SapphireFoods

Date: 4th November 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 – Q2 FY25

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 Monday, 28th October 2024, in relation to the financial results of the Company for the quarter and half year ended 30th September 2024.

The said Earnings Call Transcript is also available at the website of the Company (https://www.sapphirefoods.in/investors-relation/financials) under FY 2024-25 Quarter 2 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: 2024.11.04 18:22:19 +05'30'
SAPPHIRE FOODS INDIA LIMITED MUMBAI
Sachin Dudam
Company Secretary and Compliance Officer

Encl: a/a

"Sapphire Foods India Limited Q2 & H1 FY25 Earnings Conference Call"

October 28, 2024

MANAGEMENT: **MR. SANJAY PUROHIT - GROUP CEO & WHOLE-TIME DIRECTOR, SAPPHIRE FOODS INDIA LIMITED**
MR. VIJAY JAIN - CFO, SAPPHIRE FOODS INDIA LIMITED
MR. KAUSHIK VANKADKAR - HEAD OF INVESTOR RELATIONS, SAPPHIRE FOODS INDIA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Sapphire Foods India Limited Q2 & H1 FY25 earnings conference call 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 * then 0 on your touchtone phone. Please note that this conference is being recorded.

I will 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 Q2 & H1 FY25 Earnings Concall for Sapphire Foods India Limited.

From the Management we have with us, Mr. Sanjay Purohit – Group CEO & Whole-Time Director; Mr. Vijay Jain, CFO, and Mr. Kaushik Vankadkar – Head of Investor Relations. I hope everybody had a chance to go through the Results and the Investor Presentation which was uploaded on the exchange earlier today.

Before we proceed, a reminder that this call may contain some forward-looking statements which do not guarantee future performances and involve unforeseen risk. A detailed disclaimer has also been published in the presentation. I will now hand over the call to Mr. Sanjay. Over to you, sir.

Sanjay Purohit: Good afternoon, everybody. My name is Sanjay Purohit. Welcome to our Quarter 2 and six-month FY25 Consolidated Financial Highlights.

As usual, between me and Vijay Jain – our CFO, we will share with you the results. These are already up on our website, plus have been filed with SEBI.

Our Quarter 2 consolidated restaurant sales at Rs. 694 crores grew by 8% year-on-year with EBITDA of Rs. 115 crores at 16.6%. As you can see growth conditions have been difficult. Our consolidated restaurant EBITDA declined 8% year-on-year and restaurant margin was 13.7% down to 140 basis points.

Our consolidated EBITDA I spoke about was Rs. 115 crores, 16.6%. This declined year-on-year by 1%. Our consolidated adjusted EBITDA was Rs. 59 crores, which declined year-on-year by 13% or 210 basis points. Our consolidated PBT before exceptional items was 5.3 million or 0.8% whereas the adjusted PBT before exceptional item was about Rs. 14 crores or 2.1%. The exceptional items impairment came from our Maldives business where we have got two KFC and 2 pizza hut stores each and the Maldives business contributes 0.4% of our overall revenue. This business has struggled over the last one year. After the Middle East geopolitical situation, when we saw sales down by nearly 60% year-on-year and over the last one year this has not improved. This sharp reduction in the sales of those four stores resulted in the business incurring losses, and hence, as a prudent approach we have taken a non-cash impairment of Rs. 11.4 crores in the quarter as an exceptional item in our consolidated financials.

Now let me go to slide #19 and speak about KFC:

Typically, Quarter 2, as all of you would know, is the softest quarter for KFC. And this is because we have got a number of vegetarian-only festival days. Interestingly, this year, we have seen a greater impact, greater negative impact during such festival vegetarian days. Because SSSG was (-8%), because of the resultant deleverage, restaurant EBITDA came at 16.5% or down 270 basis points year-on-year. Part of this is reflected in the muted demand conditions. And as I've said in the past, our response for SSSG revival revolves around focusing on increasing occasions of consumption through product innovations like chicken rolls variants, Zinger burger variants, snackers. We focus on day part extensions like lunch, late night, and Wednesdays. And we drive value at three different price points of snacking, individual meals, and group meal occasions. From a store opening perspective, we opened 19 stores in the quarter. And as we have been indicating, by the end of this calendar year, we should roughly be doubling our store count that existed in December 21, as we had indicated. What we are seeing of KFC in quarter three is a continuation of what we have seen perhaps over the full calendar year where SSSG is roughly in the region of minus 5%-minus 6% and as we come out of Navratri and post Dussehra, this is the kind of inherent business demand that we are seeing.

I'll now hand it over to Vijay to talk about the specific numbers.

