Devyani International Limited

Q3 & 9M FY22 Earnings Conference Call Transcript
February 4, 2022

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

Anoop Poojari: Good afternoon, everyone. And thank you for joining us on Devyani International's, Q3 and 9M FY22 earnings conference call. We have with us, Mr. Ravi Jaipuria – 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.

We would like to initiate the call with opening remarks from the management following which 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, maybe 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 second earnings conference call post listing to discuss our business performance for the Q3 and 9 months ended December 31, 2021. I hope you and your families are keeping safe and healthy.

I am pleased to inform you that we have continued to build on the momentum in our business by way of store additions, revenue enhancement and profitability. As a result of this strong performance, this has been the best quarter for your Company in the entire history of DIL.

At Devyani, our focus has always been on constantly improving the quality and safety of our operations. We also endeavor to enable our customers to experience the globally renowned brands at an acceptable price point through our Omni-channel network.

Towards this goal, we continue to accelerate the expansion across our markets. We have opened 81 net new stores in Q3 of the current financial year. With this, we have added 192 net new stores across our brand portfolio in the 9 months ended December 31, 2021. Our long-term focus is on consolidating our presence in key metro cities, while tapping into smaller towns, enabling us to take our brands closer to our customers.

As on December 31, 2021, we operated 339 KFC stores, 391 Pizza Hut stores and 50 Costa Coffee stores in India. Our total system stores count stands at 884 across all our brand portfolio.

With consumers returning back to dine-in and our continued focus on improving delivery sales, we surpassed our pre-pandemic performance in Q3 of the current fiscal year. We will continue to work hard on improving our performance going forward.

We have also seen another wave of pandemic by way of a new variant towards the latter end of the calendar year 2021. This has again resulted in multiple restrictions in various states, leading to some impact on our store operations and higher contribution of delivery in January.

We are well placed to capitalize on the significant opportunity that India presents in the food service industry and more particularly in the QSR segment. Our brands are well positioned to cater to the young Indian consumer expectations and meeting their challenging lifestyle and eating out habits.

With this, I would like to conclude my address and now hand over to Manish for his comments. Thank you.

Manish Dawar: Thank you Mr. Jaipuria. Good evening, everyone. A warm welcome to all of you for sparing your valuable time and making yourself available for our Q3 & 9M FY22 earnings conference call, and our second results call post the listing in August 2021.

As mentioned by the chairman earlier, DIL has had a strong third quarter. And we are on course to pursue our strategic growth objectives with a strong financial discipline, and a vigorous focus on operational execution. As mentioned earlier, in the current quarter we opened 81 net new stores by adding 40 new stores for Pizza Hut, 30 stores for KFC, and 5 new stores for Costa Coffee including one flagship store in Gurgaon. We continue to expand to new cities and have opened stores in 19 new cities in the last quarter. With that we are now present in close to 200 cities in India across our brand portfolio.

Outside India, we opened one new store each in Nepal and Nigeria, respectively. As a result of this aggressive store opening momentum, we now operate 391 Pizza Hut stores, 339 KFC stores, and 50 Costa Coffee stores, as of December 31, 2021. We also operated 28 stores in Nigeria and another 18 stores in Nepal. The total system wide store count stands at 884 as of December 31st versus 803 stores a quarter ago, and a count of 692 stores at the beginning of the current financial year.

We continue to deepen our presence in the existing cluster as well as increase our footprint in the emerging cities in India. In our Core Brands portfolio, metros account for 386 stores as of December 31st, representing 49% of Pan India store count.

We have reported a strong business and financial performance during the third quarter and 9 months period ended December 31, 2021. DIL consolidated revenue from operations grew by 65% year-on-year, and 21% quarter-on-quarter to INR 624 crore in Q3 FY22. The growth was driven by new store openings coupled with great consumer turnout during the holiday season. While on-premise sales picked up traction in the current quarter, the in-home consumption also remained strong. This has helped improve our ADS numbers as well as SSSG rates across our Core Brands. Please note that on-premise is expected to dampen a little bit again because of the third wave of COVID hitting all of us in the form of new variants in January 2022.

Our international business also reported healthy performance during the quarter with revenue witnessing a 22% growth on quarter-on-quarter basis. The profitability in the local currency, as far as our international operations are concerned, is in line with the rest of the portfolio. As mentioned earlier, the dine-in sales made a great comeback with on-premise sales improving further to 64% for KFC from 56% in Q2 FY22 and 42% for Pizza Hut from 38% from Q2 FY22. On-premise refers to the total sales from dine-in, eat-in, and takeaway sales.

