November 1, 2024

BSE Limited	**National Stock Exchange of India Limited**
Corporate Relations Department	**Listing Department**
Phiroze Jeejeeboy Towers	Exchange Plaza, 5th Floor, Plot no. C/1,
Dalal Street, Fort,	G Block, Bandra Kurla Complex, Bandra (E)
Mumbai- 400 001	Mumbai- 400 051
Scrip Code: 543248	**SYMBOL: RBA**

Sub.: Investor/ Analyst Call Transcript

Ref.: Regulation 30 [read with Schedule III - Part A] **of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015** *('SEBI Listing Regulations')*

Dear Sir/ Madam,

Pursuant to the aforesaid SEBI Listing Regulations, please find enclosed the transcript of the Investor/ Analyst call w.r.t. the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter and half year ended on September 30, 2024, held on Tuesday, October 29, 2024 at 10:00 a.m. IST.

The same is being made available on the website of the Company viz. www.burgerking,in.

You are requested to take note of the same and disseminate to all concerned.

Thanking You,

For Restaurant Brands Asia Limited
(Formerly Known as Burger King India Limited)

SHWETA SUNIL MAYEKAR

Digitally signed by SHWETA SUNIL MAYEKAR
Date: 2024.11.01 19:40:22 +05'30'

Shweta Mayekar
Company Secretary and Compliance Officer
(Membership No.: A23786)

Encl.: As above

"Restaurant Brands Asia Limited

Q2 FY '25 Earnings Conference Call"

October 29, 2024

MANAGEMENT:	**MR. RAJEEV VARMAN – WHOLE TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. SANDEEP DEY – BRAND PRESIDENT INDONESIA – RESTAURANT BRANDS ASIA LIMITED** **MR. SUMIT ZAVERI – GROUP CHIEF FINANCIAL OFFICER AND CHIEF BUSINESS OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. KAPIL GROVER – GROUP CHIEF MARKETING OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. GAURAV AJJAN– HEAD, STRATEGY AND INVESTOR RELATIONS – RESTAURANT BRANDS ASIA LIMITED** **MS. CICILY THOMAS – PRESIDENT – BURGER KING INDIA**
MODERATOR:	**MR. NAVEEN TRIVEDI – MOTILAL OSWAL FINANCIAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Restaurant Brands Asia Limited Q2 FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participants line 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 and zero on your touch-down phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Naveen Trivedi from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Naveen Trivedi: Yes. Good morning, everyone. On behalf of Motilal Oswal, I'm Naveen Trivedi, would like to welcome you all to the Restaurant Brands Asia's 2Q FY '25 Earnings Conference Call. From the management today, we have Mr. Rajeev Varman, Whole-time Director, and Group CEO; Mr. Sumit Zaveri, Group CFO and Chief Business Officer; Mr. Sandeep Dey, Brand President, Indonesia; Mr. Kapil Grover, Group CMO; and Mr. Gaurav Ajjan, Head of Strategy, and IR.

I will now hand over the call to the management for the opening remarks. Over to you, sir.

Rajeev Varman: Thank you, Naveen. Good morning, everyone, and Happy Diwali to everyone. Today is Dhanteras. So Happy Dhanteras and then Happy Diwali. Also joining the call today is Cicily Thomas, who's leading the business here in India; Sandeep, who is leading the Indonesia business as well is on the call; and yes, Sumit Zaveri and Gaurav and Kapil are, as every year call, they are -- they're going to continue to be on the call.

So a couple of things. First, I just want to kick off and then I'll hand it over to Sumit to kind of carry you through the numbers and so forth. See, we know the environment has been tough in India, and the traffic numbers have been kind of subdued and so forth. We have seen SSSG coming in negative in the industry. We had been delivering positive same-store sales for the last, I would say, 8, 9 quarters. And this is the first time we will be having a negative report on SSSG. But we are steadfast on our progress, and I will talk more about that.

So today if you look at what our plan for India is. So our plan for India was first to make sure that we continue to increase dine-in traffic. Is that happening? We shared this with you last time. Dine-in traffic continues to improve, continues to increase. Every single month, we see the dine-in traffic continue to increase. So we want to get more and more customers into our restaurants, and we are very successful in doing that, and that continues in this quarter and into this current quarter.

The second objective that I shared with you was to make sure that the delivery business was getting more and more profitable. In the overall scheme of the restaurant operating margins or restaurant EBITDA being positive and getting more and more efficiencies there, both those we have delivered in spite of a lower areas this quarter. We have continued and delivered better profit over last quarter, but also a better quarter over the previous year.

So profitability focus in that, restaurant EBITDA profitability as well as improving the delivery business profitability. Both those objectives we have achieved. And we continue to grow on those.

The question of traffic and sales, we continue to drive more and more traffic into our restaurants, which was the objective. And we continue to do that by our promotion of 2 for INR79, 2 for INR99, and the introduction of Puff at 2 for INR59, those continue to drive traffic into our business.

The third pillar was digital, and Cicily and Kapil will talk more about the digital transformation where we are in terms of our numbers, but our objective is to take our entire portfolio of restaurants and make them the restaurants of tomorrow, which I think we have successfully done over 60% right now, and we should probably get close to 100% by the end of this fiscal year.

That digital transformation is across the counter with our guest, the experience of our guests, as well as digital transformation within our kitchen for our employees. So that we continue. We continue our dine-in traffic. We continue our digital ambition. We continue to focus on profitability, both at the restaurant level EBITDA as well as improving our delivery profitability. So that's basically the pronged approach to India business. We continue to move on that. We are on plan. We continue to be on plan with our numbers, and I'll share those numbers with you now.

So we are at about -- not at about, but we are at 464 stores. That's 8 stores that quarter -- quarter-over-quarter. And this is 60 restaurants more this year versus the same quarter last year. Okay?

