



Date: November 06, 2023

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
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Dear Sir/Madam,

Subject: Earnings Call Transcript – Q2 FY24

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, November 02, 2023, in relation to the financial results of the Company for the quarter and half year ended September 30, 2023.

The said Earnings Call Transcript is also available at the website of the Company (<https://www.sapphirefoods.in/investors-relation/financials>) under FY 2023-24 Quarter 2 section.

Request you to kindly take the same on record.

Thanking you,
For Sapphire Foods India Limited



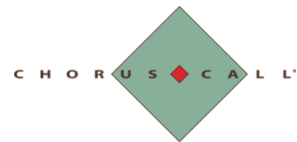
Sachin Dudam
Company Secretary and Compliance Officer

Encl: a/a



“Sapphire Foods India Limited
Q2 & H1 FY '24 Earnings Conference Call.”

November 02, 2023



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: **MR. BHAVYA SHAH – ORIENT CAPITAL**



Moderator:

Ladies and gentlemen, good day, and welcome to the Sapphire Foods India Limited Q2 and H1 FY '24 Earnings Conference Call organized 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 Mr. Bhavya Shah from Orient Capital. Thank you, and over to you, sir.

Bhavya Shah:

Good evening, everyone. Welcome to the Q2 and H1 FY '24 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 everyone 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 forward-looking statements, which do not guarantee future performance and involve unforeseen risks. Our detailed disclaimer has also been published in the presentation.

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

Sanjay Purohit:

Good afternoon, ladies, and gentlemen. Welcome to the Sapphire Foods Quarter 2 and First Half FY '24 consolidated financial highlights. Let me jump in straight away. Our quarter 2 consolidated restaurant sales at INR641 crores grew by 14% and our EBITDA at INR117 crores grew by 13%. And this is despite continuing headwinds that we see in the quarter. And this quarter has been further exacerbated by an additional month of vegetarian days or Adhik Maas.

In -- from a quarter-on-quarter perspective, raw material inflation has been stable. But on a year-on-year basis, we have had improvement in raw material prices, and therefore, gross margins have seen significant improvements year-on-year. We added 36 restaurants in this quarter to take our total restaurant count up to 814, 23 of them were KFC, 9 Pizza Hut in India and we opened 4 Pizza Hut in Sri Lanka.

Our consolidated restaurant EBITDA margin was 16.1%. It was down 70 basis points versus last year, but it grew in absolute terms by 10%. Our consolidated EBITDA, this is post Ind-AS is at INR117 crores or 18.2%. This grew year-on-year by 13% and was down 20 basis points over last year.

Consolidated adjusted EBITDA was about INR68 crores or 10.6%, down 50 basis points versus last year, but INR68 crores was 9% up year-on-year. Consolidated PBT and the post Ind-AS PBT was INR21 crores of 3.3% and declined year-on-year by 21% or down 150 basis points and consolidated PAT was INR15 crores or 2.4%.

Now let me go on to KFC. This quarter, KFC, as I said earlier, was impacted by an additional month of Shravan. I'm looking at Slide number -- I'm starting from Slide number 19 onwards. But the brand delivered very strong performance despite the additional month of Shravan. Vijay



will talk about the numbers but let me first look at Slide number 19. These are our brand priorities. The 6 brand priorities are a continuing theme that we focus on quarter-to-quarter, year-to-year. It is to enhance the fried chicken category relevance through advertising and communication to be known as the taste leader in the QSR category. And innovation is -- drives this perception.

Value is an important part. We've launched Snackers at INR99, and the initial response has started quite well. There is lots of potential for growth in this value range. From an innovation perspective, we launched Double Down Burger. It's a repeat of an earlier limited time offer that we had done. From a frictionless customer experience, we have now digital kiosks implemented in 115 stores. Customer reactions are quite encouraging, leading us to believe that if customer is in charge of their -- his or her own journey, it leads into a better experience and therefore, even higher average ticket value.

From an operational excellence, we continue our 7 minutes express pickup. This is the nuts and bolts of our business. If we deliver operationally well as all others, we'll be able to serve our customers good food and good experience and at good value. And this is day in, day out a focus at our stores. And finally, from an improving accessibility point of view, Slide number 22 talks -- looks at some of our new stores.

Vijay, if you can just talk us through the financial highlights.

Vijay Jain:

Thank you, Sanjay. So on Slide number 23, channel-wise mix has largely remained stable for KFC, with delivery coming at 38% mix and dining at 43% for KFC.