Coming to the Core Brand performance. KFC registered a strong performance with a revenue growth of 64% YoY, and 20% quarter-on-quarter during this quarter. KFC delivered a gross margin of 69% with a strong YoY growth, gross profit grew by 69%, and stood at INR 251 crore for the brand. Brand contribution stood at INR 83 crore with a margin of 23%. Again, a strong YoY and sequential growth performance.

ADS for KFC stores came in at approximately 124,000 for the quarter, higher than 112,000 a year ago, and 116,000 a quarter ago. SSSG for KFC stood at 24% during the quarter. Pizza Hut, our second Core Brand, also delivered a strong performance with a top line growth of 64% YoY. Momo Mia Pizza which was launched in Q2 continues to see a strong adoption. Gross profit stood at INR 118 crore for Pizza Hut higher by 67% YoY, with margins at 75.6%. Brand contribution stood at INR 26 crore with margins at 16.8%.

We are nearing the 400-store milestone for Pizza Hut as far as Devyani Pizza Hut stores are concerned. Pizza Hut ADS maintains its growth momentum and is now at INR 47,000 versus 40,000 a year ago. SSSG was higher at 25% during the quarter. With the Q3 performance, Pizza Hut is a strong INR 600 crore brand for us on an annualized basis.

Revenue from Costa Coffee grew 88% YoY, gross profit stood at INR 11 crore with consistent margins close to 80%. Brand contribution stood at INR 5 crore and margins at 32.1%. We continue to focus on improving our profitability by maintaining and managing unit economics and achieving economies of scale. During the quarter, on a consolidated basis, our gross profit increased by 71% YoY, and 22% QoQ to INR 446 crore with gross margins improving by 270 basis points YoY to 71.4% in Q3 FY22.

On Pre-IndAS-116 basis, consolidated EBITDA improved to INR 103 crore - more than double the INR 46 crore in Q3 of last year. Reported EBITDA which means post-IndAS-116 EBITDA increased by 67% to INR 148 crore in Q3 of the current financial year from INR 88 crore a year ago. Reported EBITDA margins were healthy at 23.7% of the revenue from operations. PAT this quarter came in at INR 66 crore primarily on the back of improved brand performance, new stores, and continued cost optimization initiatives.

As you all know, DIL is a socially responsible business with diversity at its core. On World Braille Day, KFC introduced a Braille enabled menu across its restaurants. KFC is also supporting the Indian Test Cricket Association and is a principal sponsor for the IDCA until the ICC World Cup for the Deaf in 2023. We support and develop gender diversity amongst our employees. In this direction, Pizza Hut has opened its first all-women's store in Gangtok during the quarter. Although we operate other all-women's stores in Nepal, this was the first all-women's store in India for Pizza Hut. We now operate 19 all-women stores, and 13 stores are operated by differently abled employees. We believe such initiatives will allow our diversity hires to step up and play a greater role in our organization.

To conclude, with continued strong operational and financial performance, we look forward to your continuing support in our journey, which we believe will create long term sustainable value for all our stakeholders. On that note, I would like to request the organizers to open the forum for any questions or suggestions that you may have. Thank you very much for your time.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session.

The first question is from the line of Chirag Shah from CLSA.

Chirag Shah: Thank you and congrats to the entire Devyani team on a great set of numbers. My first question is on Pizza Hut. We have covered some good ground in terms of improving the unit economics of Pizza Hut. Can you just talk a bit about what has worked so far, and the opportunities going forward, and is there still significant room for improving unit economics?

And also, if you can touch upon what are we doing to improve the brand connect of Pizza Hut with millennials? Because in my view that is very, very important, and also on improving the delivery time?

Manish Dawar: Hi, Chirag. Thank you so much for your compliments. As we had earlier indicated at the time of the IPO, we have successfully migrated the Pizza Hut business to a have a stronger delivery focus compared to a higher dine-in focus earlier. These delivery-focused stores have better unit economics than a typical dine-in focused store. Going forward, most of our new stores will be delivery-focused, which should support the improvement in the overall unit economics of the brand.

