BARBEQUE NATION

Date: February 10, 2025

To,

The Manager Listing Department **BSE Limited** P.J. Towers, Dalal Street, Mumbai – 400001 ***Scrip Code: 543283***	The Manager Listing & Compliance Department **National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051 ***Scrip Symbol: BARBEQUE***

Dear Sirs,

Subject: Transcript of Earnings Conference Call held on February 3, 2025

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby enclose the transcript of Earnings Conference Call held on Monday, February 3, 2025 at 5:00 PM (IST), post announcement of financial results of the Company for the quarter and nine months' ended December 31, 2024. The audio recording of the said Earnings Conference Call along with the Transcript have been uploaded on the Company's website at www.barbequenation.com.

This is for your information and records.

Thanking you.

Yours faithfully,
For Barbeque-Nation Hospitality Limited

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Date: 2025.02.10 16:59:42 +05'30'

Nagamani C Y
Company Secretary & Compliance Officer
M. No.: A27475

Encl.: *As above*

Barbeque-Nation Hospitality Limited

Earnings Conference Call

Q3 FY2025

February 3, 2025

Management:

Kayum Dhanani	:	Managing Director
Rahul Agrawal	:	Chief Executive Officer & Whole Time Director
Amit V Betala	:	Chief Financial Officer
Bijay Sharma	:	Head, Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to Barbeque-Nation Hospitality Limited Q3 FY25 Earnings Conference Call.

As a reminder, all participants lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bijay Sharma. Thank you, and over to you Mr. Bijay.

Bijay Sharma: Thank you, Sagar. Welcome everyone, to Barbeque-Nation Hospitality Limited's Q3 FY25 Earnings Conference Call.

For today's call, I have with me Mr. Kayum Dhanani – Managing Director, Mr. Rahul Agrawal – CEO and Whole Time Director and Mr. Amit Betala – CFO.

We will begin the call with Mr. Kayum sharing his perspective on the overall demand scenario and key highlights for the quarter. This will be followed by a detailed discussion on business performance and outlook by Mr. Rahul. Then, we will open the forum for an interactive Q&A session.

Before we begin, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risk and uncertainties. Kindly refer to the earnings presentation for a detailed disclaimer.

I now hand over the conference to Mr. Kayum Dhanani. Thank you, and over to you, sir.

Kayum Dhanani: Thank you. A very good evening, ladies and gentlemen. I take pleasure in welcoming you to Q3 FY25 Conference Call of Barbeque-Nation Hospitality Limited.

I am happy to report yet another stable performance in an otherwise tough operating environment. Our same store sales trend has continued to improve. The business recorded an SSSG of -2% during the quarter.

Each of our three business segments are in different life cycle and have performed well.

In our Barbeque Nation India business, our focus has been to establish Barbeque Nation as a preferred destination for celebration. We have undertaken a targeted marketing approach to achieve this. We launched two food festivals during the quarter and continued to upgrade and refurbish our older restaurants to drive guest experience. We are seeing a positive impact of these initiatives in our overall guest satisfaction scores. These measures have helped us to improve the SSSG trends despite an overall tough demand environment. Our focus has been to protect margins in the existing portfolio rather than expansion and have taken multiple efficiency projects to maintain restaurant operating margins. Despite a decline in sales and possible impact of operating deleverage, we have maintained restaurant operating margins of 14.9%. As consumer demand continues to improve, we have increased the pace of our network expansion. In Q3, we have added four new restaurants in Barbeque Nation India business and have four restaurants under construction. Going forward, we expect to maintain a network expansion of 8% to 10% in this segment.

Our international business continued its robust performance with SSSG of over 5% and recorded an annualized revenue of Rs. 100 crores+ during the quarter. The average revenue per restaurant and restaurant operating margins were also very impressive. We have targeted to add four restaurants this fiscal year, out of which three new restaurants are under construction and one is in advanced discussion. We are entering new geographies with the launch of these restaurants. We will maintain a calibrated expansion plan for this segment and target to add four to six restaurants every year. We will continue to maintain our focus on SSSG, operating margins and strong operating cash flows generation. This business segment will continue to be funded by cash generated in international business.

Our premium CDR business has been growing well and has achieved an annualized revenue run rate of Rs. 175 crores. The revenue increased by 24% on y-o-y basis led by new restaurant expansions. We have launched our first Toscano in Hyderabad, Delhi and Mumbai this year and have received extremely positive guest feedback. Restaurant operating margins in this segment is strong at 20%+. We will continue to grow store count by 30% y-o-y in this segment for next few years.

We are also happy to announce our strategic investment in Willow Gourmet, which operates an ice cream brand called "Omm Nom Nomm" through the delivery channel. The brand has strong guest recall, strong cloud kitchen unit economics and have a significant opportunity to scale. This investment is in line with our strategy of building a portfolio of scalable brands. This will strengthen our existing delivery portfolio and also add another growth vector in future.

Our overall performance has been in line with our strategy and is shaping our three distinct segments. While the overall demand scenario continues to be difficult, we experience slow and gradual improvement. Also, with the recent budgetary measures by the Government to drive consumption, we are anticipating the discretionary demand to get additional impetus. We are geared to accelerate our network growth and benefit from this anticipated demand improvement. Over the medium term, we remain committed to our store target of 325 by FY27.

Thank you, and I would now hand over to Rahul to walk you through the performance in detail.

Rahul Agrawal: Thank you, Kayum. Good evening, everyone.

During the quarter, we added five new restaurants and closed one restaurant, resulting in a net count of 226 restaurants. The network included 190 restaurants of Barbeque Nation India Business, 8 restaurants of Barbeque Nation International, and 28 restaurants of Premium CDR Business.

During the quarter, we reported a revenue of Rs. 328.9 crores. The revenues were flat compared to the same period last year. Our SSSG for the quarter was -2% and continued to be on an improvement trend.

Our dine-in business recorded revenue of Rs. 277.5 crores, a decline of 2% compared to Q3 last year. The delivery revenue for the quarter was Rs. 51.4 crores, an increase of 9% year-on-year, primarily led by strong growth in volumes. The dine-in delivery mix for the quarter was 84%:16%.

