SapphireFoods

Date: 13th February 2025

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 – Q3 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 Thursday, 6th February 2025, in relation to the financial results of the Company for the quarter and nine months ended 31st December 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 3 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: 2025.02.13 15:59:12 +05'30'

SAPPHIRE FOODS INDIA LIMITED MUMBAI

Sachin Dudam
Company Secretary and Compliance Officer

Encl: a/a

“Sapphire Foods India Limited
Q3 & 9M FY25 Earnings Conference Call”
February 06, 2025

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

Moderator: Ladies and gentlemen, good day and welcome to Sapphire Foods Earnings Conference Call for Q3 FY25. 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 the management for the opening remarks. Thank you, and over to you, sir.

Sanjay Purohit: Good afternoon, everybody. My name is Sanjay Purohit, and I'm the Group CEO for Sapphire Foods. And I'm joined, as usual, by Vijay Jain, who is our CFO. Firstly, apologies for this delay. We were having technical glitches in being able to connect to you all, but we should now be able to start the conference immediately. We are going to be talking about our Q3 and 9M FY25 consolidated financial highlights.

In Q3 FY25, Sapphire Foods has delivered a healthy good quarter and the way that I like you all to remember it is double digit everywhere. So we've had double-digit revenue growth at about INR 755 crores, 14% revenue growth. We've had double-digit growth across all 3 verticals: KFC, Pizza Hut, and Sri Lanka. Our adjusted EBITDA growth has been at INR 81 crores or 12% growth. And we have delivered double-digit adjusted EBITDA margin also of 10.7%. Like I said, all 3 business verticals have delivered double-digit revenue growth. Restaurant EBITDA increased 9% year-on-year, and restaurant EBITDA margin was 15.4%, down by 60 basis points year-on-year.

Our Consolidated EBITDA of INR 140 crores at 18.5% increased year-on-year by 14%, up 10 basis points, and consolidated PAT of INR 12.7 crores or 1.7%, and adjusted PAT was INR 19.4 crores or 2.6%.

In the quarter, we added 54 restaurants, taking our total to 963. We added 35 KFC, 16 Pizza Hut stores in India. We added 4 Pizza Hut and 1 Taco Bell stores in Sri Lanka, and we had 2 closures in Maldives. While we closed 2 stores in Maldives in the quarter, the balance 2 stores have been closed in the month of January. And therefore, as we intimated to you in the last call, we have closed all the 4 stores in Maldives.

Let me take you through the KFC details. Our KFC SSSG trajectory improved slightly versus our previous 2 quarters. SSSG came in as negative 3%. The heartening part was SSTG was 0% in this. And our strategy of focusing on value offers on core products is enabling us to get TG momentum. Our recipe for SSSG revival over the short and medium-term revolves around increasing occasions of consumption. Now late night, for example, is nearly 10% of our business in the stores that we operate late night. We want to drive value on core products. We want to drive product innovations like Chicken Rolls, Zinger Burger, and apart from late night, focus on other day parts like Lunch and Wednesdays.

The brand priorities, and I'm referring to Slide #18, remains consistent. The activities that we undertake under each of them are slightly different. So, the biggest opportunity on KFC is for us to enhance the Fried Chicken category relevance, thereby increase the consumer base of KFC.

And that we will do by popularizing our core variety offerings, and our Taste The Epic campaign, which is a start in this direction. You would have already seen it being on air January onwards.

From a craveable taste perspective, we want to increase frequency of consumption by building day parts and product innovation. On value, we've got now a sharp 3-tier value structure in core at INR 99, individual meal offerings at INR 149 and then group meals at INR 399. We are accelerating our rollout of digital kiosks. On operational excellence, we have made big progress. 98% of our stores on Swiggy have 4-plus rating, and nearly 80% on Zomato have 4-plus rating.

And we have implemented a dynamic kitchen planning tool to improve product availability and reduce wastage. And in the last quarter, we called out that we will give a guidance on further openings. While we have doubled the store count in 3 years from December 2021, going forward, we believe that we should be able to continue our current pace of expansion, about 70-80 stores per year. Vijay, the financial highlights.