As we increase our store count, the brand visibility & salience improves. This helps the existing store base as well and creates a sort of virtuous cycle. This gives us the confidence that the current momentum in new store openings will help improve the business performance.

As far as the brand connect with the millennials is concerned, I am sure you must have seen that we launched a new pizza called Momo Mia Pizza around the latter end of Q2 i.e. around the Puja time. Our communication strategy for the product has also been finely tuned to appeal to the millennial consumers. It is a great example of how we are trying to fine-tune the language and the tonality of our messaging to appeal to younger consumers – who are a key demographic. Momo Mia Pizza has connected very well with the millennial consumers, esp. our consumers from the East and North-East.

Chirag Shah: Okay, sure. How do you go about improving the delivery time for Pizza Hut?

Manish Dawar: The density of delivery outlets is a key factor impacting the delivery time. As we build more stores, the density improves and it helps us in reducing the delivery time. Over the last twelve months, we have opened more than 100 Pizza Hut stores. As we open new stores and increase the density, our delivery time should further improve.

Chirag Shah: Sure. And Mr. Jaipuria, now that we have the new Costa Agreement in place, what are the plans to take Costa Coffee and Vaango, going forward in terms of network rollout?

Ravi Jaipuria: We signed the revised agreement with Costa Coffee parent fairly recently – in August. Since then we have focused on building up the team and the pipeline. We opened 5 stores in the last quarter, and going forward, we hope to accelerate the store openings.

We opened one flagship store in Gurgaon and its performance has been fabulous. In the coming quarters, as we open more flagship stores, we expected higher visibility and thus improving brand salience. It is a business with very strong Gross Margins & EBITDA margins, which is why we are very positive on Costa.

Chirag Shah: And any change of thoughts in terms of taking the Vaango brand forward?

Ravi Jaipuria: Vaango, as you know, performs very well in high-throughput locations. Unfortunately, due to COVID, the footfall at these locations – e.g. Airports, Shopping Malls & Food Courts has fallen significantly. However, when the COVID restrictions are lifted, in our experience, the footfalls and throughput will recover quickly, and the Vanngo business should show better traction.

Moderator: The next question is from the line of Vivek Maheswari from Jefferies.

Vivek Maheswari: Great results, a few questions, first on the P&L side. So, I mean, sequentially, gross margins have slightly moved up and this is a busy quarter, your revenue numbers are higher, obviously, on a sequential basis. But when I look at margins, I would have thought that there would have been an uplift. And when I look at staff costs, as well as other expenses, those have moved QoQ. So, can you just elaborate on, because we do not have last year's number, so I just want to make sure how the seasonality works in third quarter versus second quarter.

Manish Dawar: Hi, Vivek. As you know, Q3 is a holiday quarter. We have Durga Puja in the East, then we have Dussehra & Diwali, followed by Christmas and finally the New Year. Q3 has thus been traditionally a very strong quarter not only for us, but almost the entire industry, and that definitely helped.

Regarding the Gross Margins, we took a little bit of price adjustment on KFC during the beginning of the quarter, a minor price increase. As we had said in the last quarter, chicken prices are going up, and we have successfully managed to pass on that price increase to consumers.

Pizza Hut is also witnessing a rise in input costs, but so far we have managed without a price increase. We have tweaked the product & deal mix to be able to protect the Gross Margins so far. We are also evaluating price increase for Pizza Hut, but the final decision has not been taken yet.

Vivek Maheswari: Okay, got it. Second, on this, let us say, Pizza Hut ADS of INR 47K. What is your aspiration, not next 1 year or 2 years, but where do you think this number should ultimately settle? Or what is it that your target or aspiration would be in the medium term?

Ravi Jaipuria: Long term, our aspiration is to close the gap with the ADS of the market leader, but it is going to take some time. We are working diligently, building upon the momentum in store openings. We had earlier talked about SSSG expectation of at least a 10% increase this year, and we have performed better so far. With more stores operating at a higher ADS, we will have much bigger advertising kitty to build top-of-the-mind recall for the brand, which should grow this brand further.

Vivek Maheswari: And conversely on KFC, where you are at INR 124K, now is it fair to assume that this number will probably move more in line with inflation and a few percentage points higher for the older stores, whatever the equivalent number is? Which essentially means that SSSG cannot be even closer to double digit but more, let us say, 6%-7%? Or do you think you can do better than that once there is a normalized base?

