November 19, 2024

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 November 11, 2024, post declaration of Unaudited Financial Results of the Company for the Quarter and Half Year ended September 30, 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
Date: 2024.11.19 12:18:10 +05'30'

Pankaj Virmani
Company Secretary & Compliance Officer

Encl: *As above*

Devyani International Limited

Q2 & H1 FY25 Earnings Conference Call Transcript

November 11, 2024

Moderator: Ladies and gentlemen good day and welcome to Devyani International's Earnings Conference Call. As a reminder, all participants' 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 Pujari from CDR India. Thank you, and over to you, sir.

Anoop Pujari: Good afternoon everyone and thank you for joining us on Devyani International's Q2 and H1 FY25 Earnings Conference Call.

We have with us Mr. Ravi Jaipuria – Non-Executive Chairman of the Company, Mr. Raj Gandhi – Non-Executive Director, Mr. Viral Joshi – CEO & Whole-time Director and Mr. Manish Dawar – CFO & 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 all to our Earnings Conference Call to discuss the Business Performance of DIL's Quarter 2 and H1 FY25.

We are thrilled to announce the expansion of DIL's brand portfolio with the addition of three new lifestyle QSR brands. We proudly welcome '**tealive'** a renowned Malaysian tea and beverage brand, '**New York Fries (NYF)**', a Canadian quick service snacking brand celebrated for its French-fries, hot dogs and poutine and '**SANOOK KITCHEN**' a popular Singapore based brand specializing in Thai and Asian cuisine to the DIL family. With our exclusive rights for these brands in India, DIL is consolidating its strategy of "FOOD ON THE GO" and "HOUSE OF BRANDS". The expansion will further strengthen our market presence and hence will offer our customers a wider variety of food & beverage brands.

Coming to the current quarter, we remain consistent with our store expansion strategy. In the first half of the year, we added 139 new stores, bringing the total store count to 1,921 as of September 30, 2024. We added 85 net new stores in Quarter 2, thereby further strengthening our brand presence. We are investing in new stores across our brands and expanding our reach to connect with our target consumers.

DIL's consolidated revenue for the quarter was Rs. 1,222 crore, reflecting a 49% year-on-year growth. For the first half of the year, consolidated revenues stood at Rs. 2,444 crore, making a 47% growth over H1 of last year. Q2 is typically a softer period for QSR industry in India because of Shravan/ Sawan month during which a significant portion of the Indian population temporarily switches to vegetarian food consumption. Q2 also reflects continuing cautious consumer spending amidst high inflation in the Country.

Macroeconomic factors such as international conflicts and the declining Naira in Nigeria continue to have an impact on the Company's operations. We believe these factors are temporary in nature and therefore we continue with our growth strategy of store expansion and menu innovation. Our core brands have continued to innovate, both by refreshing existing menus items and re-introducing popular favorites as limited period offers (LPOs). In preparation for the festive season, KFC launched new variations of value meal rolls, featuring a range of national and international flavors, including Korean, Thai and Indian. Pizza Hut brought back the Momo Mia pizza in a new and improved version. To meet evolving customer preference, Costa introduced seasonal and regional menu adaptations, also featuring international flavors that will resonate with consumer trends. Vaango, our homegrown brand, is also on a growth trajectory with 90 stores as of September 30, 2024. We are delighted to introduce Vaango's new lineup of traditional snacks including banana chips, murukku and Madras mixture, alongside our filter coffee decoction, all designed to engage and resonate with our target audience.

I am glad to share that DIL has achieved remarkable recognition at the Indian Restaurants Award 2024. Our brands KFC and Vaango have been recognized for their exponential growth, with KFC winning QSR Chain of the Year and our very own homegrown brand Vaango has been honored as Food Court Restaurant of the Year. This is because of the hard work and commitment of our incredible teams.

With the addition of new brands, DIL is well positioned to become India's leading QSR operator, ready to offer an extensive and diverse range of food and beverage options throughout the Country. This strategic positioning enables DIL to meet the evolving taste and preferences of consumers, solidifying DIL's position in the competitive fast-food market.

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

Manish Dawar: Thank you Mr. Jaipuria. Good afternoon everyone.

A very warm welcome and thank you for your valuable time for attending DIL's Q2 and H1FY25 Earnings Conference Call, our thirteenth such call since the listing.

