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May 24, 2023

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 SEBI (LODR) Regulations, 2015, transcript of the Investors & Analysts Conference Call held on May 17, 2023, post declaration of Audited Financial Results of the Company for the Quarter and Financial Year ended March 31, 2023, 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

Q4 & FY23 Earnings Conference Call Transcript

May 17, 2023

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

I now hand the conference over to Mr. Anoop Poojari from CDR India.

Anoop Poojari: Thank you. Good afternoon everyone, and thank you for joining us on Devyani International Q4 & FY23 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; Mr. Manish Dawar – CFO & Whole-Time Director; and Mr. Rahul Shinde – CEO, Yum! Brands and Whole-Time Director of the Company.

We will 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 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 for the 4th Quarter and the Year Ended March 31st, 2023.

In our first full year of performance post listing, DIL demonstrated strong growth momentum and we have crossed some very significant milestones. Our consolidated revenues have reached close to Rs. 3,000 crore backed by store additions across brands and continued healthy performance from existing stores. We now operate 1,243 stores across our portfolio of countries and brands. We have managed to more than double our store count over the last 3 years. Despite this being a largely pandemic impacted period, both KFC and Pizza Hut crossed important store milestones of 500 stores each, and Costa Coffee has crossed 100 stores as of March 31st, 2023.

This phenomenal growth performance by DIL India was acknowledged and facilitated by Yum! at the International Franchise Conference held in Singapore. Earlier this year, where DIL India was awarded the Explosive Restaurant Growth Award. Innovative product development through our Yum! partnership along with execution rigor has been a major factor in helping us grow.

As we continue to expand our footprint across the breadth of the country, we believe our foray into the value offerings should lead to long-term benefits. The launch of KFC Lunch and Rolls that provide great value to our esteemed customers have seen a strong initial traction. Premium products like the Chizza and the Peri-Peri chicken at KFC were equally well received.

In Pizza Hut, we have seen enthusiastic response to the “Flavour Fun” range, our “Value Layer”. We have also recently launched a refresh of the PH menu consisting of 10 new pizzas and new sides which is being welcomed by our patrons.

High inflation across industries and categories led to a short-term impact on consumer sentiment and demand in the second half of the current financial year. Despite this, our performance has been resilient and we have continued to invest in the business to ensure long-term growth.

I am pleased to share that we opened 305 net new stores across our portfolio in FY23 with 66 net new stores getting added in Q4FY23 itself.

We continue to actively pursue new trade areas in metro cities and upcoming locations. This will help us take our brand closer to our customers and give them better experience. Thus, solidifying our presence in the domestic markets.

Looking ahead, the confidence in our brands and the Indian market remains strong, we are seeing initial signs of inflation stabilizing, this gives us hope that a rebound in consumer spending in second half of the coming fiscal. By maintaining financial discipline and operational excellence, we are well-positioned to emerge stronger and capture growth opportunities in the future. We remain firmly committed to our objective of creating sustainable long-term value for all our stakeholders.

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 and thanks to all of you for your valuable time for attending our Quarter 4 and FY23 Earnings Conference Call, our 7th such calls since the listing of DIL back in August 2021.

We closed the year with 1,243 restaurants, more than double the 610 restaurants that we had 3 years ago. In FY23, we opened 305 new stores across our brand portfolio with 66 of these coming in Quarter 4. With this globally we now have 543 stores for KFC, 510 stores for Pizza Hut and 112 stores for Costa Coffee in our portfolio as at the end of FY23.

Our metro and non-metro distribution of stores in India continue to shift in favor of non-metro destinations with 53% of the core brand stores in India now in non-metro locations. The potential for QSR sector lies in Bharat, while Metros currently account for a significant share of consumer spending, we firmly believe that the upcoming towns will be the engine of growth in the coming decade. This will really help QSR in gaining real momentum in the country and playing to its potential of being a mass-market player.

Operating revenue for FY23 stood at Rs. 2,998 crore, representing a 44% year-on-year increase. This was supported by a 33% increase in store footprint. All round inflation and input cost led to slightly lower gross margins at 70% versus 71.2% in the previous year. Despite the combination of changes in product mix and investments made in our businesses, brand contribution margins moved in line with the gross margins but stayed at a healthy 18.7%.

Judicious cost control limited the impact on operating EBITDA, which on a pre-IndAS basis was Rs. 435 crore versus Rs. 299 crore for the full year last year. The operating EBITDA margin at 14.5% was 10 basis points up on a year-on-year basis. Reported EBITDA, which is post-IndAS was Rs. 655 crore for the year with margins at 21.9% versus Rs. 476 crore a year ago, almost a 38% growth.

