a double-digit company level pre-IndAS EBITDA next year, maybe in the range of about 6% to 7%.

But I keep communicating, right, where we are over here is we are here to build a solid business on solid foundation. Numbers will flow through 6 months here and there largely because of some of the initiatives that we have taken, some of the macro challenges have also kind of contributed to this. But again, I will repeat over here, we kind of take you through a flavor of the business. I would just urge everybody listening, this is not the guidance that we are giving. This is broadly the direction that we see this business. So, you are right, Akshen, instead of '24, we may look at a double digit in '25.

Akshen Thakkar: And lastly, just on Indonesia. Given where your business plans are, do you see EBITDA breakeven happening in '24 or that again we are (Inaudible) 38:10 now, we should be thinking about EBITDA breakeven all that in '25?

Prashant Desai: So, again, request to everybody listening on this call. Going forward, especially in the next year, we would like all of you to look at our Indonesia business now has 2 elements. One is the Burger King Indonesia business, where the team is doing a lot of foundational work to not just get back the revenue to its trajectory when we acquired on a pre-COVID basis, but also significant work to improve the margin profile of the Burger King side of the Indonesia business.

The second side of Indonesia is the launch of Popeyes, which as Raj mentioned, has been phenomenal beyond our wildest expectations, the way the Indonesian public has responded to Popeyes as a chicken brand. Remind you, as we had spoken to you guys when we acquired the business, the largest player in Indonesia continues to be KFC, now with over 800 stores. And given the response that we have got for Popeyes, you will see very, very strong numbers being delivered by Popeyes in FY '24. We've spoken about 30 store openings in FY '24 out of Indonesia. A large part of that store openings will come out of Popeyes because we currently continue to monitor the Burger King Indonesia side of the business, rationalize the stores there in favor of freestanding drive-throughs. As the Burger King Indonesia side of the business is in our control, we'll open new Burger Kings.

But a large part of our store opening strategy is going to be Popeyes, and Popeyes in Indonesia together at the same pace as Raj mentioned. From where we stand today, Akshen, I can only say that we will be disappointed if this business loses money next year. High probability we won't lose money next year. We'll probably deliver some reasonably decent EBITDA next year on Indonesia pre-IndAS.

Moderator: Our next question comes from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I'm referring to Slide 16, where you have given some maths around how the stores have expanded. So, maybe I'm looking if you can help me, what kind of growth as a percentage of revenue has grown? Or is there any transaction size you can meaningfully say? Or any meaningful number on the growth on ADS? So, it will be helping us to model in the balance sheet.

Prashant Desai: Shirish, are you talking about the Cafe slide?

Shirish Pardeshi: Yes. BK Cafe slide, where we have shown from last 1 year, 18 stores to 252 stores.

Prashant Desai: So, Shirish, as we have mentioned in the slide, as you will see on the second bullet, currently, Cafe is relatively young. We are still doing an incremental revenue of about Rs. 7,000, which will be roughly between 5% and 6% of the total ADS at a company level at about 8%, 9% or 10% at a store where Cafes are operational. Still very early days. We are also experimenting a lot. But as we mentioned in the previous call, even in an incremental Rs. 7,000, Rs. 8,000 Cafe ADS, our paybacks on Cafe is about 2 years, and this is only going to improve as we go forward.

Shirish Pardeshi: No, I got that. I read that. The reason why I'm asking this question, let me repeat. You've said that now all the new stores will definitely have the BK Cafe in that. So, I think is that the way you look at that BK from 7 can move to 14 the new stores?

Prashant Desai: I wish I could guide you on the Cafe business. Currently, as I mentioned, we want to stick to the overall company guidance of between 7% and 10% on a same-store basis, which includes the Cafe business as well. As I said, the whole industry is currently facing some macro headwinds. Give us at least another quarter or so for the macro headwinds to kind of move up. We've opened a lot of Cafes over the last 2 quarters in our business. We need to stabilize the Cafe business. Let the stabilization happen over the next quarter or 2. And then we'll come back and revisit the 7% to 10% guidance for everyone.

Shirish Pardeshi: Sure, Prashant. My second and last question, on the new product development. When I look at the Chicken King menu, which you specifically said in the South, is that specifically in certain states where you've introduced? And is that the price lightening strategy you are expecting or you are really wanting to get your foot in Chicken segment?