Vijay Jain: I am on slide #23, which gives channel-wise sales contribution. Dining plus take-away mix was at 58% for the quarter, and delivery at 42%. This largely remained in line with the previous quarter, Q1FY25. The SSSG came at minus 8% with ADS at 111. We added roughly 80 restaurants in last one year and the overall revenue growth came at 9%. Gross margin improved by 40 basis points year-on-year. And while gross margin improved by 40 basis points due to overall restaurant EBITDA came at 16.5%. This was impacted on account of the operating deal average caused by minus 8% SSSG. Slide #26 gives you four-year trend and five-quarter trend. The overall brand still remains quite strong. And with the measures Sanjay spoke about just a minute back and the vegetarian festival days out of our way, we hope for a better H2 as we move forward.

With respect to Pizza Hut, we have seen a 17% sequential quarter-on-quarter upliftment in average daily sales in the April, May, June quarter versus the Jan -Feb-March quarter. So, our ADS levels have reached 48 and this has remained more or less stable in Quarter 2 also where ADS levels have been in the region of 47 Our restaurant sales increased by 3% with SSSG being minus 3%. In line with our strategy that we called out, we will continue to invest behind marketing. And that marketing investment first went behind Melts between April and September. And now in October, we have launched the exciting Momo Mia range of appetizers and pizza. We are quite confident that as we continue to invest behind marketing and our in-store execution improves today. On an average all our stores are above 4 rating on Swiggy, Zomato as well as on Google. So, clearly the emphasis that we have put on improving operations has also helped. So, we are quite confident that in the medium term, the brand will revive. We continue to be cautious on store openings, but while we open only one store in the quarter, we should open roughly 20 to 25 stores, new stores this year. Sorry, we opened three stores in this quarter, and we should open between 20 and 25 stores in the year.

Vijay Jain: So, on Slide #33, sales channel wise sales contribution, dining plus take away came at 48% and delivery at 52%, again in line with quarter one of FY25. Overall SSSG was minus 3% at 47,000 ADS and the overall revenue was 3% with gross margin of 40 basis points. The negative SSSG led to operating deleverage and combined that with the additional marketing investments impacted the EBITDA which came at 4.1%. Slide 36 gives you the four year trend and five quarter trend. It can be seen that last two quarters, the ADS has partially recovered. And even Q4 last year, we actually incurred losses. So, even from a profitability wise, we are in the range of 4%, 5%. So, if we continue to focus on the brand revival through the product innovation and the marketing investments, we believe the brand will emerge stronger in the medium term.

Sanjay Purohit: Our Sri Lanka business continues to recover well with both sales and profit improvement. Restaurant sales grew by 10% in LKR terms, while SSSG here was 9% and transaction growth was also very healthy. In rupee terms, restaurant sales increased by 19%. Restaurant EBITDA margins were also the best in the last 4-5 quarters but let Vijay take the specific numbers.

Vijay Jain: Slide #41 channel wise sales contribution dining plus take away for Sri Lanka business came at 62% with delivery at 38%, exactly same as quarter one. The SSSG was 9% backed by positive SSTG, so it's driven by transition growth. From ADS point of view, 335,000 ADS in LKR and 93,000 in INR. Overall revenue grew by 10% in LKR and 19% in INR. In terms of gross margins, while we dropped by 110 basis points in Sri Lanka, the restaurant EBITDA grew by 20 basis points to 15.5%.

Slide #45 gives four-year trend and five-quarter trend. And the last two quarters, in fact, last several few quarters of positive SSSG backed by transaction growth, both well as we move forward into H2.

Sanjay Purohit: So, in conclusion, it's been a difficult quarter and a difficult six months, but we continue to focus on what we can control on the basics of improving store operations. Our cost management has been really good. Gross margins as you can see we have been able to get some benefit right across. The nature of channels has changed a little bit more in favor of delivery. Now with most of the vegetarian days over, we should get a better read by the end of say November on how the second half is progressing. But we are still confident that if we stick to the basics, we will get out of this in a much better position.

Now with this, I will hand it over to all of you all for question for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vishal Gutka from HDFC Securities. Please go ahead.

