November 14, 2022

BSE Limited
Corporate Relations Department
Phiroze Jeejeeboy Towers
Dalal Street, Fort,
Mumbai- 400 001
Scrip Code: 543248

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor, Plot no. C/1,
G Block, Bandra Kurla Complex, Bandra (E)
Mumbai- 400 051
SYMBOL: RBA

Sub.: Investor/ Analyst Call Transcript

Ref.: Regulation 30 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 Financial Results of the Company for the quarter and half year ended September 30, 2022, held on November 11, 2022 at 5:00 p.m. IST as **Annexure A**.

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)

MADHULIKA VIPIN RAWAT
Digitally signed by MADHULIKA VIPIN RAWAT
Date: 2022.11.14 17:54:12 +05'30'

Madhulika Rawat
Company Secretary and Compliance Officer
Membership No.: F8765

Annexure A

"Restaurant Brands Asia Limited

Q2 FY '23 Earnings Conference Call"

November 11, 2022

MANAGEMENT:	**MR. RAJEEV VARMAN – WHOLE-TIME DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. SUMIT ZAVERI – GROUP CHIEF FINANCIAL OFFICER AND CHIEF BUSINESS OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. KAPIL GROVER – CHIEF MARKETING OFFICER – RESTAURANT BRANDS ASIA LIMITED** **MR. PRASHANT DESAI – HEAD OF STRATEGY AND INVESTOR RELATIONS – RESTAURANT BRANDS ASIA LIMITED**
MODERATOR:	**MR. NIHAL JHAM – NUVAMA INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Restaurant and Asia Q2 FY '23 Earnings Conference Call hosted by Nuvama Institutional Equities. 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. I now hand the conference over to Mr. Nihal Jham from Nuvama Institutional Equities. Thank you and over to you, sir.

Nihal Jham: Yes. Thank you, Melissa. On behalf of Nuvama, I would like to welcome you all to the Q2 FY '23 Conference Call of Restaurant Brands Asia. 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. Kapil Grover, Chief Marketing Officer; and Mr. Prashant Desai, Head of Strategy and IR.

I would now like to hand over call to Mr. Prashant Desai for his opening remarks. Thanks, Prashant. Over to you.

Prashant Desai: Thank you, Nihal. Welcome, everybody, to this Q2 FY '23 conference call on for Restaurant Brands Asia. I hope you guys had a good Diwali. This is how we are intending to take the call today. I will first hand it over to Raj to make his opening remarks and summary on both the India and the Indonesia business. After that, I will take you through the updates on the India business, post which I will hand it over to my colleague, Sumit. Sumit will take you through the financial update. Sumit will then hand it over to Kapil to give you an update on marketing and over the tech piece, post which Sumit will take over the Indonesia side of the business and then we'll open up the floor for questions. We intend to finish our side of the presentation in about 20, 25 minutes, which gives you at least 30, 35 minutes for Q&A.

With that, I hand it over to Raj to take you through opening remarks and an update. Over to you, Raj.

Rajeev Varman: Thank you Prashant, and good afternoon, everyone. Thanks for joining and giving us your time this evening. So let me just quickly summarize the India business first, and then I'll give the Indonesia summary. So Q2 was growth month for us, growth quarter for us. If you look at Q2 over Q1, we grew about 9% in revenues from INR 337 crores to INR 368 crores, that put us in H1 growth of 78.4% over last year.

Last year, obviously, was COVID kind of constructed year. So INR 395 crores last year and then this year, we had done INR 705 crores. So we have grown over the quarter as well as half yearly over the last year. SSSG was 27% positive and half yearly, if you take it, it was 32% over the last year. So there's -- SSSG growth as well as Restaurant growth.

Gross profit maintained a 66.4% gross profit, which is what we reported last quarter as well. And this is despite all the pressures on inflation and so forth, right? And then H1, if you see, we are at 66.4%. This against last year, H1 was 65.3%. So we have seen 110 basis point improvement there as well.

Restaurant level EBITDA and I'm talking about post India, we will share the India's numbers as well on our presentation. Q2 INR 60.8 crores at 16.5% over Q1, whsere we had reported INR 49.9 crores which is at 14.8%, that's a 170 point basis point improvement. Half yearly, we are at INR 110 crores, which is 15.7%. Again, 14.4%,150 basis point improvement over the 14.4% we recorded last H1 of last year, which was at INR 36.8 crores.

Company-level EBITDA for the India business, again, post India's numbers. For the Q2, we reported – we are reporting INR 42.1 crores, which is 11.4% against Q1 where we reported INR 33.2 crores which was up 9.9%, is again a 150-basis point improvement. Half yearly, that puts us at INR 75.3 crores, 10.7%, which is again over 380 basis points over last year's H1, which was at INR 47.1 crores, which is a 6.9% reported on EBITDA.

Restaurant growth, we are at INR 334 crores as of 30th December. We continue to build restaurants beyond that. We have built another six this last month, putting total growth for the quarter was 18 new restaurants that we built. We had some closures, so that gave us a net of 6 growth for the quarter. Now we have in pipeline 33 restaurants that are in construction. On top of that, we have another 60 that are ready to go into the pipeline into the construction.

On the Cafe piece, we actually more than double the number of cafes. We were at 86. If you remember last time, cafes, we added another 94 on that. That puts the cafe at 180 in fact, as we speak, we are getting very close to the 200-mark on cafes. BK app, again, marketing, Kapil, is going to talk more about this, but we saw revenue growth of 33% quarter-on-quarter on our BK app. This is continuous improvement and increase on the revenues coming from our BK app. 4.7 million app installs, which is again, 26% growth over the last quarter. Liquidity stands good in the company at INR 0.60 crores.

Quickly on Indonesia. Indonesia, Q2 results, INR 156.7 crores, this is a 2.9% over the Q1 numbers that we reported, INR 152.3 crores. And what we – in Indonesia, I spoke about this last time when I was on the phone you guys. Basically, two things we are doing in Indonesia. The first one is menu architecture. So, we have aligned the menu architecture like we build in all markets with a very strong entry level like we have here in India, which Kapil will speak about in a moment.

