SapphireFoods

Date: August 08, 2023

To,

National Stock Exchange of India Limited Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400051 Symbol: SAPPHIRE	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 Scrip Code: 543397

Dear Sir/Madam,

Subject: Earnings Call Transcript – Q1 FY24

Pursuant to the Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith the transcript of earnings call held on Wednesday, August 02, 2023, in relation to the financial results of the Company for the quarter ended June 30, 2023.

The said Earnings Call Transcript is also available at the website of the Company (https://www.sapphirefoods.in/investors-relation/financials) under FY 2023-24 Quarter 1 section.

Request you to kindly take the same on record.

Thanking you,
For Sapphire Foods India Limited

SACHIN TUKARAM DUDAM

Digitally signed by SACHIN TUKARAM DUDAM
Date: 2023.08.08 19:35:33 +05'30'

SAPPHIRE FOODS INDIA LIMITED MUMBAI

Sachin Dudam
Company Secretary and Compliance Officer

Encl: a/a

"Sapphire Foods India Limited
Q1 FY '24 Earnings Conference Call."
August 02, 2023

MANAGEMENT: **MR. SANJAY PUROHIT – GROUP CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – SAPPHIRE FOODS INDIA LIMITED**
MR. VIJAY JAIN – CHIEF FINANCIAL OFFICER – SAPPHIRE FOODS INDIA LIMITED

MODERATOR: **MR. BHAVYA SHAH – ORIENT CAPITAL**

Moderator: Good afternoon, everyone. Ladies and gentlemen, good day, and welcome to Sapphire Foods India Limited Q1 FY '24 Earnings Conference Call organized by Orient Capital.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Bhavya Shah from Orient Capital. Thank you, and over to you, sir.

Bhavya Shah: Good evening, everyone. Welcome to the Q1 FY '24 Earnings Con Call for Sapphire Foods India Limited. From the management, we have today, Mr. Sanjay Purohit, Group CEO and Whole-Time Director, accompanied by Mr. Vijay Jain, CFO. I hope everyone had a chance to go through the results in the investor presentation, which was uploaded on the Exchange earlier today. Before we proceed a reminder that this call may contain some forward-looking statements, which do not guarantee future performance and involve unforeseen risks. A detailed disclaimer has also been published in the presentation.

I would now like to hand over the call to Mr. Sanjay Purohit. Over to you, sir.

Sanjay Purohit: Good evening, everybody. Welcome to the quarter 1 FY '24 earnings call presentation. Like Bhavya said, I hope you've been able to go through the presentation that has been already uploaded. Let me start off with a summary. As usual, between Vijay Jain and I we will cover very quickly the highlights of the quarter.

Our consolidated restaurant sales grew by 20% despite the consumer demand headwinds, and this seems to be as good as anyone or perhaps better than most players in the industry. Our revenue was INR652 crores for the quarter.

During the quarter, we've seen raw material inflation cooling off and thereby on both the brands, Pizza Hut and KFC, our gross margins have improved. Our focus here during the quarter, given the consumer headwinds is to do what is in our control, which is how can we win consumer trust by delivering both value innovation as well as other product innovation and invest behind strong advertising programs. So from a product innovation perspective, I'll talk about KFC snackers range, the Pizza Hut 10 new core pizzas that we launched in April. We added 35 restaurants in the quarter, 17 KFCs, 16 Pizza Hut and one KFC and Pizza Hut each in Maldives, taking our total restaurant count to 778.

Our consolidated restaurant EBITDA margin was 17.2%, down 130 basis points. But in absolute terms, it grew by 12% Y-o-Y. Our consolidated EBITDA, this is post Ind-AS EBITDA of INR122 crores is at 18.8% margin. This grew Y-on-Y by 10%. But from a percentage basis, it was down 170 basis points.

Our consolidated adjusted EBITDA that is pre-Ind-AS was INR77 crores or 11.8%, and this grew by 7%. Our consolidated PBT of INR33.6 crores or 5.2% declined Y-o-Y by 6% and PAT was INR25 million. I want to call out that last year, we did not have tax. And this year, we have had a deferred tax expense, but no cash outflow and therefore, PAT is INR25 crores.

Let me now cover the business performance of our three verticals, along with Vijay. Let's first take a look at KFC. Despite the macro conditions, Sapphire KFC has delivered a really strong financial performance. We will speak about our restaurant EBITDA, which is our -- amongst our highest ever at 20.8%, growing 50 basis points over last year.

When I get to slide number 16, we spoke about the six brand priorities to enhance fried chicken category relevance to enhance our craveable taste image, provide value options to consumers, both entry value as well as abundant value, deliver a frictionless customer experience and the work that we do on digital kiosks, the KFC Own App and partnering with our aggregators, friends, Zomato and Swiggy, are the three initiatives under this priority. On operational excellence, the 7 Minutes Express Pick-up promise that we give to consumers and finally, improving accessibility.

I'm moving on to the next slide, which is slide number 18. And you can see the new products that were launched during this quarter. I spoke about during the previous or the full year FY '23 call. I did speak about Chicken Roll that we had just launched. Along with Chicken Roll at INR99, we have launched a range of seven products at INR99, and this is really to bolster our menu operations across day part and including the snacking occasion.