Vishal Gutka: Three questions from my side. First on KFC, we have gone for massive expansion in the last three years. I think three years back, the store count was 200, now it's around 460. At the same time, the market might not have expanded in the same rate with regards to store expansion, what is there. I just want you to check in the wake of current slowdown, where are we exactly expanding? Are we expanding more into existing cities or it's completely virgin markets? And do you think there's a need to recalibrate expansion at least in existing cities because that will provide the buffer time so that store expansion catches up with the market growth rate? That's the first question. Second question on Pizza |Hut. Domino has gone very, very aggressive on the NPD or innovation calendar. Although we also made some launches. Melts and I think Momo Mia that's coming up. But I believe that we really need to push the pedal on the innovation front is concerned. What kind of ADS will be required to achieve low teen margins in the context of increased competitiveness from various players? Because earlier ADS might not be relevant in the current context given the competitiveness has gone up in a significant manner. And last question on M&A front, given that we'll be generating decent amount of cash flow over the period of next 2-3 years, any thoughts on M&A and are you open to acquiring a minority stake in any cloud-based kitchen kind, whichever who are compliant with the 7 rules that we have on that front. And the last I would like to wish the entire team Happy Diwali. Thank you.

Sanjay Purohit: Vishal, can you elaborate on your question to which you said on Pizza Hut innovation and what is the question?

Vishal Gutka: Domino's have gone very aggressive in terms of innovation. Four to five innovations they have launched in the period of six months kind of basket. We have done Melts and I think recently we have come up with Momo Mia. So, I just wanted to understand sir, can we go aggressive on innovation trend as well, NPDs and innovation. And the question is that ADS, what ADS numbers will be able to achieve low teen margins? Because early ADS numbers might not be relevant given that the competitive intensity has gone up significantly in this category.

Vijay Jain: Very well. So, I take the first question on KFC expansion. Over the last 3 to 4 years, 85% of our restaurants have come in towns where the population is more than 1 million. I don't see this trend changing as we move forward as well. And within that 85%, the 50%-60% of restaurants would have come in the top metros. So, that trend would remain even as we move forward. In terms of overall count, we called out that we would double the count by December 24, and we should be close to 500, so that's on track. Post that, we will again revisit what the guidance should be for the future expansion. But that's how the mix will play out between the metros, the tier 1, and the proper (17:28mins) towns where the population is more than 1 million.

Vishal Gutka: Vijay, just wanted to check, KFC you are telling that existing will be expanded, right? Virgin market, the expansion will be lower, right?

Vijay Jain: 15%-20% of our store expansion comes in probably virgin market.

Sanjay Purohit: I just want to add color here. Even in existing cities, there might be parts of existing cities that are not served. And we typically have a certain way to look at distance from an existing KFC store that we could look at a new store. Now that varies according to the development of the brand in a particular city. So, it will vary a little bit. So, even if we are expanding in Mumbai, we are expanding in Mumbai into newer trade areas that might have been less well served than earlier on. So, that's one. On the innovation part, I think our belief on innovation is, first of all innovation never ever will come at the cost of the core product. So, the core product itself has to do really well and typically innovation appeals to a set of consumers who quite likely are your loyalists and for them you give a new reason to come back to the store. In some cases like Melts, you are actually pulling the consumer into a new occasion of snacking also. Now the big part of innovation is to be able to land it with every single consumer of yours and typically this takes time. So, to do an innovation, to do 4-5 innovations perhaps in a short period of time, it's actually quite counterproductive because your consumer is unlikely, all your consumers are unlikely to have sampled the innovation. With Melts, we have seen roughly anywhere between 4 to 9 months is the ideal time for innovation, after which you decide whether it should be part of your core menu or not. I think our pace of innovation we are quite happy with as of this moment. You spoke about what level of ADS will get us to low teen level margins. I would say in the region of about 55 is where we would get to double digit margin. Finally on your M&A and cash flow, right now, what we generate through the year is marginally short of what we spend on CAPEX but there will be a period, there will be a time when, very soon when this, our generation will be higher than our requirement. We will continue to look at M&A, at this moment there are no great opportunities that we see. Also we have defined our criteria in terms of dos and don'ts and that's clearly part of our annual report. We have called out the seven mantras which we believe are key to success at scale in a food business. So, those are the features which we keep using to evaluate the opportunity. There is no hurry, there is enough and more runway for both KFC as well as Pizza Hut. So, if not in the short term, in the medium term, we would love to add a third brand using those criteria. And at that point in time, we'll figure out what's the right mode of structuring in terms of cash flow.

Moderator: Thank you. The next question is from the line of Nihal Mahesh from Ambit. Please go ahead.

Nihal Mahesh: My question was, I do find the kind of slowdown that the entire QSR space is seeing. But just as a devil's advocate, given KFC is an undisputed leader, has a value offering, is there a case where maybe the brand is not having enough appeal? I am coming from maybe looking at this SSSG number which seems generally weak for a strong and a brand like what I would expect out of KFC. So, that's my first question.

Sanjay Purohit: Please repeat that question because we got the last part of the question. What do you want us to address on KFC? Just help us.

