February 18, 2025

To,

National Stock Exchange of India Ltd.	BSE Limited
Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001
Email: cmlist@nse.co.in	Email: corp.relations@bseindia.com
Symbol: DEVYANI	**Security Code: 543330**

Sub: **Transcript of Investors & Analysts Conference Call**

Dear Sir/Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of the Investors & Analysts Conference Call held on February 11, 2025, post declaration of Unaudited Financial Results of the Company for the Quarter and Nine months ended December 31, 2024, is enclosed.

The same is also being uploaded on website of the Company at www.dil-rjcorp.com.

You are requested to take the above on record.

Yours faithfully,
For Devyani International Limited

Pankaj Virmani

Digitally signed by Pankaj Virmani
DN: c=IN, o=Personal, title=2659, pseudonym=RMiYpdHy7f8dLXcxKPxs2gKTewdo4tgl, 2.5.4.20=039b8b79599311a1663813cc5616228df6997ba3966868e27bd5278bd188095c, postalCode=121001, st=Haryana, serialNumber=662a532e90644d78d21acc7a66f8fa746a569f819b8498cde6d1a476746030b2, cn=Pankaj Virmani
Date: 2025.02.18 17:00:36 +05'30'

Pankaj Virmani
Company Secretary & Compliance Officer

Encl: *As above*

Devyani International Limited
Q3 & 9M FY25 Earnings Conference Call transcript
February 11, 2025

Moderator: Ladies and gentlemen, good day and welcome to the Devyani International's Earnings Conference Call. 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, sir.

Anoop Poojari: Thank you. Good afternoon everyone and thank you for joining us on Devyani International's Q3 & 9M FY25 Earnings Conference Call.

We have with us Mr. Ravi Jaipuria – Non-Executive Chairman of the Company, Mr. Raj Gandhi – Non-Executive Director, Mr. Virag Joshi – CEO and Whole-Time Director and Mr. Manish Dawar – CFO and Whole-Time Director of the Company.

We will initiate the call with opening remarks from the Chairman followed by key financial highlights from the CFO. Post that, we will have the forum open for a question-and-answer session.

Before we begin, I would like to point out that some statements made in today's call, may be forward looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now request Mr. Ravi Jaipuria to make his opening remarks.

Ravi Jaipuria: Good afternoon everyone. I warmly welcome you to our earnings conference call to discuss the business performance of DIL for Q3 & 9M FY25.

We are optimistic that the recently presented Union Budget 2025, particularly the new personal tax regime, will bring much needed cheer for the middle class in the country. In our view, the Budget should enhance purchasing power leading to improved consumer spending. This is great news for the consumption sector including the QSR industry, as it could drive stronger consumer sentiment leading to further expansion of the industry.

I am delighted to say that DIL has successfully met its store expansion guidance, crossing an impressive milestone of 2,000 stores in the recent quarter across all brands and geographies ahead of the original target. This achievement further enhances our market presence and reinforces our strategic position in the QSR industry. It also offers our customers greater access to our brand.

Reflecting on Quarter 3, our store expansion strategy has been a key driver of the Company's growth. We remain committed to this approach, ensuring a balance between expansion and store-level performance. In Quarter 3, we added 111 net new stores, bringing our total store count to 2,032 as of December 31st, 2024. Our core brands KFC, Pizza Hut and Costa added 107 stores in Quarter 3, thereby further strengthening our brand performance.

DIL’s consolidated revenue for the quarter stood at Rs. 1,294 crore, reflecting a 53.5% year-on-year growth. We have also seen slightly better margin performance because of better SSSG and certain fresh cost optimization measures.

I am glad to share that our brands continue to demonstrate consistency and excellence. In recognition of this, KFC was awarded the “Most Admired Retailer of the Year for market expansion” at the Pepsi Images Food Service Awards 2024.

While the overall consumer sentiment remained a little subdued, during the festive season our QSR in general and DIL witnessed some green shoots of recovery in the metro and large cities. For the budget conscious consumers, Value Menu Items such as KFC Roll Variants and Snackers were major attractions during the festive season. KFC Epic Savers and Pizza Hut discounts offered help in driving volumes. With both brands experiencing recovery in demand by clocking highest-ever sales of big festival days.