This includes the Chicken Roll, Chicken Longer Burger, which is a new product, then Popcorn Bag, some beverages, some fries and also a desert. So this product or this value range and seven products is very important for us to be able to bring back transactions over a period of time.

From an operational excellence perspective, I don't have this in my slide, but I just want to call out that recently, we won an award. We were adjudged as -- we were recognized by Yum! Global as one of their Top 3 franchisees across the world on food safety scores and so food safety is an important enabler to deliver the right kind of customer experience. So our effort on operational excellence continues.

If you go on to slide number 20, you'll see some of the stores that we have opened. The Punjab stores truly the brand stands out in that market, the quality of the assets that we have built and the revenue and the brand franchise that we are able to drive. We opened our first store also in Kolhapur, which is really doing well.

Let me hand it over to Vijay to take us through the financial details.

Vijay Jain: Thank you, Sanjay. On channel mix, slide number 21, the mix has remained largely stable year-on-year with 36% coming in from delivery, 19% from takeaway and 45% -- sorry, 45% from delivery, 36% from dining and 19% from takeaway. While SSSG was flat, ADS moved up sequentially to INR138,000, it was 127,000 in quarter 4. Overall, revenue grew up by 21% year-on-year.

And as inflation cooled off, we saw gross margin recovery. It was up by 80 basis points year-on-year and also 130 basis points sequentially. This, combined with tighter cost controls enabled KFC delivered one of the highest ever restaurant EBITDA of 20.8%.

Slide number 24 gives you the four-year trend and the five-year quarterly trend. And as can be seen at 20.8%, KFC has delivered the second highest EBITDA and the first win quarter 3 FY '22, which was a festive quarter, so really strong performance in the current quarter.

Sanjay Purohit: On Pizza Hut, the sales trajectory of the brand has remained largely similar over the last three quarters. April to September of last year '22 were perhaps the best six months ever in our history of the brand, where we've delivered in the first half 62 ADS. As we have consistently said, post Diwali of '22, this has come down. And today, we are hovering in the region of about 51, 52 ADS. We have seen a sequential increase in quarter 1 versus quarter 4 of FY '23, but this is a normal seasonal increase that we see. Like I said earlier, we continue to do what is in our control and focus on those activities. So we've invested in higher marketing spend behind the brand.

Our flavour fun continues to do well. The launch of the four -- of the 10 new core pizzas also -- they have done well, but still we have not been able to move the needle on the brand. The brand has shown 12% revenue growth. If you see slide number 26, we talk about the brand priorities. And in the brand priorities, I'll focus on operational excellence and to many of you, you'll perhaps feel that this is a generic commentary that we make every time. But now if you go to slide number 29, we are really happy to say that we've been recognized by Yum! Brand as being the number 1 franchisees in the world in terms of Global Experience Scores for the first half of calendar year '23.

I'll just repeat, we are the best franchisee in the world on Guest Experience Scores and recognized by Yum! Brands. So I think if we continue to focus on guest experience on food safety, hygiene, on the back-end processes, increased marketing investments, invest behind product innovation, we are quite confident that we will turn around this brand. You can see some of the stores that we have opened the Baramati store or the Dabolim store and two Phoenix -- new two Phoenix Mall stores that have opened out.

Vijay will take you through the financial performance.

Vijay Jain: I'm on slide 31, channel sales contribution. Delivery moved up to 50% year-on-year, but it's largely in line with the last quarter. On SSSG, while the SSG was negative we did not see any decline in the transaction. So that's the happening part. ADS moved up sequentially to INR52,000 versus last quarter, it was at INR50,000. Overall revenue for the brand grew by 12%. And while gross margin dropped by 20 basis points year-on-year, sequential quarter, we saw an improvement of 80 basis points. This is due to the raw material pricing cooling off during the quarter.

However, the restaurant EBITDA was impacted by lower sales and the EBITDA came at 9%. This is similar to the last quarter. Slide 34 shows the four-year trend and the five-quarter trend. And as Sanjay mentioned, that we continue to focus on the value, product innovation and customer experience, and we are confident that this brand will turnaround in the future.

Sanjay Purohit: On Sri Lanka, there's nothing very different to report. The consumer demand continues to remain quite challenged because of the cumulative impact of both inflation as well as higher direct taxes being imposed on citizens. Operating conditions remain stable. We feel that perhaps demand conditions have bottomed out. And progressively, we should start to see an improvement. Inflation in the month of June came to 10% from -- if you remember, last year, it peaked in the month of October, November at 80%, 90%. So inflation certainly has cooled off and stabilized.

And we continue to, like I said, focus on areas that we control. There's a very exciting launch that has happened four days ago called Pizza Hut Melts. And I'll talk about that perhaps in the next earnings call. But again, it's a fantastic shareable -- sorry, fantastic product for individual consumption and can drive a snacking occasion. So we are using product innovation to help us lift consumer sentiment in the category.

Vijay Jain: On slide 37, as things have stabilized dining has come back and the mix improved to 29% vis-a-vis year 27% which was FY '23, and vis-a-vis 22% in quarter 1 last year. Overall, SSSG was flat. However, the revenue grew by 9% in Lankan figures due to forex currency appreciation in Indian rupee terms, it grew by 27%.