Nihal Mahesh: Sanjay, just trying to understand if the weak SSSG for a brand like KFC which has such a high market share, more a case of a lower appeal with the brand rather than the overall slowdown? Just trying to understand that. I would want to hear your comments on that?

Sanjay Purohit: So, a strong brand and weak appeal are perhaps two opposite ends of the spectrum. I agree it's a very strong brand and largely competitive intensity will not, first of all in fried chicken itself there is reasonable competitive intensity. But overall also it plays in the general outside food occasions, in the general restaurant category. So, competition comes from other sources also. And when you've got a weak demand environment, it also will impact even a brand as strong as KFC. Having said that, I must say that this year we have been quite surprised by the intensity of the drop that we have seen on the brand during the vegetarian days. I think it's even in the North, West and even in the South where we have a festival called Purattassi in Tamil Nadu, there also we have seen drops. So, I think now post Dusshera for the next 3 or 4 weeks is when we really should look at we'll get an assessment of how the rest of the year is panning out. Having said that, like I said, we continue to invest significantly behind the brand. And when I look at how we do in direct competitive environments, we continue to do really, really strong, even with a direct even with a direct competitor who's come up in the last, say, one year or so. And then finally, I think we must call out that there is an impact of the Middle East tension that we are seeing. There's some geopolitical impact that we perhaps can see on the business. Not now, it's existed under the surface for perhaps in the last 2-3 quarters.

Nihal Mahesh: Got that. My second question was on the delivery dine-in mix. That is obviously something that for the last many quarters is seeing a tend towards delivery. Just wanted to understand anything to do with the scaleup of aggregators or certain consumption patterns you want to highlight. And Vijay, if you could just quantify the financial impact in terms of margins as the mix shifts more towards delivery.

Sanjay Purohit: Yes. So, one part of the delivery contribution increasing is the fact that we are open late night, in occasion. This was very little, say, even a year ago. And today, it's a reasonable part of our business. And that's the only purely delivery. So, that's one. Second is we are also seeing pressure in malls. Typically, the footfall pressure in malls has translated into our dine in malls suffering a bit. So, these are the two large trends that we have seen that have favored delivery versus dine in.

Vijay Jain: Nihal, in terms of the impact on shifting the mix from dining to delivery in a P&L, we typically see a 10 to 15 basis point impact for every 1% shift. While this is not the entire impact for our delivery cost, we mitigate to some extent through the pricing. So, our gross margins are better on the delivery platform as well. So, the net impact what we look at is 10 to 15 basis points.

Moderator: Thank you very much. The next question is from the line of Tejas Shah from Avendus Spark Institution Equity. Please go ahead.

Tejas Shah: First on KFC, could you break down the nature of the slowdown specifically? Is it driven by reduction in transaction volume or are we observing down trading in the average ticket size also. And also in the same answer, if you can comment on the market share on both KFC and Pizza Hut, how we are observing that?

Sanjay Purohit: SSTG and the SSSG decline is virtually the same. Perhaps, the ticket size might have gone down 0.5% to 1%, that's it. So, it is a transaction drop. It is not so much of a ticket size drop. From a market share perspective, I think once the rest of the companies present their numbers, then we will get an idea of how our market share is. But I think just indications that we are getting seem to suggest that we're still perhaps doing better than most of the industry, including on Pizza Hut.

Tejas Shah: And given the existing demand environment and competitive dynamics, how are you approaching store expansion guidance for KFC and Pizza Hut in the near term? And what are the specific markers apart from private final consumption that you spoke about in earlier calls? What are the specific markers that you are kind of monitoring to kind of turn the momentum on expansion as well?

Sanjay Purohit: On KFC, I think we will let this quarter play out and then by the next quarter's investor call, we should be able to give a guidance on how 25 will pan out. If I have to hazard an answer today, I would say that we will be a little more cautious than we have been over the last 3 years in terms of our expansion on KFC. On Pizza Hut, we already called out that we were expanding anywhere between 50 and 60 stores. So, this year we believe that it will come down to 20-25 because there are still opportunities that exist and our pipelines are built over several months and perhaps a year or two also.

Vijay Jain: Just to clarify Sanjay, meant cautious compared to what we have been doing over the last three years on KFC, where we doubled the count. So, that's a relative term we used cautious. Otherwise we still believe that we will continue to expand pretty much on KFC and two or three quarters of negative SSSG should not be a cause of worry to expand a strong brand. So, yes, you will still see pretty healthy additions on KFC as well.

Moderator: Thank you very much. The next question is from the line of Jai Doshi from Kotak. Please go ahead.

