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August 12, 2024

To,

National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmlist@nse.co.in Symbol: DEVYANI	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Email: corp.relations@bseindia.com Security Code: 543330
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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 August 5, 2024, post declaration of Unaudited Financial Results of the Company for the Quarter ended June 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
Company Secretary & Compliance Officer

Encl: As above





Devyani International Limited
Q1 FY25 Earnings Conference Call Transcript
August 05, 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 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 Q1 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 & Whole-time Director and Mr. Manish Dawar – CFO & Whole-time Director of the Company.

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

Before we begin, I would like to point out that some statements 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 will 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 for the First Quarter of the Financial Year 2024-25.

DIL added 54 new stores during the quarter with an aim to reach the consumers in underpenetrated markets and offer enhanced customer experience and service. With this addition, our total store count has reached 1,836 stores as of June 30, 2024. We remain committed to expand our store presence.

The consumer sentiment in the first quarter of full year 2025 has remained more or less in line with the trends observed for the consumer industry and QSR industry. This is mainly on account of the challenging macro and microeconomic factors.

We witnessed an improved performance for DIL in Quarter 1 driven by seasonality, cost leverage, from better ADS across our businesses, and a relatively lower impact of Nigerian currency devaluation. The customers remain cautious with their spending, a trend that has impacted our performance as well.

Additionally, macroeconomic factors such as international conflicts and global boycotts continue to impact the operations in certain geographies. The Nigerian currency continued its weakening trend in Quarter 1 as well. On balance, we are delighted with the positive progress in Quarter 1 and shall continue to be relentless in our plans for the coming quarters.

We introduced innovative marketing campaigns, promotional offers and deals on our range of brands, enabling us to capitalize on seasonal trends. Despite challenges, we remain focused on offering value-driven options to our customers to adapt to market dynamics and drive growth.

To further navigate competition and strengthen the connect with younger audiences, Pizza Hut India launched a series of distinctive marketing initiatives across digital platforms and diverse channels. These efforts included increased visibility for Melts through television ads and videos. The highly anticipated Thin N Crispy pizza crust also made an entry to our core business, driving a boost in sales during the holiday season.

We are optimistic that the industry will rebound during the ensuing festive season. We continue to expand our store footprint and make our brands more accessible to our consumers. We are also focused on enhancing our institutional business, including food courts and our presence at high-footfall locations like airports.

To sum up, India presents a highly promising outlook for our brands and the QSR industry. The robust economic growth, rising disposable incomes, and increasing urbanization will drive demand for convenient and high-quality fast-food experiences. We remain bullish on the India story and the QSR space in the medium and long term and are confident that these favorable trends will continue to drive our expansion and success.

Additionally, our Thailand business is demonstrating good growth with new store openings and strategic focus on customer delight.

As announced earlier, we are on track to achieve a total score count of 2,000 stores within the current fiscal year, a milestone that underscores our commitment to growth and our confidence in the future potential of our markets.

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

Manish Dawar:

Thank you Mr. Jaipuria. Good evening everyone. A very warm welcome and thank you for your valuable time for attending DIL's Q1 FY25 Earnings Conference Call, our twelfth call since the listing in August 2021.

DIL's total store count stands at 1,836 stores as at the end of Quarter 1 FY25 with a footprint of 1,738 stores across our core brands namely KFC, Pizza Hut, and Costa Coffee. This consists of 970 stores for KFC, 576 stores for Pizza Hut and 192 stores for Costa Coffee.

The operating revenue for Q1 FY25 was Rs. 1,222 crore representing a growth of 44.3% versus Q1 FY24 and 16.7% versus Quarter 4 FY24. This is mainly on account of consolidation of Thailand business since the acquisition was completed in January 2024.

The consolidated revenue of Q1 FY25 includes operating revenues of Thailand business for the full quarter.