Moving on to Slide number 24. Overall restaurant sales grew by 19%, with flat SSSG despite one additional month of Shravan, which we experienced in quarter 2. Gross margin improved by 230 basis points year-on-year. It was stable quarter-over-quarter. This, along with tighter cost controls, meant that KFC delivered very strong restaurant EBITDA at 19.2%. In fact, if you look at H1, the restaurant EBITDA is at 20%, which is the highest ever delivered by KFC Sapphire for the first half.

Moving to Slide number 26, which gives you a perspective over 4 years and -- last 5 quarter's trend. Overall brand continues to be in a very strong position, and we will continue with our pace of expansion on new restaurants.

Sanjay Purohit:

Let me move on to Pizza Hut. Pizza Hut has undoubtedly had a tough quarter. Our SSSG has been negative 20% and overall brand despite store expansion has been -- has declined -- overall brand sales has declined 6%. I want to call out 3 things here for you. One is macro conditions continue to remain tough for all consumer categories, including QSR. And you can see that through the results of other brands also. In this QSR category, KFC Sapphire itself is flat SSSG. And when you look at the results of other QSR companies, it is anywhere between 0% and 5%.

In the pizza category over the last 18 months or so, competitive intensity also has been perhaps the highest in the QSR category. And as you can see by the results of the number 1 player in this market. So the number 1 player always leads the market performance. There also, we have seen the impact of competitive intensity. Our SSSG decline of 20% comes over a comp of 23% last



year, which was perhaps the highest in our history. And if I look at our 2-year SSSG average of between 1.5% and 2%, that will compare a little more favourably when you look at other brands also.

So having said that, we are not standing still, as I've said. Clearly, we need to revise the brand. And I'm looking at Slide number 28 in the deck. We are trying to give you a detail of the action plans that we are pursuing under 4 buckets. The first one is how do we build brand salience. We find that the brand, while overall awareness is as high as the number 1 player, we lagged on awareness and on -- and we lagged on top-of-mind awareness and consideration.

And this is not something that is new. This is something that we have known for the last 5 or 6, 7 years. I think both product innovation and enhanced marketing spends are the ways to improve salience. We have launched the large pizza initially in 2 states of Gujarat and Kerala. It has started to do well, and we've got a quite exciting innovation pipeline over the next 6 to 12 months' time. Further than that, we continue to enhance our marketing spends over and above what is mandated with our franchisor.

The second leg that we are focusing on is dine-in sales and dine-in sales is 2 components. One is from an operations perspective; how do we deliver speedy service and how do we deliver high quality of customer experience. So we've invested in a Dragontail tech solution. This is an intelligent kitchen production planning tool, and this enables us to serve hot and fresh pizzas as quickly as possible to consumers.

This is -- perhaps we are the only player or among the very few -- or only player in India to have such kind of a kitchen planning tool. And it has been 1 or 2 months since we have rolled it out to all Pizza Hut stores and it's a start -- we are quite confident that this will help us going forward. From a customer perspective, we are doing a lot to reinforce the dine-in experience through both curated deals through analytics and through CRM programs, and we want to build the lunch dine-in experience.

The third leg is to strengthen home service. And again, there are 2 pillars, 2 big action points. We've opened late-night occasions. And today, 65% of our stores deliver 2 a.m. and beyond. So that's adding a new occasion leg to our sales. And finally, Dragontail is now being integrated with the aggregator platforms. So that irrespective of when the rider comes to the store, we are able to calibrate when we load the pizza. And therefore, in the shortest possible time, the consumer is able to receive the pizza, and therefore, it's hot and fresh. So this should impact our ratings. As it impacts the ratings, it will also help us build sales.

And the last part is our real estate strategy, and many of you all on this call would have asked us this question with Pizza Hut's -- this performance, what do you plan to do on new store expansion? And we are calling out that we'll be very cautious on our rate of expansion that do - - or there are opportunities that are still available for us to expand. We'll do that judiciously. There will be some level of portfolio corrections, perhaps 3% to 5% where we'll close nonperforming assets. We continue to invest behind refurbishments because this enhances customer experience. And finally, there is a continuing project on capex optimization through process reengineering on the back end.



I want to reiterate this. And again, you will have heard me and Vijay say this that Pizza Hut remains an important pillar of our multi-brand strategy. And despite the short-term dip that we have seen, with the above action plan, we believe that brand will recover in the medium term.

Over to Vijay to look at the -- to give you the specifics on the financial numbers.

Vijay Jain:

Yes. Moving on to Slide 33. The channel-wise mix has remained stable even for Pizza Hut largely, delivery at 49% and dining at 35%. Slide 34, overall Pizza Hut revenue has declined by 6% with double-digit decline on SSSG. And as Sanjay called out last year quarter 2, we had 23% SSSG, highest ever for us. So that's a partial base effect as well apart from the tough macro conditions and highly competitive intensity.