Our Food Court business is gaining momentum with new locations being added during the quarter. As we expand our footprint, we remain focused on tapping into strategic opportunities. A key development during the quarter was the opening of the first food court in Kota, established under the JV arrangement with PVR INOX.

Our international teams also contributed to the overall growth of the Company. In Thailand we successfully added 9 net new stores totaling to 305 stores in Quarter 3.

To conclude, I am glad that despite the relatively quiet festival season, DIL has remained focused on store expansion, while continuing to explore new and innovative ways to connect with consumers. As a leading player in the Indian QSR space, we are uniquely positioned to capitalize on the sector's recovery with market conditions expected to turn positive.

In the coming quarters, we are confident that our efforts, which have doubled our store count to 2,000 in just over 2.5 years, will yield strong results and further strengthen our position in the industry.

With this, I would like to conclude my address and now hand over to Manish for the financial highlights. Thank you.

Manish Dawar: Thank you, Mr. Jaipuria. Good evening everyone. A very warm welcome and thank you for your valuable time for attending DIL's Q3 & 9M FY25 Earnings Conference Call, our fourteenth such call since our listing in August 2021.

DIL has achieved a significant milestone of 2,000 stores in Q3 FY25 ahead of the guidance given in the past. The total store count at the end of the quarter stands at 2,032 stores. Our core store footprint has now exceeded 1,900 stores comprising of 1,052 KFC stores, 651 Pizza Hut stores, and 209 Costa Coffee stores.

The operating revenue for Q3 FY25 was Rs. 1,294 crore, representing a growth of 54% versus Q3 FY24. The current year numbers include the Thailand business which was acquired in January 2024.

The Indian business witnessed a growth of 9.6% year-on-year mainly due to store expansion. Revenue was Rs. 873 crore with growth of 4.4% versus the previous quarter.

The gross margin for the consolidated business was 68.7%, a drop of 60 basis points versus the previous quarter. The impact on gross margins was primarily due to food inflation that we have seen in core brands, driven by rising oil, chicken, cheese and coffee bean pricing.

The brand contribution for Q3 FY25 stood at 14.3%, higher by 70 basis points versus the previous quarter. Improvement in brand contribution was mainly on account of sales leverage and fresh measures on cost optimization in the Indian and Nigerian operations.

Consolidated operating EBITDA on a pre-IndAS basis was Rs. 131 crore vs Rs. 114 crore in the previous quarter. The pre-IndAS margins for the quarter for the consolidated business were 10.1%, an improvement of 70 basis points versus the previous quarter. The Consolidated reported EBITDA on a post-IndAS basis was 16.9% versus 16.3% in Q2 FY25.

The Nigerian currency is showing signs of stabilization and broke its continuous weakening trend in Quarter 3.

The PBT for Q3 FY25 on a consolidated basis was Rs. 9 crore versus a loss of Rs. 4 crore for the previous quarter. The improvement in PBT is primarily on account of better EBITDA.

Moving the discussion to our core brands, KFC in India added 44 new stores in Q3 FY25. With this, the total store count for KFC in India stands at 689 stores at the end of Q3 FY25. Average daily sales for Q3 FY25 was flat at 96,000 versus the previous quarter. Revenue at Rs. 570 crore, increased by 4.8% on a quarter-on-quarter basis. The gross margin for KFC during the quarter was 68.6%. The brand contribution margin at 17.2% for the current quarter saw an improvement of 60 basis points because of better sales leverage and cost optimization measures.

During the quarter, Pizza Hut added 51 new stores, reaching a total count of 644 stores in India. Revenue for Q3 FY25 was Rs. 190 crore versus Rs. 185 crore in the previous quarter. ADS for the brand was 35,000. The gross margin for the quarter was 76.2%, and brand contribution for the quarter was Rs. 4 crore with the margin at 2.1%.

Costa Coffee added two new stores during the quarter, reaching a cumulative store count of 209 stores. Q3 FY25 revenue was Rs. 52 crore, which grew by 5.4% over the previous quarter and 30.2% on a year-on-year basis, mainly due to the expansion of new stores.

The gross margin for the quarter was 75.5%, an improvement of 50 basis points over the previous quarter. Brand contribution in Q3 saw an improvement and stood at 16.9%.

DEVYANI
INTERNATIONAL LIMITED

We opened our first food court under the strategic tie-up with PVR INOX at Kota. DIL has an economic interest of 51% in the new Company. Please note that this entity shall be consolidated in accordance with Accounting Standards 28.

