**Date: June 3, 2023**

To

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

**Subject: Transcript of Q4 FY23 Earnings Conference Call held on May 29, 2023**

***Ref:*** *Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015*

We hereby enclose the transcript of Earnings Conference Call held on Monday, May 29, 2023 at 11:00 AM (IST), post announcement of financial results of the Company for the fourth quarter and financial year ended March 31, 2023. The audio recording of the Earnings Conference Call along with the Transcript have been uploaded on the Company's website at www.barbequenation.com.

This is for your information and records.

Thanking you.

Yours faithfully,

**For Barbeque-Nation Hospitality Limited**

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

***Encl.:*** *As above*

# Barbeque-Nation Hospitality Limited

## Earnings Conference Call

## Q4 and Full Year FY2023

May 29, 2023

**Management:**

Kayum Dhanani – Managing Director

Rahul Agrawal – Chief Executive Officer & Whole Time Director

Amit Betala – Chief Financial Officer

Bijay Sharma – Head of Investor Relations

**Moderator:**

Amar Kedia – Ambit Capital

**Moderator:** Ladies Ladies and gentlemen, good day, and welcome to the Barbeque-Nation Q4 and FY2023 Post Results Analyst Conference hosted by Ambit 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 now hand the conference over to Mr. Amar Kedia from Ambit Capital. Thank you and over to you.

**Amar Kedia:** Thank you, Yashashvi. Good morning, everyone. And welcome to the Q4FY23 earnings con-call of Barbeque Nation. We have the management today being represented by Mr. Kayum Dhanani and his team. I will now hand over the call to the management for their opening remarks, post which we will open up the floor for Q&A. Over to you, sir.

**Kayum Dhanani:** Thank you. A very good morning, ladies and gentlemen. I take the pleasure in welcoming you to Q4 and full year FY23 conference call of Barbeque Nation. FY23 was a milestone year for Barbeque Nation brand. The brand crossed INR 1,000 crores plus annual revenue to become the first Indian food service casual dining restaurant brand to achieve this milestone. Despite the prevailing demand softness across the industry, we reported strong annual growth of 43.4% in our revenues and 49% growth in our EBITDA.

As I reflect on the previous year, the team has executed well over our strategy. Our prime focus was Barbeque Nation India business, which has grown by over 40% compared to last year with 36 stores additions. After almost 3x growth in FY22, our delivery business declined by 16% in FY23. While the order volumes were relatively flat, the average order value declined. We launched a dedicated Biryani brand called Dum Safar last year, which is gaining traction and has crossed INR 2 crores monthly turnover. Toscano business continues to deliver strong SSSG, revenue growth and margins. Similarly, our international business has delivered strong SSSG and EBITDA performance. As a leading food services company, we will continue to invest in our core Barbeque Nation business and simultaneously grow other brands. For example, Toscano is already very close to crossing annual revenue mark of INR 100 crores.

We also remain focused on continuously enhancing our guest experience through upgraded restaurant designs, elevating culinary experience and further strengthening service culture. The benefits of these initiatives are evident from our all-time high guest satisfaction index score for the year.

We are also conscious of the prevailing weak demand scenario, our aggressive expansion over the last 2 years and its impact on our latest quarter operating margins Therefore, in the short term, we have reduced our new store opening target in FY24 to 20 restaurants. Our focus would be driving SSSG through increasing capacity utilization of our existing Barbeque Nation restaurants and selectively open 20 new stores across Barbeque Nation in India, International and Toscano. However, if the situation improves, we will consider accelerating our growth plans as well.

Our relentless focus in the past has resulted in creating multiple growth levers for the company such as Toscano, international business and delivery vertical. We believe the share of contribution of these businesses will further increase in the overall revenue and profitability which will further strengthen our position as a diversified food services company.

With this, now I hand over to Rahul to take you through the performance during the year. Thank you very much. Over to you, Rahul.

**Rahul Agrawal:** Thank you, Kayum. Good morning, everyone.

Our revenues for the year grew by 43.4% to INR 1,234 crores, which was primarily driven by growth in dine-in business and offset partially by a decline in our delivery revenues. Our dine-in revenues grew by 61.6% to reach INR 1,066 crores. Delivery revenue for the year was INR 165 crores, a decline of 16.5% compared to the previous year. While the delivery volumes were flat, the decline in delivery revenues was primarily attributed to the lower average order values.

SSSG for the year was 27.5%, which was primarily driven by dine-in SSSG of over 40%. Against our target of 40 restaurants, we closed the year with 39 new restaurant openings, taking overall network to 216 restaurants. This includes 196 Barbeque Nation restaurants in India, 6 Barbeque Nation restaurants in international markets and 14 Toscano restaurants.

Consolidated gross margin for the year was 66.3% compared to 64.6% in FY22. Despite an inflationary environment, we were able to improve our gross margin as compared to last year, primarily driven by calibrated pricing growth and cost management.

