SapphireFoods

Date: 16th May 2024

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 – Q4 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 Friday, 10th May 2024, in relation to the financial results of the Company for the quarter and year ended 31st March 2024.

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 4 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: 2024.05.16 18:26:54 +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

Q4 & FY '24 Earnings Conference Call"

May 10, 2024

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
MR. RAHUL KAPOOR -- HEAD, INVESTOR RELATIONS – SAPPHIRE FOODS INDIA LIMITED

MODERATOR: **MS. SHIVANI KARWAT -- ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY '24 Earnings Conference Call of Sapphire Foods India Limited, hosted 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 Ms. Shivani Karwat from Orient Capital. Thank you, and over to you, ma'am.

Shivani Karwat: Good evening, everyone. Welcome to the Q4 and FY '24 earnings concall for Sapphire Foods India Limited. From the management, we have with us; Mr. Sanjay Purohit, Group CEO and Whole-time Director; Mr. Vijay Jain, CFO; and Mr. Rahul Kapoor, Head, Investor Relations.

I hope everybody had a chance to go through the results and 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 will hand over the call to Mr. Sanjay. Over to you, sir.

Sanjay Purohit: Good afternoon, everybody. Great to have all of you all on this call. We are going to be talking about our quarter 4 and our full year FY '24 performance. I'll go straight to Page number 6, where I will -- let's first talk about our 3-year scorecard. In December '21, after we listed, we have guided that, our aspiration is to grow revenues by 25% year-on-year, grow EBITDA by 30% year-on-year and double the store count over a 3 to 4-year period.

If you look at 3 years since our listing, we've been able to achieve most of -- or achieve all our objectives. Sales has -- revenue has grown by 37%, EBITDA by 92%, and we've almost doubled our restaurant count. When I look at specifically performance for the full year FY '24, we've grown restaurants by 17%, restaurant sales by 15%. Adjusted EBITDA has grown by 3%, and adjusted PAT by -- has declined by 44%.

What are the highlights of the year? When you look at the entire QSR industry and you will take all 4 parameters into consideration, revenue, scale and growth, EBITDA margin and growth, and a fifth parameter of new restaurant additions, we believe that we've delivered the best all-round performance, where revenue scale -- revenue has grown by 15%. Our EBITDA margin of 10.5% has grown by 3%, and we've added 129 stores. So from an all-round perspective, revenue, size, scale, EBITDA margin percentage and growth, we feel that we have delivered the best performance in the industry. Within that, KFC Sapphire has delivered our highest-ever annual rest. EBITDA margin of 19.7%, and we've had our highest restaurant additions at 88.

We are quite proud to say that underlying these financial results is a maniacal focus on execution and improving customer and operational metrics. We are ranked among the top 3 franchisees by

Yum! on -- in both KFC as well as Pizza Hut on our customer metrics and our operating standards. We're also quite proud that we were ranked the number 1 QSR in India on our ESG score rated by Dow Jones Sustainability Index, and we are 95th percentile among all QSRs globally.

We also achieved -- this is an internal metric, but I'd like to share with you. We also achieved our best-ever employee engagement score since 2018 that we have tracked. And today, we have placed at the 88th percentile of all companies surveyed by the global Gallup Engagement Survey. All companies did this survey worldwide.

When I look at specifically the quarter 4 highlights, our consolidated restaurant sales at INR630 crores grew by 13%, EBITDA at INR110 crores grew by 7%. And really, the story as we indicated even in February was that demand across all consumer product categories remains constrained. And now we've got the private final consumption expenditure metrics released by the government over the last 6 quarters. It's been the worst it has been over the last 2 decades. In quarter 4, we added 23 KFC restaurants, and our total count is 872 as of 31st March '24.

Consolidated restaurant EBITDA declined 5% year-on-year and margin was 13.6%, down 260 basis points. Consolidated EBITDA at INR110 crores, 17.5%, grew Y-on-Y by 7%. Adjusted EBITDA, that is pre-Ind AS 116, at INR54 crores in the quarter, 8.6%, declined by 3% Y-o-Y.

Consolidated PBT of INR8 million or INR80 lakhs, or 0.1%. Adjusted PBT was INR8.3 crores or 1.3%. PAT was INR2 crores or 0.3%. And adjusted PAT, that is the non-Ind AS 116, PAT was INR7.6 crores or 1.2%.