Ravi Jaipuria: For KFC, as we had earlier indicated, we are targeting a steady state SSSG of 4% - 5%. The Q3 ADS of INR 124K is higher because of the seasonally strong quarter, and should not be considered as a base number for modeling purposes.

Vivek Maheswari: Got it. And last question, the pace at which you are adding stores, in your models, what is the level of casualty that you build in for these stores? Because when you are adding at such a pace, there will obviously be stores which will not work out for various reasons. So, what is a fair number if we are taking, what is the level of casualty we should build in?

Manish Dawar: When we mention likely net additions of 200-250 stores per year, we have already built in expected store closures since there is always a small chance that the store may not be successful due to external factors. In our mind if store closures are less than 5%, we have done a great job. Over 5% but under 6%- 7%, we are still okay. Beyond that, it starts hurting. At present, store closures are less than 5%. For modeling purposes, I think 5% would be a realistic number going forward.

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

Nihal Jham: Good evening to the management and congratulations on the strong performance. Three questions from my side. Starting off with Pizza Hut, I just had an observation that when I look at the share of off-premise in the corresponding quarter of last year, it is actually higher, and it has fallen this year. Whereas I think this quarter has seen a lot of dine-in. So, is it that this reflects the fact that most of our network now is delivery aligned? Would that be the right way to look at it?

Ravi Jaipuria: Yes, all the new stores we are opening are delivery-focused Omni-channel stores.

Nihal Jham: Absolutely. And what would be the current mix of delivery base stores and approximately the average square footage of them?

Ravi Jaipuria: Our delivery-focused stores are at about 800 - 1,000 square feet. The size may vary depending on the location and dine-in requirement, but the standard size is between 800 - 1,000 square feet.

Nihal Jham: Sure, this is helpful. The second question, again, related to Pizza Hut was that we have seen a very strong store addition of 94 stores in Pizza Hut in this year itself. But we still managed to improve our margins on the brand contribution. So, is it that the existing cohort of stores is doing very well that the new stores margin is being compensated for that? Or is the ramp up of the new stores significantly much faster than what traditionally has been in most QSR formats?

Ravi Jaipuria: It's both. Our new stores are performing well and, of course, our old stores are also ramping up nicely. We have enough headroom to open new stores, and we are selecting the best sites and opening the right stores.

Nihal Jham: Sure. If I may just, to understand, let us say, the stores we have opened at the start of the year, is the ADS very close to the average INR 45,000-47,000 that we are reporting? Or does that number get achieved more towards 12 or 15 months of operation?

Ravi Jaipuria: For a store to mature, it takes about 12-15 months. In Q3 we observed that the ADS of the new stores were better than the new store ADS of earlier cohorts. The reduced gap with mature store ADS means that the new stores will mature quickly – closer to 12 months than 15 months.

Manish Dawar: Nihal, there are three things that we need to focus on here. One is obviously, as a strategy, the smaller format stores are working very well for us. Further, when we enter a new location, a smaller format delivery-focused store starts to perform well much sooner.

You may recall that we had earlier during the IPO talked about a ramp-up period of 15 - 18 months. Our partnership with food aggregators is helping us to ramp up the stores faster. The stores also become visible a lot earlier, compared to if we had relied on our own delivery network.

At the same time, as Mr. Jaipuria mentioned earlier, Q3 was a seasonally strong quarter and a normal quarter from COVID perspective, leading to a strong consumer turnout.

Nihal Jham: Understood. This is helpful. One last question from my side is on the international business. Now, this business had seen an addition of, at max say, I think 5 to 7 stores over a 3-year period. But just in the last year itself, I think we have added 10 stores and the ADS at INR 150,000 is much higher than what even the India business has achieved. I do not have a comparable number, but is it that we are turning our focus on ramping up operations here? And what has led to this change in the international business?

Manish Dawar: Nihal, we have earlier said that as far as our international operations are concerned, we are not expecting any cash coming back from them nor are we expecting to invest there any further. However, the business is profitable and cash generating in the local currency, which we are re-investing in capex for store expansion in the respective markets.

As far as the ADS is concerned, the International Business portfolio is more skewed towards KFC compared to the India portfolio, and the ADS for KFC as a brand is much higher than Pizza Hut. This results in higher ADS for the International Business.

Ravi Jaipuria: Also, the COVID impact in those markets were much lower than India.