Gross margin for the quarter improved by 30 basis points on y-o-y basis to 68.2%. This was primarily driven by better realization and efficient management of input cost. Pre IND-AS restaurant operating margin for the quarter was 16.5%. Despite the operating deleverage, the restaurant operating margins were similar to last year.

Our adjusted operating EBITDA for the quarter stood at Rs. 33.9 crores and adjusted operating EBITDA margin stood at 10.3%.The margin continues to be among the best in the food services industry.

Consolidated reported EBITDA margin for the quarter was Rs. 61.5 crores and the reported operating margin for the period was 18.7%. We also maintained robust EBITDA to cash conversion and delivered Rs. 30 crores of cash profit during the quarter.

Barbeque Nation India business SSSG trend continued its improving trend during the quarter and recorded an SSSG of -2.6%. The business recorded a revenue of Rs. 261.8 crores and maintained gross margins of 67%. The Pre IND-AS restaurant operating margin for the business was maintained at 14.9%. Efficient cost management helped in maintaining the restaurant operating margin at similar levels as last year despite operating deleverage.

Barbeque Nation international business recorded a revenue of Rs. 25.3 crores during the quarter, an increase of 8% compared to the same period last year. The growth was supported by strong SSSG of 5.2%. The international business maintained its gross margin at 75%. Pre IndAS restaurant operating margin for the business was extremely strong at 26.2%.

Our Premium CDR business recorded a growth of 24% y-o-y to Rs. 43.2 crores. The gross margin for the segment expanded by 70 basis points on a y-o-y basis to 75%. Pre IND-AS restaurant operating margin was 20.2% compared to 24.8% in Q3 FY24. The margins were impacted due to new restaurant additions, which are yet to mature.

On nine-month year-to-date basis, our revenues have been lower by 1.7% year-on-year, whereas adjusted operating EBITDA has increased by 5%. We also continue to maintain a robust balance sheet with net debt position of only Rs. 17 crores as on December 2024.

All the business segments performed in line with our expectations. We remain focused on building a portfolio of scale brands and maintaining best-in-category guest experience. We are also committed to our restaurant target of 325 restaurants by FY27.

Thank you. With this, we can open the session for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question comes from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Hi, Thank you. Thanks for the opportunity. I had two questions, both on the 51% stake acquisition in Willow Gourmet. One, whether it's a related party transaction, either the promoter or anyone from management have any stake in this entity? And second question was, given we already have multiple new growth avenues in Toscano, Salt, probably some part of international, right, why do we look to open this new front at this point of time? These two questions, please. Thank you.

Rahul Agrawal: Thanks, Manjeet. No, there is no related party involvement in any of these. This company is owned by a couple, Cyndia Thomas and Patros. And, they have built this business over the last six years, very strong guest feedbacks. So, there's no other involvement of anybody related to Barbeque Nation.

On the second point, yes, we have existing vectors of growth. But if you look at our previous acquisitions like Toscano and Salt, these were acquired at a very early stage and in five years now we have built it to an approximately Rs. 175 crores net business. This we will go in a similar sort of direction. I think this will strengthen our delivery segment. There are synergies in back-end kitchens and capabilities, we believe it's a very strong brand with strong unit economics. This will add a vector of growth in the future for us. And also, as part of our capital allocation strategy, I think we should allocate some portion of our operating cash flow generated to newer ideas, which will help us to give us some vector of growth in the future. We are investing around Rs. 17 crores in this business.

Manjeet Buaria: Okay. And just two follow-up questions, Rahul. One was, I read in the presentation that the annual revenue run rate was about Rs. 4 crores. So, if you could just highlight which city or state this is in mainly, because it does not seem very large at this point of time. Just a second follow-up linked to this was, when you think about adding these vectors of growth and you take a primary capital infusion in some of these brands, right, how does the incremental thought process on capital allocation take place? Whether you want to put more money behind these brands or not? At what scale? And when do you get that confidence that now we want to put more money in this brand which we have sort of seeded in the early stages? Thank you .

Rahul Agrawal: This brand is only based out of Bangalore right now. That's how this is only Rs. 4 crores. They only do three cloud kitchens currently, but they have an existing manufacturing facility in Bangalore, which can get up and take this cloud kitchen from 3 to 10. In the business stage, we plan to only launch it in our existing kitchens, which is the system kitchens of Barbeque Nation or Salt or Toscano in Bangalore. And thereafter, take it to other markets. And the current primary investment is good enough for at least the next two years. And whether we invest more in this will depend on how the business performs over the period of two years and if it is in line with our current base case scenario for this business.

The other point on capital allocation, like I said, largely each of the businesses generate their own cash flows, the three segments that we spoke about. And the new growth expansion has been done from that cash flow itself. Just that some portion of cash we want to sort of also deploy in some early opportunities which can become a growth vector for us in future.

Manjeet Buaria: Got it. I will come back in queue. Thank you.

Rahul Agrawal: Thank you, Manjeet.

Moderator: Thank you. Our next question comes from Vicky Punjabi from UTI Asset Management Company. Please go ahead.

Vicky Punjabi: Hi. Thanks for taking my question. Rahul, just to understand, I mean, in a way when we look at this quarter, it has come out of a base. I think last year, also, the base was weak. The SSSGs are still not really up to the mark. How do you rate the performance of this quarter, because we are still not seeing the kind of recoveries that we had expected.

Rahul Agrawal: Overall, I think each of these three businesses are in different cycles. And when I look at Barbeque India business, as you know, over the period of last two years we have also consolidated some of our stores. And that has given us very positive results. One thing that we have shied away from doing during the quarter is do a lot of deep discounting and add to just revenues. I think we were consciously looking at maintaining our margins. And despite a 2.5% sort of SSSG decline, we have maintained our margins because of the various other efforts that we have taken. You see that in the last three quarters, the pace of store expansion has been slightly improving, and now also we have a very strong pipeline of new stores that are under construction and under discussions.