Reported EBITDA for the year was INR 239 crores as compared to a reported EBITDA of INR 160 crores in FY22. The reported EBITDA margin increased from 18.6% in the previous year to 19.3% in FY23. Our adjusted EBITDA margin, which is pre-IND AS 116, was 10.3% during the year compared to 7% in FY22. In FY23, we reported adjusted EBITDA of INR 127 crores and cash flow from operations post lease expenses of INR 115 crores.

In terms of our quarterly performance, we recorded a revenue of INR 280 crores in Q4FY23, which is an increase of 11.6%. This growth was primarily led by network expansion. Our SSSG for the quarter was negative 2.6%. Our dine-in revenues for the quarter was INR 241 crores, an increase of 16.8%. Our dine-in business SSSG was positive 2.1%, despite a suppressed demand environment.

Our reported EBITDA for the quarter was INR 42 crores with margins of 15% compared to reported EBITDA margin of 20% in Q4 FY22. Our pre-IND AS 116 EBITDA for the quarter was INR 13 crores with a margin of 4.6%. Our margins for the quarter were impacted due to a combination of decline in SSSG and higher mix of yet to mature restaurants.

Out of total network of 216 restaurants, 154 restaurants were operating for more than 2 years and are classified as matured restaurants. And the balance 62 restaurants are classified in the new restaurant category. Out of this, 39 restaurants were added only in the last one year. The core portfolio of matured restaurants continues to do well. In FY23, our matured portfolio generated annualized revenue of INR 6.65 crores per outlet despite the prevailing industry-wide demand softness. This was 5% lower than our expectation of INR 7 crores per outlet. The restaurant operating margins in the portfolio was 19% in FY23.

We have also successfully created multiple levers of growth for our business. 6 years back Barbeque Nation India dine-in business was contributing to almost 97% of our business. Now we have added additional pillars of growth such as Toscano, international business and delivery, which collectively account for almost 25% of our total revenues in FY23. Going forward, while Barbeque Nation India business will continue its growth trajectory on higher base, the new verticals are anticipated to grow at faster pace resulting in further diversification of our revenue contribution across these levers of growth.

At macro level, the last few quarters have been challenging in terms of demand situation. Further, we have been aggressively expanding for the last 2 years, which resulted in short-term margin pressures on our performance. In the short term, we have recalibrated our store expansion target to open 20 new restaurants in FY24. We'll be focused on driving same store sales growth through higher volumes and higher capacity utilization. We continue to remain focused on enhancing guest experience through upgraded store design, elevating culinary experience and service culture, therefore becoming a preferred destination for celebrations.

On the back of above initiatives, we are experiencing early signs of improvement in terms of month-on-month volume growth. We are closely monitoring this positive developments and are hopeful of recovery over the next 2 quarters.

Median to long-term growth story of our company remains intact. Our growth going forward will be driven by SSSG and expansion led growth for Barbeque Nation and Toscano business, calibrated growth for international business, coupled with increase in average daily sales of both UBQ and Dum Safar.

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

**Moderator:** We have a first question from the line of Kapil Jagasia from Nuvama Wealth Research. Please go ahead.

**Kapil Jagasia:** Sir, just rechecking with the restaurant guidance that you have given, 20 restaurants, is this 20 Barbeque restaurants and plus 5 Toscano restaurants, and plus 3 international restaurants, which you gave in the presentation? Or it is 12 Barbeque and plus 8 for the rest? What would be the number? Can you please help me with this?

**Rahul Agrawal:** Thanks, Kapil. Today, we are looking at 20 restaurants consolidated, which is including Toscano and Barbeque International. But as Kayum mentioned, we will watch this for a couple of quarters. And if things improve, then we can also accelerate this target.

**Kapil Jagasia:** Okay, fine. And could you just help us with what all promotional activities the company has undertaken to increase the footfalls over the last 6 months or so. And as these had a positive impact on increase in footfalls for this April and May months?

**Rahul Agrawal:** Yes. There is a lot of focus on improving the guest experience. A lot of work has happened on the overall products side. In terms of promotions, we have rationalized pricing in some of the markets. We have also launched offers for our weekdays, recently we are running an offer called Happy Monday, Tuesday, which is giving us very good results. We're also running beverage offers in few of the markets, which is one plus one on beverages. And in some cases, which have got latest liquor license, we are doing promotional offers on the entire liquor bottles. These are the few ones that we have undertaken.

**Kapil Jagasia:** Okay. And just last question from my side. 5 extension kitchens having closed during these last 2 quarters, so is the delivery channel like losing ground over here as this quarter, the revenue run rate for delivery negates the pickup seen in last quarter?

**Rahul Agrawal:** Yes. As I've also mentioned in the previous calls, our extension kitchen strategy would work at a particular sales per store. While delivery is a very challenging business in terms of margins, it can be accretive if you do it from your existing restaurants, but in the cloud kitchen model, it is very challenging unless a particular threshold of revenue is met. We saw over the period of last 2, 3 quarters a decline in average revenue.

And therefore, we stopped that for some time. We are seeing some pickup in our delivery business but we will restart the extension kitchen model only if we reach a particular target of ADS from that extension kitchen. Otherwise, the focus would be to utilize the balance 216 kitchens and try and grow ADS in that segment.

