SapphireFoods

Date: February 15, 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 – Q3 FY23

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 Thursday, February 09, 2023, in relation to the financial results of the Company for the quarter and nine months ended December 31, 2022.

The said Earnings Call Transcript is also available at the website of the Company (https://www.sapphirefoods.in/investors-relation/financials) under FY 2022-23 Quarter 3 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: 2023.02.15 11:32:15 +05'30'

SAPPHIRE FOODS INDIA LIMITED MUMBAI

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Company Secretary and Compliance Officer

Encl: a/a

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"Sapphire Foods India Limited
Q3 and 9M FY '23 Earnings Conference Call."
February 09, 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. NACHIKET KALE – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 and 9 Months FY '23 Earnings Conference Call of Sapphire Foods India Limited 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 the 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 the conference over to Mr. Nachiket Kale from Orient Capital. Thank you, and over to you, sir.

Nachiket Kale: Thanks, Faizan. Hi, good evening everyone. Welcome to the earnings con call for Q3 and 9 months FY '23 for Sapphire Foods India Private 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 and investor presentations on the exchange.

Before we begin, just a reminder that this call may contain some forward-looking statements, which do not guarantee future performance and involves unforeseen risks. A detailed disclaimer has also been published in the presentation. I would now like to hand over to Mr. Sanjay Purohit to take over the call.

Sanjay Purohit: Good afternoon, ladies and gentlemen. Welcome to the Sapphire Foods' quarter 3 and 9-month FY '23 investor conference call. Firstly, Happy New Year to all of you all. This is the first time that we are meeting in the New Year, so I hope the new year has started well for all of you all.

Before we start, I always like to reiterate the Sapphire story. We are a new company, new to the public market and therefore it is important to understand what we are trying to drive from a long-term basis. Our aspiration has been to become a platform player in the QSR business, which means to be able to operate multiple brands.

Today we operate 2 highly successful brands KFC and Pizza Hut, both of which have got scale and PAT profitability and we're building the capability to add more. The whole company is built on our focus on executional excellence, so great customer metrics and the back-end to support great customer service. We want to improve accessibility of our brands and therefore expansion is an important part of our strategy.

If we have to expand, we've got to earn the license to expand as I have spoken about earlier. And therefore the right new store business model is key. We have arrived at an optimal size restaurant for both KFC as well as Pizza Hut, which is omnichannel.

Finally, here is a distinct organization culture that values excellence, accountability and governance. And during the presentation, we will talk about us launching our first ESG report also as an indicator of our focus on governance.

Let me now get to the quarter 3 highlights. It was a difficult quarter for us. And our brands did face challenging demand since post Diwali. So while October was good, November and December were challenging. Our consolidated revenue for quarter 3 at INR 594 crores, grew by 17%. In this the India business revenue grew by 24%, whereas Sri Lanka -- while it grew in Lankan rupee terms by 39%, in translation terms, it actually declined by 15%. So India grew 24%, Lanka declined by 15% in Indian rupee terms and therefore consolidated revenue grew at 17%.

For our EBITDA comparison, I'd like to follow consistent practices. Last year, which is quarter 3 of FY '22, we had called out that we had received additional incentives from Yum for that year specifically, and hence had normalized our profitability numbers by removing these additional incentives.

So now I'll compare our profit numbers for FY '23 against these normalized numbers for quarter 3 FY '22. Our restaurant -- our consolidated restaurant EBITDA grew Y-on-Y by 5%, and it came at 18.1%. This was down by 210 basis points, primarily due to the adverse Sri Lanka impact. Whereas the India restaurant EBITDA of this 210 basis points, India restaurant EBITDA actually grew Y-on-Y by 19% but declined on a percentage basis by 90 basis points. This pattern you will see now, repeating itself right through our adjusted EBITDA, our EBITDA in both the numbers also, you will see it repeating.

Our consolidated EBITDA, which was at Rs. 1,167 million this grew by Y-on-Y by 8%. However, at 19.6%, it was down by 190 basis points. Our consolidated adjusted EBITDA, which came in at INR 73.8 crores or INR 74 crores was flat year-on-year. But at 12.4%, it was down 220 basis points versus our normalized EBITDA for last year. Our consolidated PAT at INR 33 crores declined Y-on-Y by 23% , and at 5.5% it declined by 290 basis points.

Specific brand level numbers, Vijay will talk about in a minute. But before that, let me give you an update on our restaurant expansion, which we continued our pace of new restaurants expansion. We added 57 restaurants in quarter 3 FY '23, we added 24 KFC, 25 Pizza Hut in India, 6 Pizza Hut and 2 Taco Bell in Sri Lanka.