I'm going to quickly take you through KFC. KFC during the quarter also continued to perform well in a tough demand environment over the full -- over the quarter. I'm referring to Page number 20 here. Over the quarter, we grew revenue by 16%, and we added 23 new stores. Our brand priorities continue to be those 6 priorities: increased fried chicken category relevance; build craveable taste; continue to expand on our value offerings; offer the customer a frictionless experience, both online as well as off-line; improve our operations; and improve accessibility.

In the month of April -- sorry in quarter 4, we relaunched Chizza LTO that did well. And this quarter, we've taken our burger game to the next level by launching 5 new burgers: American, Caribbean, Mexican, Indian and Indian veg and Indian nonveg. We've relaunched also, which you will discover only at the store, the Indian veg option, a paneer Zinger. But the other 4 burgers are also, if I dare say so myself, absolutely outstanding. And we launched 23 stores in this quarter. So we are on track to double our restaurant count by the end of the year.

I'll hand it over to Vijay Jain, our CFO, now for the financial numbers.

Vijay Jain: I'm on Slide 25, which covers channel-wise sales contribution. Our delivery mix remained steady at 39%.

Moving on to the next slide. SSSG came at minus 3%. Our ADS is at INR114,000. Just to clarify, the ADS is also impacted by new store additions, which we're, over the year almost at 25% restaurant additions. And as we called out, generally, the new stores take time to scale up. And their ADS are generally lower initially the first year compared to the brand average. Overall, revenue grew by 16%. And while gross margins improved by 150 basis points, the negative SSSG meant that it impacted restaurant EBITDA, which came at 18.7% for the brand, down by 40 bps year-on-year.

Slide 28 gives you a 4-year annual performance and 5-quarter trend. You can clearly see Sapphire KFC delivered an industry-leading performance with 88 new restaurants, 18% revenue growth for the year and highest annual restaurant EBITDA at 19.7%.

Then let us come to Pizza Hut now. I want to first reiterate that Pizza Hut is our second pillar of growth in our multi-brand restaurant operation strategy. The quarter continued to be challenging on Pizza Hut, where revenue grown -- where system revenue grew by -- sorry, declined by 3% Y-on-Y, and SSSG declined by 15% Y-on-Y.

We have called out that we've got a simple and clear strategy on reviving consumer interest on the brand. In a tough demand environment, added pressure of high competitive intensity, we said there are 3 things that we want to do. One is, how do we stoke consumer interest behind the brand? And to do that, we've got to be able to launch relevant market innovation, which is backed by significantly higher marketing spend.

So in February, we had called out that you should be able to expect new innovation to come out in the next 1, 2 quarters. On February 29, we launched Melts. Melts is an absolutely unique product. It is a folded handheld pizza concept. And it is aimed at extending the pizza consumption to in-between meal locations. So it doesn't take on pizza directly, but it's trying to expand the number of occasions that pizza is consumed. And we backed that and have continued to back it with a multimedia marketing campaign.

Apart from Melts, I'm now looking at Slide number 31. You can see the other innovations also that were launched. We had a range of pastas, and we launched a very interesting Thin N Crispy Crust pizza also. All -- this is, I would say, the start of the journey on the brand. We are quite excited with what is in store on the brand over the next couple of quarters.

The second part of our plan, we said is, how do we improve our internal -- continue to build on our customer scores as well as our operational metrics? Our Dragontail kitchen planning tool rolled out in 100% restaurants. We have seen improvement in service levels, especially on delivery. The Dragontail is integrated with the aggregator platforms. It's an ever -- it's a first-time-ever kind of an integration. And we believe that this muscle is a unique muscle that we are building. Our lunch daypart activation also was rolled out, and now 90% plus high-speed restaurants are open for late-night deliveries. And in line with what we said, we'll be cautious -- I don't know where we lost each other. But perhaps I'll just cover the last part of what I discussed on Pizza Hut. In line with our cautious expansion strategy, we did not -- we had net-zero store addition in the quarter. And now I'm going to ask Vijay to please share the Pizza Hut financials.

Vijay Jain: I'm on Slide number 35. Delivery mix came at 50% for the quarter, and dine-in mix improved to 35%. SSSG was minus 15% for the quarter, and overall revenue declined by 3% for the quarter. And while gross margins improved year-on-year by 120 bps, the impact of negative SSSG and higher marketing spends meant that the restaurant EBITDA came at negative 2.7%. If we exclude the additional marketing spend done during the year -- during the quarter, the brand broke even at the restaurant EBITDA level.

Slide number 38 gives you the 4-year trend. Clearly, the brand is facing the challenging time. With the initiatives planned on the product, product side, which is backed by investments, both in marketing and improving or strengthening the consumer experience, we are confident the brand will emerge stronger in the medium term.