**Kapil Jagasia:** Okay. What should be the quarterly revenue run rate for delivery volumes? Like would 40 be the base here? Or it would be picking up towards 45-50. So what should we take for FY24?

**Rahul Agrawal:** It's difficult to say. I think last year was around 41. But in the current quarter, in the first 2 months, we're already seeing good traction. So I think my sense is for the entire year, we should be looking at almost INR 200 crores, but we'll wait for numbers to come for maybe in a couple of more quarters. But first quarter is very good. So I'm just cautious about calling it out completely.

**Moderator:** We have our next question from the line of Vicky Punjabi from UTI Mutual Fund. Please go ahead.

**Vicky Punjabi:** From the dine-in segment, if I see, I mean I heard you saying that it's 2% SSSG. To understand, base year was also impacted by Omicron. So in the context of relative performance, how have we done against other restaurants? Because to my mind, the growth should have been better at least given the base?

**Rahul Agrawal:** You're right. But in terms of our channel checks from other industry players, unfortunately, for a lot of them numbers are not in the public domain but this was similar situations. January still was okay, but February and March were pretty bad for the overall industry. So in line of that, I think, 2.1% was a decent number.

**Vicky Punjabi:** And secondly, just on the pace of closures increasing in the last 6 months, I think we saw 7 store closures there, anything to call out on that side? And is that also leading to the moderation in the pace of expansion?

**Rahul Agrawal:** So 2 things there. One is out of 7, around 5 of them are in Tier 3 markets. In the Tier 3 markets; one, average revenue was lower, and it was a drag on profitability and didn't cross the threshold that we have for these markets. So that is one, and if you note in the last 2 years, we had not expanded in Tier 3 markets or Tier 2 markets consciously. Our growth is most skewed towards metro and Tier 1 cities.

The second one is a couple of malls closed in which we are present. That's why we had to shut down those stores. In future, does it impact our store growth? Not really. I think in the short term, while we are saying we are reducing the target is because the focus today is driving same-store sales growth from the existing capacity that we have created. I don't think just adding store networks will also lead to just doing your top line and EBITDA growth. I think you have to keep growing and at the same time, keep consolidating so that overall metrics of each restaurants remains intact.

I think maybe a couple of quarters would be slow in terms of expansion but once we get margins back, I think store openings are not difficult part. For context we added 10 restaurants every quarter last year and going back to that number will not be that challenging for us.

**Vicky Punjabi:** Sure. Sir, just one follow-up on this. I mean. We are per se, not worried about unit economics and the store closures were just big pockets of issues that we faced. Is that how I look at it?

**Rahul Agrawal:** Absolutely. If you look at the overall portfolio of the 154 restaurants, we still continue to do around INR 6.65 crores, right? I know you're looking at INR 7 crores, but given last 2 quarters or second half of last year was not that great. And 5% revenue decline on that is easy to sort of cover up. So, on the unit economics model, I have actually no doubt at all.

**Vicky Punjabi:** Sure. And just lastly, I mean this is related to corporate overhead. I think the Y-o-Y growth seemed quite sharp. I mean, if I have to just back calculate from EBITDA margins and restaurant operating margins. Anything on that, is one-off sitting there? Or is it completely normal?

**Rahul Agrawal:** So, absolute number has not grown, but given the top line has come down, the percentage number would have grown. But absolute number was pretty much in line.

**Moderator:** We have our next question from the line of Harit Kapoor from Investec. Please go ahead.

**Harit Kapoor:** So I just had 2-3 questions. I think, Rahul, firstly, if you look at the matured store number, specifically, even you've seen while SSSG is declined slightly and dine-in SSSG has actually grown, the profitability on the matured store has come up quite sharply. And this is at a time, the gross margins were actually improving Y-o-Y. So would you attribute this entire piece to operating deleverage because of SSSG? Or is there anything else also that we can kind of think about?

**Rahul Agrawal:** So this is largely SSSG. And in some pockets, there also have been cannibalization from a few new stores. Like I said, if you look at like-to-like numbers, dine SSSG number is around 3.5%, subject to in some cases, where we opened the second store in the city. But largely, the margin impact has been on account of operating deleverage.

**Harit Kapoor:** Got it. So what level of -- so if you've already seen -- as you spoke about delivery, where you said you look forward to INR 200 crores kind of a number, which means you're probably seeing some of that traction already kind of coming through, which currently you are at INR 40 crores of quarter run rate, hopeful of INR 45 crores, INR 50 crores update going forward, which means that SSSG will start to pick up probably from Q2 in delivery. Is that where we also start to see kind of pickup in overall matured store profitability? Or you still think that's a little bit away going forward.

**Rahul Agrawal:** No. So there are 2 questions there. I think one is same-store sales growth, right? Historically, same-store sales growth has been driven by 3 factors, which is pricing, volume and delivery now. Last year, the SSSG that was largely driven by some price increase and delivery revenue growth versus previous year. And I'm talking about a 3-year CAGR, which is around 5.6 - 5.7%.