Slide 35. Gross margin was up by 140 basis points. However, due to operating deleverage on account of negative SSSG meant that the restaurant EBITDA was impacted, which came at 7.6% for the quarter.

Slide 36 gives you a synopsis of 4-year trend and 5-quarter trend. And again, as mentioned by Sanjay with the action plans, which we have laid out, we believe the brand will emerge stronger in the medium term.

Sanjay Purohit:

Let me speak about Sri Lanka. Sri Lanka, the country is showing green shoots of macroeconomic recovery. Inflation is down to single digits. There's forex stability. The tourism business is picking up substantially. There's ease of availability of raw materials. However, there is the inflation in other categories. For example, utility costs have gone up, electricity costs have gone up. We launched quite an innovative product called Melts. This is an exciting innovation. It's what I call an individual consumption inverted pizza option, and it's doing well. We also opened 2 stores in Mattakkuliya and Kilinochchi.

And quickly, can you just go through the numbers, please, Vijay.

Vijay Jain:

Slide 41, channel-wise mix. So Sri Lanka delivery mix is at 36% and dining is at 30%. SSSG was 1%, while the overall revenue grew by 8% in LKR terms because of the forex benefit. In Indian terms, we grew by 29% for the quarter. Gross margin saw a 650-basis points improvement. And the overall restaurant EBITDA came at 15.3%, which is highest in the last 5 quarters.

Slide 45 shows the 4-year trend and 5-quarter trend. As can be seen that this is the best quarter probably in the last 5, and we remain confident of the growth opportunity that presented to us in Sri Lanka.

Sanjay Purohit:

Yes. Finally, in conclusion, and despite consumer demand headwinds, I think we've had a good quarter. KFC first half, delivering the highest ever restaurant EBITDA margin, shows the power of our operational focus and the excellence that we drive at an operational level. We also grew the brand 20%. So 20% growth and 20% restaurant EBITDA is quite powerful. We know we have headwinds on Pizza Hut, and we have to solve this. But we are doing everything in our control to be able to resolve this.



Sri Lanka is positive, and it will continue. Again, if you'll remember, I'm saying that we expect Sri Lanka to start turning around in calendar year '24. We are already seeing these green shoots today. And if you put it together in a multi-brand strategy, there will be some quarters where all 3 pillars are firing. In our case, over the last, say, 18 months, we've had perhaps 2 out of the 3 pillars firing. But we are doing everything that is in our control to get all 3 cylinders firing. With KFC doing well, Sri Lanka doing well, our overall results are still strong when we look at the rest of the market.

I'll pause out -- I'll stop out here, and now we'll open it up for questions. Thank you very much for listening.

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

Jaykumar Doshi: I have two questions. The first one is Dragontail tech was acquired by Yum! about a couple of years ago. So are there any case studies of it helping Pizza Hut in some other markets where there is a significant improvement in delivery experience and customer ratings?

Sanjay Purohit: Yes. So you have two questions. I'll answer this, Jay. So Dragontail is now a company that has been acquired by -- it's an Asian company that has been acquired by Yum!. They have had 2 big cases. One is actually of helping a competitor of ours in a market like Australia, where they saw quite strong improvement in delivery metrics.

And then before we adopted this, we had gone to our Singapore and Malaysia businesses where we do a lot of the delivery ourselves in those markets. And -- so what it does in a simple manner is basis rider availability. It tells you when to put the pizza into the oven. And therefore, when the rider arrives, he or she gets a hot pizza to carry. Otherwise, the typical response is as soon as you get the order, you try and make the pizza and load it into the oven, and then wait for the rider. So this reduces the time that the pizza is there in the store, waiting for a rider.

In our case, because aggregators are a large portion of our business, it is important to integrate with the aggregator partners. This has taken longer because we are actually the only brand perhaps to have a solution like this. But again, they have been magnificent partners and they've helped us. This is quite recent, I must say, Jay, but even -- we think that because we are now able to timestamp every part of our production and delivery journey, this will result in better customer experience.

Jaykumar Doshi: Understood. I have one more question of Pizza Hut but let me ask another question that often comes from investors. So Sanjay, we want to know your thoughts on would you, at any point of time, consider Biryani as a category of your interest from an M&A perspective? And especially, there is a Biryani brand in the group entity. So a lot of times, investors bring up this question whether at some point of time would Sapphire acquire that business. So just your thoughts about merits of that business? And how does it sort of -- how do you think about it?