Moving on to the gross margin; we saw a 170-basis points improvement year-on-year. As Sanjay mentioned, the raw material prices have largely stabilized. We don't see any further increase on the raw material prices. However, due to flat SSSG, it impacted the restaurant EBITDA, which has come at 13%. This is largely in range with what has happened over the last two quarters.

Slide 41 gives you a four-year trend and the five-quarter trend. I would like to end by saying as mentioned previously we expect recovery to start happening probably 2024 onwards. That's the time we expect probably the GD to be to turn flat to positive and inflation to come down in single-digit time for Sri Lanka.

Moving on from Sri Lanka, happy to say that in Maldives we have opened two more restaurants, one each KFC and Pizza Hut. This takes our total tally to four stores in Maldives.

Finally, on slide number 43 on ESG highlights. Very happy to say that we released our second ESG report based on GRI, SASB and BRSR Norms. We are the first in the QSR industry to do this last year. We continue with our journey. And while the slide gives you a few highlights, I would encourage you to go through our website, look at the detailed report. It will give you a good insight in the kind of work we are doing on the ESG front.

With this, we can hand over the…

Sanjay Purohit: Yes. So just -- I'll just summarize in generally tough conditions our actions and our results perhaps demonstrate our ability to execute really excellently, whether it be the KFC financial performance or be the Pizza Hut Yum! recognition of being the number one franchisee globally on customer scores or reflected in the 20% revenue growth that we've been able to deliver. I think we are focused on the right actions, and we believe that as progressively, results should continue to improve. We remain bullish on both the brands and both the markets.

So with this, I'll hand it over to you for question answers -- for questions.

Moderator: Thank you, sir. The first question comes from the line of Nihal Mahesh Jham from Nuvama. Please go ahead, sir.

Nihal Jham: My first question was on KFC. Just wanted to get a sense that has this quarter seen all the gross margin benefits play in or there is still some that could play out in the coming quarters?

Vijay Jain: So hi, Nihal, we believe largely that's played out in terms of gross margins. And again, as I said in previous calls, we would typically not focus on gross margin per se. What we have maintained for KFC as a brand, the kind of growth we are looking at over three to four years, how we can maintain the restaurant EBITDA in the -- in and around 20% mark, that's the focus area. So I would not be too worried about the gross margin levels. Let's see how it moves, especially with the snackers range coming in. But the emphasis is on the 20% kind of a market as to an EBITDA level.

Nihal Jham: Sure, Vijay. Just a related question on KFC; was there an incremental benefit from the recent value launches, which has helped keep the SSSG flat or it has been an overall portfolio performance?

Vijay Jain: I would say while there would have been some benefit too early to say a big amount of benefit, especially that chicken roll got launched somewhere in April, but the other part of the snacker range got launched just very recently a month back. So I won't say that full benefit has come in yet. So let's see how it plays out as we move forward.

Nihal Jham: So wouldn't say that the recent launches have in a way kept the SSSG flat, it is an overall portfolio that is played out equally well (19.58mins).

Vijay Jain: Correct. Correct.

Nihal Jham: Final question on Pizza Hut. Now whether I look at it, say, absolutely as a KFC and Pizza Hut divergence in SSSG or versus some of the other competitors I see that this quarters SSSG performance despite the environment seems a little exaggerated. You mentioned transactions have stayed flat. So is it maybe a case that there is an issue with not issue, maybe there is a higher focus towards people taking a flavour on some of the value range or what in your opinion is leading to the increase in divergence in SSSG versus KFC, PH and so even if I look at some of the other competitors who report?

Sanjay Purohit: So actually, there's been no divergence between SSSG and SSTG over the last three quarters. So typically, there's been a 3% to 5% difference between KFC on the negative side, whereas on Pizza Hut transactions after we launched flavour fun transactions have been better versus competition, if you look at, again, if I just see KFC versus competition, overall, revenue growth is 21%. Competition is perhaps lower. Their SSSG might be higher, but overall revenue growth is lower because of our addition. When you look at Pizza Hut, I don't think the apples-to-apples comparison. What we provide a same-store sales growth and, say, like-for-like growth I'm not too sure whether they are comparable.

Vijay Jain: So again, just to add to that, Nihal, from a trajectory point of view, the trajectories remain where it is over the last six months or so. So our ADS has hovered around INR50,000, INR52,000 mark. Its one of the key reasons also is that last year quarter 1, we did really exceedingly well. Quarter 1 was 40% SSSG, quarter 2 was 23%-odd SSSG. So yes, when you compare with the base, the SSSG drop looks higher, but no further drop has happened compared to the previous quarters. In fact, the seasonal upliftment which we experienced during April to June quarter, that has happened.

So that's first part of the reason. Second part, again, as I said, transaction is an important point over here. SSSG has remained flat whereas, lets say, probably a brand like KFC, there would be slight small amount of negative transaction growth. And as Sanjay said, third part, where you're comparing its not apple-to-apple competition, some gives like-for-like growth, which is not really SSSG. And if you actually convert that into SSSG, the number would be according to us significantly higher.

Nihal Jham: I'll come back in the queue for this.

Sanjay Purohit: Does that answer your question, that question, Nihal?