The Indian business witnessed a growth of 11.7% quarter-on-quarter with improved ADS on both of our core brands, that is KFC and Pizza Hut. The gross margins for the consolidated business including Thailand was flat at 69.2% versus the previous quarter. The Thailand KFC business operates at a lower gross margin versus the Indian KFC business. The margins for Q1 FY25 was lower by 1.6% versus Q1 FY24 because of full Thailand consolidation.

The brand contribution for Q1 FY25 was 15.3% with an improvement of 1.8% versus the previous quarter. This was aided by movement in India by 130 basis points and improvement in our international business operations by almost 470 basis points. The all-round improvement is on account of better cost leverage across all our operations with improved ADS and relatively better currency situation in Nigeria.

Consolidated operating EBITDA on a pre-IndAS basis was Rs. 141 crore versus Rs. 96 crore in the previous quarter, a growth of almost 47%. The pre-IndAS margins for the quarter for the consolidated business were 11.6% versus 9.2% in the previous quarter.

The improvement in brand contribution is fully reflected in the operating EBITDA margins for DIL on a consolidated basis. The consolidated reported EBITDA on a post-IndAS basis was 18.3%, an improvement of 1.7% versus Quarter 4 FY24.

The Nigerian currency continued its weakening trend in Quarter 1 FY25. The rate of currency depreciation is better versus the previous quarters. During the quarter, Nigerian Naira got depreciated by almost 10% versus the USD. As a result of this, the Nigerian business has recorded an overall loss of Rs. 22.5 crore on account of USD denominated liabilities during the quarter. Out of this, FX loss Rs. 7.6 crore has been recorded in the P&L and has been disclosed as a separate line item. The remainder currency loss has been recorded as OCI. Such foreign exchange loss on account of Nigeria currency devaluation in the consolidated financial statements shall not form part of the EBITDA calculations being a non-cash item.

The PBT for Q1 FY25 on a consolidated basis was Rs. 31 crore versus a negative Rs. 38 crore for the previous quarter. The improvement in PBT is on account of improved margins in Quarter 1 FY25 and reduction in currency devaluation back in Nigeria.

Taking the discussions to our core brands, KFC in India added 21 new stores in Quarter 1 FY25. With this, the total store count for KFC in India stands at 617 stores as at the end of Quarter 1 FY25. Average daily sales for Quarter 1, FY25 improved to Rs. 104,000 versus Rs. 93,000 in the previous quarter. Revenues at Rs. 555 crore grew 12.3% on a quarter-on-quarter basis. Gross margins for KFC during the quarter was 69.5%. Brand contribution margin was 19.5% for the current quarter, thereby reflecting an improvement of 50 basis points over the previous quarter.

During the quarter, Pizza Hut added three new stores, reaching a total count of 570 stores in India. Revenue for Quarter 1 FY25 was Rs. 182 crore versus Rs. 162 crore in the previous quarter. ADS for the brand improved to Rs. 36,000 versus Rs. 32,000 in the previous quarter. Gross margin for the quarter was 76.8%. Brand contribution for the quarter was Rs. 9 crore with margins at 5%, which grew by 60 basis points on a quarter-on-quarter basis mainly due to better leverage on account of higher ADS.

Costa Coffee added 13 new stores during the quarter, reaching a cumulative store count of 192 stores. Quarter 1 FY25 revenue was flat at Rs. 45 crore versus the previous quarter. The revenue grew by 40.5% on a year-on-year basis, mainly due to expansion of new stores. The gross margin for the quarter was 75%. Brand contribution in Quarter

1 stood at 15%, resulting in a drop of 2.9% versus the previous quarter because of ADS deleverage impact.

Our international operations now fully include the Thailand acquisition. The total number of international stores was 363, with the addition of 10 new stores in Quarter 1 FY25. The international revenue for the quarter was Rs. 390 crore, giving a gross margin of 63.7% and the brand contribution margin of 14.8%. The reported EBITDA was 13.1% during the quarter.