Second, INR492 crores in sales, which is 0.3% up quarter-over-quarter and 8.5% over last year's same quarter. ADS INR118,000, this is where I told you the SSSG was minus 3%, which was plus 3% the previous quarter, which has come down to minus 3%. But predominantly, because of our focus on making delivery profitable, we have taken some pricing there and we are okay with some of the traffic falling there, but the profitability is improving and increasing in our delivery business.

Gross margin, 67.5%, which is 0.7% better over last year's same quarter and about flat quarter-over-quarter. EBITDA restaurant level pre-IND AS 116 was 19.8%. Let me repeat that 19.8% higher than quarter-over-quarter. This is a fantastic job that the entire team has done over here to deliver 19.8% better profitability over the last quarter, 7.6% over year-over-year over last quarter. So restaurants are becoming more and more profitable. In spite of the tight environment in sales, we continue to improve our restaurant level profitability. We continue to drive more traffic into our restaurant dine-in.

And finally, company level EBITDA. Again, I'm going to share the number 39.4% higher than the previous quarter. 39.4%. It's at INR24.4 crores and it is literally 0.6% higher year-over-year. So well done to the operations team in India. Cicily Thomas will talk more about this. She heads the business here. So well done, Cicily, and the entire team.

Now just going over to Indonesia, just to kind of reiterate what we're doing in Indonesia. Sandeep is here on the call. So again, as we understand, in Indonesia, we had this geopolitical climate, which is -- we kind of keep hoping that it'll go away. But it still prevails over it. There's also some pressures over there from the macro numbers. The economy is slightly challenged over there. And we have not seen a reversal in negative traffic in this last quarter. We are hoping to see some reversal, but we did not see that.

So at same, 149 stores Burger King; 25 stores, Popeyes. We haven't build any stores. We don't intend to build a new stores until we fix that business over there. But here is what Sandeep and his team has done, they've put in place the entire menu. So today, we are supposed to launch this last quarter, and I'm talking about Q1, but we didn't. Finally, launched it in Q2 because of the environment there, the geopolitical. And we finally, now this quarter, which is Q3 gone on air to advertising.

So we are advertising the Spicy Chicken BIC, which is missing from our menu, which has got a massive following. I think we expect that 50% of our chicken sales, BIC sales, will now be on this product. So we have introduced that product. We have just started marketing that product in all 360 degrees and digital channels, television and so forth. So we put that out there. So that big chunk of work is done. We have cleaned out the portfolio.

We are further looking at tightening up our G&A, which will be in the next 4 weeks. We will be working on further reducing our G&A and our overheads over there. Consolidating the total G&A down to a very minimal number. And then focusing on our restaurants and seeing if there are other restaurants that need to be closed or automized. But we have put a good team in place over there. We had the restaurants all refreshed. All the operations, equipment have been fixed. The menu has been reorganized.

We have a fantastic CMO over there. Namita, who is doing a fantastic job, putting together a marketing program. She's put a great menu together; she's cleaned out menu items. So all that is in place. We're just waiting for the headwinds to stop and the geopolitical issues to be behind us, and hopefully, some positive macros for us to turn around.

But in that lieu of time where all this is in place, we continue to be more efficient, reduce the losses over there, that cash losses over there. And just be ready for when things turn around, that we are a very efficient organization and very profitable over there.

So with those words, I'm going to turn it over to Sumit Zaveri, who will carry you through the rest of the numbers. Over to you, Sumit.

Sumit Zaveri: Thank you, Raj. I'll just take you through the broad key highlights of the India performance and then take you through the Indonesia performance. As far as store growth is concerned, we continue to kind of inch forward as per our plan. We're currently at 464 restaurants as we ended September '24.

During the first half of the year, as you can see, our concentration was to improve the overall digital footprint in our restaurants. That has been our focus on the capital spend side. And you can see that we've rapidly grown to 279 as we speak to you, we have kind of over 300 restaurants. As far as our digital investments are concerned. And then we've slowly inch up on our cafe presence and our store as well, which stands at 365 restaurants, that has cafe today.

As far as ADS is concerned, we kind of at the same -- more or less the same range what we achieved in quarter 1, at 118 ADS, minus 3% on SSSG, as Raj mentioned. Almost after 8, 9 quarters, this is the first time that we've been negative. But while we are negative on SSSG, we continue to kind of be focused on the value strategy, and we remain positive on FSDT side.

The revenue mix has been more or less the same at 43%. Our revenue at the back of the new store additions that we've been doing, continues to grow. We are at total revenue of INR492 crores, similar to what we had in quarter 1, almost around 7%, 8% higher than last year.

As far as gross margin is concerned, it's marginally lower at 67.5%. This is purely at the back of some of the launches that we have done on the snacking category side, Kapil will take you through that. It is planned interventions that we've done. It is not to do with any of the other macro environment per se. We've done substantial launches, and we wanted to make sure that the launch being successful, we were -- we've really gone aggressive with the trial pricing of the launch. As we now slowly relook at the pricing thereafter, we should see the reversal of the gross margin side to come back.

As far as restaurant EBITDA is concerned, the healthy pre-IND AS number of INR552 crores, 10.6% for the quarter. At the back of it, we continue to report, or we've gone back to over 5% at the company EBITDA number, with INR24.4 crores. So it's similar to what we achieved last year and certainly a substantial growth from INR17.5 crores to INR24.4 crores.

Going on to Slide 10, having covered the India business. Quickly going on to Slide 10 on Indonesia performance. Yes. Indonesia, we continue to have a challenging environment, as Raj mentioned. The ADS for both the businesses are currently under our share. But at the same time, we've now started making our marketing interventions to go live in quarter 3. So while we have a negative reported EBITDA on Indonesia side, we believe that we should now slowly start seeing some reversals on the revenue side.

At the back of it, we being fleet-footed as an organization, we'll continue to look at costs in an aggressive manner. And we will certainly continue to do that in Indonesia for sure and look at the corporate G&A levels where we currently stand there. And so that's literally what is about Indonesia. I'm not getting into consolidated performance, that's already shared, so we can look at that as well.