Sanjay Purohit: A quick update on Sri Lanka. So we are seeing green shoots of revenue growth. So SSSG grew by 4% and system growth of 8% in Sri Lankan terms. However, store operating cost inflation was a drag on profitability, and it is a challenge. But we remain confident that FY '25 should be better.

And then when you look at the brand strength, and I'm referring to Slide number 41, it is undoubtedly the number 1 QSR brand in the country, both from a name recognition perspective, from an accessibility perspective. So as the economy improves, we have great faith that our Sri Lanka business, also that we are seeing revenue starting to improve, will come back on track.

Vijay Jain: Slide 42, Lanka business channel-wise mix. The delivery was largely stable at 37% for the quarter. The SSSG, which was the heartening piece, for the quarter was 4%. Overall revenue, in Lankan terms, grew by 8%, and Indian rupee, it grew by 22% for the quarter. And while gross margin saw also an improvement even in Lanka business by -- up by 90 basis points quarter-on-quarter, restaurant EBITDA came at 12.3%, impacted by, as Sanjay mentioned, the cost inflation which we experienced on the operating expense side of the store.

Slide 46 gives you a 4-year trend. We can see the green shoots of demand recovery in the country, which is reflected in form of SSSG. The quarter 1 has also started well for Sri Lanka in terms of SSSG. So we expect FY '25 to have an improved performance over FY '24 for the business.

With this, we can open the floor for questions, Poojah.

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

Jaykumar Doshi: My question is, over the last 45 days or 40 days or days in this quarter, are you -- directionally, are you seeing any stabilization of same-store sales trends for KFC? Is it decelerating? Or is it improving? Can you give us some idea in terms of how the year has started? And based on what you see right now, how do you sort of -- what's your outlook for the first 3 to 6 months?

Sanjay Purohit: Jay, good to hear from you. As you know, I think generally, we won't give you guidance for the quarter. But however, having said that, if I look at how the first 40 days or so have started, April is not a comparative month for us from a KFC perspective because this year saw the full impact of the Chhota Navratri. And during this time, both our North and West businesses get impacted significantly.

May has -- May is significantly better than either Jan, Feb, March quarter. But I mean, it is more or less in line with the improvement that we see on a year-on-year basis. Sequentially, this quarter -- so sequentially, this quarter is a better quarter if I remove Navratri, and we are seeing trends along those lines. We are not seeing even further -- or we are not seeing further improvement in -- on KFC.

On Pizza Hut, we are seeing improvement compared to what we saw last year. But because the brand is -- has undergone a fragile few quarters, I'm still wanting to see how it pans out. And perhaps before the next -- or during the next quarterly results, we should give you concrete evidence that indeed we are starting to turn the corner on the brand.

Vijay Jain: Just to clarify, Sanjay meant a sequential improvement, which we traditionally see. In this quarter, we're seeing on the KFC brand, and we're seeing that better upliftment compared to last year in Q1 versus Q4 on the Pizza Hut brand. I think you referenced somewhere year-on-year remains sequentially.

Jaykumar Doshi: Understood. So basically, the March to June seasonal update is in line with the usual seasonality this year so far. And in Pizza Hut, it's a little better than what we saw last year.

Sanjay Purohit: Yes. Perfectly said, Jay.

Jaykumar Doshi: One more question, if I may. In our new -- sort of in your conversations with aggregators, what is your reading of the fact that aggregator seems to be doing fairly well in terms of Y-o-Y growth rate. And overall QSR industry is started lagging meaningfully. Even the brand that used to be much better about a year ago, that gap is widening. So how do you see this? Is this more of a structural trend? Or is this a temporary phenomenon? And how do you interpret this?

Sanjay Purohit: Yes. So one is that right now, we get only data from one of the aggregators. And undoubtedly, their growth rates have been higher. When we drill down from a QSR, so there are 2 parts that they seem to be saying. One is there has been expansion of option and restaurants that they have taken on board. So there are more restaurants that are being served today. That is number one.

And secondly, they're getting better growth out of high-value transaction, and that is largely happening through the earlier casual store, fine dine restaurants who come on board and now are looking at delivery in a meaningful manner. Having said that, if I just look at our 2 brands, KFC's performance also is in line with the kind of growth that we are seeing, the -- one aggregator, delivery.

Jaykumar Doshi: Exactly. So what I understand from you is the growth for aggregators' outperformance that -- versus QSR is largely a function of, if I were to sort of -- at a higher price point, premium restaurants, luxury restaurants are seeing more -- the growth is driven by that and not the mid-priced restaurants or QSR fall.