As at the end of Q2 FY25 DIL's total store count stands at 1,921 stores. Our core stores footprint has now exceeded 1,800 stores. These consists of 999 stores for KFC, 599 stores for Pizza Hut and 207 stores for Costa Coffee. The operating revenue for Q2 FY25 was Rs. 1,222 crore, representing a growth of 49% versus Q2 of FY24. The current year numbers are inclusive of the Thailand business which was acquired in January of 2024.

The Indian business witnessed a growth of 7.3% year-on-year mainly due to store expansion. Revenue was flat versus the previous quarter as Q2 generally is a soft quarter, owing to the number of 'vegetarian only' festival days. The gross margin for the consolidated business was 69.3%, an improvement of 10 basis points versus the previous quarter. Gross margins were lower by 1.5% versus Q2 FY24 because of the consolidation of Thailand business which as you all know operates at a lower gross margin versus the Indian KFC business. The brand contribution for Q2 FY25 at 13.6% was lower by 1.7% versus the previous quarter. Drop in brand contribution is mainly on account of lower ADS and hence the deleverage impact, impact of the new store openings and higher brand marketing support in the Indian operations. Consolidated operating EBITDA on a pre-Ind-AS basis was Rs. 114 crore versus Rs. 141 crore in the previous quarter. The pre-Ind-AS margins for the quarter on the consolidated basis was 9.4% versus 11.6% in the previous quarter. The sales deleverage impact resulted in lower EBITDA margins. The consolidated reported EBITDA on a post-Ind-AS basis was 16.3% versus 18.3% in Quarter 1, as a result of flowing the numbers from operating EBITDA line.

The Nigerian currency continued its weakening trend in Quarter 2. During the quarter, Nigerian Naira got depreciated by approximately 9% versus USD and hence impacted the results accordingly. The PBT for Q2 FY25 on a consolidated basis was minus Rs. 4 crore versus Rs. 31 crore for the previous quarter. The reduction in PBT is on account of lower margins in Quarter 2 and further currency devaluation impact on Nigeria.

Taking the discussion to our core brands; KFC in India added 28 new stores in Quarter 2 FY25. With this the total store count for KFC in India stands at 645 stores as at the end of Quarter 2 FY25. Average daily sales for Quarter 2 FY25 at Rs. 96,000 versus Rs. 104,000 in the previous quarter. Revenues at Rs. 543 crore declined 2% on a quarter-on-quarter basis. Gross margin for KFC during the quarter was 69%. Brand contribution margin was 16.6% for the current quarter, thereby reflecting the impact of lower ADS over the previous quarter.

During the quarter Pizza Hut added 23 new stores, reaching a total count of 593 stores in India. Revenue for Quarter 2 FY25 was Rs. 185 crore versus Rs. 182 crore in the previous quarter. ADS for the brand was Rs. 35,000 versus Rs. 36,000 in the previous quarter. Gross margin for the quarter was 76.7%. Brand contribution for the quarter was Rs. 6 crore with a margin at 3.1% because of the additional marketing investments on Pizza Hut.

Costa Coffee added 15 new stores during the quarter, reaching a cumulative store count of 207 stores. Q2 FY25 revenue was Rs. 49 crore which grew by 7.69% over the previous quarter and 41.6% on a YoY basis, mainly due to the expansion of new stores and positive SSSG. The gross margin for the quarter was flat at 75% versus the last quarter and the brand contribution in Quarter 2 stood at 14.5%.

Total number of international stores was 364 with the addition of one new Thailand KFC store in Quarter 2. The international revenue for the quarter was Rs. 394 crore, giving a gross margin of 65.1%, an improvement of 1.4% over the previous quarter. Brand contribution margin was 16% versus 14.8% in Quarter 1 FY25. The reported EBITDA was 13.4% during the quarter.

As the Chairman briefly alluded to, we are happy to announce that DIL has signed the exclusive master franchise agreements for the three brands. All the three brands are going to be addressing modern food and beverage categories and have the bandwidth to operate well in small formats. 'Tealive' is Southeast Asia's largest lifestyle tea brand with over 900 outlets worldwide. 'New York Fries (NYF)' was established in '84 and operates in more than 156 locations, predominantly out of

Canada. 'SANOOK KITCHEN' launched in 2002 is an evolving modern Thai and Asian cuisine chain originating from Singapore.

On that note I would 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. We will start with the question-and-answer session.

Our first question is from the line of Aditya Soman from CLSA.

