Date: 6th August 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 – Q1 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 Tuesday, 30th July 2024, in relation to the financial results of the Company for the quarter ended 30th June 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 1 section.

Request you to kindly take the same on record.

Thanking you,
For Sapphire Foods India Limited
Sachin Tukaram Dudam
Digitally signed by Sachin Tukaram Dudam
Date: 2024.08.06 17:23:10 +05'30'
SAPPHIRE FOODS INDIA LIMITED MUMBAI
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"Sapphire Foods India Limited

Q1 FY '25 Earnings Conference Call"

July 30, 2024

MANAGEMENT:	**MR. SANJAY PUROHIT – GROUP CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – SAPPHIRE FOODS INDIA LIMITED** **MR. VIJAY JAIN – CHIEF FINANCIAL OFFICER – SAPPHIRE FOODS INDIA LIMITED** **MR. RAHUL KAPOOR – HEAD INVESTOR RELATIONS – SAPPHIRE FOODS INDIA LIMITED**
MODERATOR:	**MS. SHIVANI KARWAT – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '25 Earnings Conference Call of Sapphire Foods India Limited, hosted by Orient Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shivani Karwat from Orient Capital. Thank you and over to you, Ms. Karwat.

Shivani Karwat: Good evening, everyone. Welcome to the Q1 FY '25 Earnings Con Call for Sapphire Foods India Limited. From the management, we have with us Mr. Sanjay Purohit, Group CEO and Whole-Time Director; Mr. Vijay Jain, CFO; and Mr. Rahul Kapoor, Head Investor Relations. I hope everybody had a chance to go through the results and investor presentation, which was uploaded on the Exchange earlier today.

Before we proceed, a reminder that this call may contain some forward-looking statements which do not guarantee future performance and involve unforeseen risks. A detailed disclaimer has also been published in the presentation.

I will now hand over the call to Mr. Sanjay. Over to you, sir.

Sanjay Purohit: Good afternoon, everybody. Welcome to the Sapphire Foods Quarter 1 FY '25 financial highlights. This quarter has been a steady quarter of performance for us. KFC, like I said, saw steady performance and we had marked improvement in the performance of Pizza Hut and Sri Lanka, more details to follow.

Our quarter 1 FY '25 consolidated restaurant sales grew by 10% to INR717 crores, and our EBITDA increased by 1% to INR124 crores. While we have seen discretionary consumer spends at the same subdued levels as the past few quarters, specifically, Sapphire KFC has been impacted by the shift in dates of the Navratra festival compared to last year. This year, Navratra was entirely in April, where last year it was entirely in March.

In quarter 1 FY '25, we added 13 KFC stores and 1 Pizza Hut restaurant in India. Our total count is 886 as of 30th June. Our consolidated restaurant EBITDA margin was 15.1%, down 210 basis points. As I said earlier, consolidated EBITDA grew year-on-year by 1%. It was down 150 basis points versus last year, and our consolidated adjusted EBITDA of INR71 crores or 9.9% declined year-on-year by 8% or 190 basis points.

Our consol PBT at INR12 crores or 1.7%, consol adjusted PBT was INR24 crores or 3.3%, consol PAT was INR8 crores or 1.1% and consol adjusted PAT was INR17 crores or 2.4%. With this, I'll take you to the KFC page. I'm referring to Page 17 and 18 of the investor deck that we had published. KFC delivered a revenue growth of 11% with minus 6% SSSG, and a large portion of this minus 6% SSSG was in the month of April itself.

As you know, among all QSR brands, KFC is impacted the most during vegetarian festival days because more than 95% of our menu contribution comes from non-veg and Navratra, Shravan, Shradh do impact the brand substantially. We are focused on 4, 5 areas to grow our business. One is we continue to enhance fried chicken category relevance through building the lunch occasion. We had lunch special menus at INR149 and INR199 and INR249. And these were advertised meal bundles. So that's one area of focus.

The second area of focus is value and addressed through the INR99 and the INR149 price points, both individual and group meal offerings. We then launched the international Burger Fest, which was a range of 5 burgers in different sauces. One of the interesting new additions to this burger range was the vegetarian paneer Zinger also.

In July, we have launched additional variants to our range of chicken rolls and we believe that this is an important new addition -- new permanent addition to our menu. It gives us an option to play in the snacking daypart also. We opened about 13 stores to take the total KFC count to 442 stores.

And now I'll just hand it over to Vijay to talk us through the financial numbers.

Vijay Jain: I'm on Slide 23. KFC had delivery mix of 40% versus 36% last year. The SSSG was minus 6% and the ADS came at 122. The ADS number includes the 23% restaurant additions, which we had over the last 1 year or so. Overall revenue grew by 11%, gross margin improved by 10 basis points. The restaurant EBITDA came in at 18.8% vis-a-vis last year, it had a drop because of the operating deleverage, which we had.