Vijay Jain: I'm on Slide #23, channel-wise sales contribution. Dine-in and takeaway came at 59% for the quarter, delivery at 41%, similar to previous 2 quarters. In Slide #24, the SSSG came in at minus 3%. Trend improved over the last 2 quarters. The ADS was INR 115,000. This includes 90 stores which we opened in the last calendar year, that's 22% store growth.

Overall revenue grew by 12%. Gross margin was largely stable and restaurant EBITDA came at 18.2%, drop of 190 basis points. This was primarily because of the operating deleverage. If you look at Slide #26, it gives you a 4-year and a 5-quarter trend. While SSSG has remained negative for KFC, the brand over the last 9 months have delivered double-digit revenue growth and with that growth, a reasonable level of profitability as well.

Sanjay Purohit: Let me now take you through Pizza Hut. Pizza Hut delivered a sales growth of 10% and positive SSSG of 5% after 8 quarters. ADS has remained stable in line with the previous 2 quarters at INR 48,000. And our priorities remain as enumerated in Slide #28. We want to drive taste superiority, a differentiated dine-in experience, continue to improve our delivery experience. Value is important.

We will continue to invest higher marketing spends behind the brand and that's what has caused the uplift on the brand from Jan, Feb, March 2024. And we will continue to be cautious on store expansion till we see sight of double-digit store level EBITDA. The consumer promise is quite simple. It's a dine-in-led omnichannel customer promise built on superior product and built on great value and great experience. Over to Vijay on the financials.

Vijay Jain: Slide #33. Dine-in and takeaway mix came at 50%. So largely, 50-50 between dine-in, takeaway and the delivery. The mix has remained similar to the previous 2 quarters. On SSSG, it was positive 5%, with stable ADS of INR 48,000, same as H1 FY25. Overall revenue grew by 10%, so double-digit growth for the brand. Gross margin largely remained stable, and the restaurant EBITDA came at 4.7%, which was 10 basis points higher than last year.

Slide #36 gives you a 4-year and a 5-quarter trend. And, while the performance has largely remained stable over the last 6 months, as mentioned by Sanjay, we continue to back the brand with additional and increased marketing spends, put behind product innovations.

Sanjay Purohit: Let me take you through the Sri Lanka performance. The Sri Lanka business delivered a very strong quarter. In fact, our best quarter after 10 quarters. We've delivered double-digit SSSG of 14% and strong double-digit SSTG also. And our focus on operations, product innovation, value strategy has helped deliver superior performance. So, our belief is that if we do the right things in ensuring customers get great product, great experience, value, and we are cautious with our store opening strategy, get our size of assets right, then even in a challenging demand environment, once things start to turn, we should get a large proportion of the benefit and that's exactly what we are seeing in Sri Lanka. Vijay will just talk about the numbers.

Vijay Jain: Slide #41, channel-wise sales contribution. Dine-in and takeaway mix at 63%, similar to previous 2 quarters. So, delivery steady at 37% mix. The SSSG was 14%, backed by double-digit transaction growth. So that was the heartening part of the transaction, double-digit same-store transaction growth. Overall revenue grew by 15% in LKR and 30% in INR. The gross margin was up by 30 basis points. Restaurant EBITDA came in at 17.8%, which was up by 360 basis points.

If you look at Slide #45, which gives you a 4-year and 5-quarter trend. This has clearly been the best quarter for us in the last 2.5 years, and we remain confident of the growth prospects as we move forward. Slide #46, update on ESG, which we would have given previously as well. DJSI ratings, we scored 50 and this actually allowed us to be ranked No. 1 amongst all QSR brands in India for second consecutive year.

We were ranked No. 7 amongst global QSR companies, placed in 97th percentile amongst global QSR companies and the only Indian QSR company to publish ESG report under GRI, SASB and BRSR standards for the third consecutive year. With this, we can open the session for questions.