Therefore our cumulative numbers for FY '23 for the 3 quarters is now at 136 stores, we opened 62 KFC, 55 Pizza Hut and 17 Pizza Hut in Sri Lanka and 2 Taco Bell. In this presentation, we've also given revenue and adjusted EBITDA trend over 4 years, which is on Page #12, and over the last 5 quarters, I'm sure each of you all will be able to take a look at this.

I'll now hand it over to Vijay Jain. Vijay is our CFO, and he'll talk us through the specific 3 businesses performance, KFC, Pizza Hut India, and then our Sri Lanka business. Over to you, Vijay.

Vijay Jain: Good evening, everyone. We'll start with KFC India business performance. On Page 18, you can see channel-wise contribution, which has remained largely the same current quarter versus last year same quarter. Delivery contributing 36% mix. Slide 16, 17, 18 gives you glimpse of various branding and promotion activities, which the brand carried out during the quarter. Celebration buckets, key outdoor campaigns and so on.

Moving to Slide 19. It shows you pictures of new restaurant launches in quarter 3. One thing which I would like to bring out over here is, 85% of our store openings are in cities, which are having population greater than 1 million, and that's standard across both the brands KFC as well as Pizza Hut.

Moving to Slide 20, on SSSG and ADS, as mentioned by Sanjay, post Diwali, we are seeing softening of demand on both the brands, perhaps the reflection of increasing prices taken at the beginning of financial year in response to our inflation. As a result, our SSSG was low at 3% for KFC. Another point to highlight is we added 75 restaurants in the last 1 calendar year, which is roughly 30% store additions. With this level of growth, we typically expect SSSGs to be in the range of 5% to 7%. So certainly 3% is a bit below par.

Moving on to overall revenue growth, Slide 21, the business grew by 26% for the quarter with a revenue of INR 381 crores. Gross margins dropped by 150 basis points year-on-year. However sequentially our gross margins improved on KFC by 90 basis points. So certainly we are seeing some cooling of inflation, especially for the KFC brand. This combined with cost control meant that we delivered a healthy EBITDA of 20.2% for the quarter.

Slide 23 gives you the picture of the last 3 years performance on the KFC brand as well as 5 quarter performance. The 3-year performance clearly shows the improvement and the growth which we have seen over last 3 years. And as a result, today we believe KFC is in a very strong position with the overall restaurant EBITDA in the range of 20-odd percent.

Moving to Slide 24, Pizza Hut India business performance. Page 25, you can see the channel mix. Just like KFC, even here the contribution, the channel-wise mix has remained largely the same as last year and similar to even YTD 9 months with delivery now contributing 50% of the sales for the brand.

Slide 26, 27, 28 gives you a glimpse of various branding and promotions we have carried out during the quarter. And lot of it was focused on even flavour fun, which is our -- Sub-INR 100 pizza range launched during quarter 2.

Slide 29 gives you pictures of few of our new restaurant launches. And as mentioned, 85% of our new restaurant openings are in towns with 1 million population. Moving onto SSSG and ADS, Slide number 30, we have seen a bit more acute impact in case of Pizza Hut post Diwali on the consumer demand as compared to KFC and seen a SSSG of minus 4%. We have added 65 restaurants in last 1 calendar year, which is again roughly 30% store additions. Typically, the new store additions come at a 75% to 80% average ADS of the brand level, which is reflected in our overall ADS now coming to 58,000 for quarter 3.

Overall revenue, Slide 31, grew by 20% for the brand with revenue at INR 136 crores. Gross margins dropped 100 basis points compared to last year. However, sequentially also we have seen inflationary pressure and there is a drop of 50 basis points sequentially on gross margin for Pizza Hut. This combined with negative leverage meant that we dropped on the restaurant EBITDA by 80 basis points over last year and the restaurant EBITDA came at 14.1% for us.

Slide 33, we can see the last 3-year performance for the Pizza Hut brand. And as can be seen, we have made significant and clear progress on the brand. We believe overall brand proposition is in a good place, all the key elements, be it omnichannel, product range, value layer, tighter formats, more compact size, customer experience and now improving accessibility, all the right elements are in place. Perhaps one of the thing we would focus going forward is do additional spends on marketing, which will actually help us improve our visibility in a highly competitive environment in Pizza category.

Slide 34, we will move to Sri Lanka business performance. The channel-wise contribution, dining has come back strongly, it's contributing 35% mix in the quarter versus 15% last year. Slide 36 gives you pictures of branding and promotions. Slide 37, new product launches. Moving to 38, some of the pictures of new restaurants launched in Sri Lanka for Pizza Hut.

Slide 39. Moving onto the pictures of Taco Bell new restaurant launches. With this 2-store launched on Taco Bell, the total count now moves to 9 stores on Taco Bell, which gives us reasonable base to understand and improve upon the business model. This gives us a bare minimum size to work with the business model, and this could potentially be a second leg for us in our Lanka business. But yes, some -- still some time to go.