Slide number 26 gives you 4 year and a 5-quarter trend. That can be seen at 18.8% for the quarter despite Navratra is quite a steady performance for KFC. And the overall brand still remains quite strong. We had called out in December '21 that we would double the store count in 3 to 4 years' time. Quite happy to say that we are on track to double the count in 3 years' time. So by end of December '24 we should be close to 500 restaurant count.

Over to you, Sanjay.

Sanjay Purohit: Yes. On Pizza Hut, we have seen 6 to 7 quarters of declining ADS trend and we had said that in the light of this performance, which has been exacerbated by competitive pressures. We need to up the ante on the brand revive consumer interest through products, innovation, marketing and customer service and operations.

In line with the above, we launched a differentiated folded handheld pizza concept called 'Melts' in March '24, along with a strong mass media advertising campaign in the month of -- starting in the month of April, right through the quarter. And this has helped us improve consumer interest and has reversed the ADS decline of successive quarters, typically from the Jan-Feb-March quarter to the April, May, June, we see a seasonal uplift in the region of 6% to 8%. This year, the uplift that we got was close to about 17% or so. But this is just the start of the battle on Pizza Hut. We need to continue this as we have said earlier, over -- and sustain it over a much longer period of time.

We opened one store to take our count to 320 and if you can see the Slide number 29, that gives you a screenshot of the mass media, television campaign that we ran on Melts, perhaps where the brand came back on television after many, many years and this has enabled us to lift initial momentum on the brand.

Quickly, Vijay, could you talk us through the financials.

Vijay Jain: Slide 31, delivery mix remains same as last year for Pizza Hut at 50%. In terms of SSSG, minus 7% for the quarter, the ADS came in at INR48,000, as Sanjay called out, big improvement sequentially 17% over the previous quarter. Overall revenue grew by 3%. So again, previous quarters, we had seen brand decline at overall revenue level. So this was a positive for the quarter for the brand, where we grew by 3%.

Gross margin improved by 100 basis points, and overall restaurant EBITDA came in at 4.6%, again, compared to the previous quarter, where we actually had a loss, 4.6% was quite a healthy margin compared to the previous quarter. And just to call out that is 4.6% includes additional marketing investments as well.

Slide 34 gives you 4 quarter -- 4 year and 5-quarter trend. As can be seen that even after the low ADS in the previous quarter, which was Q4 of last financial year and a loss, the brand has come back quite strongly with the ADS of INR48,000 and restaurant EBITDA of 4.6%.

Over to you Sanjay.

Sanjay Purohit: Our Sri Lanka business also continues to improve. This quarter, we've had really strong SSSG performance of 11% growth, backed by even higher transaction growth. This transaction growth really bodes well for the business going forward. The brand and the company, we continue to lead the QSR industry. And as you can see in the Slide 37, the readers of the business magazine LMD, which is Sri Lanka's biggest business magazine, has voted Pizza Hut and our company there as the best and the most loved brand and store company in the country.

Vijay Jain: Slide 38. Delivery mix came in at 38% for Lanka business, again, similar to last year. SSSG was 11%, backed by double-digit transaction growth. Overall revenue increased by 13% in LKR terms and 19% in Indian rupees. The gross margin improved by 10 basis points and overall restaurant EBITDA came in at 13.2%, which is a 20 basis points improvement over last year.

Slide 42 gives you a 4 year and 5-quarter trend. As can be seen that because of the double-digit growth on SSSG as well as the transaction growth, we were able to deliver a small improvement on the margin as well, 13.2%. And this SSSG and transaction growth augurs well for the brand as we move forward.

Sanjay Purohit: In closing, I just wanted to also talk about our ESG initiatives. And on Slide 43, you can see that we published a third ESG report under GRI, SASB and BRSR standards. We're really the only Indian QSR company to publish a full-fledged ESG report. And this year, we also obtained limited assurance on our BRSR and ESG report on a voluntary basis.

The other achievement we are quite proud of is to receive Indian Green Building Council Gold Certification for one of our KFC restaurants. We believe this is the start to build far more sustainable stores. We are the only company in the Indian QSR in the retail segment to achieve this feet. Both the ESG report and now the annual financial report for FY '23-'24, both of them are now available on our website, sapphirefoods.in.

And with this, we will open the discussion to question and answers.

Moderator: Thank you very much. The first question is from the line of Saurabh Kundan from Goldman Sachs. Please go ahead.

Saurabh Kundan: I have 2 questions. The first one is around KFC. The SSSG trend has been worsening in the last 3, 4 quarters. Minus 6% is quite a large decline. I understand the impact of Navratra calendar shift. But are you getting a sense that adjusted for Navratra, is the trend improving? Or is it stable or deteriorating?