Total number of international stores was 374 with the addition of 9 new KFC stores in Thailand and 1 Pizza Hut store in Nepal in Quarter 3. The international revenue for the quarter was Rs. 430 crore with growth of 9% versus Q2 FY25.

The gross margin was 64.1%, a drop of 100 basis points versus the previous quarter because of Thailand currency impact on closing inventory valuation. Brand contribution margin at 16.6% saw an improvement of 60 basis points versus Q2 FY25. The reported EBITDA was 14.9% during the quarter versus 13.4% in Q2 FY25.

To conclude, we have been executing our expansion strategy in a very calibrated manner while ensuring healthy paybacks in our core brands. A key driver of this has been our focus on small format stores over the past few years which are highly capital efficient and offer stronger payback potential. While SSSG performance has impacted returns in the short term due to subdued external environment, such trends are also typical during phases of accelerated expansion. Nevertheless, we remain confident that our strategy will drive sustained growth and profitability in the medium to long term.

On that note, I would also like to request the moderator to open the forum for any questions or suggestions that you may have. Thank you very much.

Moderator: Thank you very much, we will now begin the question-and-answer session. The first question is from the line of Gaurav Jogani from JM Financial.

Gaurav Jogani: My first question is with regard to the store expansion that we have seen in Pizza Hut. You know, it's been a really strong expansion that we have seen here. And I think the same is the case with the other business segment also, wherein the network expansion has been strong. So, if you can highlight your guidance on the expansion in both of these formats going ahead.

Manish Dawar: Gaurav, if you look at on a 9-month basis, we have added 93 KFC stores and 77 Pizza Hut stores, while we continue to add Costa and Vaango as well. In Quarter 3 store expansion of Pizza Hut was high because we were delaying the store openings given the brand performance. But there were some DA commitments that we had, and therefore we have made sure that we fulfill our commitments. Going forward, as we have spoken in the past, we will be moderating Pizza Hut expansion, and you will see even further lower numbers versus what we have done so far. So, we continue to remain bullish on KFC. On the other hand, we have added new brands. We are monitoring Pizza Hut performance very closely. And therefore, depending on the brand performance, we will take a final call on the numbers.

Gaurav Jogani: And sir, on the other brands, the higher expansion is also due to the JV store expansion that you mentioned, the food court. Is that also a reason why the expansion is higher than the other brands?

Manish Dawar: We have upped the game on our food court penetration as we have been speaking about food court expansions in the last two quarters, but the JV has opened only one food court in Kota, and that is not part of the consolidated numbers because we are not consolidating this JV fully given the auditor's opinion. So, if we were to take the JV that we have opened in Kota, it would have further added 4 new stores, one each in KFC, Pizza Hut, Costa and Vaango.

Gaurav Jogani: Okay. And sir, my last question is with regards to the margin performance, as the margin recovery is a tad better in the KFC business. However, we have seen our Pizza Hut margins even declining sequentially, despite the ADS remaining flat Q&Q. So, anything on why the margins in Pizza Hut are weaker, also can you give a sense on how the margin trajectory for KFC can trend up in the future.

Manish Dawar: Gaurav, on the margin expansion, we agree with you that Pizza Hut has seen little lower margins, but we will see margin improvement coming from next quarter because we are optimizing the marketing cost in Pizza Hut versus what we have done in the last 6 to 9 months. At the same time, we have taken some fresh cost optimization measures also in Pizza Hut as well as KFC, which will start to yield the results from January onwards. So, we are confident that as far as KFC is concerned, we will be able to come back to the margin levels that we have indicated in the past. The expansion on Pizza Hut will be dependent on the overall brand performance.

Moderator: The next question is from the line of Adithya P. S. S. from JP Morgan.

Adithya P. S. S.: My first question is on the KFC performance. So, if I look at your ADS and margin numbers and compare that with your sister franchise, there seems to be some divergence. I just wanted to understand is this because of any region split or are you seeing any material difference in demand trend between different tiers of cities which could be driving this?