This year, my expectation is that the pricing growth will be lower. I think the SSSG will be largely driven by volume growth and some acceleration growth. So that will have some positive impact on the matured portfolio margins.

**Harit Kapoor:** Okay. Okay. Got it. The other thing was on the expansion. I think you didn't mention that it's a 2 quarter and then kind of revisited. This year also with the 20 stores that you are looking -- restaurants you're looking to do, would the mix be similar like a 70-30 mix between metro Tier 1 and Tier 2, Tier 3? Or it will be more metro Tier 1 focus given you've seen some pain points in Tier 2, Tier 3?

**Rahul Agrawal:** I think Tier 2, Tier 3 will be lower. In the current 20 guidance, Barbeque India, we're only saying 12 as of now. We are looking at 5 from Toscano and 3 from international. So Toscano and international, obviously are metro markets only. They don't even go to Tier 2 right now. And out of 12 Barbeque India, I don't see more than 3 or 4 in Tier 2 markets.

**Harit Kapoor:** Okay. So the 20 is at a consolidated level, your guidance is 20?

**Rahul Agrawal:** Yes. As of now, consolidated level, but we will definitely revisit this target after 6 months.

**Harit Kapoor:** Got it. Got it. And last question from my end is, have you seen a significant pickup in profitability in Toscano? And in fact, revenue per store also seem to have sharply gone up, which is probably even ahead of pre-COVID levels when we had acquired the business? So could you just speak a minute or two about what's happening there? Is it a lot of the pricing-led or, have table turn seen sharp increase?

**Rahul Agrawal:** So one, the customer feedback has been absolutely great. Pricing growth is at par with what we've taken in other brands also. So pricing growth is not more than 7- -8%. Balance is led by increase in volumes in these plus also increase in delivery. Also, the beverage segment is doing very good in Toscano.

Also Toscano is expanding into other cities. This has historically been a Bangalore brand and now going into Chennai, Pune and currently exploring also a couple of other metro markets, so the impact of new store and cannibalization in this market is slightly lower. I think the business is absolutely run in a fine manner, and we expect to continue seeing at least 25% CAGR growth over next few years.

**Moderator:** We have a next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

**Aliasgar Shakir:** Question on the outlook again. So if I got you right, you said that this quarter, you saw some weakness in revenue trends and therefore we are also reducing our target of store addition. But you also mentioned that there are early signs of some recovery that you are seeing. So if you could just elaborate what do you mean by that early sign? I mean, and how should we see the outlook in terms of revenue trajectory?

**Rahul Agrawal:** So if you look at our monthly revenues, months of February and March were very low. And post that, the months of April and May have been gradually increasing month-on-month. And all of these are actually led by volume growth, which is a very good sign for us. But also seasonally, quarter 1 is a good quarter. Our revenues last quarter, for example, have dropped to around INR 280 crores for the entire quarter. So the first target is to at least bring it back to around INR 320-odd crores sort of numbers, and I'm seeing that trajectory right now. But year-on-year basis, this is still slow because last year first quarter had a very good base.

I think while this quarter, a couple of months are looking very good, and I'm very excited about how the efforts that we have been taking has been paying off. But before calling it out complete recovery, I think we'd like to watch it for at least 2 quarters to see how it performs before giving some number or guidance for the full year.

**Aliasgar Shakir:** Understood. This is very helpful. Just a quick follow-up here. So if I understand what you mentioned correctly, are you seeing base effect as a bigger problem than actually month-on-month recovery basically last year was way too good probably, and that's why we are seeing that base effect seeing an impact on SSSG or month-on-month also, things are not very great?

And also, what is the factor that will drive this recovery? Is it cooling of inflation you think? Or particularly anything structural, which is seeing an impact?

**Rahul Agrawal:** It's a mix of all. I think base impact might work for quarter 1, but overall, I think there was industry-wide demand softness. If I look at my historical numbers, pre-COVID, the mix of H1, H2 actually changed this year. Typically, in quarter 4, we are normally down by only around 3- - 4% of what we do in quarter 3, and this is data over last 5 years pre-COVID. But this quarter, we're down around 15%, which is in my view is abnormal. Also quarter 3 numbers, typically we see around 12%-13% higher than quarter 2 which we didn't see this time around.

So I think my sense is that last 2 quarters or second half of last year had been really low for the business. Obviously, that was also coupled by our store expansions. Over the last 15 months, we added almost 30% new capacity. So right now, as I see things going, very happy to see the response in the first 2 months. But I think maybe after quarter 1, the base impact will start playing out positively in our business also.

**Aliasgar Shakir:** Understood. This is very helpful. Second question is just on your store additions. So you mentioned you may revisit after a couple of quarters. What is typically the time line you require for new stores. So if you revise then, will you be able to, I mean, further add in FY '23 or that may go into FY '24? And is the impact so concerning that you may have to kind of revise your store addition, which is more a long-term strategy?

And just last thing on this is that we are in somewhere about 81 cities, right? So given that we have a larger store size, broadly, if you help us, what is the number of cities you think you have a target for 3- or 5-year opportunity that we can grow into a number of cities?