Moderator: The first question comes from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: Congrats on a good set of numbers. On KFC, the SSSG is still in negative territory. Do you have any visibility or any initial signs of it turning positive? And if so, over what time period do you think this can happen?

Vijay Jain: So again, as you can see, the trajectory has improved over the last 2 quarters. We had minus 5% in Q1 and minus 8% in Q2. So, trajectory has definitely improved. But we would still say the overall consumer sentiment remains soft. While from an SSSG point of view, because of the base effect, you may see that it will still improve further as we move into Q4. But we don't see the environment changing materially any sooner.

Sanjay Purohit: And having said that, for a brand like KFC, you have to look at both SSSG as well as SG. We have still added a substantial number of stores. Our SG at 12% still is very strong.

Percy Panthaki: Got it, Sanjay. Vijay, because of base effects also, there are many companies in the QSR business who are reporting SSSG because of base effects. So, I think that's an accepted outcome now. So, even if it is because of base effects, but do you see that visibility that at least in Q1, it will turn positive?

Vijay Jain: That's what we hope for because of the base effect. But again, while few companies would have reported positive SSSG this quarter because of the base effect, but fortunately, for KFC last year, we did not fall down by much. I think our SSSG last year was minus 2%. So we didn't have a big advantage of base effect and that's a positive in a way.

Percy Panthaki: Secondly, just wanted to understand on Sri Lanka. I mean, you had earlier, 1-2 years ago, problems in the economy and sales and margins had fallen. And now it is sort of reverting back maybe on a little bit of a lower base. But sustainably, let's say, over the next 3-year CAGR, what kind of top-line growth do we expect assuming a stable currency?

Vijay Jain: So again, we have called out our medium-term to long-term ambition. So, I think we should be at least aiming for a 15% revenue CAGR over there.

Percy Panthaki: And is there a decent amount of store opening opportunity remaining in Sri Lanka now?

Sanjay Purohit: Yes, there is Percy. So, typically, this 15% might be half and half store opening, or perhaps slightly higher SSSG and marginally lower store opening. But we continue to expand the brand. And I think for the next 5 years at least, we can see visibility of areas where we will open stores.

Vijay Jain: It's about just getting the unit economics back where they were. I think they are already in the right direction, so we have been cautious over the last 1-1.5 years. If the unit economics continues to remain healthy, I think you can see an increase in our store opening plans.

Sanjay Purohit: I think what's happening when we look at Sri Lanka is transaction growth. See, with the kind of inflation that happened 2 years ago, and then it's taken 1 year for us to bed down that entire inflation. Today, again, consumers are voting with their wallets and coming back to Pizza Hut. We remain the strongest QSR brand in Sri Lanka.

Percy Panthaki: And my last question, again, on KFC. Assuming that starting from the beginning of FY26, you do go into a positive SSSG territory, what kind of restaurant operating margins is your target? Because on the higher side, you touched like 22% or something, and on the lower side, it's been like 17-18%. So what is the kind of margins you would target, which are not so high to affect sales or encourage competition, but at the same time are respectable enough and acceptable for us in the medium term?

Vijay Jain: So again, Percy, while we don't get into a quarter-on-quarter margin conversations. Over a longer period, we require a 5% SSSG just to take care of the inflation. And the current level, the floor is around 18%. So if you're able to get an SSSG of flat to positive, I think that should be the range. And to drive a margin expansion from there, you will require a SSSG which goes beyond 5%.

Moderator: The next question comes from Avi Mehta from Macquarie.

Avi Mehta: Just 2 quick questions. First, have we seen any change in the competitive intensity on the ground or in our terms of traders, aggregators in the last few quarters? And two, if you could give us a sense on how do you see the recent announcement in the budget and that benefit panning out in same-store sales growth?

Sanjay Purohit: We are not seeing tangibly any major difference in reduction, or tangible reduction, in competitive intensity at least for now. I'm not too sure, but I don't think capacity is being added also. So right now, it seems to be a little stable. So that is point one.

Avi Mehta: Sorry, sir, this is across KFC and Pizza Hut both, right? Or would you say it's different?