We have a stunner menu, which is about INR 50 that we advertise which is to draw and build traffic into the business. We have a similar parallel developed for Indonesia. We call it the go-to menu. So that just got launched. In fact, it's a little over 2.5 weeks, since we have launched that. You have seen an immediate lift in traffic. I think we're doing – and this is without any advertising as such just with some digital communication. We have looked 20 traffic on that business.

And then we have built a beautiful laddered menu as we do here in India and then a premium menu on the other side. They're also going through a validation on taste, on products, product builds and so forth with consumers. These are standard things we do when we take over a business, we actually go through many architecture. The most important thing is the quality and the taste of the product. So, we kind of go through that. So that's the phase that we are working on.

A lot of work is happening, Sumit and Kapil has also been involved in helping the Indonesian team -- traveling in and forth. So that's the first work that's happening over there. Second piece is, and we shared this with you last time that our growth strategy in Indonesia has always been in the past, in malls and so forth and then in 2017, we shifted that 2017, '18, we shifted to moving into building restaurants, freestanding restaurants with drive-through. So we continue to focus moving forward on that strategy to continue building the BK restaurants over there with both freestanding with drive-through.

Our work on product development on Popeyes is complete. We have finished testing the products. We are very happy with the results of the testing. The products are ready. We have started construction on a couple of sites. We are kind of planning to open about 5 sites before the end of this fiscal year. So that work is also underway and there are some synergies that we are working that Sumit and I are working on bringing the two brands of the Popeyes and BK that in the long term will give us some effective capex utilization, more efficiently in capex as well as to make sure that we are complementing the business to grow the business collectively in that market.

So that's basically on Indonesia, not many numbers, as I've told in the past, we are going to take our time to make sure that we move towards a recovery and then beyond because it's fantastic market. I believe that, that market is going to give a very long-term good prospects for both the brands over there.

With that, Prashant, I'll hand it back to you.

Prashant Desai: Thank you, Raj. Coming to Slide 7, just to give you an update in terms of where we stand with respect to our store openings, both at Burger King India level and BK Cafe. If you will look slightly closer numbers, one big strategic shift that we had taken during the beginning of the year, for us to have a much more even out store opening strategy, as you know, earlier year, the large part of our group store openings would happen in Q3 and Q4. If you look at our Q1 and Q2, we opened 13 and 18 stores, in respective it is about 31 compared to our 9 stores that we opened in the first 6 months of the previous year.

So I guess that strategy is now beginning to gather momentum, but our belief is that next year, you will see a much larger impact of the more even down store opening strategy. Second thing, the team that look at come through every single store, everything the store economics and we chose to close out 12 stores. Our belief is now we are done with the funding of our store strategy. And going forward, we don't see any major store closures as we speak.

We opened our first cafe right almost one year back in November of 2021. It's now been just a year, and we've opened, as Raj mentioned, 199 cafes. So it probably will be the fastest cafe rollout that the country has seen and we continue to remain extremely volatile and bullish about BK Cafe within Burger King.

Given the traction that we have done within 94 cafes this quarter, we remain very, very confident to give you 250 cafes by end of this year, by which time we will have 380 Burger Kings. Raj did mentioned, our 33 stores in the construction plus 16 pipeline. So, we feel reasonably confident of giving you 390 Burger Kings by end of this year. And as you know, our next year target is about 470. So yes, we are looking at a much larger '24 and even larger '25 as we speak.

If you go to Slide 8, this is a new slide that we have included. Over the last quarter, we've been meeting a lot of analysts and a lot of fund managers and people on the buy side all over the world. And one of the data points is that we have been consistently requesting for is to just try to understand where we are in terms of our vintage -- just to kind of compare our ADS with others.

So as you know, we opened our first store in November of 2014. So the business is a relatively new business will be operational for a period of about eight years. You take COVID out of the picture, it would probably be about six years. And if you then double click on that data, you'll see that our weighted average operations have been about 3.5 years. So all the numbers that you are seeing this keep probably it will help you understand those numbers a little bit better.

Also, in 2019, just before -- is a locked-down, we had opened 74 stores in 2019, then we opened 15 during COVID are under construction, 15 more and this year, we've opened some – so almost 50% of our portfolio is still almost you can say about 12 to 18 months old. It will stay. So it's -- all these are kinds of things to kind of keep in mind when you decode to our data. Also the fact that we've opened cafes, also the fact that we started Breakfast at our high street and Sumit will kind of share some more data on this, just to give you and get out the impact of all of this on the margin as well. So, this is one more data that we were asked to share and we are happy to kind of share this data with you.

Coming to Slide 9. Our average day -- weighted average on a portfolio basis for this quarter has been 127 as you know, September is a weak month for the entire QSR, as a result of this, what we did in last time when we came in July, if you take the weighted average of July over September, the number steps up to 127. Delivery is at 43% and dine-in is 57%. So that's kind of an update from my side, including the request to share the vintage.

After this, I'll hand it over to Sumit to take you through the numbers and then to Sumit to Kapil. Over to you, Sumit.

Sumit Zaveri: Thank you Prashant and good evening to everyone. I just want to kind of talk about a few of the numbers which are key metrics that we believe are indicators of our performance. On the revenue side, we had mentioned, we've grown by 99% on an overall basis and just to kind of feel this a little more further, what Prashant was mentioning, we've got our ADS to move from INR 1.2 lakhs to INR 1.27 lakhs. So the total 9% growth that we got is the same in – from the growth of

ADS and we strongly believe we'll be initiative on concentrating on the stellar menu to the launch of Cafe and a be part is what we've literally been able to kind of help push the ADS up from 120 to 127. So that's something which we very clearly see the positive and this to our mind as a base for us to build on from where we stand today.