To conclude, we want to reiterate our commitment to the Indian QSR market. As we continue to expand, we remain committed to improving our financial performance by way of prudent financial management in creating long-term value for our shareholders.

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

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Saurabh Kundan from Goldman Sachs.

Saurabh Kundan: My first question is on Chairman's opening comments. He has mentioned that the Company is optimistic of a rebound in the industry during the festive season. I just wanted to understand those comments better. Are there any signs or any data points that you are seeing based on which you are turning optimistic?

Manish Dawar: Saurabh we have seen in the past that in any market, it is the festival season which kind of perks up the store and the overall consumer sentiment. This is the reason we are basing our view that this festival season we could see it, because we have been in this scenario for the last 5 to 6 quarters now. We hope that festival season could probably be a turned down situation for the industry.

Saurabh Kundan: Second one on KFC. If I recall correctly, you were more impacted because of I think Adhik Maas in the September quarter last year. Should we expect a sharp improvement from the current -7 and your base is -4 next quarter. Can we hope for a flattish SSSG on that base?

Manish Dawar: Saurabh, you are right. The overall macroeconomic situation or the macro environment continues to evolve, our store count is also much better versus where we were last year. It is not the same environment which was there last year. We are facing headwinds on account of West Asia war and the boycott of brands which is going on. So, there are multiple other factors also at play, not just the Adhik Maas.

Saurabh Kundan: But at least an improvement from the current minus 7 that we are at, I would assume.

Manish Dawar: We will not be able to make any forward-looking statement.

Saurabh Kundan: One last one, if I can add, if I subtract the brand contribution of KFC India, Pizza Hut, and Costa from the total India brand contribution, I am getting a number of Rs.12 crore, which I am assuming is your non-core India businesses. This number is much higher than in the past. So, is there any one-off in the India non-core, which is bumping the profits or the contribution?

Manish Dawar: Saurabh, there are two, three things at play here. We have other small businesses also apart from the three core brands, which includes Vango, food courts and some of the non-core businesses at the airports. Also, this time we are giving India business and international business separately, and there are some elimination entries on account of

the intercompany transactions. So, you would see that the total India and total international also would not equate to consolidated on account of elimination entries. However, if I were to evaluate India's performance and international performance separately, these are the precise numbers.

Moderator: The next question is from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: Sir, my question again is with regards to Saurabh's earlier question only because you know, earlier when you used to subtract the Pizza Hut, the KFC and all the other numbers, and you can derive the other domestic brand contribution numbers, the run rate used to be Rs. 3 to 4 crore, 5 crore, and this time around its 12 crore. So, I am guessing the eliminations would have been existing earlier as well. So, on the other way round, can this Rs. 12-crore number be sustainable number going ahead? That's the question.

Manish Dawar: The difference is that, if you look back a couple of quarters, Thailand wasn't included. Thailand is a large business compared to the operations in Nepal and Nigeria, which were present in earlier quarters. Also we charge a management fee from the business operations, which gets eliminated on a consolidated basis.

Gaurav Jogani: And sir, the other question, even as you said that if we total up India, the international business, that will not actually equate to the consolidated business. So, is it the adjustment for the Forex loss that is reflecting in the international business and that is why the difference is there?

Manish Dawar: Yes, the Forex loss is treated differently when we consolidate. Some elements of Forex loss are recorded in OCI, while others appear in the P&L line item, whereas at the Nigeria level, everything is recorded in the P&L.

Gaurav Jogani: Sir, if you can help us out, what is really driving the operational performance improvement in the international business because if you go by the last quarter run rate, it was around 10%, 11% and it is a sharp jump this quarter around. So, what is really driving that?