**Rahul Agrawal:** When we are saying that we looking at opening 20 as of now, it doesn't mean that our evaluation criteria or our teams, which are on the ground looking for good sites has reduced. I mean what we're doing is that tightening screws around some of the evaluation criteria right now. And we are saying unless the threshold is this, we'll not sort of contract that site.

It doesn't mean our pipeline will come down or the active pipeline that our team has got has come down. So within 2 quarters, if we start seeing the numbers that we want to see in terms of both top line and margins, then obviously, we'll start putting more capital towards our store expansion target i.e., on a long-term in the 3 brands or 3 segments of growth that we have right now, and we will start expanding on these areas.

I think in terms of opportunity or the white space that we believe is there is definitely available. And I still sort of think of looking at 500 number target that we have. I think recalibrating ourselves for a couple of quarters is only a sensible thing to do from a capital allocation perspective at this point of time. And that's what we are trying to do.

**Moderator:** We have a next question from the line of Khush Gosrani from InCred Asset Management. Please go ahead.

**Khush Gosrani:** I just wanted to understand overall on the industry side, are we facing very strict competition from lot of the stand-alone restaurants as well in the casual dining space? Because the customer pool is the same that we are targeting yearly.

**Rahul Agrawal:** See, the competition is very localized in our segment. It could be in a particular trade area, in some cases, it's like within a 500-meter radius of where we're operating. Yes, there are more and more CDR players coming in, but this is something which is not new to our business. We have seen this pretty much in the entire 15 - 16 years of our existence.

I think what we are focusing on is our offering, our experience. And like Kayum mentioned, we are very happy to say that last year on our dine-in segment side, we had all-time high guest satisfaction score. So that's we have been taking care of on the entire guest experience which has been playing out.

And also, I think the pie is large enough, there is room for multiple other players to sort of play. I think as Barbeque Nation brand, INR 1,000 crores top line is something which was good to achieve, but the scope is much more. And maybe more players can also achieve this target. Has the competition increased from what it was say pre-COVID or what it was 1 year back? No, I don't think so.

**Khush Gosrani:** Sir. And are you seeing any behavior change on the customers?

**Rahul Agrawal:** No, not really. I think our repeat business numbers are still very strong. I think whatever decline we saw was more from the new customer base. And the repeat customer business, coupled with obviously strong guest satisfaction scores are very encouraging to our business.

**Khush Gosrani:** Sure, sir. And last question, sir, will we be able to maintain adjusted EBITDA margins around 10% levels going ahead? Or we could see some improvement as SSSG improves?

**Rahul Agrawal:** No, actually 10% is not our base. I think we target to do around 16% in matured portfolio. And then we believe that there will be 1% drag from the new portfolio, which in the short term will be maybe around 2%. So I think my long-term range would be around 13- - 14%. This year around, with a factor of whatever, the softening of demand and as it picks up, I think the business has a potential. The way the operating leverage has worked against us maybe this quarter and adjusting this multiple times apparently was working for us also in the past. So as we see some course correction in terms of our revenues per outlet, I think the margins will automatically start coming in.

**Khush Gosrani:** Sure, sir. And one last bookkeeping question. Sir, how many Barbeque India stores were opened in FY '23?

**Rahul Agrawal:** We opened around 36 this year.

**Khush Gosrani:** 36. And how many were closed, just in India?

**Rahul Agrawal:** Overall, full year, we closed 8.

**Moderator:** We have our next question from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** My first question, again, on margins. And we have seen many QSRs, also seeing some impact on their margins in the last couple of quarters. But the impact that we have seen has been significantly higher. So we were doing margins of 13-14%. In the latest quarter, they have come down to 3% to 4%. So how do we look at your margins? I mean, you said that you're targeting 13 - 14% again going into the future. But what is going to drive the 1,000 basis points expansion from here, if you can give some clarity on that, please?

**Rahul Agrawal:** So like I said, there is 2 impacts largely. One is the negative SSSG that you saw, which is, again, operating deleverage playing out and the second is impact of new stores. Specifically, in last quarter, average revenue even from matured stores was hardly INR 5.5 crores, and that brought it down. But if you look at a full year basis, we did still INR 6.65 crores, which is around 5% lower than our target of around INR7 crores. And on this matured portfolio, we did 19% core EBITDA margin. And I think the 5% revenue gap would impact our margins around 2%. So overall, 21% margin on this portfolio is intact.

On the new portfolio side, out of 60-odd restaurants, around 40 of them are less than 1 year old. This specifically, in this quarter was loss making as an overall portfolio. But on the stores which have already crossed 1 year, we are at around 8.5 - 9% EBITDA margin already, which is in line with our trajectory of year-on-year improvement in margins on the new portfolio. So by and large, I think, a mix of both improvements in your existing matured portfolio driven through SSSG and change in mix between old and new will guide this margin expansion.