Looking at gross profit as one of the other indicators, we've always been kind of growing to the difficult times of inflation. We've always been on the positive trajectory over the last few quarters. This quarter, again, we are kind of maintaining the gross profit at 66.4%. With the initiatives that we have on the category side, we strongly believe that our target to get to 67% for the year and taking it to 68% the year after. We believe that we are on the path to that as far as our gross profit margin journey is concerned.

At the back of all the investments that we've done initially in the last quarter we'd mentioned that we put some money behind marketing. We did see the result of that in ADS. And our store level EBITDA moved up to 8.2%. Prashant was kind of hinting towards some of the investments that we have made during the quarter towards cafe, towards the part.

As you've seen our ADS moving up, but that also requires -- has required us to kind of make some of joint investments on some of the cost lines, especially on the lines of people as well as the increased cost on the utility side. As we kind of see and as this business kind of builds up, we've seen in the current quarter, partly both these lines have an impact on our gross margins by -- or EBITDA rather by close to 2%, which we believe that as the scale -- the business scale kind of building, we should see that improvement coming into our P&L.

Similarly, tragedy on store EBITDA is also reflected in company EBITDA, which has moved up from 1.1% to 3.2%. And our corporate costs, we continue to maintain at 5% of our revenue. So that those are broadly the financial key metrics as far as India business is concerned. We strongly believe that we are poised for growth and improvement in revenue as well as on our business performance going forward.

With that, I'll hand it over to Kapil to take us through some initiatives that we've taken and which will continue to take our growth forward from there.

Kapil Grover: Thanks Sumit, and good evening, everyone. The last quarter was very focused on continuing to drive guiding growth on the back of the Stunner program. And as you noticed, our ADS has improved over the last 3 quarters from 104 to 120 to 127. We stay focused on our strategic pillars of driving a strong and sustainable value proposition, building and promoting a very differentiated and unique menu, building a variety of beverages to cater to the emerging consumer needs to build a café and building incrementality through that.

And finally, creating a strong digital ecosystem which allows the customer to access the brand digitally in every channel with the delivery on our end. So I'll start by talking about the Stunner Value program. I'll move to next Slide number 13. Quick recap for everyone, the INR 50 Stunner menu is an everyday value menu with a range of products at INR 50 and INR 70. So there is a choice of format and tips for our guests, and this is a profitable head and sustainable over time.

Now we have seen the Stunner menu volumes grow by 50% ever since we launched the offering. Customers have given us very good feedback on variety, taste and quality of these products. And this has been on the back of a very -- of a sustained promotion. The most recent campaign started in mid-June with the celebrity Hrithik Roshan, and we ran it through July and August.

On Slide number 14. I'm sure you came across the headline in that Burger King has had Hrithik Roshan. So that campaign went viral and it was a very unique campaign done in our own BK side, where we had celebrities, daily life and create a lot of bytes. Given where the consumers are, we focus a lot on digital and social media to promote our campaigns. In addition to the conventional impact television, BTLM, OS branding programs.

On the back of this campaign, digital traffic saw almost 20% improvement in the pre-to-post campaign periods. Slide number 15. talks about how Whopper, which is our most core signature product, continues to be a leading product in the category. We continue to offer consumers new innovation and taste experiences with the Arabic and the Masala Whopper, very unique products, one inspired by Middle East cuisine and one inspired by very local Indian cuisine. And that allows customers to come back and improve their frequency.

The second part of the Whopper, on Slide number 16, is where Whopper continues to be the voice of the brand Burger King in social conversations. Our brand has established a very unique, youthful and quirky personality to connect with our consumers and it has a very, very engaging social feed. Whether it's about events like cricket, movies, technology or informing our guests about the fact that all Burger King products and menu that we developed here is free of synthetic colors and artificial flavors, we have all these conversations on our social media with our fans.

The third pillar that I will talk about is the strategic menu layer of BK Cafe, on Slide number 18 in the deck. We continue to rapidly ramp up cafe expansion and our well on course to open 250 cafe as you heard. That café stores continue to drive 7% incremental sales and help us explore and develop new day parts like breakfast. Now this is a very new concept for us. We just came up in the last 12 months. In the last few months, we started to push for cafe awareness on social media and other entertainment platform. So for example, celebrating the Intentional Cafe Coffee Day, which is on the next slide. We had a lot of events on in mall atriums, a lot of social media promotion, influencer marketing to drive awareness about the fact that we are now a new concept called BK Cafe.

The last update I want to share on the next slide is about the BK app. We continue to close sales and downloads on the BK app, almost by double digit in the last six quarters in a row now. We will continue to build this platform as a channel for working plans in the future and as a strategic advantage for us in the long term. Slide number -- the next slide is just a summary of all the recognitions and awards that we got in the last quarter for the work and digital and mobile marketing campaigns, moment marketing and the recently held brand equity shop awards were won the silver for best use of mobile marketing. This is for the cricket hack campaign that we have run in quarter one of this year.

With that, I will now hand it back to Prashant to take through the outlook.

Prashant Desai: Thanks, Kapil, our outlook more or less remains the same, except the fact that with so many Cafes opening, we believe we will probably be at the higher end of the same-store guidance for next year, which should be double digit plus going forward. Despite the inflationary trends, given the way we managed our product mix and our cost, we remain confident of giving you a 67% gross margin this year and 100 bps over that next year. On the Café side, as we had guided last time also, we end this year with a 250 Cafes and next year, we plan to open another Cafe, take this to 350 by which we have total Burger King's are 470. So the major change in guidance that way. I then hand it over to Sumit to take you through the update on the Indonesia site.

Sumit Zaveri: Sure. Thank you, Prashant. I'll just quickly talk to you about the Indonesia business, large and initial update did cover Indonesia to a very large extent. As far as Indonesia is concerned, we did open five stores during the fourth quarter and shut down one. All of these were freestanding drive thru and we've spoken about this -- that as we go along our growth strategy would be revolving around freestanding drive thru, we will see the portfolio to kind of move more and more directionally towards that. As far as average daily sales, we could certainly still remain in the region of around 98,000 and that's one focus area for us and various initiatives largely starting with complete menu architecture, which kind of reflected in subsequent slides, I just talked to you about that.