So having said that, I'll put on to marketing, Kapil, to take us through the marketing initiatives on what we've done.

Kapil Grover Thanks, Sumit, and good morning, everyone. Just to reiterate, Raj mentioned, we are pretty much on plan. We continue to stay on track on our value strategy. We firmly believe that having a consistent value strategy for driving dine-in traffic in our restaurants is key to our strategic pillars.

Just to recap, we had launched the meal platform last year at INR99 Crispy Veg meal. That gave us significant traffic growth in dine-in. As the platform got cluttered, January this year, we tested the 2 for INR79 and INR99. And since April, that's been our national value program, which has been giving us good returns on dine-in traffic.

Last quarter, we added the newly launched Pizza Puff at a limited time trial offer to the 2 for platform. And I think if you look at a 2-year basis, first half of the year, we've had significant double-digit dine-in traffic growth on the back of these value programs.

In addition to the INR99 -- INR79 and INR99 platform, we continue to offer the INR99 meal on the BK app as an exclusive offer. So that value program continues as a part of the Crazy App Deals platform. As a third dimension to our value strategy, we also offer great value in shareable needs. So if you look at the recently -- we had the Monsoon Meal Deals for 2 available on all our dine-in assets for the guests that come in to share a good time with their family and friends.

Turn on Slide #14. We now have over 365 cafes in the country, and this space continues to grow and deliver INR14,000 to the platform ADS. This quarter, we continue to drive awareness and engagement programs on social media and also started experimenting with an all-day breakfast menu as an option in stores that opened early like transit and corporate trade areas.

On the product innovation update, as Sumit mentioned, we launched the Veg Pizza Puff, nationally it was rolled out in the last quarter. At an invitational price point of 2 for INR59, we saw a tremendous response from our guests. And some of our stores, they're selling upwards of 200, 300 puffs per store per day. That's the kind of response we got on the product.

Given this response, we've just added the chicken variant. So the Chicken Pizza Puff is being rolled out as we speak. It's already available in south of India, and we are scaling up for a national rollout in the next few days, to further strengthen our Snacking Menu, which is one of the most key day parts in our category. And we will continue to have more updates on the next call as we continue to drive more guest-focused innovation.

Now on the restaurant side, we've spoken about reimagining our guest experience via digital transformation and an upgraded service experience in our stores. As we speak, over 300 stores are enabled with Self Ordering Kiosks, Table QR Codes, and all our dine-in stores offer table service.

I would now request my colleague, Cicily, to share her thoughts on this rollout.

Cicily Thomas

Thank you, Kapil. Good morning, everybody. So just to take off from where Kapil said and Sumit said, this entire year, our focus has been on the digital journey and enhancing our customer and guest experience at the stores through digital experience. I would like to divide this and just take you through what we've done.

As Kapil mentioned, as we speak, there are 320 stores, and this is what is planned by the end of the year, and we are very effectively doing that. We divide the digital into front of house and back of house. And why I would do this, is our external customers and internal customers are both important when we want to actually -- give a very good guest experience.

In the front of house, we offer table service. I'm sure many of you have visited our stores, you would have seen that today you can order for multiple touch points in our stores, which is either on the table through QR code, we have the BK app, and of course, we have the SOK, Self-Ordering Kiosks. Guests have very much appreciated the ease and convenience of ordering as they have multiple touch points. And also this allows them to reorder even if they come to the SOK and gone back. We've seen that this helps us with increasing our dine-in sales, which is one of the priority for us this year.

In the mall, what is interesting is the BK app is now acting as a QueueBuster. This is helping us increase the throughput and a number of transactions, especially during peak hours. Now this is also important that we look after internal customers. We have actually launched at the back of house something called the Dynamic Service System.

What it does is that it actually improves efficiency of labor. And through that, even operational efficiency. Our crew is finding it very easy to operate the new system, and this helps us with expediting our orders much quicker and with much more accuracy.

The last bit on King's journey, which we've just done and we're very proud of, is that the automizing our drive-thru stores. We are in the process of this digital journey. Today, we have about 4 of our stores in the BK, which are through voice-ordering system. We have actually enhanced the menu, the ordering process. We're talking to customers, and today, we believe that the speed of service, along with labor efficiency and operational resiliency, has drastically improved our drive-thrus. I hope that all of you get a chance to experience this when you visit the many drive-thru that we're opening.

Thank you. Over to you, Kapil.

Kapil Grover

Now I'm on Slide #17. We've been building BK App and laying the foundation of the CRM scale-up in the future. Our acquisitions continue to grow at a very healthy pace, with the app installs growing by 33% over last year's same quarter and a 2.3x growth in our app user base. This is primarily driven by a strong in-store execution of exclusive dine-in deals available only on BK App.

Last but not the least, we continue to be one of the most engaging brands on social media with our focus on useful, authentic conversations with our friends. The one I particularly love was one on the Independence Day about different tastes, flavors, perspectives, but all blended in one India. That's all from my side.

I will now hand over to Sandeep to share the Indonesia business update.

Sandeep Dey: Thank you, Kapil, and a very good morning to all of you. You heard from both Raj as well as Sumit that the geopolitical headwinds continue to impact our sales. So let me give you a little bit more insights to the overall macro environment here.

The overall economy has kind of slowed down. Since May 2024, Indonesia has actually recorded 5 consecutive months of deflation. The middle-class population shrunk by approximately 9 million and unemployment increased significantly due to a 21% increase in layoffs versus H1 of last year. Even FMCG sector is experiencing softness in demand. In fact, the top FMCG conglomerate has reported high double-digit drop in revenue and over 50% drop in the net profit.

As far as QSR industry is concerned, other than the slowdown in consumption, global brands continue to experience the impacts due to the geopolitical turbulence and leading to significant drop in revenues and profits.