Vijay Jain: Yes. So you have latched onto only 1 of the 2 reasons. One is, yes, we're suggesting that SSSG is driven by whatever components. So if I look at the Q3 results of one of the aggregators, 27% is what -- they grew by 7% SSSG, which is largely driven at a premium, and the 20% came through restaurant additions. And if you look at the comparable number, KFC also grew at 18% for the year. So yes, it's largely driven through addition, and a component of SSSG is driven through premium restaurants.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: I just had 2 questions. One was on Pizza Hut. So in light of the changes that you're making and you also said you kind of relook at stores, et cetera, could this be a fairly muted year in terms of expansion? Is that the fair way to look at it? And if there is any number, if you could share on that.

Vijay Jain: So again, we won't give out annual numbers, or we have given out a guidance December '21, where we said we could double the count of both the brands over 3 to 4 years. You could clearly KFC tracking on that for 3 years, in fact, rather than 4. Pizza Hut, I think, we are taking an extremely cautious approach.

So yes, it would be muted. Now what is muted would be subjective, but yes, it would be fair to say it would be muted.

Harit Kapoor: Got it. Got it. And the second question was on inflation. So are -- some of our trackers suggest that you've seen some reduction in the overall inflationary environment in Q3 and Q4. Just wanted to get your sense of what's the kind of scenario you're seeing going into FY '25. And is there a potential price increase likelihood? Or in the current environment, that's a bit too far-fetched?

Vijay Jain: So whatever benefit had to come in into the P&L in terms of gross margin improvement, I think that's locked largely starting Q3 of last year. And if you see sequential gross margin, we had called out that it will be ranged from plus/minus 2 basis points. I think going forward, we expect that the gross margins would be ranged about plus/minus 2 basis points. And we don't see any price increase -- material price increases happening. That would always be small revisions. But we don't see any material price increases happening at least in the H1.

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

Shirish Pardeshi: I was just referring to your initial comment that competitive intensity is there. So I just wanted to see that -- and your comments specifically, is it gone up substantially in Pizza Hut and lowered in KFC or it's similar? That's my question. Basically, I wanted to understand whether these new innovations, what we have launched in the market, will it drive the consumer occasion, what we've been planning to bring them to more footfall to our stores.

Sanjay Purohit: Yes. So the competitive intensity is not a quarter phenomenon, but a 2-year phenomenon. And last quarter also, I mentioned that we look at a 2x2 grid to determine competitive intensity. One is the size of subcategory within QSR. The larger the size, greater the competitive intensity. And the ease of kitchen operations, the easier the kitchen operation, the easier -- or perhaps the greater the competitive intensity.

So if you look at the 2x2 metric, perhaps, pizza is the largest category. And relatively, kitchen operations are easy. Relatively, it is easy. And therefore, that is why we are seeing competitive intensity. I also called out that it's not as much physical infrastructure that is put up. So brands don't have omnichannel presence rather than we are seeing a multitude of cloud brands.

And when we look from a fried chicken category perspective, while now it is almost a second -- or it's a large category, the complexity of kitchen operations means that to produce great product is so much more difficult, and therefore, competitive intensity there is lower. Perhaps if I look at burgers, the competitive intensity is significantly higher than fried chicken and perhaps even coming close to now, pizza.

Having said that, I think the idea behind Melts and, in general, innovation on the Pizza Hut brand is to both revised consumer interest and, therefore, pull a little bit of market share from all the other pizza players. Also through Melts, there's an additional benefit of increasing the number of pizza occasions beyond meal time occasion. And therefore, in-between meal snacking occasions also, the brand or the -- this launch is meant to do that.

Shirish Pardeshi: Okay. And the second question is that in the mid- to long term, maybe another 2 quarters...

Sanjay Purohit: Shirish, your voice is very soft.

Shirish Pardeshi: No. My second question is on the SSSG. Though we have now taken a pause for opening more stores on Pizza Hut, do you expect that next 2 quarters, the revival will happen, positive SSSG, for Pizza Hut business?

Sanjay Purohit: I think it's no -- there's no silver bullet on the brand, Shirish, much as I would like to give you a very optimistic outlook. But I think we are optimistic about the direction that we are taking, but it is going to take time. There's no doubt about that. It's going to take time. And it is not helped by a demand environment that is so soft. And again, when we look at all the quarter 4, many of the consumer product companies also that have come in, I think some of them are in -- some of their results are indicative of the pressure that we are seeing on consumer demand.

Moderator: The next question is from the line of Karan Taurani from Elara Capital.