Sanjay Purohit: Yes. So we have been quite clear about articulating the 7 mantras for scale and success -- for success and scale in this QSR category. And one -- the first and foremost is that it has to be center of plate or habit formed - part of a daily habit. It has to be difficult to make at home. It has to have production processes that are easily aligned and so on and so forth.



Therefore, when you -- when we looked at Pizza Hut, for example, 7 years ago, we thought it met most criteria. There were 1 or 2 criteria that it didn't meet, for example, omnichannel at that time or value. And those are the areas that we try to fix. If I look at Biryani, it does meet most of these requirements except that we do production processes should not require a chef.

So there are a couple of things that need to be fixed in this category. If those areas are fixed, undoubtedly, this category can deliver success with scale. So that is point number one. When we look at, internationally, also the big food cuisine categories in any of the big markets, you will find a local option to have a strong play in a particular market. So that is number one.

Number 2 is while we get asked this question, we have built this company on a strong governance platform. So anything that we do will be -- sorry, anything that we'll do will be done in an as transparent manner as possible and -- it will be done in as transparent a manner as possible.

The third point for me to say is that there are no plans at this particular point in time. I hope I've tried to give you a little more detailed answer, Jay. Forgive me if it was too detailed.

Jaykumar Doshi:

No, no, no. This is very helpful. I just have one last question. I'm sorry for the third one. But look, in the second half of FY '23, your performance of same-store sales growth was broadly comparable to market leader, I mean -- and in line with category headwinds or category trends. In the last 6 months, in 2 quarters, what has changed for such divergence in -- such 20% unprecedented decline, whereas for market leader, there is marginal deterioration. So where do you think Pizza Hut has lost out in the last 6 months?

Sanjay Purohit:

So last year, the 6 months also, we were outliers in the category from an SSSG perspective, both when we compare to ourselves to the number 1 player and when we compare ourselves to the other franchisees, we were outliers. So we performed. Our SSSG was significantly higher than both brands. Now on a 2-year basis, if you do the same analysis, Jay, you'll see that actually it is comparable.

So is that what we want? No. I thought we were flying and we have most of the elements of our strategy in place. But as this downturn has hit us and as the consumer headwinds have -- demand headwinds have been there, perhaps it's impacted us a little more. I think we just have to work to strengthen the brand and continue to work on our operational efficiencies. I see crisis always as an opportunity. These are the times to learn and these are the times to really up the game. And this will play itself out over a period of time.

Even the competitive intensity part, we know how people have expanded. And when you expand through a sub-franchisee model in a downturn, it is hurting everyone. And when it hurts single-store franchisees, then we know what can happen to overall quality of product and customer experience. So I think in the short term, we have just got to bite our lip and take the punishment -- or bite our tongue and take the punishment. But this will play out over a period of time. We are here for the long term, and we are quite confident that we can recover our position on this brand.

Moderator:

The next question is from the line of Devanshu Bansal from Emkay Global.



- Devanshu Bansal:** Just a follow-up on Jay's question. So what is the kind of investment that has gone into Dragontail Solution? And what are the kind of time savings that we are initially seeing, from making of the pizza to delivering of the pizza to the consumers?
- Sanjay Purohit:** So there is no capex investment, Devanshu, it is a per transaction investment. I can't share with you per transaction cost. And also, what is the internal metrics that we monitor. I think over a period of time, this will -- this should show up in the kind of aggregator ratings that we have got or the ratings the brand has got on the aggregator platforms and therefore, should translate into sales.
- Devanshu Bansal:** Got it. And I agree, sir, we are obviously in a challenging environment, but there are also some positive tailwinds in the form of World Cup festive season. Plus there has been Adhik Maas in the previous quarter as well. So I wanted to check what should be reasonable expectation on sequential pickup in both KFC, Pizza Hut based on your historical experiences for Q3, Q4?
- Sanjay Purohit:** So typically, Q3 is higher than Q2, especially for KFC. Pizza Hut is roughly similar right across the quarter. And this year, we've had the World Cup. But last year also, we had the T20 World Cup and the football World Cup. So if you ask me, Devanshu, all of this is plus/minus. I mean in general, the last 20 days of -- or the last 2 weeks of -- December is what contributes to quarter 3 being higher than quarter 1 or quarter 2.
- Devanshu Bansal:** And any deviation or pick up from historical trend that we should expect in Q3? Or it should be more normalized what we have seen in the historical quarters between Q2 and Q3?
- Vijay Jain:** The only difference in this time in Q3 is that in October month we had an impact, lag effect impact of Shradh and then we had Navaratri. So that's only change. Because of the Adhik Maas coming in quarter 2, October will be softer. But again, when we look at the entire quarter, we don't see it going to be materially different than the previous seasonal or historical trends.
- Devanshu Bansal:** Got it, Vijay. And sir, globally, Yum! has been sort of also adopting loyalty rewards program. So wanted to check your thoughts on this trend? And are we sort of planning to implement in India as well?
- Sanjay Purohit:** Yes. So this is part of the -- we don't have a loyalty program right now. But it's part of the agenda going forward.
- Vijay Jain:** So having said that, there are enough and more analytics, which we do with the consumer database. So for all our channels, dining, takeaway and delivery, including the aggregator delivery, we use consumer data on which the various analytic programs, be it in terms of repeat customers, lapses, offers getting customized to the customer requirements, all those programs are in place. The only part which is probably missing is the loyalty program.
- Moderator:** The next question is from the line of Jignesh Kamani from GMO.
- Jignesh Kamani:** Just want to know, if you remove Adhik Maas for the balance 2 months, how is the apple-to-apple SSSG for us in the third quarter?