The realignment of the portfolio, which we believe should be able to kind of help us get back to the normal level of ADS in terms of pre-COVID levels. If you really just do a little bit of the deep dive in the numbers. Yes, the revenues have remained flat, but at the same time, with the menu and the new architecture, kind of redefining the value strategy in Indonesia, we did make certain investments on the marketing side towards later part of the quarter, in which we would continue to do as we go into this quarter as well. We did see the company EBITDA on the negative or the loss to kind of expand but just which we believe should only help us as we go along because the large part of the investments have gone towards spend on the marketing to help build the brand. So that's one part which we feel that should help in the long risk as we go along.

As far as go-forward strategy is concerned that Raj was mentioning, the key part is effectively to rebuild the entire menu or reposition the entire menu. We've gone live with the value part of the menu, which we call Gokil and the early results that we've got seems to have been very, very encouraging. Now our next part of the slide in which we would roll out of the menu slide during the quarter would be to reposition the core of our burger menu, which would be led by -- which will be led by Whopper. And then there is -- as far as Indonesia market is concerned, it's fairly deeply painted on the technology side. We have the advantage of a very strong customer --

loyalty customer base, standing at 6.7 million. We would further invest up on the CRM side to get more traction on the customer side as far as the loyalty is concerned. So -- that's a quick brief on the loyalty on the Indonesia side.

So with that, I'll hand it over back to Nihal to open up for questions.

Moderator: We have the first question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: I just wanted to understand in the presence of margin performance. So in my view, there have been likely two headwinds. One is our delivery mix has reduced in favor of dine in. And the second one is we have gained strong traction in Stunner menu. And despite that, on a Y-o-Y basis, our gross margins in India business have improved by about 100 basis points. So just wanted to understand what has led to this? And in H1, we are at about 66.4% gross margins, and we have retained a 6% to 7% gross margin target for the entire year -- that led an improvement in H2, despite some raw material inflation. So just if you could cover these two questions, it could be helpful?

Prashant Desai: Thanks, Devanshu. Raj has been consistently been communicating with investors and analysts alike that when we look at gross margin, it's a function of both the numerator and the denominator. A lot of people often look at just the denominator and what's happening on the cost side to evaluate gross margin. One of the things that we've been doing consistently in Burger King in India ever since they started was to build a very balanced menu architecture. We have a standard menu, which is up to INR 50, then we have a classic menu anything between INR 51 to INR 100, and then we Whopper, INR 101 to INR 150, and then we have the Kings collection at INR 150 to INR 200. Our ability to first acquire a customer at a standard level and then keep migrating them across classic, Whopper and Kings collection.

Our current understanding and belief is that this is something which is playing out to our advantage. This is also besides the fact that we just started Cafe and our hope is that with the way we are doing about Cafe next year, you will see a push on the gross margin coming from Cafe. So product mix has been a very critical part of our gross margin strategy. Second, as you know, we like to open our stores within clusters. We have repeated this in the past that 70% of all our new stores opened in the same city. So what that does is, let's assume we have a city where we have 8 stores over 9 stores and have opened 3 more stores, the same truck that is going to delivery product is 7, 8 stores now delivers 2 or in our case, as you know, our cost of goods sold includes the distribution cost. So as we open more stores, we think that same city, there is a leverage which comes to us by way of distribution cost, which obviously gets reflected in gross margin.

Third, again, as we keep growing in scale and in size and now with the Indonesian business also is acquired, which we are now try to explore the possibility of sourcing ingredients and raw materials from India, our ability to now sit across the table and discuss and negotiate with Indos will probably go up. So as a result of this, we've been able to detail our gross margin. Normally, you will see us that if we are saying 67%, probably want to outdo that. Unfortunately, because of the inflationary pressures this year, we have all been able to outdo. We remain confident of at least delivering a 67% gross margin.

Devanshu Bansal: Prashant, that's encouraging. Secondly, you covered it a bit, but I still wanted to understand. Versus Q1, our ADS has increased by about 16% and we had some 220 basis points of market -- onetime marketing expense in Q1. So adjusted for that, still we are not seeing any sort of improvement in the store level EBITDA margin. So what potentially are the reasons for that?

Prashant Desai: So there are two things. One, my colleague, Sumit, tried to explain what happens is that you're opening 200, 250 cafes in a year anywhere between 2 to 3 baristas, or 4 baristas per cafe that you need all these people need to get trained. Over and above that, we are opening 80 Burger Kings. So we'll have another 1,200, 1,300 people to train over there. All these training costs here have got incurred in early last quarter, this quarter.

You will see this impact at least for another couple of quarters. So what happens is still the ADS. ADS will take a little -- it will go up with a little lag. So today, if you look at my people cost, my people cost would have been higher by about 150 basis points as a result of this initiative. Second, as we opened cafes, we started breakfast early morning for all our high street restaurants we are now open at about 7 o'clock. So the breakfast ADS takes 12, 18 months to kind of build up today, it's only about 2%, 3% of our day part. But over a period of time, this will be a very large meaningful part of our business. But we have to open the restaurant at 7, if you want to build that business. So there is another 50 basis impact on that coming on the utility side. So these two alone will push by EBITDA margin at a store level to a respectable level this year.

One thing, yes, the one of the reasons why we showed that slide of our weighted average store, we are still a 3.5-year-old company, right? Our ADS today stands at 127. As you keep moving forward and your ADS keeps growing base of the same-store guidance that we have given you, and then coffee begins to kick in. What you will see is as your ADS keep growing, there is a disproportionate operating leverage that kicks in. One, gross margin; two, rent; three, people cost per utility. All of this next year will give you a store level EBITDA margin, which will be significantly better. So just I would request you guys to be little patience for the next 2, 3 quarters as the business scales up, as all these new initiatives begin to reflect in the ADS, will catch up on the margin front as well.