Moving onto SSSG and ADS. We have seen SSSG of 18% in Lankan rupees. But yes, we have seen transaction decline especially because while the overall conditions, operating conditions have stabilized in the country, what we have seen is impact on consumer wallets on account of high inflation and high taxes. Overall revenue grew by 39% in Lankan rupees. However, on translation in Indian rupees it has declined by 15%.

Moving to Slide 42 on gross margins, it has seen a dip of 990 basis points on account of inflation, similar to what we have seen in H1 of this financial year. And this is reflecting in a drop of restaurant EBITDA down to 14.6%.

If we move to Slide 43, it gives us 3 year trajectory for the business. The business was hovering around 20% restaurant EBITDA mark. The last 3 quarters can be seen coming down to 15% mark, because of the macro factors. So we remain quite positive about the business in the long run. However, short-term profitability is surely challenged. Having said that, the mix of Sri Lanka business in EBITDA contribution has come down to 10%, which was 25% last year.

Slide 44 on ESG. Apologies, I guess we got disconnected. I was on Sri Lanka business, Slide 43. I would just repeat that. If you look at 3-year performance, we were hovering around 20%

restaurant EBITDA mark. But if you look at the last 3 quarters, we have come down to 15%. This is on account of the macro factors, which we are experiencing. So while we remain bullish on the long-term prospects, short-term profitability is challenged. However, the contribution, EBITDA contribution of Sri Lanka business to overall profitability has come down to 10%.

Moving on to Slide 44, very happy to announce that Sapphire Foods has launched its first ESG report first in the Indian QSR industry as well aligned with GRI, SASB and BRSR standards. I invite you to go through the report, it's uploaded on our website as well.

Slide 45 talks about the material assessment, which we have done through a survey with internal and external stakeholders. We have come out with 12 broad themes under the heads, food, people, planet and governance. Going forward, all our goals, action plans, and our monitoring would be under this broad 12 themes.

Thank you. We can open the session for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session.First question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: Just wanted to know you have in the past given store addition targets on a longer-term view 3 to 4 years, kind of a view. However, now we are very close to the start of FY '24 and it is quite essential for us to know at least what are your plans over the next 12 months for FY '24 in terms of store openings. So if you can guide something on that, it will be great.

Sanjay Purohit: Sanjay here. Again I'll -- we'll refrain from guiding very specifically over 12 months. I think we still hold on to what we had said at the beginning of '22 that we will double our store count of 550 over the next 3 years to 4 years. So this year -- so it means about 130 to 160 stores per year. Now that is the kind of range, we might toggle little up or little down. So at this moment, we still hold on to that overall doubling the store count in 3 years to 4 years.

Percy Panthaki: Secondly, any kind of flavour you can give on your corporate overhead. So basically here, I'm looking at the overall company margin versus the brand margin, the differential, both in pre-Ind AS accounting, so that the differential is only the corporate overheads. So if I look at it that way your corporate overheads as a percentage of sales is still pretty high compared to your sister franchisee, who is this quarter, of course, 3.5%, but even adjusted for any one-offs, they arrange the range of about 4.5% of sales. So can you give us an idea as to why we are on the higher side. And what we can do to bring this down and what we should expect this to be a couple of years from now?

Vijay Jain: So, Percy yes, first of all, our corporate overheads over last 3 years have come down as a percentage to sales considerably, currently attending at 5.7%. And you're right, it's the difference between the restaurant EBITDA and the adjusted EBITDA. Within 5.7%, almost currently 0.8% would be contributed by ESOP cost, which probably would may or may not be there with the competition. So that's one principal contributor to the corporate cost. We expect the ESOP cost to start coming down from these levels and move towards 0.5% or so...

Sanjay Purohit: 0.5%.

Vijay Jain: 0.5% of revenue, the ESOP cost in 0.5% of revenue over next 2 years. So that should help bring it down. Further the revenue at which the other sister concern operates at is 25% higher than us. So definitely they would be enjoying slightly better leverage. As we keep growing, we will also have a leverage benefit, which will make this 5.7% come down as we move forward.

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

Shirish Pardeshi: Hi good evening Sanjay and team, Thanks for the opportunity. I have 2 questions. When I referred Slide 20 on KFC, we have said the ADS is now at 136 and SSSG at 3%, while our benefit is that, I was listening to the other competition call sometime back, they also accord the similar SSSG and the thing. Just wanted to have your candid view is the competition is the angle one should look at or the consumption is really not inching up because I was bit surprised quarter 3 is a strong quarter. And Sanjay, you did mention that November was bad. So how the things are panning maybe end of December, early January. Is the trend similar or there is an improvement? So maybe your qualitative comments on that.