Manish Dawar: As you know, our sister franchise partner is predominantly present in the large metros because if you look at the country, they have a higher share of metro cities. And we have seen a better recovery in metros versus smaller ones. You would know that they have Mumbai, Delhi and Chennai, which are strong markets for KFC where we have also seen similar trends, however we have not seen any big divergence. We have primarily seen the KFC numbers getting impacted in Kerala, Assam and West Bengal, which are very highly concentrated because of geopolitical situation. However there also we have seen an improvement and a turnaround happening. We have seen the green shoots because of the geopolitical situation also turning around. And therefore, that gives us confidence that next quarter should be a better quarter from that perspective.

Adithya P. S. S.: That's very clear. My second question is on the transaction growth of KFC. So, is it right to assume that the same-store transaction decline would be lower than the SSSG?

Manish Dawar: See, the APC which is the value piece is holding very well. If at all we have seen a small uptick in all our brands, as far as the APC is concerned the decline which is currently there is primarily on account of transactions. And that's where this whole initiative on the low-cost meals and the value meals and the new promotions that Mr. Jaipuria talked about will help drive the footfalls and will help improve the situation on the transaction.

Adithya P. S. S.: Okay. If I can squeeze one last question, can you also give a little bit more color on Vaango because you have been clocking double digits same store sales growth over the last couple of quarters although ADS has declined a bit sequentially in this quarter? Can you explain what kind of trends you are seeing here and give more color on the format?

Manish Dawar: Vaango is doing well on SSSG because of the older locations, because that is how the SSSG gets calculated, the formula is one-year-old stores. During the period ended 9 months we have added 31 new stores in Vaango. The new stores typically start the journey at a lower rate and then they mature over a period of time. This is what is driving the overall ADS numbers down.

Moderator: The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: How do you look at margins going ahead, especially for KFC? I mean, we are in negative territory right now, but supposing we go into a minor positive territory, a low single-digit kind of SSSG strategy for the next few quarters. In that kind of scenario, do we see KFC margins at around 17.5% to 18% or can it be better than that?

Manish Dawar: Percy, as we mentioned in the last call, we are targeting KFC to get to 19 to 20% margin at about 100,000 ADS, and we are tracking on that. It will take us a few quarters to be able to get there, but on an overall basis, we are confident that the kind of measures we have taken and once they start to kick in, we will be able to see the full results at about 100,000 KFC ADS with 19 to 20% brand contribution margins.

Percy Panthaki: Understood. And these measures are more in terms of improving the ADS or are there any measures in terms of cost efficiencies also? And if you could just a little bit elaborate on them.

Manish Dawar: Both sides. It's ADS as well as the cost side. So, on the cost side, we have re-looked at how we deploy the labor, how do we consume the electricity. We have taken a relook at everything on a de novo basis, and we have taken some measures as a result of that.

Percy Panthaki: Understood. Also, on international as a whole, what is the kind of growth that you are targeting for that piece, both in terms of revenue growth as well as in terms of the number of stores for FY26?

Manish Dawar: As far as the store growth is concerned, Thailand represents the largest opportunity. We plan to add about 20 to 25 stores, which is 8 to 9% of the stores that we have. And then on top, we are targeting a SSSG of about 3 to 4% which should give us about 11 to 12% revenue growth. Nepal is a small opportunity as we have discussed in the past. Nigeria seems to be kind of stabilizing as far as the currency is concerned. Our objective is to stabilize the operations, bring the profit levels back because there have been huge losses due to the currency devaluation. So, in Nigeria, we are evaluating the expansion, but there will be very small numbers in Nigeria if that were to happen.

Percy Panthaki: Right. And is there any visibility on Nigeria breakeven by when we can hope for that, and what are the losses on Nigeria on an annualized basis currently?

Manish Dawar: In this quarter we have seen currency stabilizing in Nigeria. The brand contribution has come back very strongly as far as Nigerian business is concerned. Our brand contribution sits at 20% plus.

Percy Panthaki: Okay. No, I am just trying to understand for my modeling purposes for FY26 full year versus a full year of FY25. Supposing if the losses go away, then how much of a swing in rupees crore could I be factoring in for the FY26 numbers? I just wanted to understand that part.

Manish Dawar: We can work that number out for you, Percy, and then we can discuss it offline basis. But again, we would like to see one more quarter of the currency getting stabilized and then talk about those numbers.

Percy Panthaki: And when you say brand contribution is 20%, would I be right in assuming that generally corporate overheads for a QSR format is about 5% to 7% and therefore your EBITDA margin also would be at least a low teens kind of a number for this quarter in Nigeria?