Nihal Jham: Just the follow-up was that even if you adjust the competition number, it is still lower. And I was just thinking that in our effort other than, say, maybe the sentiment improving in the next couple of quarters, what are going to be the incremental steps which you'll see, say, Pizza Hut improve the SSSG and come back to the earlier trajectory these were the two follow-ups, which maybe are still left open after our conversation.

Sanjay Purohit: So the answer is quite so we continue to focus on our ops. If we let us so we are trying to not, we are trying. We are investing more on advertising. From a product range perspective, we believe we have got the range now to compete both from a pure product perspective as well as from a value perspective. From a delivery perspective, also, we are working to deliver the best customer experience. So the building blocks are not the building blocks are doing things with discipline on an everyday basis. There's no silver bullet, if I were to say so.

Moderator: Thank you. The next question comes from the line of Arnab Mitra of Goldman Sachs. Please go ahead.

Arnab Mitra: My first question was on KFC. You've seen a slight dip in SSSG despite the price increase that was taken. So my question was do you basically think this is due to the price increase that there would have been some negative impact due to affordability. And are you seeing that improve because now its been four months since that price increase was taken?

Vijay Jain: So again, as I mentioned for Pizza Hut previously, the kind of upliftment we see in quarter 1 versus quarter 4, that upliftment we had seen, both in terms of transaction as well as ADS by way of APC. So that has happened, which proves that the price increase has not impacted so the SSSG being flat is more of a function of the last years probably the growth which we saw last year in quarter 1, which was the first quarter coming out of COVID.

Further, having said that, when you take a 2% or 3% kind of price increase, the realization does not really flow through from an SSSG point of view because there could be some amount of down trading, which may happen. Having said that, while raw material inflations cooled off, there were other inflations on the P&L, which needs to be taken care of. And the 2% to 3% price increase, we have been taking almost every year at the start of the year for KFC as a brand. And we have not seen any impact on the transactions or the ADS over the last several years. And the quarter 1 number shows that for us.

Arnab Mitra: Understood Vijay. Now my second question was on Pizza Hut, again, just following up on what Nihal had asked in the previous question. So is the environment for the pizza category so one, we are generally in a weak environment and the pizza category seems to be doing worse. Is there any thought process on moderating store expansion in Pizza Hut as you go ahead if the numbers remain similar in terms of negative SSSG or are you comfortable with the absolute level of ADS and profit you're making in the new stores and therefore, you don't think there is any need to moderate the pace of expansion or take any other steps like reducing advertising or other things?

Vijay Jain: Two parts to that question. The first, as a Sapphire Foods have always emphasized the importance of capital allocation and delivering ROCE on everything which we invest, so that remains always in focus. Using that logic, also previously, I have said that couple of quarters negative SSSG may not warrant to relook at the store opening. Having said that, it's now nine months negative SSSG.

So yes, we would recalibrate approach on Pizza Hut store opening, not in a more dramatic or a drastic manner. However, the number of stores we are likely to open this year on Pizza Hut would certainly be lower than the number of stores we opened in the previous financial year on the Pizza Hut. Having said that, our 3- to 4-year horizon remains still same. Our guidance remains the same on both the brands. We believe we could double the count over three to four years over three to four years, the count, which was there as of December 2021.

Arnab Mitra: Understood. Understood. And on your initiative on increasing advertising expense, which you had highlighted last quarter, that continues or there is some thought process that -- whether this is the right time to do it given the environment that the category is facing?

Vijay Jain: No, no, it continues. It continues throughout the year, throughout the rest of the year.

Sanjay Purohit: Yes. So I think like -- so what is the issue articulation that we believe that while we have got the product, the pricing, especially value equation on Pizza Hut right we've got to build the consumer franchise on the brand. And that's really important given the fact that we've not been on television for a long period of time. And as we expand into newer geographies and into new trade areas, consumers there must know what the brand is about and what the brand promises. So therefore -- so they are discovering our omni-channel experience in any case.

They discover delivery, they discover takeaway and dine-in. So along with that greater advertising spend will help the acceleration of consumers fully appreciating the brand promise. Now we've got to also play it reasonably sensibly from a financial perspective and therefore, instead of trying to do something only in one quarter we believe that if we continue to invest over a long period of time, undoubtedly, this will help and make a difference.

Moderator: Thank you. The next question comes from the line of Devanshu Bansal of Emkay Global. Please go ahead.

Devanshu Bansal: And sorry for pressing again on the Pizza Hut side. So despite weak macros, the chicken category is growing at 20% plus, burger is also seeing encouraging 15%, 20% growth, but pizza as a category is seeing sort of weaker trends. So just wanted to understand the reasons for this? Has this category matured? There is higher competition or there have been higher price hikes due to dairy inflation in this category?

Vijay Jain: So again, as I mentioned previously, when macroeconomic conditions get tough, it did not impact maybe all the category at a similar manner. This has impacted across the consumer and the retail industry. And within those -- each company or each category would have got impacted differently. So yes, we are seeing a slightly more different impact for Pizza Hut. Having said that, it's equally true that we are seeing very different impacts of Pizza Hut on transaction remaining positive or flat vis-a-vis while the SSSG has gone negative. So yes, it's impacting slightly more from a pizza category.