Karan Taurani: My first question was on KFC EBITDA margin. I think despite the improvement in gross margins, frankly, the margins have been stable as compared to peers maybe in the burger and the pizza category where we're seeing margin disruption. So what's your take on margin going ahead? Do you believe that margins will remain stable? Or do you believe that there's a potential for expansion as well?

Sanjay Purohit: Karan, are you complimenting us? Or are you saying our margins in KFC has not been as good so...

Karan Taurani: No, I'm complimenting it has been stable. I'm complimenting being stable. But are we expecting too much that -- what is the potential for an expansion, if at all? Yes.

Vijay Jain: Yes. So Karan, again, the overall long-term guidance on KFC margins we have called out that we would like to be in that 20% zone. If it goes higher, the idea would be, can we expand even faster and invest in the new stores? Because we are quite comfortable with the ROCE, which we generate at a 20% margin level. That's the long-term guidance you have always called out.

Right now, it's come down to 18.7% because the SSSG is not helping. So if the SSSG remains challenging, then yes, the margins would be under pressure. But the moment SSSG is back and this is positive in the range of 3% to 6%, we expect the margins to be, again, going near to 20%. But no, we don't intend to take it beyond 20%. In that case, we will expand this faster.

Karan Taurani: Got it. That's really helpful. My second question was on competitive intensity. So there have been players like Popeyes who are now looking to expand on a pan-Indian basis. I think [Wow Chicken] is also somewhat scaling up in metro cities. So do you foresee that because of potential competitive intensity, this could lead to prolonged pressure and growth, which could, in turn, lead to more margin pressures over the medium term? I mean what's your sense on competitive intensity in general?

Sanjay Purohit: Yes. So 2 parts to the answer. Number one is, if you saw what we are trying to achieve on KFC, how do we grow KFC is to enhance the relevance of the fried chicken category. So from that perspective, competition actually creates positive noise around the category, and we should see greater adoption of fried chicken going forward. So in that sense, competition is only good. Now the second part to that question is that however, at the scale that KFC operates, we undoubtedly have economies of scale also. So it is difficult for any competitor to come in and be a cost leader and, therefore, impair margins. So I don't think that should happen, point number two.

The bigger question to ponder over is similar to the scenario that Pizza Hut is in. Pizza Hut, over 25 years, has got a very strong equity in the consumers' mind. But as a number 2 player in the large pizza category, it still needs to clearly differentiate itself from the market leader. And that's our attempt, and we can see as to -- it's not -- even then, it's not easy, even with the size and scale that Pizza Hut has. The important part, therefore, to see is that other upcoming brands offering anything that is different to KFC from a consumer proposition perspective, I'll leave the judgment to you. If you ask me, I would say no.

Karan Taurani: But some of them can undercut in terms of pricing, which could lead to pressure on growth, which could lead to pressure on your margin. Just trying to get better understanding, can that scenario play out?

Sanjay Purohit: Yes. In fact, I mentioned that in my second point that to be able to do that, either you're going to take a significant hit on your margins, and therefore, you're going to be out of pocket. And even for a large player like the number 1 player in pizza, it's going to impair their margins. So -- and because they don't have the economies of scale, the economies of scale are at 2 levels. One is not only the sourcing economies, but also at a store level, if you don't have a critical ADS, critical sales per store, then also your store operating costs as a percentage of the store P&L go up quite high.

So again, in this entire, I don't think, the QSR category, generally, we have seen someone coming in and being price leader because in food, people play the opposite game, can be perhaps INR1 or INR2 more premium and show quality rather than the opposite way. So I think, Karan, it's unlikely.

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

Devanshu Bansal: I want you to check within...

Moderator: Sorry to interrupt you, sir. Your voice is a little less. Can you please use your handset?

Devanshu Bansal: Sure. I'm already using my handset. I'll be a bit louder. What is the -- within the 3% SSSG decline for KFC, what is the kind of transaction growth or decline that we have seen this quarter?

Vijay Jain: So again, we have seen a transaction decline as well. We have not given out a specific transaction growth number even previously. But yes, it's safe to say that transactions have also declined, generally, in the similar range, I would say, single digit, low single digits only.

Devanshu Bansal: Got it. Vijay, I wanted to check, how aggressive are we going to protect our order count share here? So like this, we are seeing that the leader in the pizza segment at least has raised up delivery charges just to, in my opinion, gain the order count share. So I wanted to check how KFC view people as the leader. How aggressive are we going to protect our order account share here?

Vijay Jain: How aggressively you're going to protect what?

Devanshu Bansal: Our order count share, I think how...

Sanjay Purohit: Transactions?