Devanshu Bansal: And last question from my end. We closed 12 restaurants this quarter. Where is the cost appreciated with these closures? Where does this cost sit in which line item?

Prashant Desai: One is the capital cost with respect to LHI, we kind of accelerate the depreciation up to date of closure. So that will start of – largely that cost book as part of a depreciation line there. That's how it gets represented.

Devanshu Bansal: Versus last quarter, I guess, depreciation has been reduced. So are there -- so can you explain that? So earlier, it was around INR 33 crores, INR 34 crores. And last quarter, it was INR 46 crores, this quarter, it is INR 43 crores. So but closures have been in this quarter?

Prashant Desai: So as I was explaining, actually, that we -- once we decide from the perspective of closures, we start accelerating the depreciation from that part. So a good part of the accelerated depreciation went in last quarter itself. And all these stores were closed in the early part of the current quarter, around July, August. That's why while you are seeing the drop in depreciation, the closure related depreciation cost or the cost is sitting in depreciation line in a substantial portion will get recorded in quarter one and a small part of that came in quarter two. So that's the reason why we are seeing that.

Rajeev Varman: These are planned closures, right? At some point, we decide that you are going to close these restaurants. Obviously, it takes a little while to put all your agreements and everything in order if we close the restaurant. But what you start doing is to accelerate your depreciation before the closure dates. So it takes usually closure lags behind the cost depreciation. So that's why you saw it in the previous quarter.

Prashant Desai: One other thing Devanshu since we are talking about the closures. This was a retail evaluation that we did during the early part of the -- or and kind of decided to take a decision to carve out the portfolio, which was not doing well for us. Now we -- as we now stand, we are now sitting at a very strong healthy portfolio. We feel that we will not see that as we go along over next front for at least three to four quarters.

Moderator: We have the next question from the line of Palak Shah from Infina Finance Private Limited.

Palak Shah: Since the first is in a thought process, what are the criteria when you look at the store closures for a store's success?

Rajeev Varman: Yes. So obviously, if a restaurant does not have potential to increase revenues as the average revenue of the business. And there's sometimes other important things like when we are offsetting a restaurant, there's a better site across the street or down the road. Then what we do is we offset the restaurant, build it in the newer side, better side, the synergies have gone there. We moved the restaurant there and close the restaurant in the old place.

Rajeev Varman: So there's multiple things that we look at that we take into consideration. Like if you look back at our eight years, we have closed maybe 6%, 7% of our restaurants. Well below the 10% industry kind of standard. So we have been opening restaurants a lot of due diligence and closures are always good when they are not profitable or useful in the long run. So those are the kind of things we look at before we close the restaurants.

Prashant Desai: Also just to add to what Raj mentioned, given a lot of our capex investment happens at the kitchen and in the furniture, almost 2/3 of the capex when we choose to shut down the restaurant is recovered by us. So to that extent, as a discipline, if you feel that restaurant will not be able to do the numbers, we think it would do when we side of the restaurant after giving it a certain amount of time, we will then be disciplined enough to close it.

Palak Shah: Got it. One more question on the quarterly margins. So if you look at last quarter, you had 2.2% additional expense towards A&P spend. But given that it will be more normalized this quarter, despite of that, we are not seeing any material change on a sequential basis, the EBITDA margin, both at store level and company level. I understand one of the reasons we explained was the additional spend towards the [employees 0:39:04] training. Just wanted to understand if there is something else that [concise these mentioned 0:39:09] quarters?

Prashant Desai: Yes. We think -- product -- saying there are -- if you look at our business, even from a near-term perspective versus a medium to long term, there are four broad operating leverage levers actually. One, we believe that our longer-term direction is to take our gross margin from where we will be this year 67% to closer to 70%. Second, rentals currently sitting at 13.5%, our view is as we are opening more and more stores.

The current threshold of stores are all being opened at about 10% rent to revenue plus 18% GST. And as your ADS improves your rent and the percentage of revenue will come down. So there is a second lever of operating leverage that you will see at play, both in the near term and also in the longer term coming from rate as the second operating leverage. Third operating leverage, what Sumit was mentioning is currently, our people costs will be about 150 to 200 bps higher than a lot of our peers.

That is as a result of two things. One, because our ADS currently stands where it stands. As you do more ADS, your people costs as a percentage of revenue will come down. The last couple of quarters because of all the training of our project staff as well as the new store, you see a little bit of a slightly higher impact. Fourth is our utility costs, utility costs, also there is a smaller impact in terms of operating leverage, but there is a certain amount of operating leverage that we can take. And the last lever for us when it comes to operating leverage is our corporate costs.

As you will see, as we open more restaurants, our restaurant growth will move this year from INR 390 crores to about INR 700 crores by December of '26 but with the growth in ADS, you will see our top line growing far aggressive than a restaurant growth. As our ADS growth goes more aggressive than the rest or growth, all these operating leverage are coming into play. So corporate cost as a percentage of revenue will come down significantly. We don't expect our absolute corporate costs to go higher than about 10% every year. So that now we factor all these four pieces. And you will start seeing shades of that. This is what [Dewan 0:41:23] showed a lot of our stuff starting end of this year and the entire next year, you'll start seeing all these levers played out.

Palak Shah: Correct. Just on that, the point that I'm trying to make is that if you look at just the point on the corporate overhead expenses, this quarter itself on a sequential basis has gone up by 9% and 20% on a Y-o-Y basis. And just subtracting [inaudible 0:41:51] store EBITDA minus the corporate EBITDA that you mentioned. So that's why the operating leverage is not -- we're not able to see the corporate leverage benefit that should be accrued?