Sanjay Purohit: Yes. And from a competitor perspective, who are you referring to, Shirish, just...

Shirish Pardeshi: In the last call, Devyani mentioned that there are -- the QSR players is also getting into the chicken segment. So is that is affecting or is that the worry for you and for us?

Sanjay Purohit: Yes, so there will be competitive pressures right across, but I am not too sure whether that has significant impact on this quarter numbers. This competitive pressure has been there earlier also. So it's not that it has increased dramatically right now. So clearly, right now there is a consumption growth reduction that has happened. I want to be clear here, it's a softening of demand condition that we are seeing right now, which continues into to some extent into Jan and Feb also. I think there is just one call out that I'd like to make here, Shirish, that which we've again done consistently.

So if you look at our rate of store expansion is close to about 30% on a year-to-year basis -- on a year-on-year basis. So we've added about 30% stores, so we have said that from a same-store sales growth perspective, we should be in the region of 5% to 7% is what we intend over the next 3 years to 4 years. So clearly 3% is a little lower than what we would have anticipated. And at this moment, when I look around most consumer brands whether in FMCG or otherwise, do seem to be facing some pressure on demand softness. I think it is that at this moment more than anything else.

And if you just look at it from an inflation perspective, we've never had this kind of inflation for a long time. And therefore the price increase also that have been taken are higher than what we have. So we had called out in quarter 1 and quarter 2 also, let's not be -- let's not think ahead of ourselves. Actual demand conditions we will understand perhaps over the next couple of quarters. So, there is a softening of demand at this moment. From a competitive pressure perspective, it's not that it is increased significantly in the last quarter.

Shirish Pardeshi: Sanjay, that is helpful. I do agree with your view. But when you compare with staple companies, I think staple companies are struggling because the whole rural consumption, when they saw the food inflation, there is a struggle which is happening. But largely you represent maybe top 10 metros and Tier 1 cities. So what I wanted to hint at, is the price correction is required or maybe we need to get the value format more aggressive. So maybe any comments on that. So where the struggle and you just remain 3% SSSG which is not healthy for the sector.

Sanjay Purohit: But we have seen only 1 quarter of the 3%, Shirish. And I think when we look at it, we have to just see it over a little longer term horizon. Ups and downs are part and parcel of any consumer business. So I don't think I'll make very major long-term trend projection on the basis of either this quarter or the next quarter.

So I think we have to just stay in there. Like Vijay was talking about on both brands, we feel that our input metrics are in good shape. From a value perspective also we've done -- both the brands have strong layers on value. So we are ticking all the boxes there. This up and down is now being more than 3 decades in this consumer industry we have seen this happen. But there is no long-term cause for concern. As indeed, you will find quarters where we will do fantastically well. And at that time also there is no need to get overly exuberant also.

Shirish Pardeshi : I got that, Sanjay. Just a little harp on the same point, does this trend reversal is seen in last 45 days?

Sanjay Purohit: No, I don't think we are seeing a reversal of the trend. I think we are still continuing to see some softening or this level of demand continuing in the -- in this year also, in this calendar year also.

Shirish Pardeshi: My last question on Slide 30 where you have given the details on Pizza Hut. Again the SSSG decline was 4%. So I'm looking for a good answer that, is the competition angle also is prevailing here or it's purely the similar lines, the consumption is still not come back to the full speed despite the strong season?

Sanjay Purohit: Yes. So I think softening of demand impacts different brands in different ways. Certainly KFC is a far stronger brand and it has far stronger consumer appeal. And therefore, perhaps the impact has been to some extent lower than it has been on Pizza Hut. Actually on quarter 2, for example, was one of our best quarters on Pizza Hut when our ADS was at 64, 65 levels. So it has -- undoubtedly the impact has been a little more on Pizza Hut. But again when you look at what we are trying to do from an overall consumer perspective, we are ticking the boxes. I think we have to just stay the course here and ride this little rough period.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity.

Akshen Thakkar: So, as you're saying good show on the margin side, especially in KFC. I just wanted to understand -- go back to some of the earlier calls that you had, you were talking about seasonally Q3 being stronger and then Q4 mean reverting to sort of annual averages. Given that where we are in the cycle, when production is weak, how should we be thinking about normal seasonality in Q4. I'm not looking for a guidance, I'm just trying to establish, what's the base case, so that we can, 2, 3 months from now when you do Q4, know if trend line was maintained, but there was a further deterioration. That was sort of broad question 1.

Question 2 was, on gross margin front in KFC and in Pizza Hut in India, incrementally how should we be thinking about those line items versus the current levels? We can double click on either cost inflation or pricing interventions that you are taking to, to achieve that. Those 2 questions had a follow-up, but I'll wait for the answer on these.

Moderator: Ladies and gentlemen, the line from the management is disconnected. Request you all to please stay online while we reconnect them. Mr. Thakkar, please repeat your question.