Sanjay Purohit: This is across QSR, I would say, KFC, Pizza Hut, Burger right across. And the fact that there is INR1 lakh crores that has been given back to middle class consumers is only a positive. We are hoping and wondering as to how soon we will see that reflect in consumption, but that can only be a positive.

Avi Mehta: But your guess is this should flow through in the next few quarters. Is that a fair expectation to have?

Vijay Jain: That's a fair hope to have, yes.

Sanjay Purohit: That's a fair hope to have. Avi, but we have not had any immediate past experience of this. So to say that how soon it should trickle down, we would not be able to.

Avi Mehta: And sir, just a clarification to the earlier participant, what he said does suggest that the pace of recovery is gradual and has not changed materially even as we speak. So it's more at the same pace status quo?

Sanjay Purohit: Yes.

Moderator: The next question comes from Saurabh Kundan from Goldman Sachs.

Saurabh Kundan: My question is around on Sanjay's comment on popularizing core offerings menu in KFC. I believe you have been piloting such experiments in some geographies. If you could share your learnings from there on how it impacts frequency or footfall. If you could share any color on that, that would be useful.

Sanjay Purohit: Yes. So I'll take 2 minutes to perhaps explain the thinking behind this. So the brand today is large enough that we actually see that there are 2 types of consumers, one who are brand loyalists and who are aware of all the offerings of the brand. And the second lot will be non-users or infrequent users of the brand, who most likely are still aware of the brand, but they use it infrequently.

One, while we drive accessibility to such customers, that's an important enabler. But as we scope out the market opportunity for the brand in a category that is still underpenetrated, increasing the base of consumers, we believe is the larger opportunity for a brand like KFC.

Once you do that, over a period of time, you will also increase frequency. And in any case, we have got a lot of frequency increasing initiatives I talked about, day parts and so on. So, once the consumer insights behind what will make an infrequent and non-trial to come to the brand is really to present the brand as it might have been presented perhaps 10 or 15 years ago. To refresh that these 5 products, as we call them internally, are the best of KFC and enables the consumer to start their or his or her journey with the brand through the core variety products. And our core variety products are chicken on the bone, Zinger Burger, rolls, wings and boneless, which is popcorn and strips.

Interestingly, a large portion of infrequent stroke non-trials of the brand don't even know that we have got a very, very strong boneless portfolio. So that's the intention. I hope I've been clear here. Now, we have been running pilots. Those pilots are both from an advertising perspective as well as ensuring value with core variety.

While I can't give you specifics of what kind of results we have had in the pilots, it is sufficient to say that really this is one of the important levers that we will use to drive brand growth in the next coming years.

Vijay Jain: Saurabh, just to add to that, while footfall is getting represented by transaction growth, what we have called out this quarter is that SSSG is negative, but transaction growth has been flat. In the previous quarters, even the same-store transaction growth was on decline. So sufficient to say that the early results have been encouraging on the value piece.

Saurabh Kundan: That was very helpful. The interpretation here is that eventually this pilot actually turns into a full pan-India.

Sanjay Purohit: See the Taste the Epic campaign that, we have just launched, is saying try the epic core varieties of KFC. So you can see already the expression of what I enumerated as the key driver we believe in future growth. Already, you are seeing that in our advertising message.

Saurabh Kundan: All right. One last question. Are there any margin implications of this strategy?

Vijay Jain: So Saurabh, again, when we do such experiments or pilots, we typically have a revenue upside target. So while there could be a marginal gross margin impact, they typically end up compensating at a restaurant EBITDA level.

Sanjay Purohit: Yes. So like I said, gross margin is one of the things that we look at. Finally, we look at restaurant EBITDA margin. And if we are able to use all of this to drive healthy SSSG, restaurant EBITDA margin will also be taken care of.

Saurabh Kundan: So your earlier guidance to the previous question that if the SSSG is at a certain level, then 18% is maintained, and it goes up if the SSSG is higher than 5%, right? So that guidance remains?

Sanjay Purohit: Yes, yes.

Moderator: The next question comes from Tejas Shah from Avendus Spark Institutional Equities.