- Vijay Jain:** Well, that's tough to really...
- Sanjay Purohit:** You are asking to predict per SSSG for third quarter. Is that what you...
- Jignesh Kamani:** Yes, yes. Yes.
- Sanjay Purohit:** So again, we always typically avoid giving quarter-on-quarter guidance, to be fair. All I can tell you is that from a trend point of view, the KFC has remained flat in H1. From a consumer demand point of view, we are not seeing anything different, materially different for it to be moving either downward or upwards. That's one thing. Same thing on Pizza Hut. I think what we have seen in H1, there's a lot of work in terms of action plan required to change the trajectory. So that's all I would say that we are not seeing any materially different in terms of trajectory for both the brands.
- Jignesh Kamani:** Why I'm saying because in second quarter -- first quarter also your SSSG was almost flat on KFC. And despite Adhik Maas, we are flat on the SSSG. So if you remove them, it will be slightly positive. So trends have improved to that extent?
- Sanjay Purohit:** No. So the way to look at quarter 2 would be that while there is Adhik Maas in quarter 2, there's partial benefit. I will not say a full month benefit, part month -- part benefit that the Navaratri got pushed to the October as well. So that's how to look at. So I will not read too much into plus 1, minus 1. So when the movements are so small, in the 100 to 200 basis points, I typically try and avoid reading too much into those indications. For us to call a green shoot or a change in direction, it has to be a 3%, 4% movement for us to call that out, to be fair.
- Jignesh Kamani:** Understood. Second question, the value here in the KFC. So we introduced snacking category. Also, we introduced Chicken Roll and other and other [7S] innovation of INR99 rupees. Any color how large it is now for some of the store which is there for 3 to 6 months kind of? And earlier, it was -- initially lead to cannibalization, are you seeing that now revenue per customer order is -- recognized customer is much higher and impact on -- to cannibalizing started settling down?
- Vijay Jain:** So again, typically 3 months period is too small a period for us to give out the category mixes. We typically wait for 9 months to 12 months to call that out. Having said that, we are seeing a positive movement. Also what we -- the flat SSSG in quarter 1 was with a slightly higher transaction degrowth.
- What we have seen positively in quarter 2, that flat SSSG, has come with a marginal or a flat transaction growth. So you can already see the positive of this macro range coming through. And in the long run, that's not how we look at it in terms of cannibalization. In the long run, it helps us to drive transaction and that's what we are gunning for through the Snackers range.
- Moderator:** The next question is from the line of Tejash Shah from Spark Capital.
- Tejash Shah:** So last time when we spoke on the slowdown, you highlighted on personal final consumption slowdown and then there is some correlation with category slowdown. And when we entered



the quarter, we all thought that Adhik Maas will have much more impact on KFC than Pizza Hut. But clearly, consumers are still eating chicken more than pizza in the quarter.

So just wanted to understand, if we have to go bottom up now on the reasoning, it seems more like a category issue than the consumer issue. And you highlighted there's a competitor intensity. So you have much more granular data. So just wanted to understand the competitor intensity can't be uniform across the country.

So is there any further insight like which area or which region? And what is the character of this competitor intensity? Is it like established players are going aggressive on pricing? Or there are new competition which is coming in and they are at mass and taking them away the consumer.

Sanjay Purohit:

So 2 parts to this. One is Pizza Hut has perhaps been impacted a little more because as the second brand in that category, and undoubtedly, we are 1/4 of the number 1 player, we've got impacted by consumer headwinds a little more. So first, it's a -- so at 1 level, it's a category issue because you've had a number of store openings in the same trade area by another competitor, that in the short term will impact over a long term. People -- the consumer experience that is delivered will ensure that they come back to the Pizza Hut brand. So that's at the category level.