Jai Doshi: First of all, in the opening remarks you mentioned, you will double the store count by December 24, which probably means that some 40 store additions. Did I hear it correctly or were you trying to say by FY25?

Vijay Jain: No, you heard it correctly, Jai. So, close to 500 plus minus here and there, close to 500 stores for KFC.

Jai Doshi: For KFC, understood. Second is the last couple of quarters with 114,000 and 122,000 ADS for KFC. Profitability was still holding very well at around 18.5% brand contribution margin. This time around it dropped by 200 basis point and while I know ADS is slightly lower, but still the drop is, it appears that you're handling, managing operating leverage much better over the past six months than in September quarter. So, if you could explain in terms of what has changed and how should we think about this going forward? And final one again on KFC. So, all these are KFC related questions. The final one is that if you look at the last 2 years, the seasonality from September to December, ADS tends to be broadly similar levels that September and December while we have always maintained that September is a seasonal weak quarter and December is a better quarter, but because maybe you have more store additions in December and hence ADS tends to be similar. So, in this time around if you are adding 40 odd stores, will ADS potentially decline in December versus what we are seeing in September quarter? That's it from my side.

Vijay Jain: The first part of the question on restaurant EBITDA, last year we also had the benefit of gross margin going our way. So, that helped us a lot in managing the overall restaurant EBITDA margin. When you are trying to compare this year's ADS levels and you compare with previous year, what you are missing is the inflation impact in terms of the cost, wages, the energy cost and all those things. The ADS is marginally lower. The overall cost increase is also an impact which needs to be considered when you move beyond a year. So, that's the first part. Second, the gross margin remains range bound for us. Last year if you see the gross margins actually we had a benefit was that is a year ago in terms of gross margins and having said that at minus 8% and at 111,000 ADS, we believe 16.5% restaurant EBITDA. Considering these levels of sales is pretty healthy EBITDA, if you wouldn't have managed cost better this could have gone down much further. Hence it has to be looked into the relation of this 111,000 ADS and minus 8%. The second part of your query, which was on Q2 versus Q3, ADS levels, again, year-on-year, they may not be exactly comparable. Last year, September probably was one of the best months in the year because it came after two months of Adhik Maas. And then the Shradh moved into October. And the 29th September is when I remember the Shradh started. So, it moved entirely into October. So, the previous year's number may not be entirely comparable. And a year ago that, we were coming out of COVID. So, to be fair, if I look at 6-7 years history, yes, we do experience Quarter 3 to be better than Quarter 2. And we don't see any reason why this year the Quarter 3 should not be better than Quarter 2. Now by how much it would be, maybe couple of months pass and then we'll know better. But yes, Quarter 3 should be better than quarter.

Jai Doshi: Vijay, just one thing. On brand EBITDA contribution margin, I was referring to March 24, June 24, and September 24, where there is no difference in gross margin. However, EBITDA margin brand contribution has dropped by about 200 basis points versus March 24 and June 24.

Vijay Jain: That's where the drop in ADS of 3%, sometimes the drop in ADS of when you look at 3, you think 3000 is a 3% ADS with the kind of operating leverage that 3% can impact you by almost 150 basis points in terms of operating leverage, isn't it? Because the flow through for a business like KFC is as high as 40%, right? And to add to that, the inflation on minimum wages, wage cost, energy cost, that adds up.

Sanjay Purohit: So, from a Jan-Feb-March quarter to a July, August, September quarter, operating cost inflation coming in Jai.

Moderator: Thank you very much. Next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: My question is on KFC. So, I understand that Q2 was marred by the vegetarian days and the decline being higher than usual. So, what has been your experience in October? For October, are you in positive SSSG territory on a YoY basis?

Sanjay Purohit: Even October Navratra happened and we also count Navratra last year also. The way that we look at it is that if we see the calendar year and if we see the financial year till date. So, whether it is Jan to September or April to September, we are in the region of minus 5-6% negative SSSG and this is what we think the quarter also will come out at.

Percy Panthaki: Okay, understood.

Vijay Jain: The seasonal impact which we had because of the vegetarian days, the festival days, we don't anticipate that in quarter 3. So, hence we believe this may be the range we are looking at, but again, too early, we are just three weeks in October.

Sanjay Purohit: And we are assuming that there is no change in the macro environment. That's an important assumption.

Percy Panthaki: But like, are you seeing any kind of green shoots, I mean post, I know it's been very few days, but post Navratra etc. with the vegetarian days out of the picture in the last couple of weeks or so, are you seeing any green shoots of improvement in the underlying demand?

Vijay Jain: Currently, we are not seeing as high as minus 8%, that the trend which existed prior to Quarter 2 is what the trend is it has come back to.