Sanjay Purohit: Yes. So apart from April month, I would say it is still steady -- still a little bit negative, but marginally negative. It's in April when those 10 days impacted -- or those 9 days impacted the brand significantly.

Vijay Jain: And even if you adjust for Nvaratra and if you take this Navratra impact into a quarter earlier, the 2 quarters, which would be Q4 and Q1 would be similar. So that would give an indication that it's steady. It's neither improving, not worsening.

Saurabh Kundan: So Q4 and Q1 average is roughly minus 4%. So is that something that would be representative of what's happening?

Vijay Jain: Yes, broad representative. We have not done the exact math, but yes, it can be representative. Marginally better perhaps.

Saurabh Kundan: Understood. Understood. Fair enough. And sir, for Pizza Hut, the sequential improvement is quite encouraging. And I just wanted to double check with you, after fourth quarter, you had mentioned that there will be no step up in the store additions until you reach 8%, 10% margin. So I hope -- I mean, does that still hold? That guidance holds?

Vijay Jain: So what we had called out there are 3 parameters which we are looking at before jumping into an aggressive store expansion or a huge store expansion. One we said was SSSG; second was, can the ADS move towards INR50,000 mark and the third was, can the profitability move towards 8%, 10% mark.

So it's not that each of the 3 has to actually hit and then only we will start the expansion because there could always be opportunities to open a few stores. Having said that, the current status remains the same. We are going to be extra cautious in store opening. And we don't see a big chunk being opened in this particular financial year.

Sanjay Purohit: Yes. But it's not going to be 0, Saurabh. I think there are opportunities to open a few stores, but we'll be far more cautious with our store opening. In the first 6 months of the calendar year, it has turned out that we have opened just 1 store. I'm just looking at Jan to June. But the idea is to be cautious, and I don't think we've ever said that we will not open any store.

Moderator: The next question is from the line of Nihal Mahesh Jham from Ambit Capital.

Nihal Mahesh Jham: Three questions. First is, if I look at the dine-in revenues for KFC, that has seen a sharp deceleration. What explains the trend? Just to get your thoughts.

Sanjay Purohit: Yes. So first, Nihal, welcome in a different avatar I hope you're doing well. So I think you're right that in general, across the industry, we are seeing a decline in dine-in. Overall delivery still seems to be holding up, and that's perhaps a consumer trend that we are seeing. So I think this is across the industry, not only related to us.

Having said that, there are many steps that we are taking to improve dine-in including specific menus, value offerings. Our lunch advertising is all around getting people to come into our stores during this important dining occasion. We are also -- there are very early experiments with the coffee that are taking place.

So there are -- we are not sitting back and allowing macro trends to overwhelm us. We are trying to do our best to get consumers back into our stores, including some of our refurbishments that we have done, make just these stores far more attractive also for consumers and give them a good experience.

Nihal Mahesh Jham: Just a clarification, when you mentioned coffee, is that an indication to look at Cafe as an offering in KFC?

Sanjay Purohit: Yes. So perhaps the expression of it might be very different from what competitors do. This is just very early days really.

Nihal Mahesh Jham: Got that. Second question was on KFC itself. We do know that last year, in Q2, you had the impact of an extended Adhik Maas. So is it that you expect the base turns favorable and that could be at least optically giving you a better SSSG in Q2.

Sanjay Purohit: Yes. So that Adhik Maas was actually impacted us in July last year, and in July, it was about 18 days or so that we got impacted, the North region, especially got impacted. I think, therefore, like I said earlier, to Saurabh, I think, the underlying trends remain similar, if adjusted for all these plus minuses.

Nihal Mahesh Jham: Got that. Just if I could take 1 final question is on Pizza Hut. The sequential improvement in ADS is encouraging. If I just try looking at the Q3 -- Q2 quarter of last year, which is similar in terms of ADS and top line, versus that, margins are still like 300 bps lower. So is this the incremental marketing spend that is leading to this? Because at least stores wise, there is not that much of a difference, just to comment on that.

Vijay Jain: Broadly, but we are not giving out exact number, but broadly, yes, there is a big impact of marketing over there.

Sanjay Purohit: Also from a year-to-year basis, costs also changed Nihal, you have new minimum wages.

Vijay Jain: So you won't have a similar flow-through of INR48,000 ADS in the previous year and an INR48,000 ADS a year later with the cost inflation spread, specially the wage inflation, Nihal. It's a combination, a big portion would be marketing -- additional marketing investments and partly would be the wage inflation impact as well -- wage and other cost inflation.

Moderator: The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities.

Tejas Shah: Just 1 question. I wanted to know what will be the contribution of nonvegetarian in our Pizza Hut franchise?