Kapil Grover: Shirish, this is Kapil. I'll take that question. This menu is in Bangalore, Hyderabad and Chennai. It's a pilot that we're running in these markets. Now these are products which are already there in the menu. We put together an assortment as a campaign for the consumers to absorb that there are so much variety available at Burger King for chicken, burgers and also for wings. So, these are products that are already there on the menu. We intend to now continue to promote it and grow this awareness of these products, grow trial of these products and build this layer as an incremental business in the South.

Shirish Pardeshi: Kapil, that's helpful, but let me harp on that. Has that chicken brand has worked anywhere in the developing, developed countries, if you can share some meaningful thing? Or it's just a product innovation we are trying to get more footfall?

Kapil Grover: No, this is our own concept. It's not a concept borrowed from any other market. It bases the local consumer insight. We see there's a preference for chicken in a certain flavor. So, we're using that leveraging, that insight to promote product here.

Moderator: Our next question comes from the line of Prateek Poddar from Nippon India Mutual Funds. Please go ahead.

Prateek Poddar: Three questions. One, could you just share the experience on the 18 Cafes which were opened in Q3 FY '22? What kind of ADS are we witnessing after a year which has passed time? That's one. Second is also on your corporate and SG&A cost, right? There has been a substantial increase on a quarter-on-quarter basis from Rs. 18 crores to Rs. 23 crores. That is question number 2, if you can call out as to what has happened over here. And lastly, you guys were quite hopeful of the Stunner menu as well as the Bigg campaign which happened, which should have driven Q3 walk-in sales. But when I see the dine-in sales on a Q-on-Q basis, it's quite flat. So, maybe you can talk about what happened over there? These are the 3 questions.

Prashant Desai: I'll let Raj take the first and the third one and then Sumit, end with the explanation of the corporate and SGA. So, one on the Cafe, the original cohort of 18 Cafes that we opened, and second on the Stunner campaign, Raj will answer. Okay, Sumit go ahead.

Sumit Zaveri: I'll take the first 2 and then Raj can take the third one. So, firstly, the stores that have opened early in terms of Cafe, Prateek, they continue to grow. And as we've seen and we've been saying that we've not reached stable-state revenues in our stores, in the same way, we've not reached stable-state revenues in those Cafes as well. Those Cafes that we've opened, in our early stage of them, overall, Cafe ADS would be at least anywhere between 1.7x to

2x the average ADS that we do at a system level on Cafe part and they continue to grow, we've not seen. That is one part.

The second part, just that while we were building through the scale for Cafe, we've so far not promoted Cafe outside of our stores at all. So, far, whatever incremental sales that we've got is purely on the basis of upselling and promoting the Cafe through our in-store promotions. In the past, we've said that once we get scale, we will at least start talking about Cafe as well outside of the store, and that is something which should help us push the sales of Cafe further because we see very strong potential on that side.

The second question on the corporate SG&A. The increase in corporate SG&A is on account of how the ESOP grants that were done during the quarter, it's a noncash adjustment to the number.

Prateek Poddar: How much is that sir, if I may ask?

Sumit Zaveri: Roughly, the impact of that is anywhere between Rs. 1.5 crores to Rs. 2 crores.

Prateek Poddar: And the rest Rs. 3 crore increase, so that goes to 20, the rest of the Rs. 3 crores. So, 23.1 versus 18.7, Rs. 1.5 crores that we saw, which goes around to Rs. 20 crores. So, the last 2.5 is what?

Sumit Zaveri: And the balance is there were some corrections in the salary at the senior level which was effective start of the year, which got kind of provided in quarter 3.

Prateek Poddar: This is for which year, sir, FY '23?

Sumit Zaveri: FY '23.

Prateek Poddar: So, it's accumulation of 3 quarters which we have provided?

Sumit Zaveri: Yes, accumulation of 3 quarters that is also provided. So, 2 impacts, ESOP and some adjustments to salary.

Prateek Poddar: Got it. And my last question on the Stunner menu, at least I was hopeful that the Stunner menu should have got you a lot of traffic, but the dine-in is flat.