Sanjay Purohit: Actually, only last week, Percy, was a clean week. So, the week that ended yesterday was the first sort of clean week without... Monday to Sunday week that went without any sort of vegetarian disruption.

Percy Panthaki: So, just wanted to understand what's happening on a demand front. I mean, if we look at, and you are not alone, right? All the listed QSR players are seeing weak demand. But if we look at the results of, let's say, Zomato, there the growth is very high, overall like 20% plus kind of growth, even if I remove the restaurant additions that they are doing on their platform and look at the sales per restaurant, that is also growing for them. So, is it that this is like competition not amongst the QSR players but amongst the larger industry itself where smaller restaurants etc. which were not really reaching the consumer earlier are now being able to reach the consumer much more easily through these aggregator apps. So, is that what is happening, do you think? I mean, just trying to hypothesize here, because again, as I said, this is overall QSR industry issue of weak demand, it's nothing to do with you particularly, but I am just asking you as well as other companies as well.

Sanjay Purohit: The weak consumer demand environment does not limit itself to QSR industries, but I feel looking at other FMCG companies also their results, it extends to virtually every other consumer product category. My own take on this is while I don't think there's a big reduction, so GDP growth is still reasonable. However, in most competitive categories over the last two, three years, we have seen significantly heightened competitive intensity. Certainly in QSR, today, if I look at high street, if I look at malls, and if I look at online or digital stores, in high street, if you have, say, 7, 8 competitors, in a food gully, in a mall you will have competition from perhaps 20-25 restaurants and in the digital space you will have competition with say 100 banks. So, I think competitive intensity has gone up and this competitive intensity is significantly higher than any rise in private consumption expenditure. This is a perhaps short medium term impact that we are seeing. Having said that, also at times, perhaps we have expanded also and made the brand available significantly higher than earlier. So, that's perhaps one also reason. So, I think all of this we have got to put together when we look at the next coming year or so.

Percy Panthaki: And my last question on Pizza Hut. So, just like in KFC, I asked, are we seeing any kind of positive signs in October for Pizza Hut and this 55,000 ADS that you said would be required for double digit margin. I mean, is there...

Sanjay Purohit: So, on the Pizza Hut also it is similar. I think we are holding. After we saw the bump up in quarter one, we are holding in Quarter 2 and currently, Percy. So, I think they're also muted. demand conditions are not helping. Having said that, at least we are stable and that itself is green shoots.

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

Devanshu Bansal: Particularly delivery we are still doing okay, but challenges are more in dinning channel, even in absolute terms when we see KFC is largely flagged and Q2. So, do you see this as a structural change in the industry and is there a need to sort of change our stored format strategy as well?

Sanjay Purohit: Yes, so undoubtedly over the last 3 years, there's been some amount of channel shift from dine-in to home service. When we look at other markets internationally, we see that there is a certain limit to how much this channel shift will occur. Having said that, we have always believed that an omni-channel store is best suited to deliver the financial results that we want. A large portion of the capital, to put up a store, goes in the kitchen. And only a smaller fraction is spent on the front of house. And hence, I mean, it is always better to have dine-in, takeaway and delivery all three channels open so let the consumer choose what she wants, how she wants us to serve her. So, it continues to be omni channel rather than only delivery. In only delivery I just want to call out that unless you have unless a brand has the capability of delivering 100% through their own system, having 100% otherwise, having a large portion of sales go through the aggregator does not make too much of financial sense for a brand.

Devanshu Bansal: So, two quick follow-ups here. So, you mentioned that global studies, what is the extent of shift that typically is happening across the globe between off premise and on premise, if you could just highlight?

Sanjay Purohit: I won't have very specific numbers, but if I just look at businesses in the US, etc., where the cost of product on delivery is substantially higher than what is on dinning because of the delivery charges. So, their consumers seem to be coming back strongly to both dine-in and take-away. It's also convenient. I think that's the point that I am making.

Devanshu Bansal: And between front end kitchen, what is the CAPEX segregation for you?

Vijay Jain: 70% of the CAPEX goes into the back of house and the balance 30% is front of house.

Devanshu Bansal: And last question from my end. You mentioned that our transaction size has broadly remained flattish versus last year. The competition at least has been very aggressive and focusing on transaction growth. So, what's your view here? Because our ADS has remained flat, are we losing transaction share to the competition?

Sanjay Purohit: So, I just want to highlight here that when SSSG has been minus 8%, transaction decline also has been in the same region. When KFC overall system growth has been 8%, our overall transactions have also increased in the same proportion. So, there's been very little ticket size improvement or otherwise that we have seen. So, KFC as a brand has still grown transactions. The same store transaction growth might be in the same realm of SSSG.