Prashant Desai: If you keep looking at quarter-on-quarter when you get into so much of Symantec. But broadly, if you look at it, you have the entire team that we have over here, as we keep growing, do we see significant addition to a senior leadership? Answer to that is no. We keep adding supervisors and staff over? The answer to that is yes. So 10% is a fair number to assume in terms of our corporate costs going up to INR 70 crore number next year probably go to INR 75 crores, INR 80 crores. Will that INR 70 crore number [move to 0:42:33] is INR 90 crores, answer to that is no.

Palak Shah: And just lastly on the Indonesia business. Last time, you mentioned that July '22 exit ADS 105, but this quarter, the reported ADS is 98,000. Is there something special that we have taken an initiative that led to this drop? Or this is more structural?

Prashant Desai: July, as you know, right, once the Ramadan gets over, there is a period whereby where the whole country, people kind of comment, celebrate in a bigger way. So July was largely because of that. But let me say here, it has, Indonesia delivered to our expectation, answer to that is, clearly, our earlier understanding was that -- and we spoke to you guys and we mentioned that by September or latest by December, we expect full COVID recovery. So we'll go back to our pre-COVID. Currently, if you ask us, we believe that instead of December, we are hopeful that by March, we should be able to come back to our, our pre-COVID.

So what we are doing internally, as Rajeev and Sumit mentioned are two things here, we are doing a lot of work on the menu as the menu architecture, and it's a certain impact on the gross margin. Our gross margin when we acquired this business was about 57.5. We've already been able to take this for 57.5 to 59. And gross margin sitting up from where we are, is a very important qualitative metric that we drive because in our view, that is a very, very important part of how when you are running the business because a lot of the other things sitting below gross margin are all linked to ADS. If your ADS grow, those numbers will come in place. But gross margin is something that is under your control. So that's one area where the team has significantly kind of spent time and work to pull that up. We believe that we'll still further take this to closer to 60 by the end of this year.

Second thing we have taken a call once we went there and did a lot of work is over the last 3, 4 years, the company Indonesia little bit underinvested on the marketing side. They were not present on television. As we see recovery picking up, we are ready with Hrithik like celebrating there. We will take -- we are playing on the front foot here, and we will take the Indonesian business to television, and we are hopeful that '24 will be a very different year. But yes, in some ways, you can say that we are running 6 months behind the Indonesia earning.

Moderator: This is the operator. Mr. Shah, does that answer all your questions?

Palak Shah: And just one more question, if you don't mind. Just on the Everstone stake, the media articles mentioning that Everstone is going to sell the entire stake that it holds in Burger King, your thoughts on this, please?

Prashant Desai: Yes, when we have done the offshore, we had guided on investors that '23 their fund line gets over, so I think the process will start, we as a company and get to hear about that. But at some point of time, they will make an exit. As we had mentioned this during our road shows at the IP of the exit, it's going to -- not happen in the public markets in India, the exit is going to happen at the F&B Asia level, which is at Singapore. And we were at that point of time, even to understand was that when they exit either our large financial sponsor or strategic time will come in -- but yes, it will be fair to say '23, '24 is something where you will see that process unfolding.

Moderator: We have the next question from the line of Sabyasachi Mukerji from Centrum PMS.

Sabyasachi Mukerji: My first question is in line with the previous participant. See, I just wanted to understand that what is the issue with the Indonesia business because pre-COVID, we were doing 135,000 kind of ADS number without the menu alignment, without the advertising spend, without the celebrity endorsement. But now we are struggling. I mean, it's -- COVID is gone. What is the issue over here?

Rajeev Varman: Thank you. This is -- I think Prashant did explain that very articulately, but I'll take another shot at it. Look, there's a couple of things. If you remember, most of -- when India's COVID opening had started and it started slowly and it kind of gradually opened up, right? It was state driven. It was driven, malls came in and the offices, then schools and colleges. So it wasn't the switch that was flipped in one day. It took overtime as the business kind of opened up to the customer. So it was a process.

And we also shared with you last quarter that Indonesia was about 3, 4 months behind India in terms of opening up. So that's the first thing, right? So they're kind of a little on the lag. Now here in India, when we were in the COVID stage, there's a lot of work that was done on menu architecture. I mean, most of the companies and ours specifically, we did a lot of work in restructuring and putting our menus and planning to come back post openings – post COVID. So that kind of work is going on in Indonesia, right? So the 135 was there, and the potential is significantly higher than that.

That's the excitement about the Indonesian market is there's a potential to drive that business significantly as we see that opportunity. So there's a lot of work we're doing on menu. And you will understand that in our business, it all starts with menu. It starts with building a quality menu architecture, filling the menu architecture with the right items that are tested by the consumer that have all the chips and boxes ticked.

And once you have that structure in place and many architectures just not about quality and food, but it's also about pricing. It's about setting up a parameter, which – that is the work that is going on. So that's why we said, we will need some time to make sure all those things are in and grow.

The recovery over there is just in the process of getting in thers, other industry over there is kind of in line with the recovery process that we see at our verge over there, maybe slightly better in some of the businesses, but predominantly in line with what we are experiencing.

So you will find that as this thing is kind of behind us, that when we open up fully and we are fully stretched moving forward, that we have a top of menu architecture in place. We have a campaign in place to come back hard like Kapil had here in India. We had a fantastic campaign lined up with Stunner. So those are the things that we're putting in. So the initial thing – the first thing that we did over there was [vocal 0:49:47], right?

I spoke about that in my opening which is the Stunner for Indonesia. So menu architecture, again, is about bringing people into the business, graduating them over time period and building indulgent menus for those occasions, right? So that story line is we are building it on it. [inaudible 0:50:05] our CEO over there, is not today with us. He's on the road and could not make it to the call today. But he's working diligently with his team. We have the new CMO there, a lot of contribution from Kapil over here who is also helping out with the menu architecture and so forth.