Similarly, international business has been very sound, very strong unit economics and profitability. We are cautious about adding more and just that some of the new stores got sort of back-ended, and you will see at least two to three new stores coming in quarter four now in this year. Similarly, on the Toscano and Salt side, I think, the performance have been very good in terms of growth. We had grown our business around 24% and have also maintained very strong operating margins at the restaurant level. So, each of these businesses on a net basis have done their part. And going forward, I think, as we add more stores to each of these networks, we will see some impacts on overall revenues.

Vicky Punjabi: Okay. And just on this margin thing, I mean, my assumption is that we would look to get into early teens in terms of margins on a sustainable basis. Should we consider that at current levels of throughputs we need to get there despite the external environment, given the prolonged phase of slowdown that we are seeing?

Rahul Agrawal: It's not that we cannot go to early teens, we have done that in the past, just that the last two years have been tough for the business, both from the same store sales growth perspective and as we consolidated few stores. As we always maintain that the margin will move significantly as same store sales growth happens. If you look at the performance between quarter three and quarter two, you will see almost 3 percentage points margin improvement, all driven by throughput from the same stores. We have also been taking a few measures in terms of guest experiences in the outlets, which translates into a same store sales growth of 3% to 4%. The margins will move to early teens.

Vicky Punjabi: Okay. And just lastly, I think on the acquisition, I mean, my thought process, of course, delivery is a structural growth story. My thought process, we look to kind of get into segments that could be possibly highly scalable in future, because the current segment looks niche overall so that delivery could become a real vector of growth for us. I mean, what's the thought process here, because structurally it clearly seems that consumers are moving towards delivery.

Rahul Agrawal: This will strengthen the delivery and that's why this sort of fits with us, plus we can also leverage our existing kitchens to supply this particular product. This is a standardized product which comes out of manufacturing facilities, so to that extent operating this particular brand from our existing kitchens also it will be easier. That's the thought process here. And I mean, if you look at the unit economics around these cloud kitchens, they are really great.

Vicky Punjabi: My question is, how are we thinking of leveraging delivery in a bigger way to be fair? Because this would still remain quite niche, even at scale, as a percentage of our total revenue is what I understand.

Rahul Agrawal: The current ADS of cloud kitchens is 30,000 plus. And our ADS of cloud kitchens of Barbeque Nation restaurant delivery is around 25,000. So, to that extent, if we do it right, then this can add up to a significant win in our overall delivery business.

Vicky Punjabi: Okay, sure. Fine. Yes, that's it from my side. Thanks Rahul.

Rahul Agrawal: Okay. Thanks Vicky.

Moderator: Thank you. The next question comes from Naitik from NV Alpha Fund. Please go ahead.

Naitik Mutha: Hi, sir. Thanks for taking my question. My first question is, we have seen smaller players, smaller size players doing, say, a low single-digit SSSG or even the QSRs for that matter we have seen at least doing closer to 0% SSSG, but not really a negative SSSG. Now I understand that we are not operating in the same like-to-like space, but generally we are still operating in the food sort of space. So, I just wanted to understand the scenario from your end. I mean, what exactly are we doing for getting the SSSG growth? And are we doing all that we can to get the SSSG growth back?

Rahul Agrawal: I think we should not be looking at just SSSG in isolation, but also look at the SSSG comes at what cost, is it done through large amount of discounting or marketing or other stuff? It's very difficult for me to comment on respective players. But like you said, the strategy that we are playing is that, we cannot just burn money to get sales and put SSSG which have impact in our margins, that's not us. And if you look at our numbers in the previous quarter and also during the past quarters, we have shied away from deep discounting and build a brand based on profitability. I think, on a holistic basis we should look at both SSSG and margins.

In terms of other initiatives that we are taking for SSSG improvements, I think there's a lot of work being done on the guest experience side. We have been continuously upgrading and refurbishing some of our older stores. There's a lot of food festivals that have happened. In last quarter we did two food festivals, before that in nine-months period we have also done four other food festivals. This quarter around, we launched three desserts in our menu. Also launched a rice bowls in our delivery menu. A lot of new initiatives have been taken to keep the brand fresh. And we believe that there has been obviously an improvement in these SSSG trends, and as we go forward this will also continue.

Naitik Mutha: Okay. Got it. Just I had a bookkeeping question. I just wanted to know, what is the ESOP cost for the quarter and the run rate for nine months? And what was this compared to?

Rahul Agrawal: For this quarter would to be around Rs. 2.5 crores.

Naitik Mutha: Rs. 2.5 crores. And what was this last year, the same quarter? Yes. And what is this same quarter last year?

Rahul Agrawal: Around similar levels, there has been no significant ESOPs being issued.

Naitik Mutha: Got it. Okay. That's it from my side, sir. Thank you.

Rahul Agrawal: Okay. Thank you.

Moderator: Thank you. The next question comes from Rohit from ithought PMS. Please go ahead.

Rohit Balakrishnan: Hi. Good evening, sir. So, the question I had was sir, so we are at about 225 restaurants, so I think this year we close at about 230. So, the incremental journey of 70 restaurants over the next couple of years, can you broadly sort of share what would be the split between Barbeque versus the Premium CDR, so Toscano and Salt?

Rahul Agrawal: We are at 226 restaurants currently, and I expect the year to end at around 193 for Barbecue India, which is three more restaurants in Barbeque India, 10 in Barbeque International, which is two more in International during quarter four, and 30 in Premium CDR, which is two more restaurants in quarter four. Overall, we should expect to close the year at 233. And next year, we are targeting around 22 restaurants in Barbeque India, around five to six in Barbeque International, and around 16 in Premium CDR, which is both for Salt and Toscano put together. So, overall, we expect to close the year at around 270 or so.

Rohit Balakrishnan: Okay. Got it. Sir, so, let's say two years out, the share of Premium CDR in our revenue should be like about 20%-25%, is that a fair number? Right now, it is about 10%, 11% right now on a run rate basis if I take Rs. 160 crores.