**Percy Panthaki:** Rahul, you mentioned that the matured portfolio is instead of INR 7 crores did INR 6.65 crores, that is going to affect margins by 200 basis points. So the total impact is like close to 1,000 basis points. So should I understand that remaining 800 basis points is because of the maturity profile of the stores sort of being tilted towards the new ones?

**Rahul Agrawal:** Also mix of what is the proportion of matured portfolio and the new portfolio. So this quarter, it's around 23-77, right? Once it tilts again towards say 85-15, that will change.

**Percy Panthaki:** Right. So basically, what you are saying is that the matured stores sort of increasing 10 percentage points in the total mix will improve margins close to 7 to 8 percentage points. Is that understanding correct? Because that math doesn't seem to sort of intuitively makes sense to me.

**Rahul Agrawal:** The rest of our matured portfolio will do around INR 7 crores, with 21% store level EBITDA margin. Our new portfolios will come to say around 10% EBITDA margin. And if this mix is, say, 85-15, we would be around 16 - 17% from the matured portfolio and another 1.5% coming from the new portfolio, which is around 18.5%. And around 5.5% would be around corporate expenditure, which is around 13% EBITDA margin. **Percy Panthaki:** Yes, yes. I understood. Second question is on the store opportunity. So you mentioned that the store closures that you've done are mainly into Tier 2 and Tier 3 kind of towns where the sales per store has been lower than what was expected. So I mean our original thought process that we feel that the total store opportunity is like 450, 500 stores, does it still stand in light of the fact that the sales per store in the smaller towns is not ramping up to the extent that we expect?

**Rahul Agrawal:** As of now, yes, the sales per store is not ramping up. And that's why if you look at the entire year, we haven't expanded much on Tier 2, Tier 3 towns. And while you said 75% will come from metro Tier 1 and 25% will come from Tier 2, 3. So 25% base is still in fact there. So that doesn't change our stores opening or opening potential.

The only thing is that over the period of last 6 quarters, we have added almost 30%. Maybe this right number is around 15% every year. So on a very short-term basis, we're taking a small pause to course correct some of the performance on the existing matured portfolio and the new portfolio stabilization and post that will come back to the same number.

So does it mean that my overall opportunity for growth has reduced? No, I think one, there is Barbeque Nation. We should also take into account the impact of Toscano's growth that will play in and also international growth that we play in.

**Percy Panthaki:** Right. And last question is on phasing or seasonality. Basically, if I look at the full year, the sales per store is INR 6.65 crores, but Q4 on an annualized basis is much lower. And consequently, the restaurant operating margins also in Q4 are much lower versus what you have done in the full year. So this decline or this gap between Q4 and the full year, of course, there is a seasonality, and Q4 will always be lower than the full year number. But in FY23, do you think that this sort of gap is higher than normal or it is a normal gap which you are seeing in FY23 as well?

**Rahul Agrawal:** No, this is definitely higher. So like I said, , Q4 is typically 3% lower than quarter 3. And this is based on 5-year data before COVID period. But this year, that number is around 15% lower.

Also, if you look at H1 versus H2, we are pretty much 49%-51% or something historically. In fact, this would be more skewed towards H1 in FY23, but historically, H1 used to do around 47%, H2 used to do around 53% for us, which has not played out in FY23.

**Percy Panthaki:** Sir, the reason is just a slack demand environment? Or is there some other reason attributable to this bigger gap?

**Rahul Agrawal:** No. I think it's only demand and maybe to some extent, on a blended number, our new store. But apart from demand, I don't see any other reason. We track our guest satisfaction scores very closely. So I'm pretty fine with that. And also on the cost side, just to complete the thought, if you look at our absolute number apart from food cost, between the 2 quarters, quarter 3 and quarter 4, we have reduced that also by around

8% despite the fact that we added 8 new restaurants this year. So I think it's just demand.

**Percy Panthaki:** Right. So in which case, my only concern is that when we did this calculation of INR 6.65 crores, and 200 basis points coming from there plus portfolio of new restaurants changing, etcetera, we did all those calculations with FY23 full year number in the base. But the fact is that the demand environment right now is worse than what it has been for FY23 full year. And therefore, the catch-up from current levels is higher to that extent, which will be required.

**Rahul Agrawal:** No, sorry. Right now, as I said, my first 2, say, April and May months, we have seen improvements. Improvements is led by volume, so that's a good trend. And if this continues also in H2, which is typically a better year for us. What we lost in say H2 or quarter 3, the recovery will be far better.

And on this matured portfolio of INR 6.65 crores, just assuming a 5% growth on this will take me give me to INR 7 crores and cost structure are pretty much under control. In our business, a 5% increase will flow at least 50% of that to your margins, right? So coming back to 21%, it should not be a challenge. So I'm actually very hopeful of this scenario.

**Moderator:** We have our next question from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Yes, sir. just two questions. One, if you could analyse specifically for price cycle, so especially this year, when you added about 15% over to your existing portfolio, and the impact that you saw on the margin vis-a-vis a situation where between '17, '18, '19, '20, those 4 years also, you had added a quite substantial number of stores to your network. So at that pace, there was a doubling of store in like 3 years. But the impact on margin did not flow through. So in this space and what we see specifically for FY23, what is the difference in your strategy? And what were the impact areas?