Manish Dawar: Gaurav, if you see the ADS has improved across all our brands and operations. In KFC India, the ADS for Quarter 1, FY25 improved to Rs. 104,000 versus Rs. 93,000 in the previous quarter. In Pizza Hut India, ADS for the brand improved to Rs. 36,000 versus Rs. 32,000 in the previous quarter. If you look at Nepal, Nigeria and Thailand, the ADS is better versus the previous quarter and therefore that gives you a better leverage from a P&L perspective. At the same time there is some element of cost saving measures and a cost leverage impact because of the better ADS numbers.

Gaurav Jogani: So, anything specifically related to Thailand here because that business was only acquired by you in the last quarter and because now you have one full quarter that we have kind of assumed it? So, any particular one offs that you have been getting in terms of benefits that will be sustainable going ahead?

Manish Dawar: No, there are no one-off benefits from Thailand.

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

Percy Panthaki: So, just reconfirming what you said. So, basically, the sales of India plus international minus consolidated, the difference I am getting is 77 million. So, does this mean that basically the services that the parent is providing to the Thailand subsidiary for which it is getting charged, that is roughly equal to about 77 million, which comes into the sales of India and probably goes into the cost line item of Thailand?

- Manish Dawar:** Yes, it is for Thailand, Nepal and Nigeria.
- Percy Panthaki:** So, if I have to evaluate the India performance, I should be deducting 77 million from the pre-IndAS EBITDA or the post-IndAS EBITDA to get the true performance of India. Would that understanding be correct?
- Manish Dawar:** Percy it's a regular income and these are the costs that are incurred by India on account of the other subsidiaries in terms of the supply chain services and central negotiations. It is that cost which gets nullified.
- Percy Panthaki:** And where does that cost sit in India? It would not be sitting in any of the four major brand contributions, right? It would be outside that, right?
- Manish Dawar:** It will be spread across various sites.
- Percy Panthaki:** But would it be part of let's say a KFC brand contribution because that's a service provided for our entity outside India, no need to have it as part of the brand contribution of KFC India or Pizza Hut India, right?
- Manish Dawar:** There could be some small elements which could be there because we do nominate some of our store guys to go and visit there.
- Percy Panthaki:** Secondly, just wanted to understand on the India margins that you have reported in your presentation on a pre-IndAS basis, the India margins have declined by 70 basis points from 12.6% to 11.9%. But on post-IndAS basis, they have increased from 20% to 20.5%. So, there is 120 basis points kind of differential or rather swing, which is happening. So, what is causing that?
- Manish Dawar:** Percy, as you know, the IndAS calculations are based on how many new stores you opened, which stores you have shut, the variable rental deals, and the fixed rental deals in place. And therefore, it operates quite differently from the pre-IndAS numbers. This is entirely a separate lease accounting standard, and the entries are recorded accordingly.
- Percy Panthaki:** Sure, I got that. But generally, the rough basis points change in the pre-IndAS and post-IndAS roughly speaking is similar. This time the direction only is different. So, is there any particular reason for this quarter?
- Manish Dawar:** The reason is that our store openings have been relatively lower in the current quarter.
- Percy Panthaki:** I will probably take this offline.
- Manish Dawar:** We have talked about 7% to 8% difference in the pre-IndAS and post-IndAS numbers. So, it's pretty much close to that.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** I have one question on KFC India. I think that in the last two quarters we have been seeing that the ADS and the same store sales growth is also under pressure. Obviously, it's a function. If the SSSGs are higher, you will see the ADS will improve. And obviously, the overall business will improve. So, I just wanted to understand the product interventions and whatever we are doing, is it enough giving us the confidence that the recovery will happen if the festive season come back with a strong momentum?
- Manish Dawar:** Shirish, see, product innovation is always a continuous process, but at the same time if you look at the ADS numbers and the SSSG numbers, we have been able to deliver the

margins very well. And it's a combination of how do we optimize on the marketing spends, what promotions we run, what we offer from a perspective of value layer menu, all these results into the margin numbers. So, there are multiple equations at play, which is what we need to balance, and that's how we make sure that even though the SSSG is negative, we are able to deliver the margin. And once we see the ADS and the SSSG coming back, the margins will improve ahead of that.