Our Head of Operations also was there for a few days to kind of guide on the opening process. So this will take a little while, but this is a very strong business. I'll tell you, as I spoke a quarter ago, I am fully convinced about this business. I feel this is a strong business with very good economics. It has a very good rent over there. So if you look at the rent in our portfolio right now, we are kind of moving. We have gradually brought it down from 15% to 14% to 13% and we're kind of moving towards 11%. That business already sits at the 8.5% kind of rent.

And that's the kind of business that is the cost of sales on delivery is significantly lower. So there are some intrinsic advantages to that business that exists. And the rest is about just hard work in getting it back in there, yes. I hope that answers your question, right?

Sabyasachi Mukerji: Yes. And a follow-up to that is how long will it take for all these exercises to kind of be in place and you reach the benefits out of it?

Rajeev Varman: We will carry you through the journey. We are with you every three months. We are on the phone every 3 months. Let's just carry through the journey. Let's not make a forward-looking statement on the call. Let's just carry you through the journey. We are working very hard. We are working with the team up there. There's a lot of work going on, and we'll keep updating you.

Sabyasachi Mukerji: Sure. My second question is on the India business. So if we look at on a sequential basis, Q-on-Q, there is a 9% growth and out of it, 6% has come from ADS growth, as you mentioned in your opening remarks. I just wanted to understand that -- so we have done this campaign on the Stunner menu with Hrithik Roshan. And also BK Cafe, the count has increased. All of this could only increase the ADS by 6% only? Is that the number we can achieve or we can achieve far more?

Prashant Desai: So there are two things, right? One, the number is what it is, which is INR 9,000. Yes, we go fund almost 190 cafes. But if you look at on a weighted average quarterly basis, of that INR 7,000 incremenatal, the Café contribution would be about INR 2,000. But the bigger piece to look at it is Cafes doing an incremental ADS of about INR 8,000 to INR 10,000 and if you just multiply that number into 365 days into 250 cafes that we will have at the end of this year, you will get a sense in terms of the impact of cafe next year, considering the fact that it is at a much significant higher gross margin compared to that. So from that perspective, keep that in mind.

Number two, we have still guided for a 25% same-store growth rates. Sometimes what happens is, we have one very good quarter. We could expect that every quarter we will have that kind of that right. The July, August, September quarter for the industry as a whole is a softer quarter. So will it be fair to compare it to June? I don't think it's a fair comparison to make that comment the basis that I think -- look at our business slightly more on an annual basis, we'll deliver your 25% same-store.

Rajeev Varman: We are guiding 10%...

Sabyasachi Mukerji: So I understand that September is a weak quarter, but if I may know, how have things been in October and fairly first 10 days in November?

Prashant Desai: October, as I said, right, October is the buildup of the -- for us -- sorry, December is the biggest month. So yes, as we enter December, we are also hoping, it's our big month, we'll have lot of store openings that have happened. So yes, looking forward to December.

Rajeev Varman: We're guiding sales, SSSG, you've seen that on Prashant's slide, so we'll continue to grow there. We have told you that the cafe is adding about 6%, 7% incremental sales. Our intention over there is to continue building that. So you put all these building blocks, so the intention is not that we do one Hrithik Roshan campaign for a quarter and then we're done with it. This things just keeps going forward, right? That's why it's a scale business. Not only number of restaurants we build, but the amount of sales we've been built over time within the same restaurant, right? So you will see all this coming through as we build it, okay.

Moderator: I'm really sorry to interrupt, but we have participants waiting. So I would request you to come back. Yes, thank you. We have a next question from the line of Dhiraj Mistry from Antique.

Dhiraj Mistry: Congratulations on good set of numbers. My first question is regarding inflation. So what kind of inflation we are facing on capex? And what will be the current run rate or current capex per store right now?

Management: First of all, we did see some headwinds in the early part of the year, which is now slowly starting to kind of settle down as far as the capex-related inflation is concerned. That is one. Secondly, a part of the inflation impact, which we are seeing, we are also trying to address through reengineering the assets that we kind of put at this to. That's one. Secondly, what Prashant was talking about. For us, literally speaking, the scale is shifting for us earlier when you buy assets or for that matter anything, you would be buy for India. Now we've consolidated the entire asset buy for India and Indonesia on a consolidated basis. So while various headwinds on the inflation side, we've also been able to, in some form, mitigated by the, in the manner of scale, increasing the total scale and the buying that we are doing for both the geographies. But otherwise, average inflation on the capex side has been around 4% to 5% as far as we're concerned. Roughly, on an average, we spend around INR 3.2-odd crores for the purpose of setting up a store. And I'm talking about more from the purpose of High Street stores, which is what are going to be our strategy way forward. And this also includes the incremental spend that we put for setting of the cafe, which is in the region of about INR 20 lakhs to INR 35 lakhs. So that's broadly the capex spend that we have.

Dhiraj Mistry: Yes. That's very helpful. And second, I understand that management is completely independent from the promoter, day-to-day activity has not been interfered by the promoter. But in any way, stake sale or overhang of this will impact our strategy to expand or do that impact our day-to-day operation in any day?

Prashant Desai: Yes, hypothetical question, Dhiraj, so my answer will also a little hypothetical in that sense. So two things right. If you structurally see the store opening guidance is defined by our Master franchise development agreement. So irrespective of the change that happens, that will not change. If somewhere in 2023, 2024, when assuming there is a change that takes place in terms of control, a lot will depend on who's coming in. But if you also structurally see we've been running this shift pretty well and pretty efficiently. I don't see a reason why somebody will want to come and disturb ongoing ship that's doing well, because ultimately, they will also take top talent for this asset, right? You don't take out down recovered any kind of disturb a well-run ship. So hypothetical need that in that sense. All I will request is just wait and watch till some time to go.

Moderator: We have the final question from the line of Prateek Poddar from Nippon India Mutual Fund.

Prateek Poddar: Can you just go a bit deeper into this 200 basis point of cost impact, which is roughly INR 7 crores, which is on people, could you just help me understand that what is the INR 7 crores of impact?