Sanjay Purohit: So roughly, I would say 75-25, veg, non-veg.

Tejas Shah: So then from that perspective, if we extend the headwind that impacted the KFC, the vegetation portfolio of Pizza Hut would have done much better than what it appears at aggregate level. Is that so?

Sanjay Purohit: Much better is perhaps not a right correlation. The way that I look at it is in Navratra, non-veg consumption gets impacted. Normal food continues. It doesn't increase or anything.

Tejas Shah: No, Sanjay, why I meant that, that let's assume that, that 30% of business would have got impacted in Pizza Hut also. So the 70% would have done much better than what the aggregate number suggests, right?

Sanjay Purohit: I don't have the exact answer to that. But yes, you could be right there, Tejash. I don't have the numbers.

Tejas Shah: Perfect. And second, your peers have actually called out some geopolitical issues still hurting sentiments on some of these brands. Any read-through there?

Sanjay Purohit: So, the fact of the matter is that there is an impact. There's -- I don't think -- we have not called it out in the past because these are things that perhaps we just have to live with. It's not right across the country, but there are pockets where we have got impacted. We continue to get impacted. There is no let up -- there's no let up or no bounce back that we see in some of these pockets.

Tejas Shah: All the best for coming quarters.

Sanjay Purohit: Thank you, Tejas.

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

Shirish Pardeshi: Yes. I'm just reading out 2, 3 data points. So if I look back, quarter 4, we had a monthly active users of about 1.25 million for KFC and Pizza Hut was 0.89 million. This quarter, we have moved to 1.5 million. And when I look at the store addition on a Y-o-Y basis is about 23%. For right now, we have 442 stores. Last year, we had 358 stores. But then question is that the ADS has declined almost 12%. Understandably, partially you have mentioned about Navratra.

So the question here is that if the monthly active users has gone up, could be the fraction because of the number of stores which has got added. But do you think over next 2 to 3 years, KFC will become in a positive SSSG territory?

Sanjay Purohit: So that is the -- so there are 2 separate things. When you look at our overall ADS that we report, that overall ADS is inclusive of new stores. And like we have said in the past, new stores start at much lower than the average of the brand. And then over a period of time, they catch up to the brand average.

So if you see the pace of expansion that we have had and we have doubled the number of stores roughly over the last 3 years, if the new stores are going to come in at much below brand average, then the brand average is unlikely to see any growth in -- at an overall basis.

Having said that, SSSG is absolutely important, and we don't think that this environment of negative SSSG should continue into the future. And we are -- we believe that we are taking all the necessary steps to improve brand salience. So 2 separate parts to the -- 2 separate answers to your question.

Shirish Pardeshi: Okay. The reason I'm asking because you said that we are bringing a lot of occasion to improve the consumption and therefore, rightfully, you brought the burger range and even INR99. So I was more curious, is this enough to drive the traffic and that would, at some point of time over next 2, 3 quarters will lead to a positive SSSG, because I'm giving the benefit in this quarter that Navratra has eaten up some SSSG.

Sanjay Purohit: Yes. So I guess there are 2 parts to this. One is we are doing everything that we can. And sometimes it is not about doing 100 things but doing 3 or 4 things that we feel are impactful and really putting marketing muscle behind it. So in our mind, we are quite happy with the initiatives that we are putting out.

Having said that, there has to be some improvement also in the macros and I don't think the macro, especially the private final consumption expenditure is going to be muted for eternity. It has to start improving in the next couple of quarters.

Combined with the efforts that we are taking, I think we should be positive about same-store sales growth on KFC. All these are in the end cycles, I believe, so you go through periods where you've got really strong SSSGs and then periods when you've got a little weaker same-store sales growth. I think we are in one of those cycles. In such a cycle, what we do and what we put out in the market that I think is far more important. And I think we are taking the right steps there, Shirish.

Shirish Pardeshi: I got that. And we just heard the other -- not directly, but other player in the morning. Now they are offering 2 burgers at INR79. So I think if the market conditions are not yet looking right? So that's why this question I made. Anyway, I'll take it offline.

My second question and last question to Vijay. What are the margin levers, because I was expecting some bigger margin expansion, because though gross margin has improved only by 10, 20 basis points, but that is not reflected into the EBITDA..

Vijay Jain: And you were expecting expansion for KFC?

Shirish Pardeshi: The overall company?

Vijay Jain: So again, if I break it down, the KFC got impacted by the negative 6%, right? So typically, a negative 6% would lead to a bigger drop at a restaurant EBITDA level with the kind of flow through our business has in terms of the operating leverage. We were able to actually limit that downside actually delivering quite a bit of cost efficiencies across our labor cost, the operating cost, electricity cost, the gas cylinder cost and that helped us deliver this 18.8% despite a negative 6%. Otherwise, typically a negative 6% could lead to a bigger erosion on the margin.