And at the brand level, also, we've got work to do because in a downturn, smaller brands, and Pizza Hut in the category is a smaller brand, it has been impacted a little more. And therefore, we have called out those 4 things that we are trying to do, Tejash.

Tejash Shah:

Got it. And you spoke about store shutdown also. So just wanted to know, is this because certain NPAs we are not achieving in the stores? Or it is that they are loss-making? And so financial reason or consumer reason, a? And b, this quarter, expansion in Pizza Hut is one of the lowest since COVID actually kind of mellowed down. So just wanted to know how we think about the store expansion also going forward?

Sanjay Purohit:

On store closures, we definitely look at the financial matrices and the loss-making ones typically, which are a longer period and still loss-making, and where we don't see a possibility of revival after taking all the necessary steps in terms of marketing, in terms of consumer awareness, only post that, once we know that there is no further possibility of revival or further potential, we will take that call. Even previously, we have taken those calls. We have just called out specifically because it would be a query on top of the mind of everyone. This was the first part of your query.

And second part, which was on the expansion. Yes, while this quarter has been the lowest, we - - typically, I don't read too much or we should not read too much in this quarter-on-quarter growth number. But I think one shouldn't look at the numbers, which is on annual basis. Sometimes the quarter number is lower, quarter number is higher. That should not be taken as run rate.

We have called out that the Pizza Hut, this financial year, the number will be lower than the previous financial year. I would keep it at that. But certainly a number of 8 in 1 quarter and a number of 15 in another quarter should not mean anything because these are store openings, which are also dependent upon the store pipeline and the execution and not necessarily an indication of run rate.



Tejash Shah: Sure. And then does the guidance, whatever it was earlier, does it stand net of the closure that you spoke about? Or you need to adjust for that?

Sanjay Purohit: The guidance remains net of closures. And if I try and give the long term or the medium-term guidance of 3 to 4 years, I think we are moving towards closer to full marks towards doubling the account rather than closer towards 3 years. So that's the 1-year leeway I think we are looking at in terms of doubling the store count for Pizza Hut. And this guidance is net of store closures.

Moderator: The next question is from the line of Saurabh Kundan from Goldman Sachs.

Saurabh Kundan: Sorry, all the questions are answered.

Moderator: The next question is from the line of Palak Shah from ITI Alternate Funds.

Palak Shah: Just this one thing. Earlier, just a couple of years back, you had decided to move from a higher focus on dine-in stores in Pizza Hut to delivery -- more delivery for customers, and that's why you reduced the store side as well. And now we are again sort of revisiting our strategy to focus on dining more. Just can you share your thoughts why the sudden change? That's one. Secondly, does it entail us to again revisit our store sizes or additional capex to recalibrate this to more dining deliver?

Vijay Jain: So I guess there was some either misunderstanding or misinterpretation when the conclusion came out that we actually move towards delivery-led stores. The reduction in sizes of the Pizza Hut has been gradual, and it has happened much before actually even COVID kicked in. So we were at one point in time, 3,000 square feet, moving down to 2,500, 1,800 and then 1,200.

The reduction in the space has happened over a period of time by 2 parts. First, big work has happened on the back end. And when you reduce the back end, there is absolutely no impact on the front of house. And the front of house was reengineered basis) the number of covers required.

Our restaurants still have 45 to 50 plus covers which we believe are enough to cater to 14 big meal locations in a week. Yes, there could be a possibility that on a Saturday evening, those covers may not be sufficient, few customers would takeaway, few customers would turn away. But we will have been able to partner with aggregators and through our own app, get those seats covered more than enough through an omnichannel strategy.

So we never move towards a delivery-only strategy, we moved towards the omnichannel strategy. Now also when Sanjay has called out those action plans, we have called out both, how do you plan to increase revenue in a home service where -- direct side, where Dragontail, the late-night deliveries and the improvement in aggregator rating should help us.

Similarly, we have called out the dining also, the kitchen planning production tool should help us improve our service level in-store, in restaurant along with building lunch occasions. So it's a combination of action plans on both the types. So we continue to operate omnichannel stores. There is absolutely no rethink in the strategy in terms of our store format, and there is no change in the size of the stores even going forward. This size is good enough to cater to all the 3 channels: dining, takeaway and delivery.