Sanjay Purohit: No, we've got the questions. Akshen, you are asking us to give accurate Q4 guidance without or asking us to give us guidance.

Akshen Thakkar: No, just what is the general seasonality. I'm not asking -- I'm just trying to establish the baseline on ADS in KFC and in Pizza Hut. And on gross margins, yes, I'm sort of, that's more in your control. So how are you thinking about gross margins. There, I'm looking at a guidance.

Vijay Jain: See, typically Q4 is seen somewhat similar to Q2 also, Q3 is generally higher. But yes, this year we are seeing even in the first 40 days some softening of demand. So not further softening, but the softening continues or the softer demand condition continues. Coming to gross margin levels on KFC and Pizza Hut, on KFC we had mentioned earlier that we believe the cooling of inflation will happen in quarter 3 and we should be able to pull back some margins.

And that's what has happened. We believe this should remain at these levels generally largely going forward for KFC. On Pizza Hut, we are seeing inflationary pressures continue to remain, and we keep hearing every other day increase in milk prices, and cheese being a prime commodity, very difficult to predict the exact impact on the gross margins. But yes, Pizza Hut gross margins are likely to be growing slightly further down from the current levels as we move forward.

Akshen Thakkar: Sort of the second question that I had was around store count addition. It's been pretty strong in Q3, would you be looking to revise your full year sort of estimates? One would have thought you do maybe 60 odd -- 60, 65 in KFC. But looks like you do more similarly in Pizza Hut. So generally since only a few months are left, how you're thinking about total store additions in India at least?

Vijay Jain: See typically, while you're looking for a quarter-on-quarter basis, we look at the numbers on an annual basis. Because it's very difficult to predict quarters on quarter on a store opening pattern. And again, on an annual basis, Sanjay has just mentioned that, which is our guidance on 3 years, which is 3 to 4 years, doubling of count, the average would come to 130 to 160 restaurants per year. Now as mentioned, we will toggle between that number, slightly up or down, that largely remains on course, actually so far remains on course.

Akshen Thakkar: I just slip in one very last one. Given that demand is slowing down and gross margins are flat to down across your key brands, how are we generally approaching the cost? I see employee cost this quarter was under control. So generally anything at all that you've instituted on the cost side? Yes, last question.

Vijay Jain: So again as we mentioned previously, so while gross margin is a factor, typically we'll try and look at the overall shape of the P&L. And as seen in the last few quarters, while we have dropped on gross margins across both the brands, largely we have been able to retain the shape of the P&L and improve the margins.

So even on YTD basis, KFC we have seen improvement on restaurant EBITDA margins. On YTD basis, we have seen even improvement on Pizza Hut restaurant EBITDA margins. Currently we have mentioned where KFC stands in and around 20% mark, I think we are quite comfortable on KFC in that particular range over next 2, 3 year scenario with the kind of growth we are expecting on KFC because the new store additions comes at a slightly lower rate of restaurant level EBITDA. So holding onto that particular range in and around 20% would be key.

Cost efficiencies and the cost controls will continue, which will help -- which should help us deliver in that particular range over 2 to 3 year period. On Pizza Hut, the first key is the SSSG, because it's a highly -- it's high operating leverage business, Pizza hut, having SSSG would be key that how much we can hold on to the margin and how much we can expand the margins.

The long run horizon we have said over 3 to 4 years, this mid-teens level of margins we should be able to take it upward in the long run because the new restaurant additions come at a better margins compared to the stores, which we had from legacy. So post-April, 18 stores, they generally deliver higher margins compared to the overall brand average, because of the tighter omnichannel format. So that's the long run perspective. In short run, if the SSSGs don't come back immediately, there will surely be margin pressures. Now whether it's 2 months or 3 months, very difficult to call out.

Moderator: The next question is from the line of Jignesh Kamani from GMO.

Jignesh Kamani: Just in the Pizza Hut, we have a negative 4% SSSG decline. So if you take about, we launch our flavour fun pizza, and I think this is a second quarter right now and some of the store which I can say contributed roughly around 15% to 20%, kind of you can say revenues less volume on that. So say, I just want to know, so it's more to -- flavour fun is accounted more for the down trading and the recruitment of new customer is still not happening or just want to understand on that part?

Sanjay Purohit: So, like I said again earlier, this is early days on flavour fun. It will require such big innovations at least for the brand will require a certain amount of time for it to stabilize. And it's typically a year, 2 years that you would look at flavour fun. Having said that, to answer your question in some manner, undoubtedly, it is increasing our level of transaction. However, those transactions will come in -- those new transactions will come in at a lower APC. At this moment, our negative SSSG, I don't think is a reflection of flavour fun trying to cannibalize our regular sales. But it is more, I would say from a demand softening impact rather than flavour fun being the negative cause of this.