Tejas Shah: I joined a bit late, Sanjay. Just wanted to know what is the new store expansion guidance for both KFC and Pizza Hut? And 2 associated questions. Some retailers are calling out headwinds pertaining to unsustainable rentals, not in QSR, but in general. So any read there? And what markers you will actually monitor because SSSG seems to be now not giving a right lead indicator. What markers you'll monitor to ramp up the store expansion?

Sanjay Purohit: Yes. So right now, from a store guidance perspective, on KFC, we are saying anywhere between 70-80, which has been roughly a pace of expansion over the last 3 years. We should be able to continue this. On Pizza Hut, again, we'll be cautious, perhaps 20-25 is what we are looking at. From a rentals perspective, we are not seeing any extraordinary pressure on rentals.

Vijay Jain: Especially, we have a long-term lease period. So our lease period range anywhere from 18-24 years. So we are not seeing any additional pressure on rental front.

Tejas Shah: No, Vijay, for new store expansion, I meant.

Vijay Jain: Even from a new store expansion point of view, we are not seeing rentals, which have gone through the roof. So I don't think the trajectory has changed materially or dramatically to call it out. From a markers point of view, yes, SSSG would be one important parameter and continues to remain an important parameter. So that along with the ADS as well as the restaurant EBITDA, these are the 3 typical lines which we look at from a financial perspective.

Having said that, Tejas, previously also, we have called out that the more important marker which we look at for a new store expansion is the strike rate. And how many stores you have opened in the past, how many of them are hitting the required ADS level, whether at the cohort level, they're hitting the ADS mark. That is again a more important marker which we track internally, apart from this SSSG and profitability markers.

Tejas Shah: Very clear. Second and last question. So you guys were very honest about the base effect of Pizza Hut on SSSG, which will actually show up improvement in numbers. So at least for now, SSSG does not seem to be any guidance value even for margin expansion or margin movement. So how should we think about SSSG margin relationship? Or should we monitor, as you said, more of an ADS journey to understand how margins will play out?

Vijay Jain: For Pizza Hut, absolutely true that SSSG may not give you a direct indication on margin. It's the ADS level. And we called out previously that if it's in the range of INR 47,000-48,000, you are at where you are, that 5% range, which include additional marketing spends as well by the way. If you fall below that, you go towards that breakeven or even loss making. And you move towards INR 50,000, maybe you are high single digit. You need to move towards that INR 55,000 mark to go towards double digit. So that's the range of ADS at which what the various margins are likely to look at. You're right, SSSG after the point may not give you a direct indication on the margins.

Moderator: Next question comes from Gaurav Jogani from JM Financial.

Gaurav Jogani: Congratulations on the resilient performance, both on the Pizza Hut side and even on the KFC bit. Sir, my first question is with regards to KFC. While we have been having this negative base for some time now, what could be your sense, when possibly could we turn positive here? And like you mentioned for the ADS for Pizza Hut, which is a more actually trackable format, what should we track here in KFC also, in terms of margins?

Sanjay Purohit: Sorry, your first question was Pizza Hut, right?

Gaurav Jogani: KFC sir.

Vijay Jain: So again, as I called out previously, maybe the base effect itself will probably put the brand into a positive territory. But that is not sometimes good enough to drive margins. As I called out, whether we can actually see, not a base effect, genuine increase in the sales, which is ADS. So hopefully, the brand will get into positive territory over the next 2 quarters.

Sanjay Purohit: What was your second question?

Gaurav Jogani: The second question was relating to the same corollary you gave for Pizza Hut that the INR 47-48,000, range would be 5% margins, INR 50,000 would be these margins. So similarly, if you can highlight this for the KFC bit as well.

Vijay Jain: KFC, again, I called out, so while Pizza Hut, we have called out ADS specifically because over the last 2 years, there have been significant erosion on our ADS. We were at INR 62,000 levels and came down to INR 41,000-42,000. Hence, it's easier to look at it that way. On KFC, I would say if we are currently trending at 18% margin, if we are able to drive a 5% growth from here, let's say next year, then it will take care of the inflation. So at that level of SSSG, our margins should remain stable.