Rahul Agrawal: Yes, it will be around 20%.

Rohit Balakrishnan: And Sir if you can just maybe help us with the payback that you look in these restaurants, especially now as you go into newer geographies for Toscano and Salt. If you can just maybe look at when do you think that these restaurants typically break-even? What is the mature unit economics that you would want to see for these?

Rahul Agrawal: The premium CDR does around Rs. 6.5 crores of current TTM revenues and I think this will settle down at Rs. 6 crores as we open more stores. In some cases, we are also opening up smaller stores of around 1,600 to 1,800 square feet, as against the original ones of around 2,400 square feet. So, at Rs. 6 crores, we will generate around 21%- 22% restaurant operating margin here, which will be close to Rs. 1.2 crores. And the CAPEX here is around Rs. 2.75 crores odd. So, we are looking at almost three-year payback period with some time for ramp up.

Rohit Balakrishnan: And Sir, how much time does it take for, I mean, what is the typical buildup of like the Rs. 6 crores or Rs. 6.2 crores what you said in terms of restaurant level revenue that's a year one, year two, year three, how does it work broadly?

Rahul Agrawal: We start with a revenue of around Rs. 33 - 35 lakhs per month, which will give us around the Rs. 4 crores odd, this goes up to around Rs. 40 - 45 lakhs and then settle down at Rs. 50 - 52 lakhs by year three.

Rohit Balakrishnan: Understood sir.

Rahul Agrawal: And as the revenues grow, the margins also start increasing in the similar proportions.

Rohit Balakrishnan: Right. The gross margins in these would be upward of 70%?

Rahul Agrawal: Yes, in Premium CDR our gross margins are, on average, around 74% to 75%.

Rohit Balakrishnan: So, sir, then while they would be 20% in terms of revenue, from an operating margin perspective or operating profit perspective they should be much more than the Barbeque brand. Is that a fair understanding? Two, three years out, I am not saying immediately but two, three years out, is that a fair understanding?

Rahul Agrawal: As a percentage, yes, that happens today also. Barbeque Nation today operates at a restaurant operating margin of 15%. I think this has a potential to go up to around 18%. And if Premium CDR is at say 21%, there will be a disproportionate share on the operating margins for Premium CDR. And that's also true for international business, because that also operates at almost 25% plus the restaurant operating margin.

Rohit Balakrishnan: Right. And last question from my side on the Barbeque India business. So, of course, I mean, the last few quarters, six, seven quarters have been tough from an operating environment point of view, but we still maintain our leadership in the category that we operate in. However, just I mean, I think a few quarters back you also alluded that there's been an increased amount of supply from various formats. So, I mean, from a customers' mindset point of view, I mean, how do you see the brand in terms of relevance? I mean, a lot of our week day crowd would be from the corporate, but just from anecdotal or from observation perspective, there are so many brands that come that have opened up. So, I mean, from a relevance point of view, from a wallet share point of view, how do you see that brand, even though we may be a leader in the barbeque category, but from an overall relevance point of view, how do you see it? I mean, any thoughts that would be helpful, given that supply has gone up significantly, as you have already mentioned, maybe three, four quarters back.

Rahul Agrawal: Well, the supply has gone up and also there are many new copycats or other similar format stores that have come up. But like I had mentioned, we have the leadership position in this particular segment. And over the course of years, we have also done course correction in our operating structures. Like I was mentioning in the early part of my call, you look at few of the cost initiatives and ensure that in the revised scenarios of the existing throughput that you get from the existing restaurant and the new stores, how do you set your economics right such that on an incremental store basis you start making at least 18% to 20% restaurant operating margin, even though the throughput is say around Rs. 5.5 crores to Rs. 6 crores. And those initiatives have been taken, these have been also implemented in our existing outlets. And that is the reason why we have been able to sort of maintain our margins the way it is. What this also means is that, in the past, if you were doing larger stores, we opted to do it in smaller stores also, which means that we can reduce our store size by around 20%-25% so that the unit economics sort of is maintained. That's on the format front.

Also, on the guest front or in terms of value equation front, till date Barbeque Nation remains a very value for money-driven brand. I realize that there is 2 - 3% points drop in same store sales growth. But I think it remains extremely important for our balance 98% of our customers, who keep coming to us for all you can eat and for your celebration needs. From brand side, we keep updating our restaurant design, for the new ones that have opened up has been far superior in terms of ambience and design that we have done in the past. And in the existing ones also, we are updating our store assets and meticulously doing a lot of stuff on our food. I think with mix of all of these, I am extremely hopeful that we start seeing positive SSSG in our core India business also.

Rohit Balakrishnan: Sure, sir. That's very helpful. Thank you. I will join back.

Rahul Agrawal: Thank you, Rohit.

Moderator: Thank you. The next question comes from Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Hi. Sir, thank you for the opportunity. Sir, if I look at a longer term, like from 2016 to the current year, sir it seems that our store opening has grown at a faster CAGR than our revenue growth. Sir so, that would mean that the unit economics of store has decreased, because we have taken price hikes as well during this period. And that is true for FY '16 to FY '20 period as well. So, barring the two, three years of slowdown in the economy and all, sir on the longer-term trend, sir, do we see the store unit economics getting deteriorated or the product appeal getting down? Sir, your thoughts on that?

Rahul Agrawal: This also depends on what size of store that we have opened up, which geographies we have opened up, and also what throughputs are being expected and what markets we have opened these up on. But overall, if you look at our average throughput per restaurant, these have been pretty stable from 2019 to 2024 right now.

Madhur Rathi: But, sir, when you see, our average throughput has increased but we are similarly taking price hikes. Sir so, something is going wrong, right? Because we are saying that we are taking price hikes as well as our store opening has increased, but it is not reflecting in our revenue. Sir, so I mean, I am not understanding when we say that our throughput is the same, our unit economics is the same, but our revenue is not growing. Sir so, from that perspective I am not able to understand.