DEVYANI
INTERNATIONAL LIMITED

Manish Dawar: Yes, because Nigeria is a small business, so therefore the corporate G&A is a little higher, but otherwise directionally you are absolutely in sync.

Moderator: The next question is from the line of Jignanshu Gor from Bernstein.

Jignanshu Gor: Congratulations on improving performance trajectory. I wanted to double down on one question on Pizza Hut. You said that any further growth in terms of store network or investments in marketing will be dependent on performance. So, can you guide us what performance markers you are looking for to get convinced of a turnaround?

Manish Dawar: These are ADS and SSSG numbers. On SSSG, we have seen improvement happening in the current quarter. What used to be a double-digit negative a couple of quarters back, we are almost at a breakeven level. The industry has also seen a strong comeback on pizza.

Jignanshu Gor: Okay. Is there any specific ADS number that you have in your mind or a brand contribution margin number?

Manish Dawar: We will not be able to give you guidance on that.

Jignanshu Gor: Sure. No worries. If I can just follow up on one more, it is regarding Vaango. I think we had a relative store expansion last quarter, which has slowed down this quarter. But if you do a broad backward math, it seems the 40 stores that we have sort of added in the last 12 months are operating at far lesser capacity than the remaining 54. So, is it something about the structure and nature of the format which is giving you pause in expansion? Or do you still remain very bullish about it? So, just wanted to get a handle on that.

Manish Dawar: Sure. Jignanshu, when you are comparing the base numbers to the new additions, it is important to note that the base consists of very strong operations, including operations at the airport. Vaango performs extremely well at airport, and that is what pushes up the base, whereas all of the new additions are typically in the food courts and high streets, which operate at a lower level. If we were to compare, like-to-like basis, the difference is only about the maturity profile of a store.

Jignanshu Gor: Okay. And hence, is the SSSG, let's say, 9.6% this quarter, is it different for, let's say, airport stores versus non-airport stores? Is that something you would feel comfortable right now?

Manish Dawar: It will be similar.

Jignanshu Gor: It will be similar. Okay. And lastly, in ADS terms, then you would expect it to sort of stabilize at a lower level than it was earlier, as the mix of stores moves towards more high-street.

Manish Dawar: Correct.

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

Devanshu Bansal: Congratulations on reaching the store milestone. Manish, last quarter we talked about experimenting with some marketing and pricing promotions in select markets, right? So, how has been the response to such initiatives and what is the margin impact of this in the current quarter?

Manish Dawar: Devanshu, it's been a mixed bag. We have seen a good response on the KFC side to these promotions. We have not seen such a good response on the Pizza Hut side.

So, therefore, it's been a mixed bag. But on an overall basis, we think things are moving in the positive direction, and therefore we are going to be recalibrating the marketing spends from January onwards.

Devanshu Bansal: Understood. Sir, just a follow-up on this. So, Q3, it's seasonally a stronger quarter, but the ADS is flat sequentially. And we have taken these initiatives where we are indicating that the response has been good. So, wanted to check the reasons for a lower pickup on a sequential basis in KFC. So, just your thoughts on that.

Manish Dawar: As we said in response to the earlier question, one is this whole location thing and then we have also seen a very strong store addition in Quarter 3. When you have this kind of store addition, it impacts the ADS performance because any new stores would start at a lower level.

Devanshu Bansal: Understood. Last question, sir, you indicated Kerala, Assam, West Bengal are not doing well for us. So, can you either talk about the performance on the regions outside of the impacted states? Or if you could suggest otherwise the salience of the impacted states and what is the kind of improvement that we are seeing in these states?

Manish Dawar: Devanshu, we have seen a better improvement as far as SSSG performance is concerned for the states outside of these three states. These three states also have improved, however these states have bottomed out and are not in line with the rest of the states. We should see a better kind of picture in these states with the geopolitical situation stabilizing.

Devanshu Bansal: Qualitatively can you sort of indicate as in what is the difference of SSSG in these regions and outside of these regions? Just to get a sense as in how things may turn up when sort of these states also recovers.