Now our business actually started to get much better towards the festive month of April this year. And by third week of May, we kind of crossed the pre-boycott level of sales. But unfortunately, last week of May is when the second crisis hit us, and the dine-in business actually experienced a sharp decline.

As a result of which, our quarter 2 ADS dropped by 11% year-on-year led by a 22% drop in dine-in sales. However, as Raj mentioned and also as Sumit mentioned, we continue to stay laser-sharp focused on controlling our store operating costs and also our overall admin costs, and at the same time, driving traffic back into our restaurants.

Now I've spoken about this during our last few calls that this is a very strong fried chicken market, and building relevance and credibility of our chicken menu is one of the most important strategic pillar for our business. So we had 2 kinds of fried chicken products in our menu, the crispy and the dunked saucy version of the spicy. However, we also understand that there's a massive demand for a non-saucy, breaded spicy version. So we developed that product and also test marketed for almost a couple of months.

We were quite encouraged with the test results. And based on its success, we launched this product across the country with a very strong aggressive offer price of IDR 17,030 for chicken and rice, which is almost like 40% discounted.

And we also rolled out a comprehensive 360-degree integrated media plan to support this launch. After a gap of almost 16 months, we have gone on TV and also have a robust digital plan in place, including YouTube, including TikTok, Programmatic and so on and so forth.

And not just TV and digital, we also have a 360-degree branding, like mall branding, in-store branding, outdoor branding; and also a bunch of engagement activities like sampling and product reviews with KOLs, crew incentive programs and so on and so forth. We are also extending this offer across all channels, be it dine-in, be it delivery, be it drive-thru, be it apps, be it coupons. Now we launched a campaign just about a week back, and we are quite hopeful to see some positive momentum in sales.

And moving on to the next slide, which is Popeyes. It's a new brand, small brand, and we just have 25 stores. But the priority for this brand continues to be building awareness and continues to be generating trials. So it's a culinary brand and our ambition is to build this brand into a chicken destination. We have a massive variety and chicken offerings to address different consumption occasions. In fact, we are the only QSR having chicken in both fried as well as grilled formats.

Grilled chicken is a unique differentiator. And we have strengthened that portfolio by adding more varieties like grilled wings, like grilled sandwiches, to our overall signature grill collections. We are also launching the breaded spicy fried chicken variant by next month. And with that addition to our menu, we will undisputedly be the only brand offering such a wide range of chicken in the QSR space.

So the most important task at hand for this brand is to build awareness and generate trials. 100% of our stores have self-ordering kiosks, and more than 90% of the dine-in business happens with those kiosks. We have also launched our app and rapidly scaling up downloads. So in the next couple of weeks' time, we are launching a very strong coupon strategy, both digital, through our apps, through our kiosk, as well as physical to drive trials and drive repeat frequency.

And last but not the least, we will continue to be absolutely maniacal about providing elevated guest experience through table service and every other aspects of guest touch points. So that is from my side about the Indonesia business.

And now I hand it over to Gaurav to share the overall outlook for the business.

Rajeev Varman: Thank you, Sandeep. Before Gaurav takes over, this is Rajeev here, again, I just want to summarize before we give you our way forward slide. Look, the India business is very strong. It continues to be extremely strong in this environment. It seems to be the only business in the QSR industry which continues to grow positively in profitability, right? So this is because of the immense amount of work that we have done in our planning over the last 5, 6 years in growing the brand profitably.

So the business is strong. Traffic and dine-in continues to increase, and it's been increasing for a very long time now, and Kapil shared those numbers with you. Our delivery business continues to become more and more profitable. We are taking several steps, and you'll hear some of the steps in the next quarter when we share them with you.

But we continue to make that business more and more profitable, and that's our aim there. And Cicily and her team are doing a fantastic job getting the digitalization done in India. So that's the strength of getting more customers in -- getting transactions rapidly done there, providing all the convenience to our customers. So all these three efforts are on track. The Indian business is extremely strong.

Indonesia, headwinds are there. But in the view of these headwinds, we have taken the following steps that Sandeep articulated. Look, when economy is usually deflated or it's down, QSR actually thrives in countries like Indonesia and Malaysia and so forth. But due to these headwinds from geopolitical issues, we still kind of face that trauma over there in that business.

I think with us having completed the menu, brought in the extra item in there, now positively going on 360-degrees advertising of this new product, and of course, the beautiful menu that he's put together, I think we are now looking at everything that we have done is in place, and we are now positively tightening up our belt on G&A and so forth. And we expect that this business will become profitable in the future.

So thank you, Sandeep, and I'll turn it over to Gaurav to just kind of summarize the way forward. Thank you, everyone, and we'll take your questions after that. Over to you, Gaurav.

Gaurav Ajjan: Thanks, Raj. Good morning, everyone. I am on Slide 24, that is, The Way Forward. So as you know, at the end of the last financial year, we had 455 restaurants. Our plan remains to open 55 restaurants this year, giving us a total of 510 restaurants. At the end of last quarter, we had opened 9 restaurants. And of the remaining 46, locations have been identified and most of these restaurants are already in construction. So overall, we remain on track with our restaurant growth plans.

For gross profit, as you all know, for last year, our average stood at 67%. Last quarter, despite inflationary pressures, we achieved 67.5%. And our medium-term plan of achieving 69% by FY '27 remains intact, and this would be on the back of pricing, especially on the delivery side that Raj spoke about, as well as some of the supply chain and distribution initiatives that we are taking.

On Indonesia, last year, we had broken even at the restaurant level. This quarter, we've been hit by some of the geopolitical headwinds. But going forward on the back of the launch of the new Spicy Chicken, the marketing plan as well as some cost-containment measures, we are targeting to reach cash breakeven at a country level.

Thank you, everyone, for joining in. With that, I would request the moderator to please open up the floor for Q&A.

Moderator: Thank you very much, sir. We have the first question from the line of Gaurav Jogani from JM Financial. Please go ahead.