Shirish Pardeshi: Manish, I got that. The reason why I am asking, when you look at the Pizza Hut, which is most affected and Pizza Hut has seen a higher decline of SSSG, but we have been able to maintain the revenue. So, what is it that the change consumer is seeing between KFC and Pizza Hut? That's what my bigger question is.

Manish Dawar: Shirish, on Pizza Hut, we are spending some extra because, we have seen a continuous decline in this brand over the last 12 to 18 months. And we have taken a conscious call to increase our marketing spend on Pizza Hut and as well as the product innovation. But again, because of that, you will see that the brand contribution margin for Pizza Hut are still low. So we are going back to basics and building the brand again.

Shirish Pardeshi: So, therefore, my larger question on Pizza Hut is that in the medium term, we have taken a pause on more number of stores opening. So, as a management priority, what is the important thing? Is it SSSG, ADS, or profitability is important?

Manish Dawar: See, Pizza is the largest QSR category, there is no reason why we should not play a Pizza Hut brand, or we should not be present in the Pizza category. Pizza Hut is a national number two brand and has a very high consumer recall and confidence. Therefore, it is important that we should bring back the brand.

Shirish Pardeshi: My last question on Thailand. Since you have done the acquisition, and you gave us the logic why we have taken Thailand under our stride, just wanted to be more curious, what are the changes we have made, what are the things which has not yet happened, and whether you think, because somewhere, when we did the acquisition, you said there is a gross margin opportunity and there is a margin improvement which can happen. So, in that journey, if you can give some qualitative comments.

Manish Dawar: Thailand is a recent acquisition which we got at a great valuation, the team there is very stable and the business is doing well. So, there is no need to think of the model which is there on a huge basis. We will be able to improve the margins and it will happen over a period of time. Structurally, the gross margins in Thailand for KFC brand are lower because the brand positioning is more mass premium versus premium as compared to India. Thailand addresses a far bigger consumer space, and therefore, the number of transactions are higher than the number of transactions in India. From the overall brand hierarchy point of view KFC is very well positioned. But again, there are margin opportunities at brand contribution or at the EBITDA level, which we will gradually capitalize on as we go along.

Shirish Pardeshi: Just one suggestion. Like you have started giving much more information on Vaango, can you start giving such details for Thailand business at least for next two to three quarters?

Manish Dawar: We will evaluate that, Shirish.

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

Latika Chopra: My first question was on KFC India. Could you give us some flavor of how the month-on-month trends behave during the quarter? It seems the April month would have been

a little tougher because of the shift in Navaratri, but any color on how May and June progressively looked to you?

Manish Dawar: Latika, there are seasonal months in between the quarter. Whenever there's a summer holiday season or whenever some sporting event is happening, those months kind of pick up. The same thing has played even in the last quarter between April, May, and June, there are no different trends.

Latika Chopra: So, it doesn't give much color on whether sequentially you have sensed any change in consumer behavior?

Manish Dawar: Not yet.

Latika Chopra: The second question was, when you analyze, or if in case you have that data on market share of KFC on third-party aggregator platform revenues, have you seen any discernible change?

Manish Dawar: Latika, if we were to look at our ADS numbers, the revenue, whatever the percentage contribution from the aggregators have remained similar. We don't formally measure the market share on the aggregator platforms. I think we have an opportunity to improve on the dine-in for KFC and Pizza Hut, and we are working on that piece as well.

Latika Chopra: The third question was, would it be possible for you to give us some color on what was the same store sales growth for Thailand in the quarter?

Manish Dawar: We have not disclosed the Thailand numbers and we will evaluate that later, but just to give you a comfort for Thailand, the same store sales growth is positive. And at the same time, the geopolitical impact that we are seeing in India, is similar for our stores in Thailand and South. And, if I were to negate that, the overall SSSG is healthier. So, even after including the South stores, the Thailand SSSG is positive.