Manish Dawar: We will not be able to give you the exact numbers, if you look at the range of states that we operate in, on the highest side probably the SSSG improvement sits at 10-15% plus. These are low weight stores, which may not be adding so much weight. The range is wide and it's not just a narrow range that we can tell you and you'll be able to apply in the model.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: My question refers to your comment that the commitment was also one of the triggers. I am sure it was not the sole intention to expand or go aggressive on Pizza Hut store expansion this quarter. So, given the subdued demand environment which you called out and the Chairman also called out in his opening remarks, I just wanted to understand how much flexibility do we enjoy on the expansion commitment? Was there an option to delay it considering that demand is still not in great shape?

Manish Dawar: If you look at our openings on Pizza Hut this year are lower versus the previous year. And therefore, there is flexibility available. But again, at the same time, we are very cautious that we should not be defaulting on our agreements, and the DA works from January to December period. So, therefore, we will be recalibrating Pizza Hut as we go along.

Tejash Shah: Manish, given the team's experience with power cycles, we have seen first time in the listed phase, so, just wanted to understand, does aggressive expansion typically pursue during downturns? Does it benefit us in full recovery cycle? Or do you want to wait for demand turnaround before acceleration on store expansion? Just wanted to understand from past experience what has been more remunerative among these two strategies.

Manish Dawar: Tejash, see, it is a chicken and egg story, if you were to look at our experience, the way we expanded during COVID time when nobody else expanded and post-COVID we have seen great results because of that. This business is not about putting up a large factory where you create a capacity and then you can utilize for, it's a brick-and-mortar business. We have to create store by store and therefore if we miss on the real estate opportunity, it's gone forever. If we are not able to create that whole bandwidth, we will miss the opportunity. If we were to say that there's a downturn of three years and we will be able to open 400 stores together in the fourth year, it's physically not possible. So, it's a very different nature of business, and that's the reason we are kind of at it because eventually, if we all believe in the India story and we all believe that India will grow, the economy will grow, and the consumer sentiment will improve and the consumption will come back, then with the new budget and whatever steps the government has taken and will be taking, we should stand to kind of gain the most. And we have already experienced this during COVID time.

Tejash Shah: Right, yes. And the last one, if I may, in the history of the Company, both for Pizza Hut and KFC, what has been the most prolonged downtime cycle that we have seen? Is this the current one, the most difficult one? Or there is a history of such cycles in the past also?

Manish Dawar: In the past we have never had this kind of scale, so, it is a combination of a slowdown in the consumer demand and consumer sentiment, and at the same time, we have also been doing aggressive expansion, so it is a combination of these two. Now expansion is a very conscious strategy that we have undertaken, and we are confident about expansion because all of the expansion is happening on smaller formats where the payback periods are strong. Therefore, as we see the consumer sentiment coming back, it should greatly benefit us. But at this scale, obviously we have not experienced things in the past because it was a smaller operation in the past.

Moderator: The next question is from Maruth Chaudhary, who is an individual investor.

Maruth Chaudhary: My first question is regarding the depreciation of the rupee this quarter—what would be the impact of that?

Manish Dawar: So, Maruth, we don't have a lot of imports except for, we only get a little bit impacted by, key equipments on the capex side. But as far as operations are concerned, the impact will eventually come in depreciation. But otherwise, on the raw material side, packing material side, our import structure is very small. So, therefore, there is not that much impact of that. Obviously because of the currency, international operations also get consolidated, impact comes on that, but that's only a translation effect rather than a transaction effect.

Maruth Chaudhary: Okay. And next is regarding the discussions around Health Tech and Ultra-Processed Foods—can we introduce a healthier brand in our portfolio, similar to what others are doing?

Manish Dawar: Vaango is a healthier brand in our portfolio. South Indian brand is supposed to be the healthiest food in the country and we already have that in our portfolio. Within KFC also, while our dominant range is fried chicken, we have grilled chicken available as a healthier option. Similarly on the pizza, we have a good balance. Even the newer brands, Sanook Kitchen, which we have signed, is a healthier brand versus the other brands that we deal in. So, we are conscious of what you are saying, and that is part of the strategy.

Maruth Chaudhary: Okay, just one more question, if I may ask. Instead of cost optimization, should gross margin expansion happen through the introduction of new products? For example, Yum China’s gross margin expanded when they introduced KFC K Coffee, and similarly, Burger King expanded their margin with BK Café. Can we see the same in KFC India? Can we introduce something similar to KFC K Coffee, as Yum China did?