Rajeev Varman: Mr. Poddar, thank you for your question. Actually, when we did the campaign, if you remember, in the month of June and July, right? See, this year, our marketing budget was at about Rs. 60 crores to Rs. 70 crores. And you appreciate that we have done a lot of work on the app and new restaurant openings. So, there's a lot of LSM spending as well and then we launched Cafes and so forth. So, we didn't go back to that campaign during the month of November, December, which could have been effective if we had the marketing fund to do that.

Next year, you will appreciate that our marketing fund goes up by about almost 40%. So, the campaign did well. We were up about 10% to 15%. I think closer to 15% in terms of traffic during those 2 months compared to pre-advertisement. So, it did well. We continue to work on our Stunner menu. We will continue to highlight next year. You will find that we will work on several streams. We will not outline here what the strategy is, what we will do. But you will see that there will be extensive marketing campaigns next year because of the increase in budget that we will use.

Also, the money that we used this year in terms of LSM and our app and so forth, those will be available as well. So, we have a strong marketing program for next year. So, you will see this continued work in all these structures.

Prateek Poddar: And I have, Raj, 2 questions for you. The experience which you shared on these 18 Cafes, right, 2x ADS, a year down the line when you have these 250 Cafes, which would have been, again, had a vintage of a year, is it fair to say, not 2x, but 1.5x kind of ADS which this entire bucket can give you?

Rajeev Varman: Look, we were giving you a guidance on all items except those Cafe for a long time. And there's reasons for it, right? We don't know the ceiling. Those restaurants that we opened, the 18 restaurants that we opened are doing very good. They're doing very strong. We'll share those numbers when we want to share those numbers. Right now, we'd like to keep that competitive information to ourselves. We are seeing those restaurants much stronger than the ones that we had just recently opened. I mean we opened 70-plus Cafes just this last quarter, right?

There's a reason we continue to open these Cafes. There's a reason that we opened 250 Cafes. We saw a very strong performance in the cafe sector. So, we will start sharing those information in some fashion with you moving forward. But just for competitive reason, we are just holding back. See, there's a market in the North where the only Cafe in QSR available is Burger King, and we want to protect that as we move forward. So, I think you appreciate what I'm referring to.

Prateek Poddar: Surely, sir. And lastly, can you confirm pricing interventions being taken on the Whopper portfolio, is it pan-India?

Rajeev Varman: No, we have not taken any price increases in Q3.

Prateek Poddar: No, Q4. Sorry, I mean January.

Rajeev Varman: Yes. So, Q4, we have taken some kind of very minimal price increases, and it's minimal across the portfolio. So, we haven't taken it on every item or we don't do that way. We were significantly lower in many items compared to competition. We have just kind of caught up a little bit on those. See, we don't have a pressure to take pricing because of gross margins. You know that, right? We deliver good gross margin. So, we don't have any pressure on the company to take pricing to drive gross margins.

And we are a company that's still young. We want to work on traffic long term. That's what's going to be sustainable when you drive that many number of people into your restaurants. And so that's why we are able to, given our efficient distribution system, our efficient buying, to sustain slightly lower prices and build the traffic in the long run.

Prateek Poddar: Sorry, last, Sumit, could you just guide me into this corporate overheads. Next quarter, it's mean reverts and the same it will fall back down because there are 2 one-offs, right?

Sumit Zaveri: Prateek, ESOP now will continue because it will get amortized in there. But cash level, we will still remain the same in terms of cash because this is a noncash adjustment. So, yes, on a cash level basis, we will revert back to where we were.

Prateek Poddar: So, the Rs. 23 crores is a steady state run-rate to assume going forward?

Sumit Zaveri: Yes.

Rajeev Varman: Yes, for noncash it is.

Sumit Zaveri: Including cash and noncash, yes, Rs. 22.5 crores, Rs. 23 crores is the run rate that we should assume, Prateek.

Moderator: Our next question comes from the line of Vatsal Dujari from CLSA. Please go ahead.

Vatsal Dujari: So, I just noticed that there was a gross margin contraction in the Indonesia side of the business, both on a year-on-year and on a quarter-on-quarter basis. So, I wanted to know the reasons behind that.

Sumit Zaveri: So, Vatsal, last quarter, we had spoken about going very aggressively with the value menu. We promoted 'GOKIL' very aggressively during the quarter. And that has led to high levels of discounting in order to kind of build traffic there.