Gaurav Jogani: Stable, you mean to say 18%, right?

Vijay Jain: In and around 18% plus/minus.

Gaurav Jogani: Okay. Sure. And sir, my second question is with regards to how should one look at the impact on the ADS right now? Do you think it is the impact because of the new store openings that are happening and they are not scaling up, which is having an impact on the ADS recovery? Or is it largely the footfall or the transaction that has a higher impact? Which one you would accord more in terms of the ADS recovery impact?

Vijay Jain: It's SSSG, the negative SSSG for over the last 4 quarters or so, which is causing the bigger one. The new store ADS diluting the overall brand ADS is anyways, if I may use the word, budgeted for in a way. It's anticipated. Because the new stores would come at anywhere between 75-80% of the brand average ADS. The existing stores, if they grow by 5-6%, it neutralizes the impact of the new stores, which helps you to maintain the ADS level.

Right now, the ADS is dropping because while you're opening the new stores, your existing stores are not growing by that 5-6%. So, I would not blame the new store expansion over here because for new stores, we continue to monitor strike rate. Those strike rates have been pretty healthy for us. Hence, we continue to expand. So I would say the drop is more because of the existing stores not delivering the SSSG.

Gaurav Jogani: So sir, just to ask this other way around. My question was more on because the system average has also come down and you generally mark that the new stores should be at 75-80% of the system average. So are the new stores, what they were performing earlier, are they at least performing at those levels?

Vijay Jain: We continue to perform at the reasonable expectation. The payback model, which we try and track on, the new stores continue to track on those lines. So our strike rates have been pretty healthy over the last few years. And that's why the expansion continues, those 70-80 stores expansion continues.

Moderator: Next question comes from Jay Doshi from Kotak.

Jay Doshi: Pizza QSR category was impacted more than the other QSR categories during the slowdown, at least in the earlier phase. And now, we have seen a strong recovery at least from the market leader, and even your performance has improved. So fundamentally, has anything changed for the category per se? Are you seeing either the competition from fragmentation of category has stopped? Is the traffic moving towards national players or anything at all?

Sanjay Purohit: Yes. So in a general slowdown, first you see everyone gets impacted. Perhaps the listed category, listed brands, you are able to see their results. But I would have thought that everyone especially, given the high competitive intensity, everyone would have got impacted. Once everyone gets impacted, then it depends on who is staying in the game and who is doing the right things with the customer to get out of that situation.

And we have got brands that operate single franchise, large number of stores with single store franchisees. Always you find that in a worsening sales situation, in such places, the customer experience actually starts to go down. And what we have done is to double down, despite the slowdown, on customer experience, still ensure great product, great experience, good value. And therefore, we'll be seeing the gains accruing first to the market leader and then in some cases to us also.

Jay Doshi: Do you think that this is a more sustainable trend that the organized players will probably make a comeback in some form? We've seen this in cycles in the past, but based on your experience, do you think that, that cycle has also played out and now it's probably likely to play out in your favor?

Sanjay Purohit: Yes. So Jay, I have said this in the past also that I have great belief that if we continue to do the right things, we will get a larger portion of the gain when the market starts to turn. And in downturns, you have to focus on what you can control. And therefore, if you've seen our presentation also, we talk about the brand priorities. Those brand priorities are a combination of what we will do from an advertising perspective, both message as well as quantity of advertising. Now, that is not replicable by everyone. Then what will we do to improve operational excellence, how will we look at store expansion. So I think going back to fundamentals is absolutely important. And given past experience and also here, I'm quite confident that brands like KFC and Pizza Hut should do well as the market starts to improve.

Jay Doshi: Sure. One question on KFC. I know it's early days, but in the markets where Popeyes has scaled up or at least opened a few stores, are you seeing any divergence in your SSSG performance versus other areas where they are not present? I mean any impact at all from competition?