Devanshu Bansal: Yes, transactions here.

Sanjay Purohit: Yes. So today, we are not finding too much of a difference between our same-store sales growth and our transaction growth. Our pricing has been largely stable, Devanshu. So the specific example that you took off is one tactic that one player has used, not necessarily that tactic works for everyone else. Suffice to say that our -- the biggest play that we are making is in ensuring that pricing is kept to an absolute minimum. That's the front foot batting that actually we are doing.

And then our launch of our snackers range at INR99, we've got a full lunch range at INR149. So there are enough and more value option that will drive transactions. So I think we are being aggressive in trying to grow SSSG of the brand undoubtedly.

Did that answer your question, Devanshu?

Devanshu Bansal: Yes, it did, Sanjay. Second, I wanted to check our CapEx at about INR385 crores. It's similar in FY '24 while we have added lesser number of stores in the year. So just wanted to check, what is the reason for that?

Vijay Jain: So again, it's a combination of a couple of things. It also depends upon what kind of refurbishments you have taken this year versus previous year, what kind of other CapEx on tech investments you have done this year versus previous year, the number of closures this year versus previous year. So all those factors come into play when you're comparing the CapEx this year versus last year. As I called out previously, if you look at the CapEx per store per format, so KFC CapEx is generally in the range of INR2 crores per store for around 1,500 to 1,600 square feet. Pizza Hut, we are seeing it in the range of INR1.42 crores to 1.45 crores per store on Pizza Hut.

Devanshu Bansal: Got it. And Vijay, can you call out as in where a major part of the difference has gone in, in terms of refurbishment or technology?

Vijay Jain: Devanshu, if we can come back to you on that particular thing and exact details of it.

Devanshu Bansal: Sure. Sure.

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

Gaurav Jogani: My question is with regard to the Pizza Hut margins. Now despite the lower demand scenario and negative leverage, we decided to go for an aggressive marketing campaign, leading to actually an EBITDA loss. So in this scenario, given that the near-term demand also looks weak, how are you looking at the overall margins for Pizza Hut for the coming couple of years?

Vijay Jain: So again, without the additional marketing investments, we have broken even and with the kind of uplift we are seeing. And again, as Sanjay said, too early in the quarter, but the kind of uplift we are seeing, combined with the seasonal uplift, we don't see the brand going into negative on a full year basis in the coming quarters as we move forward. However, we do expect the restaurant EBITDA to remain in a single-digit restaurant EBITDA, what we experienced prior to this quarter. Until the ADS level goes back to that INR50,000, INR55,000 levels, we expect the restaurant EBITDA to be in single digit.

Sanjay Purohit: Yes. And if I just add more colour here, Gaurav. On the brand, the issue is improving -- or the answer is improving demand. And we have been quite forceful in saying that we are not going to be victims of the low demand environment. But we are going to try and put ourselves out there and actually change the trends and change the trajectory of the brand. And hence, the emphasis on greater level of innovation and, hence, marketing investments.

So I'm -- this is indeed the way to go on the brand. And now you look at how many brands will be able, in a scenario like this, to actually put in the additional investment. And this is a great opportunity for Pizza Hut rather than the -- looking at it in a negative manner.

Gaurav Jogani: Sure, sure. No, so just wanted to get a perspective at what level the tolerance level is for the margins. I mean what is the balance that you would like to see between the marketing spend and the margins? So that was the broader question.

Vijay Jain: Yes. So as long as -- I think they're quite comfortable as long as the brand is not losing money on an annual basis. And can't look at the quarter in isolation, we are quite comfortable spending that kind of money because at the end of the day, idea is to get the ADS and the SSSG up. It doesn't really matter if we're hitting 5% restaurant EBITDA mark or 3% or 7%. How do we get the ADS up and get the restaurant EBITDA back to double digit, that's the objective.

So yes, it will be a single-digit restaurant EBITDA. And as long as we are not losing money on the brand on an annual basis, I think we're quite comfortable.

Gaurav Jogani: Sure, sir. That helps. And my second and the last question, sir, is with regards to if you look at the absolute ADS numbers also, I mean, for the year, I mean the ADS numbers are actually lower versus even the COVID impacted year as well. So what should we gather from this? I understand that it is impacted because of the lower -- this tepid demand scenario. But do you also think it is also a concern of the store sizes that we have cut down and now somehow it is impacting us because the pent-up has gone down, the delivery has also resumed to normalcy? So how should we look at these ADS numbers?

Vijay Jain: You're referring to KFC or Pizza Hut or both of these in general?

Gaurav Jogani: Both in general, sir. Both in general.