We now moved away and kind of moving to the strategy which Raj spoke about. We will be able to kind of build back the traffic. So, we have been aggressively promoting through the discount and the coupon route, which is what we did, and we did see a drop in margin there. But we know that as we kind of pull back and move to the strategy that Raj spoke about, we'll be able to pull the margins back to where it was earlier.

Moderator: Our next question comes from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: I have 2 questions for Raj. Raj, the first question is as an existing shareholder where we are a bit concerned, as you know, we have a promoter who is looking to sell out because of end of the end of their fund life. So, are there any pressures on the professional management team to take actions which you wouldn't take if you had a more 5, 10-year kind of view? So, that's question one. And I appreciate that because you have built a fantastic franchise, thinking long term. But as things stand today, this is a question which concerns us. And the second question is 2 quarters back you mentioned, this business is very similar to the extent, the only key driver is getting ADS probably to 150,000 and then 200,000, right, and all the margins start falling in place on its own. In order to get to that kind of ADS, what are the key challenges you could see today as you run this company? So, these are the 2 questions.

Rajeev Varman: Thank you. I appreciate your questions. Again, guys, I said this every time I meet anyone. See, we are an independent company. It's a public company. It's led by me. We have an independent Board. We operate very independently from any investors or promoters. So, please feel confident that all decisions we make are made by guidance from at-large working system worldwide. All the learnings come from there. Whatever strategies we do, we get a lot of learnings from different markets. So, you will see that those are the kind of ways that we move forward. Everything is tested. Kapil does menu testing. He does advertisement testing. He was talking to you earlier about the Hrithik Roshan ad. It was completely tested, right? And it came with flying colors on all 3 metrices, which is rarely seen in any ad made around the world. So, we operate independently. You can be rest assured and there is no pressure from any one on the way we move forward. What is the second question on?

Manjeet Buaria: So, the key challenges, Raj, you see today to get to the 200,000 sort of ADS, and it may take 5 years to 6 years, I'm not worried about how much time it takes. But as a brand, are there any specific challenges which Burger King faces to get to that ADS which you see today? And how do you address them? That was the second question.

Rajeev Varman: So, if you look at our portfolio, right, very young portfolio. The average tenure of our 379 restaurants must have even gone below. It used to be at 3.5% the last quarter when we spoke to you. Now we have got another 70-odd restaurants which are at younger tenure. So, it must have brought down the average. But we are working with a very young population of restaurants.

Post building all the ones in the malls, heavy growth is now coming in, in the in-line restaurants, which are high streets as well as this drive-through restaurants on freeway and so forth, right? So, we have to give this time to develop and people get to know where it is. When it's on the freeway, people pass by it, then slowly they get to know it's there and then it becomes a routine. So, all these things take time for us to build this business, especially the dine-in business.

The delivery business, as you can see, the day you turn on the lights of the restaurant, you're on the app and you're accessible, right? But the dine-in business takes a little while to build. And we do a lot of marketing. This year, we spend a lot of money on local store marketing to introduce these restaurants in the communities we build them. But as we mature from 3.5 to a 10-year kind of portfolio average, you will find that these restaurants will mature significantly, right? And the guidance we have provided, again, questions are coming on the 7% to 10%. Guys, we are not planning that into our management MBOs. We are planning to do much better. This is the kind of guidance we give, which is to be a responsible company in terms of our results.

And yes, we are all striving to do a much better job in terms of delivering both top line as well as bottom line. You saw the efforts in one quarter on the labor line, on the utility line, on the other operation expenses line. And these are not things we are doing ad hoc, right? These are sustainable long-term kind of things we are doing. And then we are continuing to perfect and move a very young brand into the country.

Manjeet Buaria: Thanks to the team for all the efforts you guys have been putting for the last 9 years. Thanks a lot.

Moderator: Ladies and gentlemen, we have reached the end of the question-and-answer session. I now hand the conference over to the management for closing comments.

Prashant Desai: Thank you, everyone, for taking the time and joining us this evening on the Q3 FY '23 conference call. We appreciate your time. And as you know, we are available here. Should you have any questions, do drop us an email and we'll get back to you. Thank you.

Moderator: Thank you, sir. On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.