Nihal Jham: Understood. That's clear. Thank you so much, and wish you all the best.

Manish Dawar: Thank you.

Moderator: The next question is from the line of Vikrant Kashyap from KRChoksey.

Vikrant Kashyap: Good evening to the team and congratulations on good set of numbers. Sir, I have two questions. One, we have added stores in new cities in last 2 quarter. And in the peak season of Christmas and New Year, we saw COVID third wave picking up and continuing in January. So, can you throw some light, how this has impacted new cities? How is the performance there?

Manish Dawar: The new cities, Vikrant, have been a mixed bag, to be honest. There are a few cities which have seen a very strong and very early adoption, wherein we have really managed to ramp up in a few months' time. On the other hand there are cities that have taken a little bit longer. Overall, as we have indicated earlier, it takes about 12 to 15 months. Probably closer to 12 months than 15 now.

Obviously, it will be a mixed bag in terms of where. For example, we have seen that a new store in Eastern region ramps up faster, whereas, in Karnataka, maybe it is a little bit slower. So, there are some patterns which are emerging, which are new after COVID. It is still a little early to confirm these trends, though.

Vikrant Kashyap: Okay. My second question, we had added -- gone aggressive in store addition. We understand there was some lag due to COVID Wave 1, Wave 2 that we are trying to fill up. So, do we expect the Company to continue with the same run rate, or it is going to soften going forward?

Ravi Jaipuria: No. I think there is no reason for us to slow down the run rate. We will continue with the similar run rate, give, or take couple of stores.

Manish Dawar: Vikrant, if you remember the initial guidance around the IPO time was of 200 - 250 stores, between all our brands. With the performance so far in the first 9 months, we think it will be closer to 250 rather than 200 for the current financial year.

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

Percy Panthaki: Hi, sir, just wanted to understand one thing before I ask the question. This ADS number that you are giving, that includes which stores? Is it for stores, which have completed at least 12 months or completed at least 3 months? I mean, what is the definition for the inclusion of stores into the ADS calculation?

Ravi Jaipuria: No, this includes all the stores which have opened till that date.

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Manish Dawar: And this is worked out on the basis of the actual operating days. For example, in case of a new store that has opened towards the last week of December, we will only take those last 7 or 8 days to calculate the ADS.

Percy Panthaki: Understood. So, I wanted to understand both for KFC, as well as Pizza Hut. What would be the ADS if I look at only the stores which are, at least, 24 months old?

Manish Dawar: We are not disclosing that number separately. But obviously, given the new store additions that we are doing, the older stores have a higher ADS.

Percy Panthaki: Yes. I just wanted to understand what is the potential ADS for the entire Company once the new store drags, sort of reduces to a material extent?

Ravi Jaipuria: First of all, I do not think our pace is going to slow down. I do not see our pace coming down for the next 5 - 10 years at least. Beyond that, I do not have anything to say yet.

Percy Panthaki: Okay. Because in order to do some store economics, calculations for a mature store, probably I will take this offline. My second question is, supposing if I just assume that you could have, let's say, Pizza Hut store in every 2-kilometer radius at least, I mean, both the franchisees put together, you all should have, at least, 1 Pizza Hut store in a 2-kilometer radius, and KFC anyways, there is no overlap of area. So, let us assume that KFC can have a store in a 3-kilometer radius. And if I do this exercise for the towns that you are currently present in, just for the sake of simplicity let us forget about the new town entry, how many more stores can you open as per this algorithm in each of the brands?

Ravi Jaipuria: Consider the market leader, they already have approx. 1,500 stores. We are nowhere close to it. So, it will take us, at least, a few years just to reach their current level. There is a lot of room to expand. Moreover, even after having 1,500 stores, the market leader is still adding more stores. And if you look at China, they are talking of 20,000 KFCs in China. In terms of where the QSR sector in India can potentially be in 10 – 15 years; there is a huge scope.

Percy Panthaki: Understood. Last question on margins, the restaurant margins for KFC at 22.5% - 23%, is there any further upside to this? Or now we are at a very healthy margin level? And on Pizza Hut also, how much more leeway for expansion of margin there is given our store opening program?

Ravi Jaipuria: On KFC, the margins are already healthy, and if we can sustain this we will be very happy. On Pizza Hut, obviously, as our ADS and topline grows, the margins can improve. There is scope for improvement. Further, at the Company level, with higher number of stores, we will get leverage on our HO cost and we will get some benefit on margins from that as well.