One of the reasons could be, yes, we acknowledge that the competitive intensity in this category and the number of players in this category, both regional players and national players could be one of the reasons as a result of which you are seeing slightly more steeper -- negative SSSG in Pizza Hut.

Devanshu Bansal: Got it. And even from Pizza Hut, this transaction, number of transactions remaining flat, and we have seen a 9% sort of decline. We have a few rounds of price hikes also of which the benefits should have flown. So the average check size also sort of suggests that it has seen a significant dip. So what are the reasons for that? Is it largely because of introduction of flavour fun or there are other reasons also for that?

Vijay Jain: I would say three reasons. One, if I again try and recall the journey, which we have taken over the last three years on Pizza Hut, from where our APC used to be, the average per check used to be upwards of INR700, which was more a fine-dining check size rather than a QSR check size. So there has been a conscious call-in terms of the way we have curated our menu over the last three years, introduction of new options. So that's one. It's something by design, which we have been working over three years.

Now we've seen more reasonable range of INR450 or so. The second, yes, introduction of flavour fun, while it has helped our transaction, and we have seen good transaction over the last one year or so, even now without -- with negative 9% transactions are flat. So flavour fun has certainly helped us. So that's another reason. And third, yes, there would be downtrading certainly by consumers when there's a price increase, inflation is a scenario. So all these three results put together, I would attribute towards the APC drop.

Devanshu Bansal: Got it. And anything on the promotional front as in you are giving higher discounts, etcetera. So is that also happening?

Vijay Jain: So nothing -- so while we could do rejig our promotions continuously, I don't think the overall promotion discounts towards overall promotion has gone up or gone down. They remain largely the same across the segment.

Sanjay Purohit: You're right. It's not -- there's no material change.

Devanshu Bansal: Got it, sir. And this quarter, Q2, there's an incremental headwind in terms of Adik Mas this time around so which can likely impact KFC SSSG. Any kind of outlook that you can provide will be helpful.

Vijay Jain: While we avoid a quarter-on-quarter outlook you are right, for the quarter 2 is typically a bit more difficult for KFC because of the various festivities which leads to the -- the vegetarian festival so called where people avoid(33:52mins) non-vegetarian. But then it is a cycle every year, this would be the case last year also there was Shravan, Shraddh, Janmashtami, Ganesh Chaturthi, part of Navaratri, everything fell in Q2. So this is part and parcel. I don't see any material impact compared to what we saw in quarter 2 of last year.

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

Shirish Pardeshi: Congratulations for winning the award and trust. Just two questions in the beginning. We had IPL event. And of course, that is also one of the things which has happened. When I look at some data point, the PH store has grown 28.5%. So from 235 stores, we have now 302 stores. And even KFC stores has increased about 27%. And when you map this growth against that and the third angle, which we put it as the SSSG, is there a drastic change in the consumer behaviour?

I mean though Vijay has given some downtrading angle to it can you talk -- and I believe -- I respect your thought because you spent a lot of time to rejig the menu and understand consumer behaviour. So could you spend a minute or two explaining what consumer trends are now picking? Have the pizza consumption is really going to take challenge or KFC novelty is going to fade away?

Vijay Jain: So just to clarify on the numbers piece, before Sanjay would answer the trend piece, while he called out 28% store growth and also you spoke about the SSSG. One thing to just call out that when we build the new stores, we always expect the new store to start at 70% to 75% of the brand average ADS for KFC and maybe 75% to 80% of the brand average ADS for Pizza Hut. So you would never see a revenue growth, which would be beating the store growth per se, from the new store process. And then what you get on top of that is the SSSG. Sanjay can take the second part on the trends going forward.

Sanjay Purohit: Just repeat that question on the trend, Shirish, if you don't mind.

Shirish Pardeshi: Yes. So I was saying that you have won the consumer trust aboard. And that's why I'm asking this question. Rather, I'm more excited to ask this question and pick your thought that on one side, we are seeing a consistent depression in terms of demand for pizza. Maybe there are many angles to it. And that's why I was saying that the novelty for KFC is also at stake. I'm not saying at stake, sorry, that's not the right one. But I'm saying the consumer has not been picking up. And this is in activation we also had the very strong IPL event. And in that connect I want to see that what really consumer behaviour is telling us.

Sanjay Purohit: Yes. So first of all, the IPL event existed last year existed this year. And therefore, we are comping the same event. So that's not so much of a problem. I think we continue to remain very bullish on the category itself. So we continue to remain very bullish on the category. Now having said that, there is some correlation of such industries to overall GDP and how GDP performs.

And within GDP, there's a lovely metric called private finance, private final consumption expenditure, which is a really good barometer for consumer spend across all categories. You will find a considerable dip from April, September '22 to the last 9 months, significant dip in this PSE as the government publishes.

Now when overall GDP is impacted and perhaps GDP is impacted a little bit because of the higher inflation that we saw last year, categories, all discretionary categories will go through some amount of pain. And you can see it in the FMCG results also that are being published. So I would not even remotely say that it is a specific brand problem. It is across the industry, across packaged foods as well as restaurants like us. Now within that, if you look at -- and I'd love you to do that analysis, Shirish, when you see -- when you stack rank revenue growth right across all brands, KFC at 21% is perhaps the highest. And Pizza Hut also at 12% has not done too badly.