Gaurav Jogani: Hi sir, thank you for taking my question. My question is on regards to the profitability on the India front. While we saw that the ADS had declined by around 6% odd for this quarter, particularly. But despite that, the margin has kind of held on both at the restaurant level and at the company level. So how should we see costs going ahead from here on? And the way forward, if you can guide something and what will be the levers for the cost?

Rajeev Varman: Thank you, Gaurav, for your question. Yes, thank you for citing that we continue our profitability in spite of all the sales pressures. Look, we -- I mean, if you look at our P&L and you've just put the ADS that would have been there, even getting it back -- minus 3% back to 0, you'll find that all those numbers would have been much better, if we had 3% more sales on top, right? So yes, those efficiencies, we continue. So if you look at the margin side, gross margin side. We'll find efficiencies because we are building more restaurants in cities which have now 2 or 3 restaurants, could probably take 10, 15 restaurants, we continue to build there.

So what happens is the primary distribution cost gets spread over instead of 2 or 3 restaurants, maybe 10 restaurants. So that cost on transportation continues to decrease. And you will find efficiencies as one of those handles is basically on gross margin, which is through transportation and so forth.

Also economies of buying. As we continue to increase our volumes, number of restaurants increase. What happens is, we are able to bring in multiple vendors into our system, and then we are able to bring efficiencies to our P&L through better buying, right?

And also in the same respect, you'll find that the existing vendors are able to produce more at economies of scale, and that also is another handle that's available. See, the advantage Burger King, our RBAL, has in India is it's the sole operator for the entire country, which means we can really plan and strategically put our distribution centers all across India to bring the best transportation costs to our restaurants. So that's a big lever there.

Second is, last time we spoke on utilities. We told you we were focusing highly on utilities. Our entire team was focused on utilities. We have taken several steps putting in some technical machines, which wash the air before it comes in, reducing the temperature before it goes into the air conditioning systems. We have also reduced the number of boilers, water boilers in our restaurants, so that those heating temperatures are all coming from one central area. So that has brought efficiencies to our restaurant.

We are also working on our equipment. And you will hear from us in the next 2 quarters on an efficient equipment that we will be rolling out, which will bring down utilities as well. So a lot of work. Also, putting up all these blinders in restaurants with high sunlight and high glass, we have done a lot of things. It's a list of stuff. So the utility unit consumption, in spite of the fact the unit prices continues to go up. The unit consumption, we have continued to reduce it. So you will find that as a big lever as well.

And then Cicily is also doing a fantastic job in managing the labor. As you know, with SOKs and digital machines in our restaurants, there's optimization of total labor that is utilized and better convenience to our consumers and so forth. So all these are levers. All these are levers.

And then our delivery team is doing a fantastic job in making sure the efficiencies in delivery, whether it's taking pricing, whether it's taking some increased costs on packaging, whether it's negotiating lower prices on delivery aggregators and so forth. So all these efforts we have put in place.

And product mix is another one, right? What you sell is what determines the profitability of the company. So all this on the delivery side are key handles to kind of continue to bring those down. So all these are in place. So you will see a gradual -- if you look at our P&Ls, you look at our numbers, and I would invite everyone to go back and look at the last 8 quarters of our numbers, you'll find a strategically planned progress in our numbers. You will not find ups and downs; you will find a strategically planned progress.

And that's due to just planning, is how we are planning our distribution, how we are planning our utilities program, how we are planning our equipment, what Kapil is doing in planning out traffic in the restaurant, what Cicily is doing in bringing SOK. All this is, in a planned way, we are moving it forward.

So those -- you might have a quarter here and there where you'll have some inflationary pressures, but the plan is in place, and you'll find all these key drivers that I just gave you. continue to drive those costs lower and profitability higher. I hope that answers, Gaurav. It's a long answer, but I wanted to cover all the levers.

Moderator: Thank you very much sir. We will take the next question, which is from the line of Mr. Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Raj, you mentioned that the SSSG is minus 3%. If I look for 57% business is coming from the dine-ins. I think, Kapil also mentioned that the Puff intervention is also bringing double-digit traffic growth. The outcome of this is that SSSG has declined minus 3% and ADS is flat. How we should think -- and maybe if you can give me a little more depth, is the dine-in ADS is higher and SSSG is positive, and delivery ADS is coming down? So some more better understanding on these numbers.

Rajeev Varman: Yes. Fair question. So two things, right? One is, if you look at the dine-in traffic, it continues to grow. So our focus is on that, and we'll continue driving that.

Now what -- how are we driving our dine-in business is, we are driving through value at this point, right? We have other levers, and Kapil has already put those in plan, and you'll see that in the future. But we are driving that through value. So there's an APC reduction when you're at 2 for INR79, 2 for INR99, you understand that. So that APC reduction, a traffic increase continue to give us a positive momentum on the dine-in business.

Now delivery, we have taken some serious decisions to make sure that this business continues to generate more profitable, right? And in spite of us increasing some of the prices there, negotiating some of the deals over there. We have made this business, delivery business more profitable at a lower sales than it was at previous higher sales.

So in spite of us dropping some of those delivery sales, we have actually improved our profitability EBITDA on it. And that's why you see that even at minus 3%, we are delivering a higher profit this quarter again, and it's because of this lever that we are focusing on. I hope that clarifies a little more for you.

Shirish Pardeshi: That is helpful. But again, just to add on, we have now mentioned that Cafe, this is also driving 14,000. That is also creditable. So I mean, to drive the traffic, you're doing right things. But somewhere the math is not happening. So that's what I wanted to have a little more depth.

Rajeev Varman: Yes. So in addition to opening those cafes, you understand that we put 60 restaurants, new restaurants, that are well below the ADS. I mean, I don't want to throw an ADS number here, because no one does that in the industry. But they run below ADS, they catch up in about 1-1.5 years, they catch up with the average ADS. By year 2, they start becoming a full-fledged restaurants. We added those 60 restaurants between the previous quarter and this quarter. And you find that, that is one of the levers that kind of keeps the ADS where it is, that we add on these new restaurants, it would take about 1.5 years to kind of ramp up to the average ADS. So they do bring the average down slightly.