Rahul Agrawal: Yes, we would have taken on a CAGR basis 2% price hikes. But on a net basis, if I look at five to six year trend, our average revenue per store has been stable. What it means is that in some of these markets that we open up say smaller stores or stores in Tier-2, Tier-3 market, there the average throughput will be lower. In the part of the portfolio with SSSG over a seven to eight year period timeframe, the average revenue per store in that portfolio will grow and the new ones start with a lower sort of number. And the blended number on this is still a flattish at around almost Rs. 6 crores revenue per store.

Madhur Rathi: Yes. Sir, over the next three to five-year period, sir, where do we see our per store revenue growing? And what are the strategies that we are following to increase this throughput level overall at our stores?

Rahul Agrawal: There are two, three vectors. One, obviously, is price. We have maintained around 2% - 3% price hike over a longer period of time. Second is volume growth. While last couple of years have been subdued, there will be some base impact of this and we will see some cover growth from the business stores coming in. And the third vector is delivery, which last quarter also has grown at around 9%. With these three vectors, the overall put together should lead to around 4% - 5% SSSG growth.

Madhur Rathi: Okay. Got it. Sir, just a final question from my side. Sir, this Willow cloud kitchen that we have bought, sir we have bought it at 9 times sales multiple. So, at a Rs. 4 crores annual run rate, we have bought it, I guess, at around Rs. 34 crores valuation. Sir so, what gives us confidence that we can scale this segment, when players like HUL are demerging their ice-cream business to protect their margins? Sir so, a double-digit margin on Rs. 4 crores revenue would not make scale when this goes to Rs. 40 crores, sir so what gives us the confidence that we can grow this segment? I would like to understand that. And, sir, are we going to pay them by ESOPs of Barbeque Nation, or it's going to be a purely cash transaction as well?

Rahul Agrawal: One, I think, you are comparing post-money valuation, the money that we are investing into the company is also remaining in the company and will lead to growth. To that extent, I think, your comment on multiple is incorrect. This is a cash transaction. This is not with share transaction. And like we also mentioned in the earlier part of the call, which is we understand that right now it's now small, because we operate only three cloud kitchens. But they also have had a product portfolio, they have recipes set for the ice creams that they produce, they have great feedback from the consumers. The average rating on the aggregator platforms is 4.8+. They also have almost 62% repeat rates of consumers, which is among the best in class in the industry. I think, we have to look at all of these aspects, while we value something like this. And like I also mentioned, this is not something, which is directly going to add to our growth. But we have to keep investing in this and in terms of building this business so that this becomes a larger business. If I look at our past history, we look that we acquired Red Apple, which is a Toscano business almost five years back when the business was almost say Rs. 30 crores sort of revenue run rate annualized. And today that business is close to around Rs. 125 crores annualized revenue run rate. Some of these things will be built over a period of time. And as part of our capital allocation strategy, we will invest some part of our operating cash into some of these smaller and newer concepts, which will help us to build a portfolio of scalable brands.

Madhur Rathi: Okay. Got it. So, thank you so much and all the best.

Rahul Agrawal: Okay. Thank you, Madhur.

Moderator: Thank you. The next question comes from Abhishek Nayak from Hexagon Assets. Please go ahead.

Abhishek Nayak: Hi. Thank you. Good evening, management. Thank you for taking my question. Sir my first question, pardon me if you covered in your prepared remarks. My first question is regarding the same store growth for international. Could you quantify the impact of currency in that same store growth for me, please?

Rahul Agrawal: I think there's no impact of that. Amit, do you have that number ready with you?

Amit V Betala: No, Rahul. We have to give that number to them.

Rahul Agrawal: Sorry, Abhishek. I think we will get back to you with this number.

Abhishek Nayak: All right, no problem. I will take it offline. And sir, secondly, I had a question regarding marketing initiatives, particularly with respect to customer data. So, when you are looking at trying to grow the dine-in bookings through your app, for example, right now I can see that number is at 31% or something. So, how is the company trying to kind of use customer analytics to kind of boost customer targeted marketing? One is that.

And second, when it comes to India's operating margins, do you have any other levers, because I can see the gross margins are pretty stable. So, do you have any other levers, for example, your commissions with your delivery aggregators or any store level expenses that you are looking to control that might help us improve margins in India?

Rahul Agrawal: Well, there are two parts. One, on our consumer data, we do a lot of analytics. And as you rightly pointed out, our app has been going pretty well, and a lot of consumers want to book directly with us through our website or app. We have now a new website that was launched almost two quarters back and we have seen very positive results on of that. Apart from the 31% business on dine-in that comes from app and web, around 27% comes from our call center. A lot of large bookings want to talk to our call center representatives to make the booking. And then the balance large part is also the walk-in guests. Our data collection rate, customer data collection rate or the contact number data collection rate is almost 99%. And we do mine this data to retarget some of the existing customers through either SMS or WhatsApp or through other digital channels on Meta or YouTube. And apart from this there is similar marketing, digital marketing efforts have been taken to build new customers profiles. And in some of the communications of Meta, we also have tweaked our communication to make it very relevant for the type of customer profile and for the type of celebration needs that the customer may have. This is usual and it runs like an autopilot once the customer journey has been set. Overall in our company, we would have maybe around 50% or so customer journeys that are already mapped from the existing data, we will mine this and this keeps happening on a regular basis.

On operating margin front there are two, three levers. One is on our manpower cost if you look at our store manpower cost, we are still tracking at in India business around 18% to 19%. We target to bring this by 1 percentage point. Then we have other cost optimization levers of around 0.5%, which will come from on the supply chain costs. We also need to work on some of our electricity cost reductions and some other overhead costs that we have. Put together, I think, there is around 200 basis point margin improvement plan that we have and some part of it will also flow through from higher SSSG. With this we expect the operating margins to go up.

Abhishek Nayak: Okay. Thanks. Thank you so much sir for the color. And pardon me again if you covered this one also in your prepared remarks. But since we are one month down in the fourth quarter, can you share some emerging trends that you might have seen this month with regards to say traffic or delivery flows or anything that you can help us pinpoint something with consumer sentiment?