Vijay Jain: Let me take the second part first. So it's not impacted by us cutting down the size of the restaurant. A lot of our restaurants would still be delivering significantly higher ADS than the brand average. So capacity is not at all an issue. The ADS reduction is a function of 2 parts. As you keep adding 20%, 25% restaurants every year, typically, as we have called out earlier, the new restaurants come at 70% to 80% of the brand average in year 1. They will take 3 years, 4 years to mature and move towards the brand average.

So our 25% additions would typically take down the ADS by 5%. However, generally, that gets offset by a 5% to 7% SSSG, which the brand could generate in a general scenario, which keeps the ADS steady. So if you are not getting the SSSG as has been the case with Pizza Hut for last 6 quarters and KFC for last 1 year, the additions are diluting the overall ADS. But the balance in terms of new store additions, combined with the overall cost management, meant that we have still improved on our profitability for the KFC business and delivered the highest-ever restaurant EBITDA.

Gaurav Jogani: Sure, sir. Just a follow-up on this. I mean so if we continue on this 25% kind of store addition for both the formats, that is, and as you mentioned, that the usual impact is around 5% on the overall system...

Vijay Jain: Additions would lead to 5% impact that can be offset if you have SSSG of 5% to 7%. Then the ADS remains steady. That's broad thumb rule.

Gaurav Jogani: So even if we, for example, do a 5% kind of SSSG going forward, it will still be fair to assume that then the ADS could remain flat, and to drive higher ADS per store, we would write -- I mean we would have to do a higher kind of SSSG? Would that be a…

Vijay Jain: It would not be required because if we saw additions, which are planned, and SSSG of 5% to 7%, which we are quite comfortable with to deliver the margins of 20%, those ADS levels are fine. While we always love to have higher ADS, but those levels are completely fine for us to deliver a targeted number or aspired numbers.

Gaurav Jogani: Yes, yes. So my question is not on margins here. It's largely on the ADS bit only. So I mean, as you said, that 25% addition...

Moderator: Sorry to interrupt you, sir. May I request you to please rejoin the queue for your follow-up question.

Gaurav Jogani: Ma'am, just completing this point.

Vijay Jain: Gaurav, maybe we can connect again off-line.

Gaurav Jogani: Okay. Sure, sir. No worries.

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

Akshen: Most of my questions have been answered. Just one question on Pizza Hut. I saw that there are no store additions this year. And I think you had flagged that that's something that you would do if you see ADS going below a certain level. So just when we think about getting back on to store addition for Pizza Hut, what are the markers you would have us look at? Should we be looking at a certain level of ADS? Should we be looking at a certain level of margins before which we start having capacity on the storefront?

Vijay Jain: Yes. So we have no additions for the quarter because we somewhere called out for the year. So for the year, we still have the addition. Last -- with the year gone by, we added 33 restaurants for Pizza Hut. Yes, for the quarter, 0 additions. And for the previous quarter, it was 8. As we called out, the expansion will be cautious. We are not saying we are going to be 0 or pausing completely. It will be extremely cautious, suffice to say that.

The markers, I would say, 3 markers which we'll track internally. One is certainly looking at can the SSSG come back on the brand. That's the first. Reasonable ADS at a store. So moving towards INR50,000 ADS level marks again gives us some comfort, which helps us to manage costs more efficiently and deliver some sensible level of profitability.

And the third would be the profit itself. I think moving towards 8% to 10% mark restaurant EBITDA gives us confidence to increase the pace of expansion significantly. Till that time, I think we would be cautious on store expansion.

Akshen: Okay. Great. And then last year, we had -- quarter by quarter, things were a little noisy because demand was slowing down and then you had impact of festive, Adhik Maas, all that sort of stuff. Now when we look at '25, what would be the best way to gauge underlying trend? I'm not asking for a guidance at all. I'm just trying to say, would a year-on-year metric be a better way to look at it? Would be a sequential build-out be a better way to look at it? Because -- you follow what I'm saying, right? Like last year...

Vijay Jain: So I'll just answer like in combination of this because unfortunately, over the last 3 to 4 years post COVID, every year and every quarter that there has been some of the other exceptions. As a result the trends, which are sequential trends or year-on-year trends, some quarters where it gives out a good picture, some quarters, they are not strictly comparable. So this year, if I look at quarter 1 has Navratri falling in April. Last year, it was across 2 quarters. Adhik Maas would not be there this year, which should help the quarter 2. But quarter 3 last year had some impacts on Shravan, which has moved to quarter 3. This year, it probably will be in quarter 2. Definitely, it will be negative.