Manish Dawar: So, Maruth, we have introduced, and we have experimented with KFC Coffee in some of the outlets. Now, this is a different strategy versus what McDonald's is doing by way of McCafe or what Burger King is doing by way of BK Café because they operate large stores, and whereas our strategy is to bring the formats down to focus on the core, to make it more efficient on the paybacks and the margins, that is how we are operating. The trend in the QSR industry has been more and more home consumption, and that you would have seen with all the brands over a period of time. Home consumption is going up for the entire industry, even post COVID. It's going up for all the brands, and therefore in that scenario, we are highly focused on the format of the store rather than large formats.

Moderator: The next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra: I wanted to check with you on your thoughts around this quicker 10-minute delivery platform, which was announced by the leading food aggregators. How do you view this? Is this something which is feasible for formats that you run? Do you see this as an opportunity or a threat from a snacking perspective?

Manish Dawar: See, what they are talking about, Latika, is all around the snacking platform. And those snacks are typically ready-to-eat snacks, which have always existed. In any Indian household any quick eating snacks are always part of pantry, as far as fresh food is concerned, there is a cooking time and there is a delivery time, although we are also in discussions with one or two players in terms of how we can participate and experiment. Just to give you as to how the dynamics work, take the example of Pizza Hut, the pizza is prepared after you get the order and the preparation time itself is about 7 to 8 minutes. Depending on the pizza, it could be 9 minutes also. And then you have the delivery time. Whereas if you look at a brand like KFC, KFC operates on a ready-to-eat basis and therefore KFC can easily participate in that journey. So, we are in discussions, we will be experimenting with this. There could be some menu items which can always participate in that whole 10-year journey, but let's see how it shapes up.

Latika Chopra: Understood. The second bit was just trying to check if there has been any change in agreements or any kind of inflation you have seen with any of the aggregators.

Manish Dawar: No, not yet. So the discussions are on, because there has been a pressure from the aggregators, but so far we have managed to hold.

Latika Chopra: All right. And the last bit I just wanted to check was on, you know, the three QSR brands that you are planning to bring and launch in India. The timelines remain from April this year onwards.

Manish Dawar: Yes, we are on track from Quarter 1 of the next financial year.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal Mutual Fund.

Aliasgar Shakir: Just a question on the outlook. As Tejash was mentioning, we've been in a prolonged period of a weak environment, with nearly 8 to 10 quarters of a challenging outlook. Now that you are hinting that there is some recovery, could you give a little more pointed clarity in terms of how is the situation on the ground? After two years of a negative base, are we expecting flat SSSG, or do you believe things could improve from here? Are we looking at positive SSSG in the next couple of quarters? Also, what kind of margin expectations do you have? Will it take time to return to the 19-20% margin you mentioned, or if we achieve 5-10% SSSG, should we be able to reach that margin level sooner?

Manish Dawar: Sure. So, you are seeing the numbers of the QSR industry, and we have seen that kind of turnaround happening with almost all the brands. We have seen that in our numbers as well and that gives us confidence that maybe things are turning around. As we have said that we have seen in Quarter 3, which is a festival quarter and we have seen bigger throughputs happening on those festival days, which again is an indicator that the consumers are opening up their wallets. So, SSSG turning around is one of the paramount factors to be able to make sure that we kind of come back to our original margins. Irrespective of that, we kind of took the steps in the previous quarter. We have seen the impact of or the results of those steps coming in the current quarter. We are confident that, as I said to Percy's question, that with about 100,000 KFC ADS we should come back to our original margins of 19-20%.

Aliasgar Shakir: And in the current quarter, are we seeing signs because I am just asking from the point of view that, you know, there is two years of negative base, so on this base are we seeing signs of SSSG bottling out in the current quarter?

Manish Dawar: It's been a mixed bag because as we operate in multiple states and there are multiple kinds of factors impacting various states. But now with the budget coming in, with the geopolitical situation stabilizing, I think we are hopeful that things should kind of turn around.

Moderator: As there are no further questions, I would now like to hand the conference back to the management team for any closing comments.

Raj Gandhi: Thank you very much. We hope we have been able to answer all your questions satisfactorily. Should you need any further clarifications or would like to know more about the Company, please feel free to contact our Investor Relations team. Thank you once again for your interest and support and for taking the time out to join us on this call. Thank you very much.

Manish Dawar: Thank you very much.