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

Ashish Kanodia: Thank you for taking my question. The first question is in terms of dine-in capacity. So, as we open smaller stores both for Pizza Hut and KFC, how does the dine-in capacity for these stores get reduced?

Virag Joshi: So, the dine-in capacity remains the same. We have approx. 40 seats in a typical 1,000 - 1,100 square feet Pizza Hut store, which is in line with our strategy that we had defined earlier. And in KFC, a typical store is of 1,750 square foot and has 60-to-65-seats. So, there is no compromise as far as the dine-in seating for the customer is concerned.

Ravi Jaipuria: And of course, if we feel that there is an area where there is higher scope for dine-in, then we can open slightly bigger restaurants.

Ashish Kanodia: Okay. So, if I understand it correctly, so as you open smaller stores, it is basically the backend kitchen where the size is shrinking, is that correct?

Ravi Jaipuria: No, the resizing has been overall, including the back-end kitchen. Originally we used to have a 2,500 square feet or bigger store and now we are talking of 1,600- 1,700 square foot store. The kitchen has been re-designed, but it can only be squeezed up to a point. The bulk of the right-sizing has been in the dining area. Earlier stores used to be 100 – 120 seater stores, which have now come down to 60 - 70 seaters. This has largely driven the reduction in store size.

Manish Dawar: Ashish, look at the way the consumption habits are changing for consumers. The consumers are increasingly preferring in-home consumption. Obviously, in this case it does not make sense to create the same size of dine-in area. Basis our analysis of how consumer habits are evolving, we are not compromising on the number of seats. Rather, the stores have been right-sized to align with the shifting trends. Our stores are geared to cater to the dine-in capacity that we need in their respective trade areas.

Virag Joshi: Ashish, previously our stores used to be much larger at approx. 3,000 square feet, with 150 seats in KFC.

Ashish Kanodia: Right. So, basically from 3,000 square feet 150 seats, we are closer to 60 - 70 seats in KFC and in Pizza Hut, maybe from 120 to we are closer to 40 seats now, right?

Manish Dawar: Yes.

Ravi Jaipuria: Absolutely. And QSR Pizza as a business is not conducive to dine-in format anymore. In-line with this trend, our stores are also delivery-focused. However, if a consumer prefers to eat there, we always have some seating available and the consumer can pick up the pizza and eat it on the premises. However, we do not have full-scale service.

Ashish Kanodia: Sure, sir. That is helpful. And just a related question on this is, when I look at the ADS number, and if I do a calculation, so of course, in case of off-premise consumption, absolute revenue has seen a solid growth compared to pre-COVID levels compared to Q3 FY20. But, in terms of on-premise revenue, and I am talking about absolute revenue on ADS basis, KFC's revenue is down by almost 20%, and Pizza Hut is maybe down by around 25% - 26%. So, is it because of higher number of Delco stores in the current base versus a greater number of or higher share of delivery, dine-in stores in the older days? Or is there anything else as well?

Manish Dawar: Ashish, if I were to compare the Q3 numbers in terms of dine-in, or rather, on-premise consumption versus the Q3 of last year, then on KFC, we have gone up by almost 8%, and similarly on Pizza Hut, we have gone up by 7% - 8%. But at the same time, please remember that KFC as a business has seen a sharp structural change in terms of the demand shifting towards delivery, rather than continuing as dine-in. That is the reason we have consciously started opening smaller format stores rather than the earlier 3,000, - 3,500 square feet stores. We saw that coming, and we were ahead of the curve.

Similarly, Pizza Hut was traditionally focused on dine-in stores, and we have consciously pivoted as a strategy, from a dine-in portfolio to a delivery-focused portfolio. Having said that, compared to last year in both the brands, the dine-in numbers are higher.

Virag Joshi: By 8% in both the brands.

Moderator: The next question is from the line of Vishal Punmiya from Nirmal Bang.

Vishal Punmiya: Yes, thank you for the opportunity. I just had one question. You disclosed the mix of off-premise and on-premise for both the brands. If you can also help me with the breakup of own versus aggregator sales within delivery for both Pizza Hut and KFC, which would be really helpful. Thank you.