Jignesh Kamani: And it will be double-digit contribution right now in terms of fare volume, this flavour fun?

Vijay Jain: So again we have avoided giving any specific numbers on flavour fun. Just allow us maybe 2 more quarters, at least let it pass one year before we give out contribution number, the margin impact. So please bear with us for a couple of more quarters.

Moderator: The next question is from the line of Kapil Jagasia from Nuvama Wealth Research.

Kapil Jagasia: Thank you for taking my question. My question is again on KFC same-store sales growth, you indicated earlier in the presentation that price hike taken in the start of the year impacted same-store sales growth over here. So I mean a price hike taken 6 to 7 months back, why would it pinch your consumer wallet now as in last 2 quarters, the KFC same-store sales was I think quite healthy. So my question is, is it more because of aggressive store openings which are taking a bit longer time to mature, which is affecting growth?

Vijay Jain: So what I meant or what I indicated was that price increases which not just KFC would have taken, across the economy there have been price increases at the beginning of the year. And at times, it can take probably couple of quarters to have an impact on consumer wallets. And that probably causing a softening of demand, not just for KFC, but probably across the consumer sector.

That's what I meant or indicated. In terms of our store opening plan, I think the new stores which are coming at the kind of ADS which we predict coming at 70%, 75% of the brand average, they are hitting those benchmarks. So we are quite comfortable with the progress of our new stores and the revenue the new stores are generating. So no cause of concern from a new store additions point of view.

Kapil Jagasia: So just to see a scenario where the store opening run rate kind of maintains of this year and the inflation persists, so can we hit that 5% to 7% same store sales growth in KFC? Is that like, would that be possible or we would be at a lower end, probably?

Vijay Jain: So it's important to do understand what -- when you say store run rate in terms of count, in terms of percentage, it could be very 2 different things, because in terms of percentage this year addition has been 30% new year additions. I don't think we are guiding 30% store additions. We have always maintained that doubling over 3 to 4 years that effectively means 17% to 18% store additions CAGR over 3 to 4 years. And that along with 5% to 7% SSSG is possible, which would take the overall brand CAGR anywhere between 23% to 25%. So that's the broad guidance over 3 to 4 years and we believe that's achievable. Looking at previous history and the trend, I think that's quite possible.

Kapil Jagasia: My next question is, some of your competitors have launched premium offerings be it in burger or pizza. So are we also looking at introducing premium products for improving our gross margins and to be available at higher price points?

Sanjay Purohit: So, I'm not able to -- specifically for example, if we look at Pizza, which is a launch that we've had in this quarter, I mean you could call it a premium product. So I think from an innovation perspective we toggle between core innovation, most of our core innovation would come at some kind of a premium to our average price across the menu. And so, we toggle at core innovation and we'll toggle at -- toggle with entry level -- entry value innovation also. So both things are done simultaneously over the year.

Kapil Jagasia: So I was referring to Burger King and both McDonald's also previously they have introduced this gourmet burgers and even Domino's introducing gourmet pizza. So that would be at the highest price point. So would we...

Vijay Jain: Actually if you look at other way around, they -- I think both the names which you called out, they typically operate at entry level price points, and they are more known towards value. I think our positioning has not been just value. We actually introduced value in case of Pizza Hut. In case of KFC, we had INR 99 burger and all those stuff. So I think it's -- for them to do a positioning other way around, where they can actually bring in premium, I think we have been playing across all the layers, be it value layers, be it core layer, be it premium layer, right from day one.

Sanjay Purohit: So yes, short answer, Kapil, is, I don't think we look at gourmet or so. I think we look at innovation across the spectrum from core innovation to add-ons to entry value innovation. I think that's how we look at it.

Kapil Jagasia: And just last question from my side, like how are things panning out in Sri Lanka currently, like have things improved over there? And any further hikes taken in that geography?

Vijay Jain: So from an operating conditions, what I mean by operating conditions is in terms of availability of raw materials, the supply chain, the power, fuel outages, I think all those have stabilized, the forex availability. So the operating conditions have largely stabilized in the last quarter. However, what we are seeing from a demand impact is finally the consumer wallets taking a hit on account of high inflation as well as high taxes. The taxes have almost doubled over there. So it's definitely impacting the consumer wallet and the demand. So that's the impact we are seeing on our revenue and on our transactions in Sri Lanka.

Kapil Jagasia: So like there will be no other further...

Vijay Jain: What is your question on Sri Lanka?

Kapil Jagasia: So I believe there would be no further price hikes in that region right, for now?