The important thing here is the finally new stores add to the overall transaction that consumer spends on the brand. So new stores are also increasing this entire transaction bucket. So if you just see what KFC total transaction growth, including new stores would have been is close to 20%. So why do I talk about overall transactions? Normally, we don't speak about this in our earnings call. But it is indicated that the consumer franchise on both the brands is strong. Now it is true that on Pizza specifically competitive intensity has gone up over the last 18 months or so. We are seeing a little bit of the impact of that competitive intensity on our brand. In fact, the market leader has seen perhaps even greater intensity there.

I think we are still -- I reiterate, I think we are still doing the right things. We've got the product mix right, our value equation right. In fact, if today versus the market leader, our prices are as good or perhaps even more economical in -- from a meal bundle perspective. So we are doing the right things there. We've got accessibility in many of our large markets. The brand at least is accessible. We are working hard on delivery, our dine-in experience is as good as ever.

I think we have to really invest on a long-term basis on building the consumer franchise and which we are trying to do that through higher marketing spend. This is not, like I said, not a silver bullet. In the face of this consumer headwind, it's not a silver bullet, but it will definitely pay dividends as we go along. It's a slightly long answer, Shirish, but I hope I.

Shirish Pardeshi: I got it. That's really helpful. Just to follow up. Last quarter introduced 10 new Pizza Hut. So will you be able to help us that what is the contribution or is that the segment which is actually driving the footfall or you're trying to arrest the decline? But despite that, it declined 9%.

Sanjay Purohit: So this is a refresh of our existing pizza range. So while we -- while our core while we launched 10 core pizzas, we removed another 12. So really, this is an exercise. The last time this exercise would have been done would have been about four years ago when we would have revamped the range. I think what is the consumer insights that we were trying to address and through the toppings and through the saucing and through the Flavors, we wanted to give both Indian as well as international flavour, that is one. We wanted to make the mouth feel far more -- the word is not right, juicier or far more wetter, otherwise, sometimes a pizza can get a little dry. So through the extra saucing and through the toppings so this core range has actually seen -- so one has gone out, one has been replaced by this range. And this is a part of, like I said, part of our core range itself.

Shirish Pardeshi: Wonderful. Just last question on KFC. I think my experience wherever in the country have travelled in the last 90 days, I see there is a lot of rush at the KFC counter, while competition I see that is the test. So I just wanted to pick your real qualitative thought bringing INR99 price point and introducing this. Why I'm asking this is that is it not a fear in the medium to long-term that would be a margin dilutive or is it some specific action, which Yum! has been trying to push this portfolio?

Sanjay Purohit: No, not at all. It is -- so not at all to your last statement, it's not Yum! that is pushing it. I think we are pushing it equally hard. And one of the important levers of growth is driving accessibility to consumers and accessibility comes through both distribution and in our case, in an FMCG the number of stores that a product is available in. In our case, it's the number of stores that are present in a particular city and whether through the omni-channel experience, people are able to, therefore, access the brand. So one is accessibility. Then pricing plays a very important role, and pricing is at two levels.

So KFC always known as a meal brand, and therefore, we did fantastically well from our abundant value options. So our buckets and meal bundles have always been priced very attractively. One of the areas that we said we could do better is entry level. And this opens up newer dayparts and newer occasions also of consumption, including snacking occasions where perhaps a person will spend INR150 and still want a reasonable amount of gut fill. This range is really intended towards such dayparts and such occasions. Overall, it has to expand the base rather than cannibalize the base. So the intention is that it has to expand the base, Shirish.

Moderator: Thank you. The next question comes from the line of Gaurav Nigam of Tunga Investments. Please go ahead.

Gaurav Nigam: Sir, I have one question on this competitive intensity on pizza that we just talked about. So as I can understand that a lot of local city level or regional pizza players have been coming up. And this question very specifically on that because you mentioned competitive intensity a few times to describe this phenomenon. How is their proposition different from the organized players like Pizza Hut? And if it is value, is there a reason or differentiation because of which we are not able to cater to not to match them? That's first part of the question. And second is sir, based on your experience in the industry, how is this trend different or similar to the previous inflation cycle? So just wanted to understand your view on both these parts of the question on the competitive intensity.

Sanjay Purohit: So it's not that competitors play on value, and they are offering better value. I don't think that is the case. In many of our -- in such industries, when a new brand comes up, there is always a tendency to try out something new. So that happens. But over a period of time, then consistency in delivery of quality and food quality, taste, and customer service, then becomes the differentiator. So when you have a spurt in competitive intensity, perhaps over the short run, it might impact because consumers want to try out something new.

But over the medium term, then people revert back to a brand that is able to offer consistency in food, taste, quality right across. So I think it's -- and when you have consumer headwinds and overall demand goes down, then the ability of the smaller players to be able to deliver that consistency, I think, comes under question. So it's really -- if you are well organized, then you are still able to focus on doing the right thing. So this happens Gaurav.

Gaurav Nigam: Got it. And sir, just a second part of the question, what do you think is this like -- I think you've explained to me the like the book way of thinking about it, is this similar how it happened in the previous inflation cycle or there is some differences to how it is happening this time, sir?