Devanshu Bansal: So, you're saying that with your store expansion that is leading to decline in transactions at your existing stores, right?

Sanjay Purohit: No, I never mentioned that. I just said that there is an SSSG decline. However, at the brand level, transactions are still growing. I think that's the only statement that I was making.

Vijay Jain : (49.15 mins) And the other part which you were referring whether we're degrowing because there are other players who are gaining, we don't see that other player's SSSG any better than probably ours, so I don't think that sense true,that hypothesis is true

Moderator: Thank you. The next question is from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: I just have one question. In terms of pizza, given that the margins are now in mid single digits and we would require in ADS of at least 55,000 or to reach to that double digit, so how does this impact our unit economics at the store level? And also given that you will also have inflation going in in the future years in terms of the other expenses, So, would that also push the ADS requirement higher to get to the double digit and then justifying the storage and economics?

Vijay Jain: So, Gaurav, the first part that how does it impact, I was not clear because what we called out is that 55,000 ADS or near thereabouts should be good enough for us to move towards double digit. So, what exactly you mean that how does it impact?

Gaurav Jogani: My question was because this is a 50,000 ADS right now, that will lead to a double-digit kind of an ADS. But going ahead there would be also some inflation in terms of rent and other expenses. So, would that also mean that you would require a higher ADS then to get to the double digit and then on the unit economics part given that because we are not doing the double digit kind of margins right now, so how does that impact the overall unit economics spread in terms of the ROE, ROCE profile for the stores?

Sanjay Purohit: So, the first part of the question is there is an inflation, which does not actually lead to a parallel ADS growth and only in a cost certainly you will require a higher ADS. But then it's a very hypothetical question. Typically, we have been able to manage inflation quite well, even the cost inflation quite well. When you look at the last three years of Pizza Hut, even right now at a 4% EBITDA margin, restaurant EBITDA margins, if you actually do the math, the drop in the revenue has been quite significant. We were looking at one point in time, 60,000 ADS levels and despite dropping to 47,000, the impact on EBITDA has not been quite there. So, we have been able to manage the cost inflation quite well. So, it will all depend in what form and shape the inflation hits us as we move forward. But yes, just mathematically, there's an inflation on cost, you will certainly require a higherADS. So, that was the first part of the question. The second is how does the ROI and all those get impacted? Again, we are looking at a brand in a very different manner. The Pizza Hut brand for us is a second pillar of growth which we need to work upon. Right now, the brand is at a stage where we need to build the interest in the brand from the consumer point of view. We don't want to be in a situation that after a few years we are only left with one leg of growth in terms of KFC. And hence right now it's a phase where we need to invest behind the brand. If you do the math at this stage of course the ROI and the ROCE will not work out. But this was not the question, let's say, two years ago when we were delivering 60,000 ADS, when the ROI was pretty decent. So, I think first stage first, let's move towards that 50,000 plus mark, start moving slowly towards that double digit mark, and then we can discuss that ROI and ROCE conversation.

Moderator: Thank you very much. The next question is from the line of Shirish Pardeshi from Centrum broking. Please go ahead.

Shirish Pardeshi: Just one quick question. Out of 461 stores in KFC, Sanjay you mentioned that we have stores in malls. So, what percentage of stores and what percentage of revenue from these mall stores we get?

Sanjay Purohit: Well, I may not have exact number right now, but the revenue from mall would be anywhere between 40%-45%. And of course, in terms of the count, this probably would be slightly lower. So, it would be anywhere between 30% to 35%.

Shirish Pardeshi: So, here your understanding is that, the revenue in the mall stores has been punished very strong.

Sanjay Purohit: So, what they're saying is that dining mall typically has a very high mix on dining, and very small amount of takeaway, and very small amount of delivery as well. So, it's not that we don't deliver out of a mall. But yes, the mall dining has taken a definite impact over last 6 months.

Shirish Pardeshi: That's what my understanding because malls dining would be much stronger, so I don't think the delivery would have affected. So, you mean to say that the dine-in and ticket size is under stress?

Vijay Jain: Not the ticket size, just the transactions. Because of the footfall at the malls, the kind of probably footfall the malls are seeing and again even what we're seeing at the movies, the kind of movies which we are seeing I don't think the first six months have been great in terms of mall footfall because of the movies as well So, yes, the mall dining has definitely been impacted.

Shirish Pardeshi: On the flip side, if we had a non-vegetarian issue with the KFC portfolio, Pizza Hut should have surprised you positively in the mall stores and sales?