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

Gaurav Jogani: I congratulate you on a resilient margin performance in a difficult time. My first question is with regards to the gap between the SSSG growth and the ADS growth in the Pizza Hut segment. Now that gap seems to be narrowing. And this seems to be also narrowing because of the store -- the muted store opening that we see. So in that context, how should we looking ahead, given the fact that the SSSGs are still negative and we might expect a muted store opening for the year? How do you look at this metric going ahead?

Vijay Jain: So again, while we don't give out specific guidance on quarter or a year, we have always called out the general trend, how the ADS movements are likely to happen. We -- typically at a 5% to 7% SSSG and a 20% kind of a store additions, we expect the ADS to remain stable. Now if either of the parameters goes up and down, it will have an impact. So if you have a negative SSSG and you continue to open stores, it will actually bring down the ADS.

Right now, what we are seeing, you are seeing stable ADS because you are not adding stores. So to hold on to the ADS levels, 5% kind of SSSG and a 20% kind of store additions would help you actually deliver a muted or a stable ADS, not the muted, a stable ADS. Having said that, in Pizza Hut all attempts are in terms of product innovation and the marketing investment is to get the ADS levels up because these current ADS levels are not sufficient enough for us to move towards double-digit SSSG mark.

And as Sanjay said, you are looking at investing behind product innovation and marketing over several quarters and this is not just a couple of quarter activity.

Gaurav Jogani: Sure, sir, just a follow-up on the marketing bit. As you've already mentioned that it is elevated. So can we expect this to elevate further the marketing spend as we approach the festive season or at least it is expected to remain at this current level?

Vijay Jain: We expect it to remain at the current levels for quite a few quarters -- several quarters, but I think we are quite happy with the current level of spend, which we are incurring, and this allows us to go on mass media.

Sanjay Purohit: I think the idea is to be consistent there, Gaurav, over a period of time.

Gaurav Jogani: Sir, in addition to this question, Pizza Hut what kind of store opening one should build? While the 3- to 5-year targets for you might remain the same, but in the near term, given that we have only opened 1 store in this CY, what kind of store numbers at least you can help us guide for at least for this year, particularly?

Vijay Jain: So again, this year, it will be a muted store opening. We have called out that we are not comfortable giving a 3-year or 5-year projections right now when we are -- where for the last 6 months, we haven't opened a single store in that sense or over the last 1 year, we opened 18 restaurants.

So I think we'll take it quarter-by-quarter. Once we become more comfortable on the brand margins and the ADS, I think that's the time we'll engage in the conversation on how the store openings are likely to be over the next 3 to 5 years. For the time being, you can just assume the way we have operated over the last 1 year, and I would ask you to take a trend over the last 1 year or so. to build in how the next year could look like. But that's a very broad answer I'm giving you. The right way would be to wait for a couple of quarters and then we can give you more definite guidance.

Sanjay Purohit: It's not going to be 0 is the point Gaurav.

Gaurav Jogani: Yes. Sir, just the only thing was if not 0, I mean, whether it be 10 or 20? Because generally, we have been opening 35 to 40 stores.

Vijay Jain: So, it will be lower than that. That's why I said out in the last 1 year, we opened 18. So maybe that can be active as -- that can be taken as a reference point maybe.

Gaurav Jogani: Got it. Got it. Got it. And sir, the last bit on the KFC now. KFC though we can understand the impact of the Navratra in this particular quarter. But any sense in the remaining period, that is the way in the 2 months, are you seeing any uptick in the core consumer consumption in terms of, say, either the ticket size or in the footfall, any which way you are seeing any improvement?

Vijay Jain: No. Sanjay called it out, right. So we are largely at the similar position. We are not seeing a trend which is either moving in a positive direction or deteriorating further. I think we are in a steady situation. which is if I look at the quarter 3 -- quarter 4 of last year and quarter 1, I think both were negative. We are in a similar trajectory. There could be slight up and down in terms of numbers, which is where the festival falls. But again, Q3 -- Q2, again has Shravan while it's 1 less this time you are not really seeing an uptick. You are at the same situation.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak Bank. Please go ahead. Jaykumar Doshi is not on line. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Sanjay, I'm not sure if these are right macro indicators, but just wanted to check if employment growth in the country or wage hikes sort of relevant metrics that you track internally for sort of tracking improvement in demand? Any sense on these metrics for FY '25 if you're tracking these metrics?

Vijay Jain: Devanshu, we haven't really tracked these 2 metrics in specific. I think the broader metrics which we tracked is private final consumption expenditure metrics along with the GDP data. So that gives an indication. Over the last, I think, 6 odd quarters, the private fund consumption expenditure has been below the GDP growth rate. And something like this happened for such a long period was maybe a couple of decades ago, if I recollect correctly, 2003, 2004 period. And it took a couple of years for things to turn around. So we are just hoping that maybe we are probably closer to the turnaround rather than later. But if you have any indications on these 2 data points, maybe you can share with us.