Palak Shah: Got it. Sir, just one more. So in terms of the margins, despite Pizza Hut's 20% SSSG decline and our gross margin actually improving 200 bps on a Y-o-Y basis, are we -- have you done some optimization on the cost side to maintain or at least sort of control the cost, increases in the last 12 months, which are giving us a benefit in this quarter? So I would have assumed a 20% decline would have been a far lower margins at restaurant EBITDA level.

Sanjay Purohit: Yes. So again, cost control is a continuous process, to be fair. Are we done with it? I will not be able to say that we are done with it. You would always look for newer and newer opportunities. But yes, it's increasingly difficult if the SSSG is 20% to -- negative to hold on to the margin level, and that's what you have seen in this quarter results. So yes, any drop which goes beyond this, you would see an impact on margin, which is much sharper. And again, if you see an improvement in these levels, you will see an impact on margin, which is positive, which will also be much sharper. So yes, at a 20% SSSG, with the kind of deleverage, it leaves a little headroom for cost manoeuvring.

Palak Shah: Sir, if you can just share any material change savings that we have done which will be sustainable going forward as well to sort of whenever the margins come about, it will be far -- the margin is far better than what we were reporting while...

Vijay Jain: If I can just give out some qualitative indicators. So across the P&L, for example, our gross margin improvement, while a lot of time is attributed only to the cooling of inflation, there is some structural savings, which we have been able to build through vendor development and alternate procurement strategies as well.

There has been much savings across cost of labor forces. With the kind of capacity additions in terms of new stores, actually labor costs have not gone up by that level in Pizza Hut. So again, how do you optimize? How do you do manpower planning through variable flexi hour planning? So that's on cost of labor.

Again, sustainable from, again, a utility cost, for example, gas and electricity, cylinders -- electricity unit and gas cylinders, we have implemented a few things. For example, energy monitoring systems, which is again sustainable. There is- some kind of work which is going on even on the gas cylinder consumption, which we believe is sustainable in the long run. So I'm just giving you few qualitative inputs without calling and giving you specific details of it.

Moderator: The next question is from the line of Gaurav Nigam from Tunga Investments.

Gaurav Nigam: I have two questions on KFC. Just wanted to check on the first. As we have said in KFC, we have optimized the store sizes. And what has been the improvement on revenue per square feet on a pre-COVID to now? Any sense of proportion would be helpful, sir.

Vijay Jain: So again, revenue per square feet, this is a metric which typically is not followed in QSR industry, while it's one of the important metrics in the retail industry per se, because store sizes are so small. So that's not the way to look at. Having said that, the reduction in the store sizes is without compromising any capacity on the kitchen side. So the same store size, let's say, 1,600 square foot store size is perfectly capable to deliver the same revenue and throughput, which earlier a 3,000 square foot store would deliver.



So the size is -- the reduction in size is what we have cut down in terms of inefficiencies, and the revenue is as good as the previous store size. Depending upon what is the maturity level of our store, they would be at a revenue stage. But does my -- as an example, would a 1,600 square foot deliver same or more better throughput than a 3,000 square foot store? The answer is yes.

Gaurav Nigam:

Got it, sir. Understood. And sir, one more question on the KFC business. On the KFC portfolio, if I were to look at like, let's say, 3 years down the line, how should we think about the restaurant EBITDA margin? And how should we think about the leverage on the corporate overhead? I'm just trying to get to like how should we think about the KFC portfolio net EBITDA margin pre Ind-AS on a...

Vijay Jain:

Quite happy that you actually asked this question because it actually allows me to spell out the KFC strategy. And we have taken a slightly different path on KFC compared to our competitors in the QSR industry. I don't think we're looking at trying to expand the margin beyond 20%. What we're trying to do is how we can hold the margin at 20%, in and around 20% mark, and grow faster. And that's what we have done over the last 3 years.

If you see the kind of additions we have done on the brand, we have -- over the last 3 years, the brand has doubled its revenue and tripled its restaurant EBITDA. So that's the strategy on KFC, that how we can benefit more and more without compromising the restaurant EBITDA.

So if our restaurant EBITDA moves beyond 20%, it only gives us a peak market we can grow even faster. So that would be the strategy on KFC for the next 3 years -- 3 to 4 years, double the restaurant count, grow faster and if you're able to deliver restaurant EBITDA beyond 20%, grow even faster.

Gaurav Nigam:

Got it. And sir, any leverage on the corporate overheads, like which comes after restoring EBITDA, any leverage that we should expect on that as well?

Sanjay Purohit:

If I look at the 3- to 4-year picture, yes, you will definitely look at the leverage. Current year when the overall growth has been a challenge, you may not see such big leverage on the corporate cost side. But typically, what we think overall revenue growth, if it's 20% to 25% of our business, corporate costs would typically grow at 15% to 20%. So that's the general thumb rule, and that gives you leverage on the corporate cost.