Rahul Agrawal: I think it's very early to sort of call out this quarter. We only have one month gone and then, I think, we will wait for the quarter end to see how it emerges, but overall the trends have been similar to what we saw in quarter three.

Abhishek Nayak: Understood. Understood. Okay. Thank you, sir. Thank you. All the best.

Kayum Dhanani: Thank you.

Rahul Agrawal: Thank you, Abhishek.

Moderator: Thank you. The next question comes from Resha Mehta from GreenEdge Wealth. Please go ahead.

Resha Mehta: Yes, thank you, and good evening. So, the first question is basically, just extending what one of the previous participants asked that, what would be your hypothesis or your informed guess about, why is it that QSR is seeing lesser decline now in SSSG versus the past? And there seem to be at least from what the listed companies have reported some improvement in numbers, while we are not seeing that for our numbers in the casual dining space. So, why do you think this dichotomy is there and would it be of real concern to you?

Rahul Agrawal: I think, QSRs and CDRs are two separate business segments. If I can pinpoint a couple of differences, which are very apparent is the share of delivery dine-in, depending on the company you are talking about. But broadly QSRs would be at around 50% delivery business, whereas in our case it is around 15% to 16%? And delivery in general has done better and dine-in has not done that well. If you look at our delivery same store sales growth, it is in positive trajectory. It is in fact mid-single digits. And on our dine-in business, our numbers have been lowered by around 2 percentage points. Now if I look, I have not actually seen the dine-in business performance of QSRs, but if you look at that business, I am sure there is some slow trend in our dine-in business that we are seeing. If you look at the mix of these two you will see the differences.

Second, as I said the SSSG should not be just looked in isolation. SSSG in our industry also leads to margin expansion and because of operating leverage? And if SSSG is there without any margin expansion, then these SSSGs also come from increased marketing spend on discounts. It's very difficult for me to speak about others, but in our case, I think, all these metrics have been under very tight control. And if I look at our sales to EBITDA performance on a nine-month basis, it's in a positive trajectory. SSSG is important but also to protect your margins. I think, that's a conscious call that we have taken and we are happy with that. Does it concern us? Yes, obviously, we'd like to see our overall store throughput to be on a higher basis. But does it concern me that there's something absolutely wrong? No, absolutely not. I think there's no metrics, which I am seeing, which is giving me that indication. We obviously keep doing our work on this experience for dine-in business. We keep doing our work on margin improvement to various cost initiatives and also keeping an eye on growth through new store expansion. I think in all the three verticals; we are happy with the way it's going.

Resha Mehta: So, based on your internal studies that you all may be doing right, how are you all sharing in the casual dining space, the dine-in part versus your other like-to-like peers?

Rahul Agrawal: It's very difficult to get the same store sales data, but in terms of revenue CAGR on a five-year basis or on terms of margins, I think, we are among the best in industry. Despite that, almost a larger base of 2x to 3x of some of the other larger players.

Resha Mehta: Right. And would you say that the competition, the supply side has really intensified in the casual dining space, because we see a similar trend and intensifying competition also in the QSR space. So, here, would you say that in the casual dining space, there has been much more intensified competition, or has it now like kind of started cooling off over the last, let's say, a couple of weeks or quarters?

Rahul Agrawal: No, it had intensified a lot after the revenge consumption pace that we saw in FY '23. We saw a lot of supply coming in FY24 and FY25. And now, the demand environment has been tough for pretty much everybody in the food services industry. A lot of smaller CDR players also are feeling the heat. And at least from the market perspective, some of the sites that we found to be very non-doable from the rental perspective are getting to the realm of something that we should consider for our own brands. To that extent, I think, there has been some green shoots on reduction on the overall rentals in some of these places. We hope that the new supply pace growth is not as strong as we have seen in the last two years.

Moderator: Thank you. Sir, the line for the current participant has been dropped from the queue. So, we will move on to the next question. The next question comes from Vivek Kumar from Bestpals LLP. Please go ahead.

Vivek Kumar: Sir, just same question continues with what Rohit has asked, like you had just mentioned that there's a huge supply and we are facing demand problems. So, you also mentioned in the previous con-calls and across Annual Reports that you want to be a destination for celebration. So, just wanted to understand that what can we do, because we cannot control the external supply nor all the incomes or the GDP growth over the short term? What are you calculating or do you keep track of how frequently customers visit? How do you make sure that they come to you? What like, and how do you make sure that our brand does not get diluted and because that's what we can do, right, better, and then how you innovate on your these things? And can you also if you can throw some light on how the competition is faring, because you have told that many copycats have come, so how are they faring? Is there anybody, who's doing better, and we have to match up to them? So, this kind of thing. Because this is what is in our control, we can throw more light on those that's our question. That's my question, sir.

Rahul Agrawal: I think, what we need to do is just keep working on this experience, and this is what we have done for the last, one-and-a-half decades. We've to keep ensuring that our food experience and the culinary experience of guests is among the best in the category. The services that the guests expect from us is also among the best in the category. We have been able to dispense this over 200 of our restaurants in Barbeque Nation. And also maintain our assets freshness and look and feel, and this is what we have been continuously doing for the last few quarters.

In terms of many other formats, who are similar barbeque on the top formats, we clearly are market leader. I think the number two player would be maybe one-fourth of our size in terms of store count. And it's not that we have seen any other player, who is doing extremely well in terms of this category. I think we continue to be market leader. We continue to add more stores on this and have the widest presence in the country.

Vivek Kumar: You are throwing around Rs. 100 crores cash, Rs. 100 crores odd cash 30 x 4, but you are trying to add around 50 restaurants next year. So, will you go for debt, or you are confident that you will grow higher cash next year?