Sanjay Purohit: No, nothing at all. And it goes back to the immediate question that you raised. And so first of all, gains accrue to the largest brand. So, we have seen that in the pizza category also first gains accrue to the largest brand, if the largest brand does the right thing. That is number one.

Also, it is important for the Number 2 brand to differentiate itself clearly from the Number 1 brand. Otherwise, what is the use, why will consumers go to that Number 2 brand. Now in Pizza Hut, we are articulating how will we be different and we are also putting in the marketing rupees behind it. And we've got a legacy of 20-25 years of consumer goodwill. That will enable the brand.

I mean in the case of KFC and the competitors, we have to ask the question, why will a consumer go to the smaller brand? Is there anything differentiated that is being offered? And if it isn't, then the smaller brand will suffer. And this is exactly what you're seeing. There's no impact at all on KFC, even in markets where we operate side by side.

Moderator: The next question comes from the line of Priyam Khimawat from ValueQuest.

Priyam Khimawat: In KFC, our margin used to be around 19-20% levels when we used to achieve an ADS of INR125,000-130,000. Now considering the competitive scenario, which is there and also considering our ADS has dropped, I believe that 18% margin is what we should assume for the next 3-4 quarters? Or you believe that if and when we start achieving that ADS of INR125,000-130,000, there is possibility that we go back to the 20% margin level?

Sanjay Purohit: So at the current level of ADS and if the SSSG remains in the near term, let's say, in the range of 0-5%, I think that's the range of margin to be taken. For us to break out from this particular margin zone, you require a really high level of SSSG, which could be towards double digit. So, unless we hit that double-digit SSSG, I think the margins are likely to be in this range.

Priyam Khimawat: Okay. So double-digit SSSG is any which way a tall task considering the demand scenario, so 18-18.5% margin is what we should assume at least for the near term in this business?

Vijay Jain: I would say 18% plus/minus.

Priyam Khimawat: Got it. And what would be our capex number for this 9M FY25?

Vijay Jain: So again, we have not called out an overall capex number. But yes, we have called out previously that KFC continues to be in the range of INR 2 odd crores per store, and Pizza Hut is in the range of INR 1.35-1.4 crores per store.

Priyam Khimawat: Okay. And next year, any capex number which you would like to call out on a cumulative basis that 80 stores we opened KFC and 25-odd stores in Pizza Hut?

Vijay Jain: So basis the store guidance which we have given and the per store, we can do the math. But on top of that, there are always the refurb cost, the IT investments. So I would like to avoid a capex guidance separately for the year specific. Let us just come out with the annual numbers, and that would give you some indication on what kind of overall capex looks like.

Priyam Khimawat: Got it. And there was a rise in other income in this quarter. Any material reason behind that? Or it was just regular business activity?

Vijay Jain: Regular, regular. So nothing that is very specific different.

Moderator: Next question comes from Dhiraj Mistry from Antique.

Dhiraj Mistry: Congratulations on very good set of numbers. Sorry if I missed out this, but can you tell us like month-on-month, like how was the demand during festival period and after that? And now we are entering into Q4, how do you see that demand has been panning out?

Vijay Jain: So again, we typically don't give out the month-on-month trend. Suffice it to say that the Q3 was definitely better than the H1. H1, which was minus 5% in Q1 and minus 8% in Q2. Definitely, Q3 trended a bit better. And the more heartening part on Q3 in KFC was the transaction growth was flat. So while we saw some transaction decline, which was SSTG, same-store transaction decline in H1, at least Q3, the trajectory improved and the transactions were flat.

When we enter into Q4, we still see the consumer demand environment being challenging. So, we don't see a big pickup from a demand perspective on KFC. On Pizza Hut, the SSSG has turned positive. Again, SSTG, which is the same-store transaction growth have also remained positive for Pizza Hut. But this is largely on back of the base effect, the ADS have remained constant over last 9 months. So it does not help really from a margin improvement perspective. What we need actually is the ADS improvement on Pizza Hut for us to improve margins from here on.