Aditya Soman: Two questions, firstly, in terms of KFC, can you break down what actually impacted SSSG in the quarter? So, how much of it was because of sort of the geopolitical issues that we faced earlier? How much of it is just the quarter where there's been a weakening of consumer sentiment. And secondly on the new brands, I just want to understand what level of investments would this entail over the next couple of years, any sort of early sense on this?

Manish Dawar: We will first talk about the new brands and then we will answer you on KFC. We have signed the Master Franchise Agreements and as you know that all the brands and their strategies are normally sensitive in nature and are not willing to share too much detail in terms of the localization of menu, stores. As part of our India business plan, we have to work on the entry brand strategy for new brands. As we said in our comments, our focus is going to be on small formats of these brands and therefore it will be very capital efficient in nature along with very attractive paybacks, as this was our prime consideration at the time of evaluating the new brands, and signing the agreements. At the same time we have signed the agreements and given the commitments, the first year is primarily going to be more of an experimentation phase. The capex involved will be very small and once we have experimented and seen good results, we'll expand the portfolio. But having said that once we finalize the business plans along with the brand owners, we will come back to you guys and share all the details.

Aditya Soman: Maybe just a follow up on that. Just in terms of the small format, it will still be a consumer facing format, right? It's not dark kitchen or that is still to be decided?

Manish Dawar: Yes, it will be a consumer facing format. It will not be a dark kitchen model. Because all of these are retail prime consumer facing brands with very good brand equity in the respective locations that they operate.

Ravi Jaipuria: They are all small format and low capex.

Manish Dawar: Aditya coming to your second question on KFC, in terms of SSSG as you'd have seen the numbers, overall, it is continuing at (-7%) versus what it was the previous quarter. But let's say if we were to dissect the numbers by states or by cities and all obviously it's a mixed bag. The happy part is that some of our important markets have given us much better SSSG numbers. Whereas the states that continue to get impacted with the overall geopolitical situation that is more or less the same, in some states we have seen a heightened impact also. But I think we are seeing some green shots in terms of our larger markets. So, let's see how it pans out over the next couple of quarters. But right now, it is more of the same as we are seeing.

Aditya Soman: And maybe just one small follow up here. So, in terms of the impact of new stores, are we seeing that or in other words as some companies classify, would there be a difference between SSSG and like-for-like-growth, if you were to remove the impact of split stores?

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Manish Dawar: We are reporting the SSSG numbers and not talking about like for like. It's absolutely on the same basis and consistent with whatever we have communicated in the past.

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

Jaykumar Doshi: Just a small follow up on these three new brands. As a part of your master franchise development agreement, is there any commitment in terms of how many stores you have to open in a certain period, let's say 1 year, 3 years, 5 years? And in general, how are their contracts versus the contract that you may sign with Yum! brands and essentially the larger US brands?

Manish Dawar: Jay your one question is with respect to the store opening commitments. Obviously, any DA entails a store opening commitment which is there for these brands as well. But as you know these are confidential documents. We have been very conservative, and the brands have been very receptive to the way we are approaching the entire business. Our commitment levels are very low, however after we have done the testing phase and experimented with the brands, we would want to go aggressive with these brands. Furthermore, the way we anticipate that once we have done the business plan, we could easily be looking at much more than what we have committed in the DA. So, therefore, there is no challenge at all. To your other question, in terms of how the agreements are different versus the agreements that we have signed traditionally with Yum! brands, these are much more attractive agreement terms because we had our learnings over so many years and therefore the royalty rates are more attractive in terms of marketing. We are going to be controlling and spending the marketing. These are much more favorable versus whatever agreements we have signed in the past.

Jaykumar Doshi: One more, if I may on this topic. These brands are relatively niche versus the other brands that you have in the portfolio. So, is there a conscious strategy to acquire rights for some very niche cuisines or brands, partially because you are now foraying into food courts as well or we are reading too much into this?

Manish Dawar: Jay, very clearly, if you look at the Western QSR space today and if you were to go back in terms of whatever we are doing, we are present in most of the large categories of Western QSR. Pizza which is the largest category, fried chicken, burgers and so on and so forth. Because of the competing businesses restrictions, we are not able to explain these within the same set. However, if you look at what is happening outside the Country, we have evaluated beyond the traditional categories. We have evaluated which categories are performing extremely well, which one is high growth categories, what is happening with these categories in other parts of the world and, how they have grown over the last few years. We think that going forward these could be the next set of potential categories and therefore the brands that we have signed absolutely address the young categories as we have said. So, that gives us the room to one maneuver in terms of how we approach the brand. Second, as we said, these are much more attractive and favorable terms. And thirdly these categories could well be the growth categories for the future.