Vijay Jain: So, the mall impact was nothing to do with because of non-vegetarian. The mall impact is just the mall footfall and the movies what we're talking about. So, it's nothing to do with the cuisine whether it's vegetarian or non-vegetarian. The vegetarian impact which we are talking about on the KFC is just the overall impact which has been across malls and high street stores. So, that impact is irrespective of the format.

Shirish Pardeshi: Okay, got it. My second question is on Slide #29, you have given Momo Mia Pizza. But I guess why this is an LTO and when this was launched and how long it will be there in the market?

Sanjay Purohit: So, this is part of our menu right now, Shirish. I think when we look at, we typically evaluate it after 3 to 4 months and then we see whether it needs to be a continuous part of our menu or not or LTO.

Shirish Pardeshi: So, it has gone before Navratri if I am right.

Vijay Jain: We launched in October, first week of October.

Sanjay Purohit: Yes, before Navratri, you are right.

Shirish Pardeshi: Okay, no I saw that, so that's why I was saying, but I was more curious why it is LTO.

Sanjay Purohit: No, I never said it's an LTO.

Shirish Pardeshi: No, it's written in the slide, limited time.

Sanjay Purohit: It's part of our innovation pipeline. Typically, we evaluate it after three or four months. And after three or four months, we take the call, whether we need to make it as a continuous part of our menu or perhaps withdraw it at that time.

Shirish Pardeshi: That I understood, Sanjay. What I was trying to understand to allude, you said that we are trying to build the occasions for the excitement for the consumers. So, Melts has given some fillip, but then is Momo Mia is also giving you the occasion and footfall increase?

Sanjay Purohit: Yes, so did I hear you say that Melts has given you some fillip? Momo Mia should give you a further fillip. Is that what I understood?

Shirish Pardeshi: Yes.

Sanjay Purohit: Yes, so it should give you, it should give us additional fillip. I think we'll wait for the quarter to play out to understand how this works.

Moderator: Thank you very much. The next question is from the line of Harish Advani from Investec. Please go ahead.

Harish Advani: I just had one question when it comes to the KFC that we are trying to do in terms of increasing the day part occasions through rolls and biryani bowls etc. So, I just wanted to understand, since you've been doing this from the last 2 to 3 quarters, how has this been trending? And if you can share any percentages of how this is contributing to our overall ADS. That was my last question.

Sanjay Purohit: At this moment, while we are pushing lunch, we are pushing rolls and so on, at an overall basis the bold truth is that our SSSGs have continued to be negative. So, one can say that it has had a limited impact on improving our sales trajectory.

Harish Advani: Okay, and is it possible to quantify in how much it's contributing to ADS at the moment? So, contribution, typically we don't give out Harish.

Moderator: Thank you very much. The next question is from the line of Jiganshu from Bernstein. Please go ahead.

Jiganshu: I just had one question in the interest of time. For the Sri Lanka business, now that contributes roughly 15% of our EBITDA at overall level. What kind of growth prospects do you see there from a medium to long term perspective?

Sanjay Purohit: So, we have just got out of perhaps about six to eight quarters of a really difficult time in the country. And nothing that, I mean it's all macro conditions that sort of nosedived. We believe that Sri Lanka would give us similar kind of growth opportunities as India. We should be able to open, say, anywhere between 7 and 10 stores a year. And that's what we would have thought earlier. At this moment, we'll be just a tad cautious still and wait for another quarter or so before we accelerate. Having said that, stores will continue to open, but it will be in single digit.

Jiganshu: Just one small additional question, this is on the CAPEX related to India. So, we see the CAPEX per store added has dropped by 10%. Is this largely due to non-store CAPEX being lower than past or is it also because we are making some changes in the configuration of the stores as we open them?

Vijay Jain: So, again, because I think you're working out CAPEX through backward calculation by looking at the cash flow, right?

Jiganshu: Right.

Vijay Jain: So, sometimes the cash flow vis-à-vis the actual CAPEX that could be always a mismatch. To be fair, I don't think our CAPEX have dropped. It continues to be in the same region, which is roughly Rs. 2 crore for KFC, Rs. 1.35 to Rs. 1.4 crore for Pizza Hut, that remains. Sometimes the cash flow, depending upon when have you ordered, the cash flow can be very different. So, there is no change in the CAPEX. It's neither increasing nor decreasing.

Moderator: Thank you very much. Due to time constraint, that was the last question. I would now like to hand the conference over to the management for closing comments. Thank you and over to you.

Sanjay Purohit: Thank you very much all of you all for having joined this. I am happy that we have done it just before Diwali and I wish you, your families a wonderful Diwali and a wonderful rest of festive season till the end of the year. Thank you very much for supporting Sapphire Foods.

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