Sanjay Purohit: So this level of inflation perhaps has not happened. We have not seen it in the last six or seven years, or ever since Sapphire has come into existence. We have not seen this level of inflation. Now I'm looking at my previous experience and drawing on that. I would say when you got double-digit inflation there is impact on consumer demand that perhaps last a year or so. And then as things stabilize and as inflation stabilizes, demand starts to come back. So I think -- and we've been consistently seeing this earlier also Gaurav.

So I think we have to just -- like I said, this is across the country, across industries and really not a QSR problem or any specific brand problem. And having said that, still our overall rate of growth has been at 20%. And again, I've said this earlier to Shirish and to others, it's -- 20% is perhaps highest in the -- or at least still of all the companies that have announced the results till now.

Moderator: Thank you. The next question comes from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Again, looking at your Pizza Hut ADS, I just wanted to make sure the basis of the statement where you're saying that we have bottomed out in terms of demand. The reason I'm asking this is that basically, sequentially, if you see your ADS, it has grown by about 4%. My understanding is that typically in the pizza category, sequentially in Q1, the ADS grows by about 7% to 8%. If I look at Jubilant also historically, their ADS has grown by 7% to 9% approximately in Q1. And they also, this time, have grown only at 3%. You also have grown at 4%. So even the sequential growth, which normally happens this quarter, it is happening lower than that. So what is the reason for that, sir?

Vijay Jain: So first of all, I think you misunderstood the statement Sanjay made on bottoming out. His statement was meant for Sri Lanka business that we have bottomed out. So I think you have. Yes. So that was the first thing. Having said that let me take the second part of the question. In terms of upliftment of ADS from Q4 to Q1, what do we -- actually miss out is the number of stores open and the number of new stores which come at the lower than the brand average ADS. So what's not reflected over there is a like-for-like upliftment over there. So that's also playing a part.

Percy Panthaki: But Vijay, in one quarter, the number of stores which opened versus the total number of stores as an overall format, it really doesn't move the needle. On a Y-o-Y basis, I understand because in four quarters, cumulatively, the number of stores open are meaningfully large. But on a Q-o-Q basis, does it really matter?

Vijay Jain: No. So it is a small part. The other part is the larger one, which is that you have not seen in SSSG, right? And because you're not seeing the SSSG, you have not seen that kind of a upliftment or the growth which you would typically see. Having said that, when you compare with the previous quarters, the last three years, previous quarters, every time there has been something different, right? So COVID all the comparisons are futile actually. So there is no real past quarter, which you can actually draw back on when you can say this Q1 versus Q4 upliftment should have been 5% or 3% or 7%.

Percy Panthaki: So what I'm doing, Vijay as a proxy is, I'm looking at Jubilant' s sequential growth for the years before COVID, let's say, FY '17, '18, '19, '20, what has been the sequential uplift in those years for Jubilant, assuming that the seasonality trend should not be very different because it's the same pizza category?

Vijay Jain: But it would be difficult to comment basically their numbers. What we are seeing internally over five, six years, I think the required seasonal upliftment, which we see we have seen this year. Last year, as I said, was the year when we came out of the COVID for the first time. And what you saw was things really going through the roof. So at least Sapphire doesn't have a data point in terms of correlating it and it will be very difficult to comment on somebody else's numbers.

Percy Panthaki: Sure, sure. Second question is on KFC. See, while there is a clear sort of consensus that there is a very real slowdown in the pizza category overall, nothing to do only with Pizza Hut. But there are mixed signals apart from the pizza category. So if I look at McDonald's, for example, they have grown this quarter SSG significantly despite a very, very high base of last year, whereas KFC, the SSSG is flat. So I'm not able to understand is there any underlying macro trend in QSR cuisine other than pizza?

So pizza, yes, there is a consensus that whatever brand it is, it is seeing a slowdown. But non-pizza QSR because different companies are showing different results it doesn't seem to be a macro-led kind of an issue. It seems to be company-to-company that whatever company is doing certain initiatives or measures, they are getting the results of that and vice versa?

Sanjay Purohit: So Percy, we have to look at two things or we have to look at three things. One is SSSG then we have to look at overall sales revenue. And then we've got to look at also if sales revenue is happening with additional stores has that compromised the quality of earnings. Clearly, on SSSG, KFC SSSG is lower than competition. Overall, growth is significantly higher than competition. And with this overall growth being significantly higher, yes, it's come through new stores. But then the quality of the results has not been impacted and actually, from a restaurant EBITDA margin its improved Y-o-Y.

And again, here, it is much better than restaurant EBITDA of competition. So you're quite right, there is an overall macro headwind. Within that, different brands are reacting differently, both KFC and Pizza Hut have improved accessibility and therefore, opened a significantly larger number of stores than some of the competitors. That will play out in some of our SSSG numbers, but still overall revenue numbers are strong. And the -- if per-store ADS does drop, it has an impact on perhaps sometimes on -- it has an impact because of operational deleverage on the store level EBITDA, as we have seen in the case of Pizza.