Sanjay Purohit: And many of these data points, Devanshu, are also hindsight data points. So it doesn't help us in the moment. In the moment, and I think I said this in the past, all that we can do is try and put the best possible(37:57) marketing plan in front of consumers and back it up with great customer service. So that's all that we can do. And then I think what we see in our stores perhaps plays out when the government releases some of the metrics, but it doesn't help us in foresight.

Devanshu Bansal: Got it, Sanjay, very clear. Second, I wanted to check, typically, so we are at 122 in KFC ADS, which was 135 in '23. So is this entirely due to weak macros or there is some bit of bill size reduction also because there has been a focus on value launches? Or there is some increase in competition from that perspective. So any color on this, please?

Vijay Jain: So largely, it is because of the new store additions. We have called out our new stores actually come at 75% to 80% ADS levels of the brand average. And our run rate, if you have doubled it over last week -- largely over 3 years, which means 25% additions, so that's one prime reason why the ADS gets pulled down.

Typically, what happens when you are doing the additions at such a large scale of 5% to 7% SSSG helps you to balance that particular ADS drop caused by the new stores. And that kind of SSSG, we have not seen over the last 5 quarters or so. In fact, the last 2 quarters -- last 3 quarters have been negative. So that's what has caused down the overall ADS to come down, primarily new store and second, not helped by the fact that the SSSG has been flat to negative.

Devanshu Bansal: Got it. So does that indicate at least for mature stores bearing the impact of new store additions. It is -- okay. So the SSSG you are saying it is negative, so that includes mature, sorry, my bad.

Vijay Jain: Yes. SSSG is an indicator of mature store performance.

Devanshu Bansal: Okay, okay. And Vijay last question from my end, I wanted to check, there's no sequential improvement in margins for KFC despite a healthy pickup in the revenue. What is the reason for this? Because gross margins are also stable sequentially.

Vijay Jain: While gross margins are stable, what you don't see is that when you typically get into a new year, there is a wage inflation which comes into the picture. Also, when you compare Q4 versus Q1, the seasonality kicks into the picture. So Q4 typically from a utility cost, electricity cost, it's quite a soft month in terms of those costs because the winter across the country. And this year, April, May, June, from a utility cost point of view has been brutal, add to that wage inflation. So these are the 2 areas which primarily causes gap vis-a-vis quarter 4.

A third point, which I can add to it is the delivery mix. When you look at the delivery mix of quarter 4 versus quarter 1, the quarter 1 is slightly higher than quarter 4 and delivery is definitely while profitable, it's slightly lower profitability compared to other channels. So these are the 3 prime reasons.

Devanshu Bansal: Okay. Out of these 3, I guess, utility, you may see some moderation in the coming quarters. But other than that, these are more structured, right?

Vijay Jain: The wage cost and the delivery is yes.

Moderator: The next question is from the line of Prolin Nandu from Edelweiss Public Alternatives.

Prolin Nandu: This is Prolin from Edelweiss Public Alternatives. One of the question is on marketing spend, right? So what we have seen is that some of the mature consumer brands would spend on marketing when the environment is right in terms of macro environment, right, in some sense. But we have continued to probably spend on marketing maybe slightly higher than what we had been doing in the past.

So I mean, just wanted to understand, is it still that QSR as a category or KFC as a brand is yet to reach that maturity and it still needs those marketing spends to bring in the kind of footfall or sales number that we are witnessing? Or how do you look at marketing spend continue to be at a higher level in a weak macro environment?

Sanjay Purohit: So in a weak macro environment and especially if a brand is not performing as well as it should. Then there have to be some intervention on the part of the brand to regain consumer interest. In such circumstances is when additional marketing, but however, spend behind relevant areas of interest for the consumer will help the brand.

So I don't think there is a generalization that we can make a mature brand spend less in difficult environments and more in better environment. I don't think that's the generalization that holds. In the case of KFC, we have continued with the same level of spend, it is in Pizza Hut where we have increased the advertising spend.

Prolin Nandu: Sure. So I mean this question was more to understand this macro slowdown, right? So maybe the other way to put that -- put this is that especially in KFC, is it fair that whatever numbers that we are getting is because of the marketing spend and things could have been quite worse if we had not been spending the same amount of money?

Sanjay Purohit (44:10): It's a hypothetical question really. I don't know how to answer it. We are -- our level of spend on KFC is similar, but there are macro headwinds that we are facing.

Moderator: The next question is from the line of Latika Chopra from JPMorgan.

Latika Chopra: My first question was, do you take the price increases on KFC during the quarter?