Dhiraj Mistry: Got it. And sir, second and last question from my end. So if I look at demand growth for KFC as well as for Pizza Hut across channel delivery, takeaway and dine-in format, correct me if I'm wrong, that dine-in channel continues to decline in KFC despite our effort of driving footfall-led growth in doing menu innovations on that. Whereas for Pizza Hut, it has been positive 6% roughly which has been there. So what is driving this difference between dine-in channel declining in KFC versus growth in Pizza Hut?

Vijay Jain: So again, first of all, both the brands, the channel performance of delivery has been better than the dine-in channel performance. It's just that when you're looking at the numbers for both the brands, Pizza Hut has a huge base effect and KFC doesn't have that kind of a base effect. That's why you are looking at numbers where one channel has gone positive and other is in decline.

But if you look at the relativity for both the brands and I think that's true for most QSRs, in fact, not most, all QSRs where delivery continues to perform better than dine-in at this point in time. But again, when you look at medium to long term, we don't think this differential performance is going to remain infinitely there. The dine-in should come back eventually. And all our measures in terms of product innovations and product promotions are focused to get the dine-in channel back in positive trajectory.

Dhiraj Mistry: Yes. Just one question related to that. Is there any material difference in terms of margin between delivery and dine-in channel for both the format?

Vijay Jain: From a gross margin perspective, no. But from a net cost flow-through, which is a variable contribution margin, the dine-in definitely has a higher flow-through than delivery because delivery has a cost associated with it. While the dine-in flow-through, fixed cost remaining fixed, every INR100 I sell, the flow-through is significantly higher vis-a-vis the delivery.

Moderator: The next question comes from Vishal Gutka from HDFC Securities.

Vishal Gutka: Excellent set of numbers, sir. Sir, 2 questions. First is on anti-U.S. sentiment towards certain brands. Sir, are you seeing those trends mellowing down a bit during the quarter? If you can throw some light on that?

Sanjay Purohit: I don't think we are able to see either positive movement or negative movement. So I think it is just the same, Vishal.

Vijay Jain: And even when there was an impact, there was an undercurrent impact, we were not able to really quantify that impact what we had on our business, especially because KFC is 95% non-vegetarian. We were not precisely able to quantify. But there was some impact, but I would say neutral. I don't see, as Sanjay said, positive or negative movement.

Sanjay Purohit: That it continues is certain. Its neutral from where we were, I don't think it has improved or worsened off.

Vishal Gutka: Got it. And sir, in case of Pizza Hut, any scope for reducing capex per store or opex, so that we are able to achieve margins despite ADS remaining in this range around INR 50,000-52,000. So broadly any further scope left or we have already achieved the optimum possible?

Vijay Jain: If you look at probably our capex 2 or 3 years ago used to be at INR 1.5 crores and that itself has come down significantly from a number which used to be INR 2 crores several years ago. INR 1.5 crores was on back of 1,200-1,300 square foot model. We did introduce a year ago a 1,000 square feet model, where there was no compromise on the front of house, which was the covers. It was all about the backward integration and getting the kitchen tighter.

So now we have a combination of 1,000 square feet and a 1,200 square feet. 1,000 square feet typically in a Tier 1 or a metro town, where we have enough number of stores where the delivery cycles are higher, you can crunch your back-end storage. So that the capex is low for 1,000 square feet. So with a combination of 1,000 and 1,200, we are now at INR1.35-1.4 crores. That itself is a reduction of 10% over the last 3 years.

In an inflationary scenario, I think we have done a really good job of that INR1.35 crores. Cutting down it any further would mean that you are then compromising on the consumer experience. So I don't see there is any much room left from a capex reduction point of view.

Moderator: Ladies and gentlemen, we take that as our last question for today. I now hand the conference over to the management for closing comments.

Sanjay Purohit: Yes. Thank you very much, everyone, who's joined in. Just to reiterate the big messages, we have had a healthy good quarter in Q3, double-digit revenue growth at a consolidated level and all 3 business verticals, double-digit adjusted EBITDA growth, double-digit adjusted EBITDA percentage margin also. That's it from me. We'll hope to see you in a quarter's time. Thank you very much. Good evening.

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