Jaykumar Doshi: And one question I have on store additions for KFC and Pizza Hut, you’re generally planning for store addition typically tends to be on a calendar year basis with Yum. So, can you give us some color on how we should think about calendar year 2025 or is it a bit early to sort of discuss that?

Manish Dawar: So, for the current year which is 2024 as we have communicated in the past, at KFC we are looking at about 100-110 stores and we are sticking to the same number for 2024 and for next year as well. Pizza Hut, we have talked about 60-70 stores in the past. Therefore, on a roundabout basis, it will be close to those numbers.

Jaykumar Doshi: So, there won't be any moderation in Pizza Hut next year or you're just right now sticking to this year's numbers?

Manish Dawar: We are evaluating, so we want to make sure that at least we meet our commitments for this year and how the brand shapes up in the next one or two quarters and then take a final call. Because in this quarter, we have put in additional marketing investment, also behind Pizza Hut we have launched new items, we brought back Momo Mia Pizza. The festival season is on, so we want to see the results and then take a final call in terms of the plans for next year. We will communicate and come back to you on that.

Moderator: The next question is from the line of Gaurav Jogani from JM Financial.

Gaurav Jogani: My question is with regards to KFC, and particularly the brand contribution margin. I mean the drag in the brand contribution margin this time around is much higher despite the SSSG decline or the ADS decline being similar to one of the previous quarters. So, anything specific here that the margin declined and how should we think about the margins ahead?

Manish Dawar: Gaurav as you know, Quarter 2 is typically a slow quarter. If you look at the Quarter 2 for KFC, the SSSG numbers are very similar to the previous quarter, however the ADS numbers are lower. In the previous quarter the ADS was Rs. 104,000 whereas in current quarter the ADS is lower, leading to a deleverage impact as expense ratios tend to rise up, even though absolute numbers are similar or are a little lower. Having said that, this is partly a brand-deleverage issue because of the ADS. Additionally, the delivery in the current quarter was slightly higher. Thirdly, we were doing some experiments with marketing initiatives and pricing promotions to see the sensitivity of this category to price change in certain markets. So, it's too early to comment about it, but if we do not see a significant transaction benefit, we will withdraw that and the margins will come back. We have just started doing those experiments in the current quarter.

Gaurav Jogani: Just one follow up on this the KFC bit only, that you have highlighted that there have been some community related issues which has been impacting the performance for KFC, so ex of these states where the impact is higher, would it be fair to assume that now we have come back to a positive SSSG in KFC in those other states?

Manish Dawar: Gaurav, see as far as the vegetarian days are concerned we have seen during post COVID days there used to be pockets in different regions. Whereas now, whenever some festival is there we have seen a broader impact. Earlier around Ganpati Puja, it used to be West whereas now we have seen the impact of Ganpati Puja coming in North also. Similarly, earlier the Sawan impact used to be predominantly in South, and now it has shifted to other regions also. The SSSG predominantly is impacted by the vegetarian days and the geopolitical situation, which continues. With the overall realignment of global politics things should improve, and with the new regimes in the US and all, we hope the situation will thaw and should get better.

Gaurav Jogani: Second and last question is with regards to the Thailand business, if you can throw some light here, how the performance has been during the quarter and we have also seen some margin improvement on a QoQ basis in the international business, so what has led to this?

Manish Dawar: As we have communicated in the past the Thailand business got impacted because of the geopolitical situation. We are seeing a little better performance which has helped us from a SSSG perspective in South of Thailand. At the same time in Nigeria, the currency impact is lower versus the previous quarters and therefore the numbers are better. As you see we have seen much more volatile currency in the earlier quarters, although the currency has depreciated in the current quarter also by 9% but it is better. It's a combination of basically both Thailand and Nigeria that you're seeing better international business numbers.

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

Devanshu Bansal: Congratulations on the three new brands. What is the typical drop in KFC ADS during the vegetarian consumption days versus the normal days?

Manish Dawar: It is more or less in line. This year the vegetarian days have been any different, but the number of vegetarian days has been different in different regions, higher in some cases, lower in some cases. That is where the impact is. So, it's because of the number of days rather than the absolute drop from that perspective.

Devanshu Bansal: Still any ballpark numbers typical drop in ADS, so just to sort of help us project the future quarters.