Latika Chopra: And since you brought up, you talked about the geopolitical issues, I remember in the previous quarter, we were kind of talking about some stabilization from this impact, but is there any change in that expectation given the recent development?

Manish Dawar: There is again big news flow which has started to come in last couple of days. Obviously, as these things happen, there is this whole WhatsApp campaign, which again tends to build up.

Latika Chopra: And lastly, any incremental update on the Food Court partnership?

Manish Dawar: We have incorporated the company which is between us and PVR. And you will see some business to start coming in from the last quarter of the current calendar year, which means October, November, December.

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

Nihal Mahesh Jham: Three questions. Manish, I was asking in case of Pizza Hut, is it the launch of Melts along with the marketing campaign around that the immediate driver of the revival that you are trying, or there are other aspects also in the background that are happening to get the brand back to its early performance?

Manish Dawar: Nihal, we have launched Melts and the Thin N Crispy which is a new dough category. We are supporting it well with our new marketing campaign, and that is helping us.

- Nihal Mahesh Jham:** Maybe the SSSG numbers that you have reported still point to the overall weakness, but anything over the last few months that is pointing to the brand showing improvement or say these specific product launches helping you out?
- Manish Dawar:** Sequentially the SSSG numbers are better. It's too early to kind of call out, but we are moving in the right direction. Pizza Hut has started moving in a positive direction. So, let's hope it continues.
- Nihal Mahesh Jham:** And until then, is there a thought on the number of stores you plan to open or that remains depending on how the performance goes?
- Manish Dawar:** Nihal, as we have mentioned earlier on Pizza Hut, we are approaching a little caution, in the current quarter the new store openings are relatively lesser versus what we used to do in the past. The whole objective is to make sure the brand comes back. We remain bullish on the pizza category as well as the brand.
- Nihal Mahesh Jham:** The second question was on KFC Thailand. During the acquisition, you mentioned that it's a three-player market in terms of you plus others. If I look at India and say experiences globally, there are a lot of places where there are two franchises that operate. Is it a possibility in the future where you are interested that you could acquire one of the franchises? Would that be a possibility just to think of from our side?
- Manish Dawar:** Nihal, there are multiple types of markets and YUM has all kinds of models. There are markets which are operated by single franchise partner, there are markets with dozens of franchise partners, and there are markets where one franchise partner is operating multiple countries. Therefore, that does not give us any trend that what could happen in Thailand.
- Nihal Mahesh Jham:** Manish, just last bit on the PVR tie-up, I think PVR alluded to some kind of outlook in terms of the number of food courts you all are planning. Any sense from your side as to what will be the ballpark opening of the food courts you are trying for this year and next?
- Manish Dawar:** Nihal, it will be a similar number, because it's a joint business plan.
- Nihal Mahesh Jham:** As in like the clarification from your side because it was not very certain, that number was penciled out. It's obviously been three months and there is no clarity on it.
- Manish Dawar:** Yes, you will start to see some of the food courts opening in Quarter 4 of the current calendar year. We want to experiment with the food courts and see how the JV is progressing. We want to test it before we go with the big bang expansion.
- Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.
- Devanshu Bansal:** Congratulation on a good margin performance. Manish, if we look at channel performance, KFC's off-premise channel has grown faster at about 19 odd percent while Pizza Hut has seen about 4% to 5% decline. What is the reason according to you for this different consumer behavior across Pizza Hut and KFC?
- Manish Dawar:** If you look at KFC, our off-premises consumption was 41% in the current quarter, which has remained the same over the last three to four quarters. The off-premises consumption percentage has remained the same, however there is an improvement on account of higher ADS. The uptake you are seeing is coming from a higher ADS. Similarly, from a contribution perspective in terms of off-premise and on-premise, even Pizza Hut has remained the same around 55%-56%, with an improvement in the overall ADS.