Manish Dawar: The big portion of the sales, as far as the off-premise is concerned, is coming from the aggregators. Our own delivery is really very small. It is growing organically, but our focus has been primarily to deliver through aggregators because that helps us in multiple ways.

Vishal Punmiya: So, this would be same for both the brands?

Manish Dawar: Absolutely. On Pizza Hut, our own delivery is slightly better than KFC. But again, relative to the overall delivery size, both are small.

Vishal Punmiya: Okay. And what is your view, in terms of going forward when most of the aggregators are now choosing to reduce promotion intensity within their platform? And even with dine-in proportion now increasing, what do you think that mix will look like going forward in terms of the aggregator sales within the delivery platform?

Manish Dawar: I agree with you that the dine-in proportion will go up a little bit, and we are happy with that because that is relatively a little more profitable business for us. The way we look at it, as far as the basic consumer habits are concerned in terms of out-of-home consumption, the frequency is going to go up. It is expected given the relatively young median age in India and with increasing mix of millennials and working women who would prefer to dine out or order. It is the mix between delivery and dine-in which will vary, and we are well prepared for this change.

Vishal Punmiya: Got it, understood. Just lastly, in terms of one of the new launches that you have done for Pizza Hut, the Momo Mia Pizza, if you can call out, how has been the performance in a very short period of time of the introduction of that product? In terms of how it has improved sales per store or ADS for the stores where it was introduced?

Manish Dawar: Momo Mia Pizza – we launched around the Puja time, and it has seen a very strong adoption in all the Pizza Hut locations. We have seen a very strong performance in East and Northeast because those are the consumers who are absolutely loyal to momos. And therefore, the format has really worked wonders there. Overall as well, it is seen a strong adoption. We also launched a side dish called Baked Cheesy Momos. Between these two, the numbers are in the high single digits.

Vishal Punmiya: Are they available across regions where you are present?

Manish Dawar: Yes. They are available across all the stores.

Moderator: The next question is from the line of Trilok Agarwal from Aditya Birla Sun Life Insurance.

Trilok Agarwal: Thanks for the opportunity and congratulations on a great set of numbers. Now I just had a question with regards to the incremental store addition that you have guided earlier as well. So, is it fair for us to assume that, so far we have not seen any meaningful impact on the ADS despite the very strong addition YTD in the new stores? Is it fair that, despite strong additions, you will probably maintain such kind of ADS going ahead as well?

Manish Dawar: Hi, Trilok, as we have said earlier, as far as India as a country is concerned, wester QSR brands are hugely under-penetrated. Having said that, definitely, there will be a point in time in the future when there will be a marginal impact on the stores as we continue to improve the density of the stores and the delivery times. But I think, for the next couple of years, we are in a good shape.

Trilok Agarwal: So sorry, maybe I should rephrase my question. My question is not about the opportunity size or the store opening. That is not the point. The point is, so YTD the new stores that you have been opened up, are you seeing the same run rate? Or is the ramp up faster than you thought of in terms of average daily sheets, is what my question is.

Manish Dawar: The ramp up is a little faster compared because of our partnership with food aggregators. Whenever we go to a new city, this partnership ensures that we are visible and operational much sooner.

Trilok Agarwal: Okay. So, basically, this kind of average is what we should think when we build our models, is that correct?

Manish Dawar: Yes.

Moderator: The next question is from the line of Mayur Liman from Profit Max Securities.

Mayur Liman: What is the outlook for the next quarter? Can you share your thoughts, please?

Manish Dawar: No. We are not giving any guidance for the next quarter or next year.

Moderator: The next question is from the line of Shrinivas Aiyer from Rockfort Consultancy.

Shrinivas Aiyer: Congratulation for excellent set of numbers. How much is your assumption of say, 5 years going ahead, how much will be the store count across the format?

Manish Dawar: Shrini, we have talked about in the past that we are looking at an annual run rate of opening about 200 to 250 new stores. We have demonstrated that in the current year and this is what we are looking at for the next few years as well.

Shrinivas Aiyer: Okay. My next question is, how is the response in tier 2, tier 3 cities, and the smaller towns, etc.?

Manish Dawar: The response has been terrific. If at all, it has surpassed our expectations, and it is getting reflected in the numbers as well. We have talked about this earlier; as far as the consumer mindset or the consumer aspirations are concerned, today there is no difference between a metro city or a Tier 1 or a Tier 2 city, given let us say, the overall macros and internet penetration. So, we have seen some great response in smaller cities as well.