Rahul Agrawal: We are looking at around 40 to 45, which will lead to around Rs. 120 crores of CAPEX here and another Rs. 20 crores for maintenance and funding provisions, around Rs. 140 crores of expected capex. At last year's there has been 10% adjusted operating margin, we would generate this much amount of cash. I think the delta that will be there is hardly Rs. 15 crores to Rs. 20 crores. If the operating cash is not as much as Rs. 140 crores, then we will take some debt. And our balance sheet is not leveraged, as I said in my earlier part of the call, the net debt is approximately Rs. 20 crores odd only.

Vivek Kumar: And we have read in some news articles that you have not just this, you have also had some new restaurant, bar and restaurant opened, Bricks. Is it true or is it some other thing that just got misquoted? Is it misinformation?

Rahul Agrawal: No, it's true. Bricks is a bar and restaurant concept that we have opened up in one of our existing restaurants. We have two floors of Barbeque Nation. We converted that to one floor of Barbeque Nation and one floor of this format called Bricks. Again, this is something that has happened without having any incremental rental or any incremental cost towards liquor license. The payback periods are very, very handsome. And this is just an experiment to see how it goes. This is anyway very small to even talk right now. The initial response is very good, but this is not a strategy. I think, like I said, we have three distinct verticals. We have Barbeque Nation in India, we have international and we have Premium CDR. And we are focused on doing these three from our operating cash.

Vivek Kumar: Got it. Your most of the Premium CDR will be in Toscano or both? Salt and Toscano both equally, or it will be more?

Rahul Agrawal: Out of around 19 stores is Toscano and balance is Salt.

Vivek Kumar: Thank you, sir. Thanks.

Rahul Agrawal: Thank you.

Moderator: Thank you. The next question comes from Gopinath Reddy from PNR Investments. Please go ahead.

Gopinath Reddy: Sir, given the present environment, are we looking at the new Barbeque Nation store of smaller size than what we have currently, or is it the same size? And where are we opening them? Is it which area of this country?

Rahul Agrawal: Yes, we are looking at a smaller size a reduction of maybe around 20%-25%. We are largely looking at the new expansion in the metro and Tier-1 markets and are very selective about Tier-2, Tier-3 markets.

Gopinath Reddy: Are we looking into South India also, or how are we going in South India, sir, especially?

Rahul Agrawal: We look at Pan-India. We are already operational in around 75 plus cities. I think, more than any specific region, what matters for us is whether the trade area is attractive for us and what is the throughput that will take in the new store that we open up, and also what are the other components like rent and store potential.

Gopinath Reddy: Okay. Which area of India is having this slowdown in same store sales growth, sir, especially the maximum? Which area is it?

Rahul Agrawal: South has been down the most.

Gopinath Reddy: Is it because too many copycats are there, or any other reason, sir, specifically South, what may be the reason?

Rahul Agrawal: South definitely has higher competition than other regions. But the attribution can also be to some decline in corporate demand in all these locations.

Gopinath Reddy: Any area in India, where we are growing in terms of same store sales growth?

Rahul Agrawal: Yes, we are growing in two of the regions out of four and one region is flattish.

Gopinath Reddy: Okay. That's it from my side. Thank you.

Rahul Agrawal: Thank you.

Moderator: Thank you. The next question comes from Pritesh from Lucky Securities. Please go ahead.

Pritesh Chheda: Sir, can you enlist the reason for store closures, these three, four stores in the year?

Rahul Agrawal: Some of these were not performing to the extent that we wanted. They were loss-making and based on our numbers, we believe that they will not turn profitable in near future.

Pritesh Chheda: And these, the comment that you made about regional growth and regional decline. Two regions in India are growing, one is flat, and one is declining. So, that one decline is so significant a decline for you to have a minus 2% SSSG, yes?

Rahul Agrawal: Yes. The others two positive also are at low single digits.

Pritesh Chheda: Yes, it's okay. Even if it is low single-digit, it matches your SSSG, closer to your SSSG, right? So, the question is this, this one-fourth, so the 25% decline is like to be, has to be a double-digit decline. So, can you give out the key reason for such a large decline and what exactly should happen in the system for it to rectify? Or what you should do to rectify, either the system or you, whatever be the case?

Rahul Agrawal: We do not give regional level same store sales growth numbers. I won't be able to comment on your double-digit number there. But, like I said in the earlier part of my call, the effort that we are taking for same store sales growth has been consistent across all locations. And we are working on guest experiences to increase the cover growth on the balance side.

Pritesh Chheda: These are the efforts. So, what efforts has to be taken there?

Rahul Agrawal: Well, like I said, you have to keep working on your guest experience. You have to keep upgrading your food experience. Like I said, we did two food festivals during the quarter, which is we launched three dessert menu. Keep up with your service levels in the restaurant.

Pritesh Chheda: Any other areas of improvement that should happen in your opinion? Or, it's just environment?

Rahul Agrawal: No, it's very difficult to pinpoint, which is what. But we have to keep up, keep delivering the same experience to the guests and keep improving on it every time, so that the guests keep coming back. And to some extent, it is also environment.

Pritesh Chheda: Can you just tell the nine-month operating cash flow? How much cash did you generate in nine months?

Rahul Agrawal: I think it's around Rs. 65-odd crores. Bijay or Amit, can you please confirm that number?

Amit V Betala: Yes, sir. That's around Rs. 65 crores.

Pritesh Chheda: And for the full year, did you say Rs. 140 crores is what I heard or I did some error in this?

Rahul Agrawal: For next year, I am saying the CAPEX target at 40 stores is Rs. 140 crores. And if you do around double-digit EBITDA margins, we will have enough cash flow to fund that. If the margins are lower, to that extent, we will have to borrow debt.

Pritesh Chheda: So, the store CAPEX is 40 stores and Rs. 3 crores per store, about Rs. 120 crores, plus Rs. 20 crores for maintenance.

Rahul Agrawal: Yes.

Pritesh Chheda: Okay. And what is your store addition this year?

Rahul Agrawal: We have done 13 new and we expect to add around seven more in quarter four. So, around 20.

Pritesh Chheda: Okay. Thank you.

Rahul Agrawal: Thank you, Pritesh.