Vijay Jain: So on price hikes piece, so while the inflation has slowed down, it has not just -- it has not saturated yet. So we keep seeing inflation. And over the years, we have taken several price increases -- over the year we have taken several price increases in Sri Lanka. So while the inflation has hovered around, let's say 80%, we would have taken price increase in the range of 50-odd percent.

Even more recently, last quarter also we took a small amount of price increase in Sri Lanka as well. Going forward, if the inflation continues, we would have to take small amount of price increase. And as we have said, we will continue to take price increases, which is lower than the inflation, so that we don't out price ourselves and transactions don't take a bigger hit.

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

Devanshu Bansal: Thanks for the opportunity. I wanted to check as in what is giving you confidence that lower SSSG is due to demand slowdown and not due to some sort of a fatigue for our formats as the other avenues of food consumptions have opened up post-COVID?

Sanjay Purohit: Just repeat that, this one, due to slowdown and not due to what, Devanshu?

Devanshu Bansal: Some sort of a fatigue. So we were like omni present during the pandemic and consumers were left with few options, and now that other avenues of food consumptions have also opened. So are you also sensing, there is some sort of a fatigue for our formats?

Sanjay Purohit: I'm not sure how to specifically answer that. But if I just look across the spectrum to other brands and to other consumer categories, they seem to be in a similar place. If I look at retail also, I can see similar. So if there is fatigue, it is fatigue across the broad spectrum of consumer brands and categories. But I understood whether you call it fatigue or softening of demand, but perhaps it's more of that rather than fatigue with a specific brand.

Devanshu Bansal: And also wanted to understand, if we can from our side take any supply side initiatives to bring back consumers back to our stores under current environment. So what are the things that we plan to do over the next few months or quarters?

Sanjay Purohit: So on both the brands, the focus first of all is, ensuring through product innovation, there is enough excitement that the consumer has. So that's one. Number two, how do we step up overall marketing investment. And that's important in a competitive category. There is a significant focus on executional excellence and improving customer scores. And finally, the emphasis on team and team training, we have got to consistently up the ante on our focus on training effort and ensuring that customer service is as good as it could get.

Vijay Jain: It has been more in the pipeline on the new product innovation. While we can't call out the exact innovation, but the full calendar for the next 12 months on both the brands where there is enough and new launches in the pipeline to create and keep the excitement going for the consumers.

Devanshu Bansal: And last one from my end. Sir, there was a general belief that we are more -- we have a portfolio of more dine-in focused stores as well in the Pizza Hut segment. But dine-in recovery for other formats like McDonald's et cetera has been really, really strong. But that sort of didn't reflect in our relatively better performance of Pizza Hut this quarter. So what according to you were the reasons then why dine-in didn't pick up for us when we had a relatively better dine-in store portfolio?

Vijay Jain: So first off just clarification, I don't think we said we have dine-in focused stores in Pizza Hut. What we inherited one large sized store, I think you're referring to those older -- or else large-sized stores, which have been subsequently converted to omnichannel, so they do dine-in, delivery and takeaway, all three.

What we called out at these stores are large in size. As a result while subsequently converted to omni, they're inefficient in terms of the cost, which we have to incur to operate these stores. And as a result, they would deliver slightly lower than the brand average at an EBITDA level. That's what we've meant and not that we are operating dining focus, we operate --all our stores are omnichannel focus stores.

Devanshu Bansal: No, I get that point, sir. My reference was like in all our stores, I guess, we have 60, 65 seats minimum, right, versus other players, pizza players, they were -- they may be having lower dining capacity at the stores. So my reference was from that perspective. So what according to you when people sort of, other dine-in focused stores, let's see, some good traction, what were the reasons why we were not able to see that sort of a traction?

Sanjay Purohit: So relative dine-in is -- relatively dine-in, in this minus 4% is little better than delivery. But if I look at dine-in across KFC and Pizza Hut, it's at a similar level, Devanshu. I can't comment how we have done versus say a competitor brand. But this is generally what we have seen. So dine-in slightly better, but overall in any case a little stressed.

And I think when you look at -- so again, I want to reiterate, our guidance has been 5% to 7% SSSG with this kind of store addition that we are doing. On KFC, we are slightly lower at 3%, in the case of Pizza Hut, undoubtedly lower than that at the minus 4%. I think we have to just -- when we look at all the work that we are doing on the consumer front from a product perspective, customers front, partnering with delivery aggregators, I think most of that work is the work that we need to continue to do and just ride this tough phase out.

So, we got 3 minutes more, Nachiket and Faizan, how do we handle this?

Moderator: Sir, we'll take the last question from the line of Ashish Kumar from Infinity Alternatives.

Ashish Kumar: While we discussed about India, a little bit in terms of Sri Lanka and slightly more longer term. How do you think -- do you think -- how do you -- what's could be your plan to come back to an pre-economic crisis margins on that business, or how do you see that business, let's say, well, a couple of years?