Moderator: The next question is from the line of Priyam Khimawat from Infinity Alternatives.

Priyam Khimawat: You just highlighted the fact that most of our delivery-based business is coming from the aggregators, and we are happy with that. And maybe it is beneficial to us. But when we take the example of a larger peer, they have been following the different approach wherein they deliver themselves. And probably they have a higher share coming from their own app. So, can you help us with, why do you think this is better versus what the others are doing? And can you give your take on that?

Manish Dawar: Priyam look, every Company has its own strategy and that is what I think we have talked about in the past as well. Let us say, if you look at the peer group, when they started delivery, there were no food aggregators present. Internet penetration & accessibility and mobile phone ownership were much lower than at present. And therefore, they had no option but to create their own delivery network. Whereas, when we decided to pivot our model from a dine-in focus to a delivery focus, we had multiple options to choose. We thoroughly evaluated all the options and took a conscious call that it makes sense, given the evolutionary stage and the size and scale that we have with our brands to go with the food aggregators, rather than create our own delivery infrastructure.

And this is really helping us from a ramp up perspective, and at the same time has becomes a variable cost model versus a fixed cost model for us – compared to if we were to create your own delivery infrastructure. Financially, there is not a big difference between our own delivery infrastructure vs aggregators, and you can see that Pizza Hut margins and the peer group margins are not hugely different. Therefore, after having considered all the criteria, we took a call that we would like to go with food aggregator platforms. That is not to say that we will never move to our own. But given the size and scale that we are at currently, we will be sticking with the food aggregators for some time.

Moderator: The next question is from the line of Ashit Desai from Emkay Global.

Ashit Desai: Thanks for the opportunity and congrats on the good set of numbers. I just had one question on the capex, do you indicate what is the capex incurred during the 9 months and what is our current cash position?

Manish Dawar: So, Ashit, as we have mentioned earlier, our blended capex across the brand portfolio would be about INR 1.2 crore per store; which is blended across KFC, Pizza Hut, Costa, Vaango - all the stores. And whatever we have incurred so far in 9 months is in line with this figure.

Ashit Desai: Okay. So, around INR 220 crore or so?

Manish Dawar: Yes. And again, just to add that all of this has been generated internally, and there has not been any additional borrowing in the books. We are generating cash, as you can see from the EBITDA performance. So, we are in a good, comfortable position.

Ashit Desai: Got it. And fair to assume this will continue, that entire new store addition will be funded by the internal approval?

Manish Dawar: Absolutely. Yes.

Moderator: the next question from the line of Yashwanth Kumar, an Individual Investor.

Yashwanth Kumar: So, my question is with respect to the competitor, Popeye's which has opened in Bengaluru location. So, do we continue to ramp up the stores along with the new products that we plan to launch every year?

Virag Joshi: Yes, absolutely. We will continue with our new product launches. And we will keep increasing our store count as well in line with the guidance that have earlier given.

Yashwanth Kumar: Okay. And I mean, regarding the competitor as such, how much of it would have an impact with respect to the ADS that we are currently having with respect to KFC stores?

Manish Dawar: Yashwanth, so far we have not seen any significant ADS impact on our stores. We are monitoring our stores in the micro markets where the new Popeye's stores have come up, and we have not seen any major impact. As we talked about earlier, when a new brand launches, it will help expand the market. We have seen this earlier with Burger King and McDonald's. That is also what we have seen with Pizza Hut and Domino's. We will probably see it similarly play out KFC and Popeye as well. So, we welcome the competition - it will help expand the market and thus help us as well. Therefore, we welcome the new entrant.

Yashwanth Kumar: Okay. And one last question from my side. So, this is about the small store formats that we are planning. So, is it strategically placed not just in the malls? So, will it be placed across the communities where people stay in a huge city and the colleges? So, anything of that strategy that has been planned?

Virag Joshi: It will be a mixt of both. It would be in high street locations and also in malls. And also in the food courts in malls. So, it will be a mix of all three.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Raj Gandhi: Thank you very much to the participants for attending our investors call. And for any details, you can anytime reach out to our Investor Relations team. And it will be a pleasure to satisfy your requirements. And thank you very much once again for your patience, your time, and address, phone numbers are given in our presentation. Thank you very much.

Manish Dawar: Thank you.

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