- Devanshu Bansal:** So, you are saying last time around in Q1, off-premise was 37% for KFC which has moved to 41%. But over last three quarters, it is about 40%-41%. So, maybe lower base was there, right? Is that what you mean?
- Manish Dawar:** Correct. And even Pizza Hut if you look at, in last four quarters it's been pretty much in the same zone 55%-56%.
- Devanshu Bansal:** And second is on Costa Coffee. SSSG has sort of moderated this time around in Q1 versus high single digit in past few quarters. Anything to call out here or is this some one-off because of which the performance has been impacted?
- Manish Dawar:** So, we are expanding on Costa and because of the aggressive store expansion we are seeing some impact. Also in the current quarter there were some one-off's disruption in our food supplies, we are not seeing these numbers coming back.
- Devanshu Bansal:** Any call on the store openings for Costa or they are expected to continue?
- Manish Dawar:** They are expected to continue. But again, Costa has a much more moderate target compared to KFC or Pizza Hut.
- Devanshu Bansal:** Third, book-keeping question. If I look at your overhead costs, they have largely remained stable sequentially this year versus a significant pickup last year. So, have we deferred our annual increments, etc?
- Manish Dawar:** No, we have not deferred our annual increments, it was on time. We have been on time with our variable pays as well. So, that is not an issue. But we have initiated some cost saving measures and therefore we are trying to control the cost in the environment we are in.
- Moderator:** The next question is from the line of Dhiraj Mistry from Antique Stock Broking.
- Dhiraj Mistry:** So, first question is on Pizza Hut. I am looking at sequential number where your ADS has improved from 32,000 to 36,000. But we have not witnessed that kind of margin improvement at the store level EBITDA despite no material store addition during the quarter also. Can you explain that sir?
- Manish Dawar:** Dhiraj, we have started investing back in marketing and are trying to get the brand back. We have invested in the innovation and the marketing campaign. These are the reasons, we can see better ADS numbers and not on the brand contribution side. As we go along, and once we have managed to re-establish the brand, the marketing cost will taper down and from there you will start to see the brand contribution improving.
- Dhiraj Mistry:** And sir, if I go back in the history, let's say, two years, three years before where your average daily sales was somewhere around 38,000 and at that time you were making store level EBITDA margin of almost mid-teens type of numbers and currently, we are at mid-single digit. So, can we expect that once the ADS crosses 40,000 or 42,000 that double-digit EBITDA margin can be made in this Pizza Hut franchisee?
- Manish Dawar:** Yes, at that level of ADS, we will be able to easily get into the double-digit margin.
- Dhiraj Mistry:** And sir, another question on KFC. During this quarter, there was Navaratri festival which was there in April and also geopolitical tension which impacted KFC sales. Excluding number can you give us what kind of SSSG decline we would have witnessed during the quarter?