Vijay Jain: Just to want to add to that because this is something more strategic, which Sapphire is trying to play out over here is how do you balance the SSSG and the new store growth over? And if you actually try and plot the numbers for us vis-a-vis the competition over the last three years and how we have built KFC and how we have gone about the KFC new store growth in line with the SSSG. I think we are quite comfortable with 5% to 6% SSSG on KFC as a brand. Yes, right now flattish, which is flat at zero. We are slightly lower than our benchmark. But I don't think we are any ways vying for that 7%, 8%, 10%, 12% kind of a benchmark for KFC because we know that we want to grow the stores by almost 20% to 25% year-on-year.

And how do you balance that with the SSSG so that the overall brand grows significantly faster and without any compromise on profit. So this is actually a difference in strategy, which we are playing out KFC. You try and plot the numbers for three years. It has played out really well for us. So even going forward, there may be a case when you will see a slightly lower SSSG compared to competition who may not want to grow as fast, but I don't think that has to do anything with the brand performance. It's more to do with the strategy on how fast you want to grow and balance the SSSG.

Percy Panthaki: Got it. Got it, Vijay, and Sanjay. That was very useful. Last question is on the store openings, like Pizza Hut now since the last several quarters, has been talking about cannibalization, and they are giving actually LFL SSSG, which is LFL growth, which is different from SSSG because there is a -- sorry?

Sanjay Purohit: You said Pizza Hut is giving.

Percy Panthaki: Sorry, not Pizza Hut, I meant Domino's. So are we seeing any kind of such cannibalization? Are we opening stores in the vicinity of an existing store where the store is getting split, so to say, either in KFC or in Pizza Hut? And if so, what is the quantum of that sort of happening right now?

Vijay Jain: So our pizza hut densification is still no where close to the leading market players. So I don't think we are cannibalizing our own sales from another store. Having said that, again, even if we get into densification, we'll continue to report SSSG with splits to strategy and like-for-like, we don't really understand. So our reporting will continue to be on SSSG. So there is no point in trying to figure out what could be the impact of this. First of all, there is no impact because there is no split store theory, which we are right now deploying. We continue to expand in new trade areas where we don't impact our existing stores.

Percy Panthaki: But do you think that this phenomenon will play out in the coming two, three years, if you are growing at 25% kind of thing, do you think that we will sort of saturate in terms of existing -- in terms of being able to go into completely new areas? And if so, when is that likely to happen two years, four years, seven years?

Vijay Jain: Okay. It's a completely hypothetical one. I'll still try and answer. What we have set out is doubling the store count over three to four years, which would translate to a 17% to 18% store growth. There could be a year with 25%, there could be a year with 10% store additions. For this particular data point three to four years, I think we are completely confident and comfortable that we can open stores without cannibalization of future.

Moderator: Sir, I would like to interrupt if you have further questions, you may come back in the queue. The next question comes from the line of Manish Sharma, he's an Individual Investor. Sir, your line has been unmuted. All right. We see Mr. Manish Sharma has dropped. We have the next question coming from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: Just extension of what Percy's question was on the like-to-like SSSG split store having an impact. I understand that you said that you are not seeing that impact because of the store expansion in our network. But given that, I mean, your peer Devyani has the ability to open smaller size delivery-based stores, maybe not in very close vicinity, but in your region. So do you think that has had any bearing or that could have a bearing in the coming years because of the deepening of their network in your locations?

Vijay Jain: Yes, so, previously, I would have clarified this one. So while Devyani has rights to open in our territory, we cannot open in each other trade area. So there is a trade area protection clause as per the agreement with the Yum, whereby 8-minute drive time of an existing restaurant 360-degree of that, you cannot open another store.

Why 8-minute drive time? It's from order taking time to the -- getting the pizza ready out of the oven and handing over to rider. Rider would require 8 to 10 minutes to deliver the pizza in 30 minutes' time. So effectively, you don't cannibalize the customer. So no two restaurants would actually be serving the same customer. Hence, even if Devyani would have opened the stores in a territory, but they would not be in our trade area.

Aliasgar Shakir: Okay. I understand that part, but because of the third-party guys, who can cater to that customer. And I mean that kind of -- I don't know, does that restrict your capability to grow beyond?

Vijay Jain: Even if you consider the third-party riders, the aggregators, the customer would actually -- when we search for Pizza Hut, the nearest option would come up first. There could be another option, which is, let's say 40 minutes or 45 minutes. Typically, consumer would go for the nearest one which is the your trade area unless the ratings are really poor, and the ratings of the alternate stores are really good. That will be the only differential point. And hence, the entire emphasis on customer experience helps us. So there even if there is an impact, it would be very marginal or minimal.

Aliasgar Shakir: Got it. So you don't think that has had any bearing on your SSSG in these quarters, last few quarters?

Vijay Jain: Not really.

Moderator: Thank you. The next question comes from the line of Manish Sharma, he's an Individual Investor. Mr. Sharma, do you have any questions? It seems no questions from him. As there are no further questions, I would like to hand the conference over to the management for the closing comments.

Sanjay Purohit: Yes. Thank you, everybody for taking part in this earnings call presentation. Like I said, in a tough environment, I think we have demonstrated our ability to execute well KFC financial performance, Pizza Hut, global recognition as being the best franchise in the world. And I think while current macroeconomic headwinds might last for a couple of quarters, the long-term prospects on this industry and on our two brands continue to be very strong. With that, thank you very much. I hope to see you all again next quarter.

Moderator: Thank you. On behalf of Sapphire Foods India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.