**Rahul Agrawal:** I think while we added in the pre-COVID era, 3 years, we were also supported by external environment in terms of demand. We did not see our volumes coming down to the same extent as we saw in FY23. I mean barring that structurally, does anything change in our business? No, Pritesh. I can maybe sit with you post this offline to look at those numbers and try and give you exact aspects of this.

**Pritesh Chheda:** And from your comments in the call, what you're eyeing incrementally is an improvement in delivery followed by recalibration of store expansion to about 10% of your network getting added instead of a higher number, which you were initially thinking? Are these 2, 3 changes sufficient enough for you to improve your margin metrics?

**Rahul Agrawal:** So look, one is increase in volumes in our dine-in business, so that is the prime for us. I think that increase in volume will help us to also drive SSSG. Our dine-in business and delivery business are not exactly same, so we're looking at also enhancing our delivery portfolio. So that's second. And third is also stabilizing our new stores and it is an impact of any new stores that might have on the existing portfolio in the short term. So those are the 3 sort of targets.

My plan is very simple. Right now, we have seen margins declining in our overall portfolio, which means that there's less cash flow generation that is happening. So instead of allocating more capital in just adding more stores, my first priority is to increase margins in the existing portfolio so that the cash flow starts flowing in and then maybe start looking at the expansion.

Like I said earlier, adding new stores is easy. I can add 50 stores also in the current year. But I think the focus that the business needs is more towards existing business as and improvising the team which could also stabilizing the new stores. So that is absolutely the short-term call that we have taken. And like I said, we'll revisit this after 6 months.

**Pritesh Chheda:** The new expansion of 20 stores, have you taken care of non-cannibalization from it?

**Rahul Agrawal:** We continue to look at around 60 - 70 stores, which are in pipeline. It's not just the cannibalization, it is also a function of is there any demand? Is there mall store, is there natural flow of traffic, what is the rental, what are the lease terms? So multiple factors. I think cannibalization is just one part that you are referring to.

**Pritesh Chheda:** Lastly, how much of your margin performance impacts in FY23 on your matured store? Would you attribute to cannibalization?

**Rahul Agrawal:** So overall revenues in matured store is down by around 5%, right? Of that, maybe 1.5% would be cannibalization. There are some 7 - 8 outlets, which are close to the existing outlets. But apart from that, it is reduced sales on these. So typically, if we see 5% extra revenue from these stores, then obviously, margins would have been positive, but would have been more by 2 percentage points.

**Pritesh Chheda:** Okay. And this 13% guidance that you, the calculation that you think for, do you think you'll be able to achieve it in FY24?

**Rahul Agrawal:** FY24 looks difficult because there will be some stabilization period for moving from new to old, and I'm talking about the full financial year. But like I said, if things improve, I think the business has potential to do that. We've done that in the past many times.

**Pritesh Chheda:** Okay. And lastly, what are you driving -- what efforts are you putting to enhance the sales in the matured store? What efforts, new efforts or anything that you want to highlight?

**Rahul Agrawal:** We spoke about some of the promotional activities. So we have rationalized price in few of the markets. We are working on our lean day sales, weekday sales. We have come up with an offer called, Happy Monday, Tuesday, which has given us very good results in terms of volumes. Obviously, the experience bit in terms of new stores look and feel, the customer experience, the culinary experience, all these are up to mark. So, in some cases, we're also working on our beverage offers, which have given us good results, it is a mix of all these. It's very market specific for each of these.

**Moderator:** We have our next question from the line of Mythili Balakrishnan from Alchemy Capital Management. Please go ahead.

**Mythili Balakrishnan:** Can you help us with the cash flow pre-IND AS. Just a sense of operating cash flow and capex?

**Rahul Agrawal:** Full year, we did cash flow from operations of approximately INR 115 crores. Cash profit for the year was around INR 106 crores. Capex for the full year was approximately INR 145-odd crores. Out of that, INR 145 crores, around INR 7 odd crores was on account of increase in capital work in process.

So full year charge would be around INR 140-odd crores of gross block. Of that, around INR 10 crores have gone towards maintenance, INR 10 crores have gone towards our biryani project and water project. And balance, INR 120 crores has gone to open up 39 new sites and around 3 renovations.

**Mythili Balakrishnan:** Got it. So going ahead into this year, what would be the sort of capex expected given that the number of stores reduced quite a bit?

**Rahul Agrawal:** So if I look at just 20 stores and maybe including some renovations which keep coming up, we would have maybe around INR 60 crores capex and other INR 10 - 12 crores for maintenance and INR 8 crores for other such new projects that we might do. So overall, INR 80 crores on a 20 store target.

**Mythili Balakrishnan:** Got it. Got it. And coming to delivery right. I just wanted to get a sense from you that given that Dum Safar is something that we have sort of obviously started and is probably getting rolled out into more restaurants. So this AOV getting down or the overall UBQ per se the contribution? Is that under big pressure and also like your view on how to sort of improve upon it? Or how are you sort of thinking about it?