Sanjay Purohit: So internally we take it quarter to quarter. I think the good part that has happened is that operating conditions have stabilized. We anticipated that this high level of inflation will have an impact on -- and with taxes increasing et cetera, discretionary spends will start to come down. Already we are seeing inflation levels starting to taper off. I would think that when we have done -- I would think, after doing analogous mapping with or this mapping with analogous situations like this in the past, I would think the next, say 6 to 9 months will be perhaps muted in Sri Lanka and then towards the end of this calendar year, the economy should start to look up.

Ashish Kumar: And -- but do you see that there would be -- should you kind of go slow down, slow down your growth because given the fact that there is some amount of uncertainty as to how long this would continue. And obviously it's dependent on a lot of other macro factors, but are you planning to slow down fresh capex out there so that you can use the capital more productively where your ROCs are higher in short term?

Vijay Jain: So you will certainly not see the kind of expansion what you've seen over the last 2 years. Last 2 years put together we would have added 40 restaurants in last 2 calendar years, 40 Pizza Hut restaurants, so 20 per year. You will not see certainly 20 restaurant additions going forward. Yes, we are going to be slightly more calibrated over next 6 to 9 months. And as Sanjay said, it's a quarter-on-quarter how things work out. But yes, you will not see the kind of additions, what you've seen over last 24 months in Sri Lanka. A bit more calibrated approach over next 6 to 9 months.

Ashish Kumar: And second one was a data question sir. What will be our capex for this year estimated to be full year?

Vijay Jain: See again we are not giving out a specific number in terms of any guidance for year.

Ashish Kumar: So what is in it for 9 months sir?

Vijay Jain: So that's what I'm saying, we're not giving out specific number. What we have called out previously is that our KFC capex is in the range of INR 1.9 crores to INR 2 crores per store. Pizza Hut capex is in the range of INR 1.5 crores per store. Next quarter anyway the numbers will be out, including the balance sheet. So we can discuss the annual number probably on the next call. But this is a broad range, which we have always indicated at a per store level.

Sanjay Purohit: Should we take the last question?

Moderator: We have one more question from the line of Manish Sharma, an Individual Investor.

Manish Sharma: Good evening sir, So my question is, with respect to the all-day part meal occasions, which we have as compared to the as a competitor brand, wherein, let's say, they have a breakfast, then they have a meal, then they have a snack day part. So how do we place our both the brands here.

Sanjay Purohit: Manish, just repeat your questions. It was...

Manish Sharma: So, I'm asking -- I'm asking as we see the other competitors wherein they are in the same segment offering an all-day meal part of occasions, compared to they have a breakfast range, they have a meal range, then they have a snack range for the evening. So how do you place Pizza Hut as well as KFC in that segment, wherein we throughout the day customer can visit our outlets and have those sort of meal option, so that the volume of businesses remain as per the SSSG growth, which we're anticipating.

Sanjay Purohit: Yes, so except for breakfast. Lunch, snack -- so we've got meal and snack options for the rest of the day and late into night. So breakfast is the only thing that I would say right now that we don't have in our portfolio, Manish.

Manish Sharma: So is there any plan going forward that we are going to get into that space that -- also you have a volume of transactions, they are...

Moderator: Sorry to interrupt you Mr. Sharma, the audio is breaking from your line sir. Please check.

Sanjay Purohit: But I'll answer Manish's question. So, at this moment, there is no plan to introduce immediate breakfast line. But I must reiterate and I must emphasize out here that both KFC and Pizza Hut are first meal brands and then strong snacks brands also. And that reflects through the average check size of our -- both the brands, the volume of business that we do both in lunch and dinner and then also late night. So we offer like I said, both meals as well as snacks on both the brands.

Vijay Jain: And just to add to that, other way of creating efficiency in terms of store utilization is what we have done over last 5 years, by bringing down our store sizes from 2,500 square feet to 1,200 square feet for Pizza Hut and 1,500 square feet for KFC. So it actually allows us to be more efficient in terms of the space which we carry compared to the competition where the store sizes continues to remain large. So that's another way of efficiently utilizing the asset.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Sanjay Purohit: So thank you everyone for joining our quarter 3 conference call. The last -- while the last couple of months have seen some softening of demand, the India sales performance has still been robust at 24%. Sri Lanka also grew at 39% in local currency terms, but in translation terms declined. Both the businesses have got healthy consumer proposition in the last quarter, despite the SSSGs we're still been able to maintain margins.

And I believe that this is a general softening of consumer discretionary spends perhaps that we are seeing. We are quite confident with the sense of both the brands that we should be able to ride this out. We've got to focus on what is in our control, the customer experience, the product innovation, the focus on our teams and training and so on. So with that, thank you so much. And I'll see you again when we announce our full year results. Thank you very much.

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