And apart from that, there is no other lever that I can share with you that you would like to put that in your model. But I'll turn it over to Sumit if he has any other -- and you can reach out to Gaurav and -- if you're putting your model together, he can help kind of answer some of your questions in detail as you need them. Yes?

Shirish Pardeshi: Yes, sure. My second question to Sandeep. When you look back in Indonesia, I think there are two targets which you have mentioned is to run the business profitably and we want to be EBITDA positive. So just tell me path to profitability. Of course, the country will not recover very, very soon. I mean, this pains will continue to my sense, though I'm not a political expert. But I think in the current scenario, if situation further doesn't deteriorate, how we are planning to get our path to profitability?

Sumit Zaveri: Maybe Sandeep, before you pick this, I'll just take this first, and then you can add if I'm missing anything. So Shirish, as far as Indonesia path to profitability is covered, it is two-pronged. One is we had already taken a look at the portfolio. We're down to 149. We had taken corrections on the G&A side. We are going to look at that much more closely, and we'll have a harder look even before the business starts to recover on the revenue side.

The third piece to this path to profitability, obviously, is to get the sales back to its -- to higher levels. We started to invest in the marketing from this quarter. We were -- we are planning to start from quarter 2, but now we just started from quarter 3, where we've gone live with our chicken promotion.

So a combination of continued to push the brand on the revenue side and then having a very hard look at the G&A is what we are going to address over the next 2 quarters as we speak in our path to the first level of cash breakeven or profitability. And thereafter, we will build on to it. But that's actually how we are going to focus on Indonesia over the next coming 2 quarters there. And then, as the scenario changes, and we will keep looking at our strategy and way forward on Indonesia.

Sorry, Sandeep, if you may want to add.

Sandeep Dey: I think you have rightly pointed out some of the key levers. Just other than that, I would add a couple of more points. So we are also what we are trying to do is optimize the overall store operating costs, including the gross margin line, right? So Raj did speak about all the efficiency levers we are driving and including the gross margin through procurement efficiencies. In fact, some of those, we are also leveraging some of the India contracts and trying to get the buying price reduced for the Indonesia market as well. So that's also a leverage we are enjoying.

So some of the gross margin improvement levers are in play, and we will see some of those efficiencies coming in, in the times to come. At the same time, Naveen, who manages our operations, is doing a fantastic job in bringing the overall store controllable costs down. So quarter-on-quarter, we have optimized the labor cost, improved the productivity of labor. TPLH has significantly gone up, and that is also helping us actually reducing the breakeven threshold at the store level at a significant manner. So these are the few levers which we will continue to work. Other than, of course, optimizing the overhead at a G&A level significantly down to -- as a means to pass to our profitability.

Shirish Pardeshi: That's very helpful. I was quite pleased because despite the relevance and the pain in the economy and macro are not looking better. You guys are spending money on the advertising. So I was more curious, I mean, that's my last check with you, that how much spend we are doing absolutely on the digital media and the ATL?

Rajeev Varman: Yes, Shirish...

Shirish Pardeshi: If you can quantify it on percentage or maybe absolutely number.

Rajeev Varman: Thank you for the questions. So look, two things we have done. One is we have stopped putting capex into that market, which means we are not building any new restaurants, right? We closed down several restaurants. We've got -- about 26 restaurants were closed. So no more capex is going into the restaurant. We're just trying to get the existing portfolio to become profitable. And you are absolutely right, we already had reached restaurant level breakeven, right? We had done that before the second event happened in Gaza, and then there was, again, a headwinds on that event. So we have those issues, right? But we had bought it down to breakeven over there.

Now if you go back and look at our marketing program, we were very, very selective. See, last quarter we were supposed to -- and when I say last quarter, I mean Q1, not Q2, we were supposed to go with the marketing program 360 degrees. But that event happened, and we said, let's just be prudent with this, hold back. And now we are, in Q3, going back into the market. We are supposed to, as per our franchise agreement, spend 5% of our sales on marketing. It's required, and we are well within that. We'll end up being well within that 5%. It's mandated by our agreement. We'll end up the year 5% or lower on our marketing spend.

But that's the money we are putting and the quantity of money we are putting in there is sufficient to do a good job. 360 degrees marketing, whether it's on television, digital or LSM, which is local store marketing, all three elements have been triggered.

And I think the market is kind of -- there's a new government that formed in October. There, as you know, they're moving their capital from Jakarta, so there's a lot of investment required. The government is advocating now for investments to come from abroad and so forth. So I think the environment is slowly loosening up. And having seen that, we have gone out and we have put this marketing spend.

I hope that answers your question. We usually don't share numbers and how much marketing we're putting in until the -- after the fact. But you can understand it's about 5% of our total sales and marketing.

Shirish Pardeshi: Thank you, Raj, and team. Happy Diwali to you.

Moderator: Thank you very much. We have the next question from the line of Tejash Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejash Shah: Hi, team. Thanks for the opportunity. Just one question from my side. Just wanted to understand the character of the QSR slowdown that we are witnessing currently in India. Specifically, how do you weigh? Because in last 2, 3 quarters, we have heard multiple factors, like geopolitical reasons or competitive intensity, general consumer slowdown. So first of all, is the list exhaustive here or do you feel there are certain other factors? And if you have to assign or rank them in terms of which factor is contributing more versus relatively less, how would you go about it?

Rajeev Varman: Yes. So generally, if you look at the market, I'll give you a macro understanding that we have and what Kapil has been doing for the last 7, 8 quarters. The market is slightly on the value side.

That's the way we look at it. I don't see a market up and down generally. There's always demand. There is always demand in the market.