Manish Dawar: During vegetarian days, depending on whether it is a weekend, depending on whether it is a weekday, obviously the numbers change but the impact will not be more than 10%.

Devanshu Bansal: Secondly Manish, wanted to check on this news flow around drop in urban consumption across FMCG companies. So, wanted to check if in your case there is a material difference in performance of metros versus non metros, if you could highlight that?

Manish Dawar: The overall consumption is slow as seen in the FMCG and QSR numbers. We are addressing probably about top 15% to 16% of the population which is largely metro and Tier I and II and with no presence in rural areas. So, despite some indicators that rural consumption is coming back, its contribution remains relatively very small for us as we are not present in the rural areas. Therefore, the overall consumption needs to pick up and which we think will happen. If you go back a few years all of the economy was getting driven by consumption, the investments were constrained. Whereas in the last few years the investments have picked up and therefore we are hoping that cycles should get corrected, and the investment should result into consumption. Obviously, job creation remains a big opportunity. Overall if you were to look at our view from a medium-term perspective, we are absolutely bullish on the food consumption outside home. And that's how we are looking at the overall portfolio and our overall strategy.

Devanshu Bansal: Manish, there is about Rs. 940 crore of gross debt right across India and Thailand. Obviously, this is because of that acquisition that we have done. So, what is your thought process on reducing this debt going ahead?

Manish Dawar: Given our debt position, we are in a comfortable space because if you look at in terms of the debt equity ratio or the gearing ratio, it's at a good comfort space. Plus, whatever we have communicated in terms of our overall gearing also we are well within that. So, it is not a cause of worry as of now. But if required we will look at our options depending on how the new brands shape up.

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

Percy Panthaki: A couple of questions from my side. So, firstly, is on the KFC-SSSG, on the call Sapphire had said that for Q3 SSSG of (-4) to (-5) would be a fair way to sort of think about the numbers for Q3. Of course, they caveated it saying it depends on how demand pans out etc. But at that point of time, the best estimate that they could give is about a (-5) kind of a number. Would you largely agree with this direction of thought for KFC as a brand?

Manish Dawar: Percy you'll have to go back to Sapphire for whatever they are committing. But as you know in the past also, we never give any future guidance and therefore we will not be able to answer. But let's see how the quarter pans out. Obviously, we will come back to you.

Percy Panthaki: And how has been the experience in the quarter so far?

Manish Dawar: So, it's more of the same thing.

Percy Panthaki: Secondly, I wanted to ask on the three franchisees that you have taken, these brands are almost completely unknown in India. So, is it that much of an advantage taking a franchisee of someone rather than launching some brands of your own? Because the largest benefit of taking a franchise is that the brand is known and that helps you get customers and sales without having to build up the brand in a big way. Smaller things like research on menu and things like that. I am sure that is something that you yourselves can also manage.

Manish Dawar: Percy, you have to evaluate what it is that you have to pay for the brand versus developing your own brand, because that comes with the continuous innovation engine and pipeline that you get. That comes with the identification of all the sources of whatever you have read. So, just to give you an example although bubble tea is a niche market in the Country but if you go back and look at the quality of bubble tea that you get India versus what you get outside, it's very different because they have been through that journey because that category started many years back in the other countries. We also want to ride on this whole development phase apart from whatever you are saying, where people have learned, people have evolved, people have developed, and they have put that into their processes in terms of a better-quality product and that is how the brands are built. I mean it's not going to be a significant cost. As I mentioned to Jay earlier that the newer agreements are at a far more attractive terms than what we have in our existing portfolio. It's well worth taking a brand and growing that in the country rather than your own brand.

Percy Panthaki: And are you at liberty to tell us whether the marketing and ad spend will be sort of handled by us or that is an extra amount you will pay to these brands and then they will do it like Yum! does it in India.

Manish Dawar: It will be handled by us Percy. All of the three brands that we signed. So, what we are supposed to pay to the brand owners is basically the royalty and rest we manage on our own.

Percy Panthaki: And largely this SANOOK KITCHEN, is that like a proper QSR brand because like Asian Food what we have seen here there have been some attempts to sort of make it like a QSR kind of a format but with limited success. Would you say this is more comparable to a Mainland China kind of a brand in India or it is a proper QSR brand?