- Manish Dawar:** Dhiraj, if this is a one-time event in a year, we would be happy to give you those numbers. In India, festival seasons, for example Navaratri, comes twice in a year. We are moving into Sawan or the month of Shravan, where people turn vegetarian, and it is not a festival season. So, there are multiple such occasions which pass around the full year, and it is difficult to measure by those blocks.
- Dhiraj Mistry:** So, what I meant to ask is, like, if Navaratri was in April and then May and June was relatively much smoother month, the SSSG growth or decline during those two months versus April month would be materially different or not?
- Manish Dawar:** It is not materially different, but it is different. Sawan time in North and in South behaves differently. Similarly whenever Navaratri's are there and at the time of Kolkata Durga Puja, the sales actually go up. So, there are multiple variables which are there.
- Dhiraj Mistry:** And sir, can you give your guidance on KFC store addition for the year? Pizza Hut, yes, we have maintained our conscious stance on store addition, but what are the expectations for KFC during the year?
- Manish Dawar:** We are looking at 100 plus store count for KFC, for the full year.
- Dhiraj Mistry:** And for Costa Coffee?
- Manish Dawar:** Costa Coffee will be about 50-60 stores.
- Moderator:** The next question is from the line of Marut Chaudhary, an individual investor.
- Marut Chaudhary:** Sir as you have informed two quarter ago that if the Nigerian Naira goes below or above 900 it will impact us positively or negatively. Last quarter we got impacted as it went up and this time also we got impacted as it went up 10%. So, at what level of the Nigerian Naira going up or down will result in gain or loss for us?
- Manish Dawar:** Marut if currency depreciates continuously then we will keep on losing. And if the currency improves, then that stops. In the previous quarter Nigerian currency devalued by almost 32% versus dollar, whereas in this quarter, it is around 10% compared to last quarter, this quarter is a little better from a currency point of view. But, if the currency depreciates then there will be a loss.
- Marut Chaudhary:** Can you give us a number that if it goes above 1600 we will be in loss and if it goes below 1500 we will not see that much of a devaluation?
- Manish Dawar:** We will not be in loss below 1500 because we have already recognized up to that level, if it falls further we will make a loss and above that level we will not be in loss.
- Marut Chaudhary:** What is that level sir, is it 1500?
- Manish Dawar:** We cannot disclose that number.
- Marut Chaudhary:** Sir Q3 seems to be a good quarter for QSRs, is there any such seasonality in Thailand as well?
- Manish Dawar:** Yes, it is there in Thailand as well. Christmas and New Year season in Q3 is a good quarter for KFC in multiple parts of the world, and Thailand also sees the uptick of that. Similarly, in the summer season Thailand has a festival called 'Songkran' when it also does well.

- Marut Chaudhary:** We are seeing an engagement in our JV with PVR so sir if you can tell us that we have had a JV with R. K. Associates what is happening on that side? How many stores have we opened and what you can see going forward?
- Manish Dawar:** We have not opened any stores under the JV because there are some complications with respect to Railways bidding. Some stores which have opened are considered in the standalone financials in Devyani International. Although the business is coming in Devyani, the numbers in the JV will be seen once the basic things get sort out.
- Moderator:** The last question is from the line of Tejash Shah from Avendus Spark.
- Tejash Shah:** Just one question from my side. I was just looking for a reconciliation in two statements that you made on Pizza Hut margins. We said that despite higher ADS, the margins were under pressure because there was heightened marketing activity. And I think at some point you also said that brand was slightly under-invested or perhaps we wanted to add on the branding franchise. So, should we see this heightened activity as a normal spend so that brand doesn't suffer again in future and then we don't have to go through this volatility on brand franchise from the consumer perspective?
- Manish Dawar:** Tejash, post-COVID there have been multiple exceptional situations. There was a strong inflation which led us to reduce the intensity on promotions and other activities. We had issues with our fun flavor pizza, there were multiple such issues which impacted the brand. We have corrected most of that now and are introducing new innovations to the market to build the brand back. We believe that this will not be a constant requirement. It's a matter about stabilizing the brand and with that we will see the margins coming back again.
- Tejash Shah:** Can you elaborate on the nature of this spend? Is it like we actually increase ad spend or we support innovation with slightly lesser margin discounts? What exactly it entails?
- Manish Dawar:** It's predominantly the ad spends across mass and digital media and the heightened one around the stores in terms of outdoor media. We have kind of tweaked promotions a little bit so that the consumers can get a good value when they walk into the store. And therefore, you would have seen that there is a small impact on the gross margin as well.
- Tejash Shah:** And the last one on this, does the larger proportion of this heightened spend goes into food aggregator platform or is it equal between, among the two platforms?
- Manish Dawar:** It's mainly on mass media.
- Moderator:** Ladies and gentlemen, I would now like to turn the conference over to the management for closing comments.
- Raj Gandhi:** Thank you. I 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 taking the time out to join us on this call. Look forward to interacting with you soon.

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