What kind of demand that is? Is it a luxury demand? Is it demand on the upper end of the menu? Or is it the demand on the lower end of the menu? That's the only difference between the way I look at it generally. And I'm not giving you just an India point of view, this is generally the point of view I've seen all of my life, whether in North America or Europe. Generally, as things get tight, the demand shifts to the value side of the menu.

So we continue to drive traffic there. So when you have more footfalls coming into your restaurant, how can you say that there is no demand, right? So we don't say that. We say that there is demand, but there is a value demand at this point. They will graduate to the mid of the menu and, hopefully, that this December, we should go back into a more normal kind of APC or average per check kind of a pricing, which I think is what Kapil is estimating it to go to.

So it is right now a value demand, which brings a lower APC, but we continue to drive more traffic. We generally are expecting that this, over the next 2, 3 quarters, will start becoming more mid to a higher-level kind of APC and you will expect the SSSG to become positive for most of the players.

Tejash Shah: Just a double-click on that one factor. So other things are clear. Since we are getting higher footfalls, our traffic has not been compromised, as you highlighted. Should we see that at least in India, the geopolitical factors not weighing in as heavily as it is in Indonesia?

Rajeev Varman: Yes. I mean, Indonesia, is a very different situation. Malaysia, Indonesia, Turkey, some of our businesses in Middle East, they're all being impacted severely. Here at Burger King, we have not seen any kind of impact in our portfolio. In our portfolio, wherever it is from geopolitical issues, we might have a miss on that, we may not fully understand that. But we personally don't see that as one of the events that is pushing. I think, it's generally -- I think, demand has moved to the value side of the menu. And Kapil has been extremely prudent in keeping his marketing programs there, and hence, you have seen a better performance in the last several quarters from RBAL.

Tejash Shah: Very helpful. Thanks and all the best to the team and Diwali wishes to the whole team.

Rajeev Varman: Thank you.

Moderator: Thank you so much sir. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Pvt Ltd. Please go ahead.

Amnish Aggarwal: Yes. I have just basically two data points on which I have a query. One is your other income, which has shown a sharp increase from something like INR3.9 crores to INR7 crores. So any reason for that? And the second is other expenses, which have shown a sharp decline, both. For example, if I look at on a QoQ basis, so they have actually dipped from INR195 crores to INR186 crores. So this kind of a trend were not there last year, because last year, they actually increased were INR2 crores. So any clarity on this would be helpful.

Sumit Zaveri: So one is that other expenses reduction is largely honestly on account of the efficiencies that we've put into place what Raj was mentioning. Other income is more from the perspective of some of the longer-term contracts that we've negotiated with our vendors, plus income from surplus funds that we have. So it's a combination of both those matters there.

But cost line reductions that we are seeing are all the efforts that Raj mentioned on the utility side, various other kind of initiatives that we've been constantly working on is really the result why we are seeing the reduction in the cost lines there. And that part of the effort will continue. Whether it is on the G&A side or whether it is on the middle of the P&L side, we will continue to remain focused on those part of the initiatives there.

Amnish Aggarwal: There is no cut in ad spend, it means?

Sumit Zaveri: Sorry?

Amnish Aggarwal: There is no cut ad spend Q-o-Q as a percentage of sales?

Sumit Zaveri: That we've kind of mentioned if you see Slide 8, Amnish. There is a marketing expenditure which we kind of shared. So it's -- in the current quarter, it's 4%, which last quarter was around 5%. But on an average, we spend 5% on a full year basis. So if you really look at it from the perspective of ad spends on an annualized basis, we will always be at 5%.

Amnish Aggarwal: Okay. Thanks a lot.

Moderator: Thank you so much. We have the next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, good morning, guys. First of all, congratulations for a very decent performance in a very challenging environment, especially for India. So my first question is, when we -- if you go back in time, when we acquired the Indonesia business, I think the idea was that it's one of the fourth most populous market, growth is there, we'll achieve good growth, and there is a decent room for gross margin improvement and the restaurant level EBITDA economics is much better. So now given that Indonesia has been a pain point for us for some time now, how do you guys think about that market? And let's say, if our assumptions, which we had at that point in time, are not now as threat or relevant. Do you think of doing something else in the Indonesia market, either hiving it off and selling? Some thoughts on that?

Rajeev Varman: Yes. Thank you for your question. We appreciate your concern. But look here, these are geopolitical headwinds, right? The assumption were never made on geopolitical, right? We never bought that business saying, "Hey, after we bought it, there's going to be a strike in the Middle East and a war over there, which is going to have an impact way thousands of miles away in Indonesia." See, this business in the heydays, this is pre-COVID, used to run a 15% plus kind of EBITDA at the restaurant level. That's the business that was, right?

Now the damage that has been done to this business -- and it's not just us, it's the entire industry. Sandeep kind of articulated what's happening with the other QSRs over there. KFC is actually a public company, you can Google and see the results as well. So this is more driven by geopolitical. It's, as I call it acute, it's not chronical, which means that it will go away, and we will come back to basically good sales and people come back and embrace the business. We see that. Because when we go out and talk about value, we do see uptick in our delivery sales and takeouts. People are still like a little hesitant to be sitting in the restaurant or to be seen sitting in an American brand kind of a restaurant there.

But I think my sense is, these are acute. They happen and they go away. And I think it will end -- the government wind is very, very promising. I think, the new government formation, the ambition of them to get some foreign investment there to support the brands that have come in and build there, whether it's Unilever, whether it's all the rest of us, I think, there's a lot of focus on that. And I think we will benefit from that, but it will take a little time. We have to have patience.

So while we need some time and we have -- we need to have that patients, we are not just sitting waiting for good things to happen, right? We fixed the menu. We put in this extra thing. We went out boldly and we started marketing this product. On the other hand, we are also taking the second 2.0, I would say, on G&A and you will find very pleasing numbers towards Q4 on all the steps we are taking on our G&A forefront.