Manish Dawar: Let us explain you where SANOOK KITCHEN stands and why did we find this brand to be an attractive brand. So, if you're comparing to Mainland China, this format is going to be a much smaller format. The fundamental story behind SANOOK KITCHEN is, they have reduced the serving time versus any of the fine dining or casual dining outlets. They operate virtually like the QSR formats and they put that in a very small format of casual dining restaurant. The consumers are able to experience and get a good quality product and authentic flavors which they have maintained in the entire process. So, a combination of small formats, fast serve time, and attractive pricing is basically where the brand comes from. And therefore, we thought that we can have this format run in a very efficient manner on the food courts. We can also have small casual dining outlets wherever required and without having to tweak with the menu, processes and so on and so forth.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: I have three questions, starting from the international business. I think we have three businesses, Nigeria, Nepal and Thailand. All the three businesses over the last two to three quarters have seen a volatility. I agree that Nigeria currency is a challenge. But then I was more curious that Thailand would have started showing because we had a lot of hopes to improve that. So, tell us something, how these businesses we should look at for next three to five quarters, is the demand situation similar to India of these businesses, are we trying to turn around something? If there is a turnaround strategy maybe you can spell it out.

Manish Dawar: Shirish if you remember our communication around Thailand acquisition, we had said there's a great management team out there, which has been stable since the time this business was set up. And we had communicated very clearly that we would like to continue with the same team. We also said that they are doing a good job, and we would not like to tweak that because we are happy with the way the business has performed and grown. Having said that we also mentioned that we do see some bit of margin opportunity there and therefore there is a room for improvement in that margin in terms of where Thailand operates. And we also mentioned that typically the positioning of KFC there is more mass than a premium brand because chicken is a large market, fried chicken constitutes a great part of the street food and so on and so forth. So, if you look at all those analogies, we are not changing and as you said we are not disappointed with any of those things. We are happy with the team; we are happy with what they are doing. As we had said that there have been some margin opportunities. We have started to work on that. Obviously, what we did not anticipate when we acquired was this whole geopolitical situation which came back later and that has impacted the Thailand business also, typically in South of Thailand and obviously that is something we have to live with and live by and make that it goes back. Also Thailand is not in a similar situation like Indonesia or Malaysia. It's in a far better situation. So, therefore, in hindsight, that decision was probably a good decision. We are on course; we do believe that we'll be able to improve the margins over a period. But again, as you also know the South Asian economies and culture, you cannot be aggressive on day one and you have to go with the flow and gradually change things. So, we are working on the same strategy.

Shirish Pardeshi: Just one follow up here, Manish. Can you strip out the business or break Rs. 394 crore because last quarter also we did about Rs. 390 and this quarter also we did Rs. 394 crore. So, maybe Country wise if you can split out, what is the revenue momentum because I am sure if you adjust the Nigeria currency, every business would have declined.

Manish Dawar: From a SSSG perspective, the SSSG continues to be a challenge across. Obviously, Nepal for us which is a small business is SSSG positive but as far as Nigeria is concerned, it is negative. As far as Thailand is concerned it is almost at a breakeven level with slight negative bias. Thailand April-May-June which was the previous quarter was a strong quarter where SSSG was positive. In the quarter gone by there was a promotion that we had run which did not work. But otherwise to your earlier comment that, is it in line with what is happening in India or what is happening across the world, it is very similar. So, Thailand or Nigeria it is no exception to whatever is happening in QSR across the world or in India specifically. The impacts could be higher or lower, some bit here and there but directionally it's similar.

Shirish Pardeshi: My second question on the margin front; we are now at around 16%-16.5% how we should look at in the second half of this year because SSSG is going to be challenged for India business, and I would expect that the situation is not going to change drastically. Maybe some positive momentum would have happened in the last 30-40 days. But then how we should look at this number for the full year for India business specifically? Maybe, if you can give some indication on company gross margin, EBITDA margin, restaurant margin something like that.

Manish Dawar: Shirish we don't give guidance for future. Whatever we have lost in the current quarter we will be able to recover that back. But at the same time if we go back to the traditional margins, the consumption trends and the consumption patterns have to undergo a change and that is something which we do not have so much control and again, we are an important constituent of the QSR industry now. So, therefore, let's see how the industry behaves.

Shirish Pardeshi: See the reason I am asking because we have seen a similar momentum opening store expansion in KFC and Pizza Hut. So, I think what I was trying to understand, have we changed, tweaked the format because if I look at the regional breakup, I think we are now focusing more on T2-T3 markets? So, is it the nature of the business that will help, and is the 'why' more important, given that the input raw materials don’t seem inflationary at this time?