So yes, especially for KFC, those seasonal impacts, unfortunately, quarter-on-quarter, we'll have to judge. Looking at annual, nothing like it, but that's the best way to look at it. But yes, some people may not be comfortable in judging the brand annually. But quarter-on-quarter, there will be exceptions, which have to be carved out to come out at a real SSSG for third quarter.

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

Dhiraj Mistry: Congrats on good performance of KFC. So my question is on Pizza Hut. So if I look at this SSSG decline, can you divide that between AOV and transaction value for this? And whether the Flavour Fun Pizza and the other value innovation which we have done, has that really led to the transaction growth?

Vijay Jain: So again, while we're not giving out specific numbers, we have seen double-digit SSSG impact. And yes, the transaction impact has been also close to double digit. So largely, you can say it's a transaction-driven impact, which we are seeing on the brand. The Flavour Fun, the growth which we saw on the both ADS levels and transactions level in the initial period, what we have seen right now, we have not been able to sustain that upside, which we gained in H1 of FY '23. Right now, I wouldn't see any particular impact coming from Flavour Fun after it has lapped that last year. If anything, we saw degrowth in transaction year-on-year.

Having said that, again, it's not been a reason why the brand is losing SSSG or transaction. When we look at our analytics and the customers who have actually bought Flavour Fun vis-à-vis the customers who have not bought Flavour Fun, I think that first step is doing better relatively vis-à-vis the other step. So this definitely helped the overall brand. Without Flavour Fun, the numbers could have been far worse for the brand.

Dhiraj Mistry: Got it. Okay. And second and last question on the Slide number 30, which you have mentioned on real estate of Pizza Hut that 3% to 5% portfolio correction you will be taking in next 2 quarters and 10% refurb. Can you elaborate on that? What kind of correction you will be taking and which stores basically? Is it related to signs, or...

Vijay Jain: So what we meant by portfolio correction was basically closure of loss-making stores, which have been there. And if we have carried them for a long time, we will use this opportunity to close down some of the stores. The action has already started. And we believe by H1 of next year, these actions will get completed -- H1 of this financial year, sorry, the actions will get completed on portfolio correction, which is essentially closure. Refurbs basically mean that stores which have gone old beyond 5 years, we will do a refurb so that consumer experience doesn't take a hit. So that's what we meant by refurbs.

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

Saurabh Kundan: My question is on...

Moderator: Sorry to interrupt you, sir. Your voice is very less. Can you come near the mic and speak, please?

Saurabh Kundan: Yes. Can you hear me now?

Moderator: Yes.

Vijay Jain: Yes, Saurabh, loud and clear. Go ahead.

Saurabh Kundan: Yes. So my question is on Sri Lanka. What is now the aspiration on ADS as well as margin in that business? If you could give us something like you gave for the Pizza Hut India business that ADS needs to reach about INR50,000, INR55,000 for margins to sort of recover?

Vijay Jain: So again, for the -- I think the upcoming year, the key would be whether we can deliver the SSSG of that 5% to 7% range that could help us take care of the cost inflation. Hopefully, there are no further shocks on the cost inflation and from the economy side. We have seen it quite steady.

I think the last piece was on the operating cost inflation, which happens between Q3 and Q4 of last financial year. So if we are able to see that kind of SSSG, we believe we should be, in terms of margin, in mid-teens on that particular brand. Post that, if that's a steady state, we can take a call on how we will go about our expansion. Until then, we'll be again very cautious on our expansion. You could see it as single digit in terms of a store count addition for the financial year.

Saurabh Kundan: Right. And what is that comfortable margin level? Like for Pizza Hut India, it is 8% to 10%. For Sri Lanka, it would be 15%?

Vijay Jain: For Sri Lanka, actually it's getting it back into those -- hitting those mid-teens level, I think, will be key. So being at 15%, I think -- in and around that 15% would be good place to again look at expanding aggressively.

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

Sanjay Purohit: Thank you, everyone, for joining. Just to reiterate, from a 3-year perspective, we have called out revenue. We have said our aspiration was to grow revenue by 25%, EBITDA by 30% and double the store count. Over a 3-year period, currently, we have clearly beaten those -- beaten that aspiration. A year might be up and down, but we hope to continue at least our revenue and EBITDA trend line.

And given a tough year in FY '24, yet we believe that all factors put together, which means a combination of revenue scale growth, EBITDA margin growth and net new restaurant additions, on an overall basis, Sapphire clearly is the best-performing QSR company. So with that, I hope to see you all next quarter and have a good summer vacation, and thank you for joining us again.

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