We're going to make this a very efficient business, right? We're going to make sure that this business becomes extremely efficient. And our ambition is to get back to the 15%-plus kind of gross margin -- restaurant-level margin that it's used to enjoy. It's doable, because now the things are in place. And we have got a good team over there, a good leader like Sandeep running it.

We have Naveen, who's a very good operator who runs all the restaurants there. We have a very good CMO over there, Namita, who is doing a fantastic job. So I think all the things are in place. Unfortunately, these events happen. And you have to kind of suck it up. Just like during COVID, we had a global event, right? So we just have to suck it up and kind of do all the right things and get ready for when things improve.

Dhwanil Desai: One more question on the India. So I think, we have been very laser sharp focus in terms of our value strategy. So if I look at our peer or competition, I think in last 2, 3 quarters, they have significantly increased focus on value offerings. And I think they always had a value offering. But I think the focus has increased significantly. So in that kind of a context, how do we see our traffic growth and ADS and SSSG panning out for next 2, 3 quarters? Do we see significant impacts from that?

Rajeev Varman: We will continue to be focused on increasing dine-in traffic. That's a commitment we have from the entire team that we will continue to drive more people into our restaurant. We have beautiful SOKs there. We have a DSS system. We have table ordering. Our drive-thru restaurants have beautiful digital menu boards and ordering systems outside. We are now going to make the experience of this consumer moving forward at 2.0 kind of experience when they come into our restaurants. So that's what's going to be our main focus of this team.

On the delivery side, we already are among the top, if not the top, the biggest driver of traffic and delivery. We have just taken our focus as a company to make sure that we now start making that business more and more profitable. So we are putting a lot of emphasis on what products we are selling, what discounts we are giving, what packaging charges. All that stuff, we have started putting a lot of focus on it and we have started increasing its profit significantly. So that effort will continue.

The environment from time to time, you will find all the players in value area. You'll find sometimes when everyone is in value area, one operator might choose to go into the upper end of the menu. But that's how the industry rolls and we are not worried about that. We have now got enough experience of 10 years' operating in India, so we understand that very clearly.

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

Nihal Mahesh Jham: I just had one question. For the India business, if I look at your delivery and growth, both are similar, I think, around 9%, how for a lot of the other QSRs, you've seen that delivery has done much better. So is it the value offerings that we had, specifically for dine-in, is something that drove for a lot of the traffic? Whereas on the delivery side, given those offers are not available, is the reason we saw similar growth?

Rajeev Varman: And I'll let Kapil kind of answer the second part of that thing. But see, you can choose how you're going to bring traffic in the dine-in business. So there's a strategy, there's a value proposition, there's a communication proposition and there's an operation initiative. So you put all those in place to drive traffic into the dine-in. So that is in place.

He's picked this 2 For kind of a platform there and he continues to drive. That doesn't mean that we stop doing the business on the Whopper or on our Gourmet of the menu, which are Kings Collection. We don't stop doing that business and we don't stop putting in snacking items. We don't stop all our effort in Cafe. But there's a value strategy that Kapil does, that value strategy is different in dine-in.

Now coming to the delivery business, the driving traffic through delivery, very different strategy in place, right? Whether it is, as we call it, Blitz, that is available on one aggregator, whether it's a discount on another aggregator, what is discounted, what menu items are in those menus, that is the strategy that you can kind of fine-tune from year-to-year. And now the focus over there is to make sure that, that P&L continues to increase the profitability. We want to raise that profitability level to another level. I don't know, Kapil, if you want to add.

Kapil Grover No, I think as you summed up quite well. It is a channel-wise approach. Every channel has its own sort of consumer insights and needs, and we sort of cater to that basis our understanding of the consumer. And it has to be a balanced approach. We don't sway on one side; we balance our value with innovation on the dine-in side. And these are not tactics, these are long-term plays. We see them play out in the next few quarters in the same direction.

Nihal Mahesh Jham: Sure, I'll take this offline also. Thank you so much.

Rajeev Varman: Thank you. I think we are past 11:00. We can take one more question and then we'll call off the meeting. Thank you.

Moderator: Okay sir. Thank you very much. The next question is from the line of Rohit from ithought PMS. Please go ahead.

Rohit: Good morning, everybody. So just one question on the balance sheet. I think we have about INR100 crores of cash and some debt as well, which has gone up in the last probably 3, 4 quarters. So as we sort of -- I mean, at an overall entity level, as we expand probably in India from probably at the end of this year from 500 to closer to 700 in a couple of years, and also probably Indonesia is taking a bit more time to turn around. So is there probably need to raise more money? Is that something that the management is thinking? Or are you comfortable with the cash flow that you will generate for the ramp-up that is there, at least in India?

Sumit Zaveri: Thanks, Rohit, for the question. So yes, we are evaluating the overall liquidity position very closely. Yes, we do believe there will be some amount of liquidity that we might have to add. We are just kind of still internally finalizing the plan in terms of which part we could take. But yes, we would look at some kind of...

Rajeev Varman: Yes. And just to add to what Sumit just said, we are not putting any capex in Indonesia. So you'd appreciate that. All the marketing spend over there comes from within the sales that we generate there. So there's no issue there. We continue to grow here in India, and we will shortly kind of share those plans for the next little while, next few years. Probably by the end of this year, we will share all that with you guys. But yes, we are evaluating all those and making sure that we continue to grow and build a large organization here in India. Thank you.

Rohit: Got it. Thank you that’s all from my side.

Rajeev Varman: All right. Thank you, guys. Thank you, everyone, for joining. Again, a very, very Happy Diwali to everyone. I'll turn it over to Gaurav, unless -- is there anything else? No?

Gaurav Ajjan: Thanks, Raj. Thank you, everyone, for joining in. In case any of your questions are unanswered, my contact details are there at the end of the presentation. Please feel free to reach out to us. Thank you very much. Thank you.

Moderator: On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.