Manish Dawar: Agree with you. But again, for example a deleverage impact or the ADS number or in the given scenario, whatever we are trying to do as we said on Pizza Hut side, we supported the brand with additional marketing, on KFC side we are experimenting with some pricing options, some promotion options and so on and so forth. Now obviously, these are not immediate, they will not give you immediate results because of the frequency of consumption in the Country. But all of these are more from not only short term but from a medium-term perspective also, let's see how it pans out. In terms of the improvement areas, in terms of what can be done better, there's always an opportunity. So, we are further evaluating the formats. As you know we have cut the formats in the past and it's not that we are sitting at the same level. We continue to evaluate given what the delivery situation is and what the right format is. We are continuously in discussions with Yum. So, these are all continuous things.

Shirish Pardeshi: My last question on Costa Coffee, a year before we had about 146 stores and now, we have 207 stores, but the ADS is cut and the SSSGs look positive. So, I was just more curious, this 27 number looks because of operating deleverage but if I need to ask this 146 stores which were existing last year, would the ADS be similar level or would be higher at 31 or would it be lower than 31?

Manish Dawar: See the ADS numbers are a little higher because obviously the airports for us are doing very well. Typically, we have seen the new city stores that we have opened, take some time to take off and therefore there the ADS numbers are low. But otherwise, captive locations, for example the small formats, are doing extremely well for us.

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

Latika Chopra: My first question was on KFC. If you look at the SSSG trends and if you could share some qualitative flavor, when you compare it to the previous quarters, if you have to break it up in terms of transaction growth and average ticket size growth, how have these two elements behaved? Because you talked about giving more promotions, if you could give some qualitative color on, are you seeing any improvement in transaction growth and are you seeing any underlying degradation in transaction size growth? Just to understand how this SSSG is panning out and also if you could add or elaborate a bit more on a comment that you made earlier around green shoots in some of your larger markets. Is that comment related to Q2 or are you talking about how you exited the quarter? That's the first question.

Manish Dawar: Latika, the comment that we made was with respect to Q2 which is the quarter gone by because obviously we mean the business does not operate uniformly across all cities and across all states. The fact that for example the overall number remains at (- 7%), there will be pluses and minuses. We have seen a positive impact in some of our larger markets, which is a good situation to be in. We have seen that in some states where the geopolitical impact was there, it's got worse. With the new global political scenario emerging let's see how things pans out and how things react. These are yet to be seen. So, therefore, on an overall basis it's more of the same, but within pockets obviously, it is behaving differently. Regarding your other question about the transactions versus the APC, we have made special efforts to upsell and cross sell and we are maintaining the APC. There has been some decline on the transaction side, but we are trying to compensate it through the APC level. Because wherever this whole geopolitical situation is there that is mainly impacting the transactions rather than the value per se.

Latika Chopra: Just a follow up on this. This issue of external issues started in Q3 of last year. So, would it be right to assume that in a way some of this negative impact gets lapped out starting the December quarter?

Manish Dawar: Let's hope so because obviously at the local area in terms of the messaging, in terms of the campaigns that are still on. We are hoping that it should because in these situations, it is difficult to predict the consumer behaviors and the consumer trends.

Latika Chopra: The second question I had was, you had made an announcement of appointment of Mr. Shivashish Pandey as CEO of Yum! Brands from October 28. I think he has a pretty extensive experience in the QSR industry. Any initial color thoughts on any success measures or change in business strategy, any high-level thoughts at his end or it's still very early?

Manish Dawar: It's very early and in fact Shivashish had worked with us in the past for a very brief period and then he had some family compulsions for which he had to go back and settle which he's managed to put behind and therefore he's very pleased and happy to join back, we are very happy to take him back. But having said that it's too early days and obviously there will not be a big change in strategy because there are multiple other stakeholders as far as we are a franchise partner, we are not the brand owners. So, there is a limited room to maneuver as far as the overall strategy is concerned. But we do hope that with this focus and Shivashish coming in, obviously the execution rigor and the operation rigor should improve and should give us positive results.

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

Nihal Mahesh Jham: One question. Over the last 12 months we have seen the large acquisition of KFC Thailand business in December and now we have had these three sign-ups. Just wanted to understand internally what is the kind of template or thought process in terms of maybe incremental opportunities that they're going to evaluate, there is going to be large international geographies or is it going to be these niche brands which can potentially then become much larger?