**Rahul Agrawal:** So AOVs have been stable now for almost last 4 - 5 quarters. We are at around 500-odd number. Transaction volumes were lower, definitely, in quarter 4 also.

**Mythili Balakrishnan:** That is across both the brands, yes. Across...

**Rahul Agrawal:** Dum Safar is very young. So the base effect is very small right now. And as Kayum mentioned, Dum Safar has been doing very good month-on-month growth. We already crossed INR 2 crores monthly number in Dum Safar across, we are now at around 150 outlets. And the stores that we had opened up in the earlier months are growing on a month on basis, plus most importantly, the product feedback that we are getting, the overall rating that we have is far higher than what we had in our UBQ business when we started. I think as a brand, Dum Safar is already at a INR 25 crores annual sort of brand and UBQ is a INR 100 crores brands.

So like I always said, our DNA is largely dine-in, we had zero delivery business. We have a lot of catch up to do. But overall, while the numbers look lower, I'm happy with the rating improvement, I am happy with the product improvement that has happened on the delivery side. And maybe it will take a few more quarters or years, but it is on the right track in terms of building our delivery business. And our delivery and dine-in business are not same unlike QSR players where products are same. In our business, it's actually incremental revenue stream for us.

**Mythili Balakrishnan:** Got it. And in terms of this April and May improvement, could you sort of just give us a sense of what is dine-in like, what is delivery like? Is delivery also picking up on a month on month basis? Just some more colour on this would be useful.

**Rahul Agrawal:** As compared to our previous quarter, we have seen improvement across both dine-in and delivery, pretty much at the same level. So it has been almost month on month improvement of 15 - 16% in April and May. And both are improving, both delivery and dine-in.

**Moderator:** We have our next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** My question is with regards to, that we have been doing good businesses earlier in terms of the day parts as well in busy days, as well as you had a strong traction from this IT crowd as well as the business people. So how is the traction there? Is that still continues to lag versus the pre-COVID levels, any colour on that front?

**Rahul Agrawal:** So volume-wise, yes, I think maybe the hybrid structure is a new normal now. But we are now starting to look at creating new pockets of demand on a weekday basis. And that's why when I talk about Happy Monday, Tuesday offer, we have brought it at a level which becomes very attractive proposition for a lot of friend segment, family segment which could not come to us on weekends, and happy to sort of come to us for dinner on weekdays for their celebrations. And so that has come up.

But on the core IT side, that still continues to be lower than the pre-COVID numbers. But I think now we are not looking at our business from that perspective. As I said this is what it is, so our focus is on how do we create new demand.

**Gaurav Jogani:** Sure. And my next question is -- as you mentioned, you have also taken some cost saving measures over the past 6 months. So you said that while the stores have increased by 8%, all your costs are still down by 8%. So in a scenario when you see the demand coming back in the future, do you see the margin profile can even go back versus the earlier periods even the cost structure will now be leaner?

**Rahul Agrawal:** Yes. That will be there. So like I said, what negatively impacted us in the year because of lower sales, I think we have seen also affecting us positively because of high sales. So if demand comes back to the same levels that we were, this will have positive impact on our margins.

**Gaurav Jogani:** Sure. And my last question is with regards to -- I think the overall demand scenario. I mean, while you alluded the fact that you have seen a month-on-month improvement during the months of April and May, and I think some bit of this is also to do with the seasonality because Q4 being weaker in Q4 -- Q1 maybe will generally be better. But if you see on a steady-state basis, how would you rate this demand? Are you happy with this? Are you still like this to go further up from here on?

**Rahul Agrawal:** So from where we were in quarter 4, this is obviously better, and if this continues for the rest of the year, we are in good place. So that's why, like I said, I'm happy to see the improvement in the first 2 months, but it's very difficult for me to call out how this will pan out for the rest of the year. We are also seeing some cooling of inflation. We're also seeing the volumes coming back but it has to sustain in future quarters, I'm more positive than I was maybe 1 quarter back.

**Moderator:** We have our next question from the line of Harit Kapoor from Investec. Please go ahead.

**Harit Kapoor:** I just have a follow-up on the cost side. So you had inflationary challenge about in the last fiscal. Just wanted to get your sense of where we are on key costs, input costs. And also, when we are looking at this SSSG growth, bringing it back in FY24, are we saying it will be entirely volume-driven or any pricing you expect to initiate in FY24?

**Rahul Agrawal:** On the cost side, the meat basket is stable and we haven't seen significant changes upwards or downwards. I think that will remain at the same level. In terms of our price increase, we are not looking at any price increase. And in fact, as I said, in some markets, we have rationalized the prices.

So in the short term, my focus is to increase volumes rather than just price. So at least for the next couple of quarters, I'm not looking at any price hikes in the business. To that extent, maybe we might have some marginal impact on our gross margins. But overall, SSSG will be largely driven by volumes and some bit of delivery.

**Moderator:** Ladies and gentlemen, that was the last question for today. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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