Gaurav Nigam:

Very helpful, sir. Sir, if you allow this, I have one more question, just on the concept of the business. Sir, you have these 2 franchisees, right, for Yum!. So when a consumer places a delivery order, how does -- like they're still decided that which for -- actually, which is store it will go to because sometimes the store of both the franchisees are close to each. So how it is decided that where the order will go? Who will service it?

Sanjay Purohit:

I'm assuming you are asking in particular for Pizza Hut. Because in case of KFC, there's absolutely no overlap. There is clear territory demarcation. So you're referring to Pizza Hut, right?

Gaurav Nigam:

Yes.



Vijay Jain: On Pizza Hut, again. On Olo apps, which is our own app, there is a clear digital map, which are in place. So there is no overlap between us and the franchisee partners. So this confusion does not exist. In case of aggregators, yes, the consumer may be able to see more than one option available on the app.

Again, I think the consumer would go for the restaurant which offers better consumer experience, which is reflected in the ratings. And secondly, in terms of estimated time of delivery, which is the ETA. So a restaurant which is typically nearest and if it has a good consumer experience, that would be in line to receive that particular order. But the option is left for the consumer to choose.

Sanjay Purohit: Yes. Having said that, Gaurav, when you look at any of the aggregator apps, there's typically, and if you say choose even KFC, you will get stores that are close to you and stores that are far from you also. And typically, the consumer chooses a store that is close, and in any brand. So they'll -- if you are in Malad as we are in right now, they'll even give you perhaps a store in Bandra and say that it will take 90 minutes to deliver.

Vijay Jain: Having said that, this overlap between us is still minimal. While there is no overlap at all on the Olo, the overlap between the 2 franchise partners will be minimal.

Sanjay Purohit: Just conscious of time, we've got another -- yes.

Vijay Jain: We can take 1 or 2 questions more.

Sanjay Purohit: Yes.

Moderator: The next question is from the line of Ritik Tulsyan from Concept Investment Private Limited.

Ritik Tulsyan: So I have two questions regarding Pizza Hut. So if we look at either the gap between us and them is already huge, right? And now they are going further in the sense like 20-minutes delivery, doubling down on technology and etcetera. So as a company, how do we plan to reduce the gap between us and them in the long run? So I want to know from the perspective of 3, 4 years down the line, if you can elaborate more on the strategy.

Sanjay Purohit: Sure. I think it is incorrect to say whether we reduce the gap with them or not. What are we doing to strengthen our brand and I talked of the 4 things, Ritik, - in my presentation. So whether that closes the gap or not, it will certainly have an impact on our performance. And it will certainly strengthen the brand. I think that's how we have to look at it. Whether to predict what this will result in a market share improvement, etcetera, is a difficult conversation to really have.

Vijay Jain: So having said that, again, with Pizza Hut's omni-channel strategy, I don't think we have to plan bridge that gap even if we are able to hit our kind of ADS. And again, with Domino's strategy means their dining sales and the dining profitability is better. So this is not how we are trying to track internally because the mix is very different. So we don't have to really bridge that gap. Even if we go somewhere closer, we should be able to deliver that kind of profitability, but we are far off from that particular situation right now. This could be probably a very long-term ambition.



But as Sanjay said, we will focus on our own things. And one thing which I'll call out, while you said a 20-minute delivery, I think the Dragontail is somewhat to address that. I think what customer is looking at today is whether we can deliver a hot and fresh pizza or not. As long as we are comfortable with the ETA, which is the estimated time of arrival or delivery and they get hot and fresh pizza, they are less fussy about the -- whether it takes 30 to 35 minutes.

And this is clearly reflected. For example, on our own apps, we are able to deliver the majority of our orders below 30 minutes. Still the share of our own app is lower, whereas on the aggregators, a lot of time, the order goes to 30, 35 minutes, 40 minutes, but customer is happy ordering that. So all they're looking for is the quality, which is hot and fresh, and I think they are less fussy about 5 minutes here and there.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sanjay Purohit: Yes. Thank you very much all of you for joining. I just want to wish all of you all happy Diwali, wonderful festive season with your family and with friends. This quarter, I've seen, like I said, very strong financial performance from KFC, green shoots of recovery in Sri Lanka. Pizza Hut has had a difficult quarter, but we are clear on the steps that we are taking to help the brand recover. That's all from all of us right now. We will see you again in a quarter's time. Again, happy Diwali and God bless.

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