Prashant Desai: Sure. So Prateek, basically, what happens when we've kind of gone ahead implementing cafes across coming across 180-odd stores, we had to literally get people tree. On an average, we put two budget stocks to be able to serve a good leverage to our customers when they kind of do it. So that is one major shift that we had, this incremental cost on the labor side, on the capex side that I was talking about. Similar to that, as we kind of got into putting our money behind café, we also apparently saw a very clear opportunity now to expand into the breakfast side of the segment for us, which especially seen that we have to open the stores at least, most all the High Street stores, it started opening at anywhere between seven to eight, which is incremental two to three hours of operations leading to getting three to four people during that period of time. So visually as a combination of these two, if you really look at it as why there has been an increase in the labor or we didn't get the leverage efficiency, which we would have otherwise got and do not pay these investments. At the same time, we would have also not got the increase in ADS as well. So it's a cash '22 situation in terms of whether do you invest ahead or not. We decided to invest ahead of the source.

Rajeev Varman: These are kind of costs that they're still on the P&L because of all the accounting. Really, if you look at, this is an investment the company makes for the future, right? So when you start a new cafe or you start a new day part like breakfast, investment ahead of time wherein the sales will come behind and that's how you kind of build those blocks on your journey towards, from 127 to whatever the journeys you're planning that has blocks as our menu items, those blocks and day parts, those blocks, check those blocks or traffic. So there is a strategy. And I think if you heard a couple speak, he had those pillars and those pillars are the strategy how to build those blocks moving our journey from 127 upwards into upwards.

Prateek Poddar: No, I understand and appreciate that, Raj. But the thing is cafe is a 75% gross margin business. And if I take, and I'm just, literally, I can do this with you, if you take the cost of 2 baristas for a month and provided by gross margins and you see the ADS, which you need insignificant or it's quite less relative to what you've just talked about on an incremental basis. So for me, it's very difficult to understand that to digest that, that is just a barista cost which is...

Kapil Grover: Let me just experience, right? So we have hired about 1,000 baristas, right? 800 to 1,000 baristas. They have had to go through training for several weeks, right? So that training will happen before they put into, you just don't hire them and you switched on and there's a training. What's in addition to that, you're building 60, 70 restaurants, right? Those crews don't just go on day 1 to that restaurant. They go into another restaurant, they trained for several weeks, and then they get certified before they go into a restaurant. So there's a lot of training that happens that goes into the labor and there's no separate training line on P&L. It's all in the labor line.

Prateek Poddar: That helps. Secondly, just want to check with you. Have you taken any price rises in the month of October?

Rajeev Varman: Yes. So we haven't taken any significant movement. We take slight changes here and there on price, whether it's driven by which market we have gone into, for example, we go in the Northeast, we might go and because the distribution costs will be slightly higher. We might take slightly higher pricing there. But nothing very significant that has been done at all in that, yes.

Management: I don't think where you are coming from. No. Now compared to where you are coming from in terms of your question, no, we've not taken any price hike.

Prateek Poddar: And lastly, just to Prashant. If I were to think of next year and you called out the four levers for operating leverage to play out, which is corporate cost, the savings in people cost, again, going down incrementally and utility, how should I think about store level margins or company level three MFDA margins? Do you hit double digit next year with all these investments paying off?

Kapil Grover: Yes, we will be somewhere in that vicinity. I tell you were a little hesitation in kind of committing to that number on a call, which there will be a transcripted. Structurally, I think everything is a function of how the ADS grows, right, led this quarter go. October, November, December.

Let's see, there are trends in December, maybe we will see the much better position, probably if you give us one more quarter to answer when we come to you in February. But given the capex, given that we have about 390 Burger King stores, we are just waiting for one good quarter in terms of opex because it resets the base because one thing is very clear here. If you look at our ADS which is stood at 127 compared to about 110 when we were pre-COVID.

We are still short of transaction by about 110, 120 at a check size of about 310. If this transaction, this traffic were to come back, then very-very easily hit the number that you are showing. For that, we need one good quarter of festive period for people to come out. One thing which is currently not helping our cost given that we have a large part of our almost 60% of our portfolio is in mourn, unfortunately, the Bollywood movies are not doing well, right? So I'm just hoping that with this festive quarter coming a little bit of the Bollywood movie doing well, we should be in a much better position to come and answer this question when we come back to you mid of December number.

Prateek Poddar: It is extremely successful and drive-thrus rather than High Street, isn't it? So any thoughts why you have opened breakfast in High Streets where generally the offtake, whatever I have understood of this industry is less versus what it is for drive-thrus?

Prashant Desai: No, should be open both the place, it's not that we've opened one. The only place where we don't open for breakfast in malls because, but otherwise, across the board, or high street and drive-thrus be opened everywhere.

Prateek Poddar: And what's the share of drive-thrus out in 334 restaurants?

Management: Around 24% of our portfolio is drive-thru.

Kapil Grover: I think it takes a little longer to build drive-thrus because it's a greenfield kind of project. So we're building the pipeline. You can see a lot more of these coming as we kind of move forward. But the malls have done like I told you in the last quarter, our malls have done. We get about 15 malls a year. So we build those, we built high street. Today, in Mumbai, we have a lot of opportunity here, sitting at 40 some restaurants, the opportunities to maybe even double or triple that number of them, so a lot of high streets will come in, because these are going to the high street. There's no room in Mumbai to be building dry-thru restaurants. But then there's 3 ways and so forth. So we continue to telling you.

Management: Say, we have 41 drive-thrus today.

Kapil Grover: Sorry. 41 drive-thrus.

Moderator: I would like to hand the floor back to the management for closing comments. Please go ahead.

Prashant Desai: Thank you, everybody, for joining the call. I know some of you, we've not been able to answer the questions. Do send in your questions if they have not been answered to vpdesai@bugerkking.in, and we'll do our best to answer them. Thank you, and have a wonderful weekend.

Rajeev Varman: Thank you, guys.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Nuvama Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.