Manish Dawar: Nihal as we have mentioned in the past, our greatest opportunity and potential remains India, and we are absolutely unwavering on that. Having said that Thailand came as a good opportunity, and we have discussed the reasons for acquisition in the past. It was more of an opportunity-led acquisition rather than a strategy-led acquisition. Our strategy continues to be India. We continue to be bullish on India and we continue to expand the business in India. So, therefore, that is where the niche categories come in. Because we think these are the categories for the future, for example if you go back say whatever when we started the business 25-26 years back, the categories which are big today were very small categories. So, be it the pizza category or chicken category. We think that these could be the emerging categories for the future. And that's the reason we have taken a bet to experiment with these. And once we have experimented, we will try and grow these categories.

Nihal Mahesh Jham: Just final follow up. So, currently I think the India portfolio has around seven brands, if I count Vaango also, it's not as if there is a limit in terms of the number of brands you want to operate. Tomorrow if an attractive opportunity comes by in the domestic market, we will want to take that ahead, right?

Manish Dawar: As long as it is not just about the brand. It also depends on what category it is operating in, what the future of that category is and how it has performed outside the Country. Because as you know we are getting one on a global space with all the internet penetration and so on and so forth. So, therefore, that gives us a good proxy that if a category is doing well outside the Country, it should pick-up in India also. And having said that, as we have just said a few moments back that the current categories that we operate in pretty much cover the QSR space. So, therefore, you have to look at the new categories.

Moderator: The next question is from the line of Ashish Kanodia from Citi.

Ashish Kanodia: Manish the first question is around the consumer behavior. So, you mentioned conducting experiments and initiatives around pricing, discounting, and branding. I just wanted to check, based on your experience, what are you seeing? Is it that more discounting leads to more customer interactions, or are you seeing demand spread across the pricing pyramid? Specifically, are you noticing more demand at the top end, with a slowdown at the lower end? Also, as a related question, is there a difference in consumer behavior between dine-in and delivery? If you could elaborate on that as well, it would be helpful.

Manish Dawar: Ashish, we are doing these experiments in typically small towns because obviously you cannot do big experiments in your large markets. So, these are not experiments which are being done in the metro or the large cities. We are trying to do some experiments in smaller cities which may or may not be ready for a brand like KFC whether let's say if we take some initiative on pricing, where the consumers start to behave differently. It's too early to comment on that, because if it works well, we can have a differentiated strategy for the larger cities and smaller cities because as India is not one Country. There are multiple regions and geographies and as people say there are multiple countries in this one Country. So, we must have some localized strategies running in local way of looking at things. And unless and until we experiment with these things we will never learn, and we'll never have it as a strategy.

Ashish Kanodia: And Pizza Hut you called out, there are some extra marketing spend which is also kind of impacting the brand contribution margin. So, is it significant enough to call out and maybe not looking at numbers but do you see this trend kind of continuing for the next say two-three quarters just to make sure that the brand gets stronger?

Manish Dawar: We have to see the results, because in our scheme of things when we spend the money on marketing or any initiatives, we continuously track and monitor what are the results we are getting. And then we accordingly continue to tweak our strategy in terms of how to spend and where to spend the money. So, we are monitoring this almost on a daily and a weekly basis. Let's see how it pans out and then we'll take a call whether we need to extend this or discontinue it. It's too early to call that out and give a definite answer.

Ashish Kanodia: Just a last point on the three new brand tie-ups. While I understand there will be a lot of strategy discussed later, from a pricing perspective, what are the thoughts? For example, price is something available in India, but some of the products are new as well. So, from a pricing perspective, what is the thought process? Will it be positioned slightly premium, or will it be similar to what you have in KFC or Pizza Hut? Compared to Western QSRs, what kind of price positioning are you planning for this?

Manish Dawar: Ashish our positioning is mass premium, if you have to look at where Pizza Hut and KFC is positioned, this will be more mass, but it will not go down to the absolute local brands pricing because there needs to be some bit of premiumization available. So, the combination of smaller format, lower capex, better positioning and differentiated and new categories, is what gives us the confidence to be able to sign the brands.

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

Manish Dawar: Thank you very much. We hope we have been able to answer all your questions. Should you need any further clarifications or in case you'd like to know more please feel free to contact our investor relations team. Thank you so much once again for your interest and support and taking the time out to join us on this call.

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