Vijay Jain: So we have taken a very small price increase of 1%. And it was not across the board. There was some opportunity of price corrections on some of our SKUs, that's what we did. So it was close to 1%.

Sanjay Purohit: And nothing on Pizza Hut.

Vijay Jain: Nothing on Pizza Hut.

Sanjay Purohit: If that's your next question.

Latika Chopra: No, that was not. Considering we are trying to get the -- turning it around. The second question was on the dine-in weakness. Could you elaborate a bit more on the nuances of this? Sequentially, have you continued to see this deteriorating stabilizing improving (45:17) [inaudible 0:45:17]? And how you kind of cut it or dissect it away from probably a structural move of consumer more towards delivery versus macro factor. Any nuances, any region-wise disparity, large versus small amount, anything that you could throw more color on?

Sanjay Purohit: So I think there are 2 parts here. One is on a structural basis, yes, there is a move, but that move is a very slow move, I would say, from dine-in to delivery. There is another important part that is -- has improved our delivery contribution, which is that today, most of our stores in both KFC as well as Pizza Hut are open beyond the 12 hours. They're actually open for late night and that's the time of the day part that we don't do any dine-in sales and it's only delivery.

So we've added this late-night day part, which is 100% delivery and that has also contributed to the increased relevance of delivery in our mix. I would say that, that has had a bigger impact than a structural change between dine-in and delivery.

Latika Chopra: Okay. And last question was any sense of further (47:12) [inaudible 0:47:13] openings for KFC this year?

Sanjay Purohit: Could you come again? Latika, please?

Vijay Jain: Your voice is breaking Latika.

Moderator: The next question is from the line of Chirag Lodaya from Valuequest Investment Advisors.

Chirag Lodaya: Sir, my question was on cost containment. Overall, what we see in KFC is despite 6% negative SSSG, our restaurant margins are pretty healthy 18.8%. And you mentioned a few of the cost control measures, et cetera. But going at how to see if suppose hypothetically minus 5%, minus 6% SSSG for more 2, 3 quarters. Will we be able to maintain this kind of restaurant operating margins?

Vijay Jain: The answer is no. So there is a limited opportunity, which can be available on the cost efficiency, right? So if the environment continues to be minus 5%, minus 6% for a long period of time, we will certainly see an impact on the margins. We saw that in case of Pizza Hut. So it's -- we would hope that our initiatives, which we are taking to get the SSSG back actually fructifies in the next few quarters.

Chirag Lodaya: Right. And if I want to understand what percentage of store operating cost would be fixed in nature?

Vijay Jain: So typically, the way we call out our business model flow through. So roughly -- and what we mean by flow-through is that for every INR100 of sale, we end up getting INR35 to INR40 to the bottom line and vice versa.

Chirag Lodaya: Okay. Okay. I'll take it offline in detail later. And second was on store opening plan. So just wanted to understand from KFC point of view, how do you look at this? If say slowdown persists, will we change trajectory in terms of store opening or we will be opening the guided number of stores?

Vijay Jain: So we have always called out our Sapphire way of how do we approach those store opening. So that's paramount. So if there is a persistently negative SSSG and there is a huge impact on the EBITDA or the restaurant EBITDA, certainly, you have to revisit your pace of expansion. And we had called this out quite early in case of Pizza Hut also. First, we went slow and then we became extremely cautious. So the same stands true for KFC. So if you are going to see a persistently negative SSSG and impact on restaurant EBITDA, which is significant, then you will have to and we will reapproach or revisit the store expansion plan.

Right now, we are still in an okay zone or we are still in a comfortable or reasonable zone. We have always called out we would like our KFC margins to be 19%, 20%, near to 20%. If it goes significantly below that, yes, we will revisit our expansion strategy.

Chirag Lodaya: Right. And just lastly on overall consumer slowdown. So as we were discussing in the previous participant's question that what we see is delivery across all QSR format is doing pretty well. The issue is with dine-in. So at a consumer level or consumer behavior is -- again, it's aggregate, is there that shift in consumer is happening from dine-in to delivery for formats like us? Is it where that overall weakness is? How do you read the situation?

Sanjay Purohit: Quite clearly on the previous question, in our case, there is a shift, but there is also an additional daypart that has opened up over the last 12, 15 months, which is only delivery. So from a contribution perspective, the impact of that is a little more than perhaps the consumer shift from less dine-in.

Vijay Jain: This is operations after 11 p.m. in the night.

Chirag Lodaya: The reason I was asking that question again was, if I look at per store delivery revenue, it is a ballpark 1.6, 1.7. So even if there is a positive delta of that, there is no significant uptick in there.

Vijay Jain: And the other way to look at is probably the additional time period or operational period wouldn't have been there, you would have seen even the delivery sales probably degrowing. So...