Moderator: Thank you. The next question comes from Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Hi, thanks for my follow-up chance. I have three questions. One was, do we have any agreement to buy out the remaining stakes in Willow at a predetermined valuation and the remaining predetermined time period?

The second question I had was, while I understand the need to experiment to create growth vectors, as you explained. But is there any formal policy or a cap, where you said it's over a rolling five-year period, we won't invest more than X% of our operating cash flows in these experiments that was the second question?

And finally, if you could just explain what synergies you were mentioning in the kitchen side, et cetera, because they were not clear to me? And how does this brand go from only Rs. 4 crores, to, say, a Rs. 100 crores revenue brand, if one takes a longer time period? These were my three questions. Thank you.

Rahul Agrawal: Yes, there is pre-agreement to buy, but not in terms of shareholding, but in terms of quantum of rupees. We have an option to buy a stake worth Rs. 2 crores to Rs. 4 crores over the period of the next 10 years from them. But no obligation to even invest this amount of money for additional stake purchase.

There is no formal policy as such, but at a Board level, we do not want to invest more than, say, approximately 20% of our operating cash in some of these newer initiatives.

And in terms of efficiencies, like I said, they have an existing setup from which they run their existing three cloud kitchens in Bangalore. As a Barbeque Nation group or a company between all the three brands, we have around 35 kitchens in Bangalore. We expect to take this particular brand in at least 15 to 20 of our existing kitchen depending on space to carve out for these brands. And then for the balance part of the city, we will have to contract cloud kitchens, which have got attractive unit economics. So, that is our plan on this particular brand.

Manjeet Buaria: So, Mr. Rahul, if I got this correct, you mean that you will sell this brand via your existing kitchens in BBQ or other restaurants via the aggregators? It's not to sell in your existing restaurants basically.

Rahul Agrawal: Yes. Not in existing restaurants. These are premium artisanal ice creams, so I think since Barbeque Nation is all you can eat, we cannot.

Manjeet Buaria: No that makes sense. That it is makes sense. Sorry I was confused of that. So, Rahul if let's say you take this across whatever 30 stores you have roughly, right? What is your expectation on how big the revenue will be on this brand within, let's say, next one year?

Rahul Agrawal: Look at 30 cloud kitchen even at say average of Rs. 7 lakhs to Rs. 8 lakhs per month on each cloud kitchens, this can become approximately Rs. 25 crores odd sort of run rate business for us. But we will have to see through a journey of this particular brand. I think, we are very happy with what we saw in terms of guest experience right now and we will have to obviously execute this. This comes with the execution risk that we will take.

Manjeet Buaria: Got it. Sir and just one last one, when we take these bets, why do we take a 51% stake and not a sub-50% stake, because let's say if an experiment does not work out as the majority owner or the promoter exits become much more complicated. So, why won't you first experiment with a sub-50% stake and then if it starts working we will have call option to buy more stake.

Rahul Agrawal: We are long-term holders of these brands, and we do not expect to sell this. We expect to build these brands over the years as we have built say Barbeque Nation or Toscano and Salt now. And you are right that some of these may not work also and if it does not work, then we obviously have an option to sell this or divest this from our portfolio. And to that extent if you are operating in control or the shareholding control at 51%, this becomes all the more easier to do that. That is the broad philosophy with which we operate.

Manjeet Buaria: Okay. Thank you so much.

Rahul Agrawal: Thank you, Manjeet.

Moderator: Thank you. The next question comes from Naitik from NV Alpha Fund. Please go ahead.

Naitik Mutha: Hi sir, thanks for the follow-up. I just had a bookkeeping question. If I see your adjusted EBITDA, which is down 4% year-over-year and at the same time your employee cost is up on us at a similar amount. This is despite adding four new stores. So, I just want to ask, is the rental expense of these new stores not yet kicked in fully?

Rahul Agrawal: No, rentals are kicked in, but like I said we have done a lot of cost efficiency projects, which are all sitting in occupancy and other costs, and employee costs have gone up largely because of the new store that we have added.

Naitik Mutha: Right. Okay. Got it sir. Thank you.

Rahul Agrawal: Yes. Thank you.

Moderator: Thank you. The next question comes from Rohit from ithought PMS. Please go ahead.

Rohit Balakrishnan: Yes, just a couple of questions. So, sir incrementally as we open stores, especially in Barbeque Nation, would you have any mix in terms of Tier-2, Tier-3 versus the

Tier-1 cities? That was one in your mind. The context being, I am assuming maybe the competition would be much lower in the Tier-2 and Tier-3 markets. So, if you can share that. In the past, I think, you have mentioned some of these concepts have not worked in these Tier-2 and Tier-3 cities. So, just wanted to get your sense as have we changed anything for these formats, or is that even something that we are looking at? That was the first question. And second, typically for us in the Barbeque format again, what is the rent to sale that we have and how would that be different from, let's say, top 8 cities versus the rest of the markets?

Rahul Agrawal: In terms of our expansion, we continue to largely operate in metro and Tier-1 markets. Tier-2, Tier-3 markets, it's not that they do not work. We still have around 45 to 50 restaurants in Tier-2, Tier-3 markets and they're doing very fine. Just that some of these markets take longer to grow and mature and that's why we prefer some of these new pockets that are developing in, in the Tier-2 and Tier-1 markets. Going forward also, I expect to sort of have the same ratio of 75% in metro & Tier-1 and 25% Tier-2/3 markets. In Barbeque Nation, rent to revenue ratio for overall Barbeque Nation would be around 11%-12%, out of which top 8 cities would be maybe a 2 percentage points higher than the rest of the country.

Rohit Balakrishnan: Understood. Okay, sir. That is it from my side. Thank you very much.

Moderator: Thank you.

Rahul Agrawal: Thank you, Rohit.

Moderator: Thank you. Ladies and gentlemen, we take that as our last question for today. On behalf of Barbeque Nation Hospitality Limited, that concludes this conference. Thank you all for joining us. You can now disconnect your lines.

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Note: This transcript has been edited to improve readability and is not an exact verbatim record of the proceedings.

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