Moderator: The next question is from the line of Jaykumar Doshi from Kotak Bank.

Jaykumar Doshi: My question is just a follow-up on the previous question itself, but a very brief one. Do you think that there was an impact on dine-in because of extremely hot summer this season? Or do you see this dine-in delivery trend continue in July as well?

Sanjay Purohit: I have not looked at -- I have not compared to the 2 numbers, Jay. So let me not try and answer something that I'm not sure of. But we can get back to you, if necessary.

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

Dhiraj Mistry: Sorry if I missed out on this like(53:15). Can you give the similar trend what you witnessed in KFC, that underlying demand, excluding of this one-off like Navratra and an Adhik Maas remained stable at minus 3% to 4%. How do you see month-on-month SSSG for Pizza Hut? Is there -- on a month-on-month basis there is some improvement in Pizza Hut or whether it remains same across months?

Vijay Jain: So again, the way to look at would be that how are you looking at the ADS improvement because SSSG, depending upon the base, it can go really up and down. And last year, Pizza Hut ADS was on a declining trend. The 48,000 ADS, the idea is that there could be a small impact in Q2 because of the seasonality. Otherwise, Q2 for us is largely similar to Q1. So if it stays there, you could see still a slightly negative SSSG even in Pizza Hut, because of the base effect.

Dhiraj Mistry: Got it. Got it. And second on a -- question on delivery and dine-in channels. But if I look versus last year for Pizza Hut, the contribution from delivery and dine-in channel is broadly similar. So we have not witnessed any major difference between dine-in and delivery channel. Am I reading it wrongly or it's the same case?

Vijay Jain: You are right there. So a big jump, a 17% sequential improvement and the improvement vis-a-viz last year has been across the channels. The benefit which we have seen in the upliftment on account of marketing promotions backed by the product innovation, the Melts launch, we have seen upliftment across the channel for Pizza Hut.

Dhiraj Mistry: No, sorry, I meant I was comparing with the last year versus this year. Not on a sequential basis for Pizza Hut.

Vijay Jain: So the answer is true for last year versus this year and even in the sequential. So it's largely remained at 50%, and yet we have improved our ADS by 17%, which means across the channels, the improvement has been similar.

Dhiraj Mistry: Got it. Got it. And the trend would be similar for KFC as well?

Vijay Jain: So KFC, we have seen it other way round, right? KFC, we have seen delivery mix improved sequentially as well as over last year, and so which means that dining has dropped a bit and delivery has performed better than dine-in.

Moderator: The next question is from the line of Ashutosh Parashar from Mirabilis Investment Trust.

Ashutosh Parashar: So just a couple of questions. Sir, first question is on the line of corporate costs. So in the last few quarters, this has ranged between like INR32 crores to INR34 crores of quarterly run rate which jumped to like INR38 crores, INR39 crores this quarter. So any sense on the progression of this in the coming quarters? How should we see this going ahead? And what sort of leverage can we get on this front?

And second question would be on the Pizza Hut store addition front. So like we understand that the addition will be quite muted over the next couple of quarters, at least, given the demand trends and this would be true for both the franchises in India. So given this muted trends of store addition, how is Yum! thinking about its growth strategy in India based on your conversation with the brand owners? So any sense on that would be helpful.

Vijay Jain: Yes. So on corporate costs, what's actually comparing is the previous quarter versus current quarter, you are not factoring in the wage inflation, which would typically happen in April when you give an increase in salaries. So that's the increase along with a slight increase in additions of the account because of the increase in the overall store base. That's the only increase.

Now from year onwards, quarter-on-quarter, you should see largely a similar number for corporate costs as was seen in the previous quarters as well. So once the Q1 base has established, typically, that remains largely the similar across the year. And coming on to our Pizza Hut question.

Sanjay Purohit: Yes. I think -- so Yum! and us we are completely aligned on what needs to be done on the brand and the need to improve the brand before going on the same pace of store expansions as earlier.

Vijay Jain: So these conversations are not a unilateral decision. So this store opening call, typically our conversation which happens with Yum!. We are also guided by a development agreement, how do we renegotiate that agreement and how do we go about the next few quarters, this is a joint conversation which happens along with Yum!. So Yum! is fully cognizant of the current setters of the brand performance and they are fully on board.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to the management for the closing remarks.

Sanjay Purohit: Yes. Thank you everyone, for attending. Like I said, it's been a steady quarter for us, steady on KFC, if I exclude the Navratra impact and material improvement in Pizza Hut as well as Sri Lanka business. We continue to make our own destiny, continue to focus on improving consumer interest in our brands. And with change in the macros from a consumer spend perspective, I think we are well positioned for the future. Thank you very much. I look forward to speaking with all of you all next quarter.

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