Profit before tax stood at Rs. 242 crore versus Rs. 123 crore last year, which is almost a 97% jump on a year-on-year basis. For the quarter, operating revenues stood at Rs. 755 crore, growing 28% on a year-on-year basis. Gross margins came in at 69.6% due to stable cost during the quarter. Brand contribution at Rs. 124 crore and margins at 16.4% were lower due to deleverage and the higher store operating costs. These include the recognition of the full year statutory bonus and higher spending on local store promotions in the second half to drive the consumer sentiment in our favor across all our brands. Operating EBITDA was Rs. 91 crore representing a 12.1% margin.

Coming to our core brands, KFC in India added 126 net new stores in FY23, reaching a total count of 490 stores as at the end of the year. Average daily sales for FY23 was 117,000 versus 113,000 for the previous year on an expanded footprint of stores. Annual SSSG was healthy at 16%. KFC India revenue was Rs. 1,771 crore which grew 45% on a year-on-year basis. Gross margins at 68.3%, lower by 100 basis points compared to the previous year due to sustained inflation in raw chicken prices and some of the other raw materials. This has impacted the brand contribution margins, which at 20.2% are slightly lower on a year-on-year basis. On-premises consumption remains steady at 62% during the current year. For the quarter, KFC India added 29 net new stores, revenue at Rs. 444 crore are higher by 26% on a year-on-year basis. The sequential impact is due to weak consumer demand as a result of the shift in the timings of key festivals and the fewer number of operating days in the quarter. ADS came in at 106,000 with SSSG at 1.9%. Gross margins for the quarters to 68.6% deleverage due to lower ADS and the higher store operating costs led to brand contribution margin of 17.5% in the quarter.

Pizza Hut in India added 93 net new stores this year to surpass the 500-store mark, as pointed out by Mr. Jaipuria earlier, and it reached a count of 506 stores. ADS for the year was 42000, revenues came in at Rs. 700 crore, growing 32% YoY and SSSG was 4.4% for the year. Cheese prices continue to trend higher. As a result of this and the product mix changes, gross margins came in at slightly lower at 74.4% in FY23 versus 75.6% during the previous year. Brand contribution margin saw a small dip to 14.5% versus 16.3% last year because we saw that the milk prices continue to escalate during the year and we did not pass that on by way of price increase during the backend of the year. Product mix changes because of introduction of "Value Layer" and investments in the brand helped with the on-premises consumption, keeping it steady at 42%. During the quarter, Pizza Hut India added 23 net new stores revenue was at Rs. 170 crore which was 16% up year-on-year. ADS was marginally over at 39,000 with a negative SSSG of (-3.2%). The gross margin was steady at 73.3%, brand contribution margin during the during the quarter was 9.2%. We believe that the introduction of the "Value Layer" is a good initiative to drive organic volume growth in the medium-to-long term, however, in the short-term it has led to a little dilution in sales and ADS. We are proactively working on improving the performance of the brand, including the margins from the "Value Layer" brand. One of the recent initiatives have been to refresh the menu and the launch of 10 new pizzas recently in the month of April. The new pizza focus on contemporary palate and are designed to appeal to the youth. In conjunction with the launch of "Your Mood, Your Pizza" campaign, we have also brought gamification to the whole pizza ordering experience by offering personalized pizza recommendations based on customer moods. To support all such initiatives, we have marginally increased the marketing spends as well.

Costa Coffee crossed the 100th store milestone in FY23. We have added 57 stores during the year to develop our footprint and to reach a total of 112 stores. Revenue also crossed Rs. 100 crore mark with ADS for the brand improving to 35,000 versus 29,000 for the previous year. The gross margin was slightly lower at 79% because we saw the inflation in coffee and milk prices in Costa also. Due to investments required in the rapid expansion and sustained input inflation, FY23 brand contribution was a little lower at 23.6% for the full year. We believe that the input inflation should bottom out over the next few quarters and hence we expect consumer sentiment to improve.

The food services market is evolving rapidly with newer technologies and platforms like ONDC. While we are still in the early days, we believe that these have the potential to benefit all the stakeholders in the industry. We have already onboarded Pizza Hut on the ONDC platform and we are working on integrating all of our other brands on these new platforms to ensure that we are available wherever our customers desire.

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 very much, Sir. We will now begin the question-and-answer session. We have the first question from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: A few questions. First, Manish on SSSG, what is the outlook as we head into, let's say first half for first quarter this year? I mean the exit has been (-3%) to (+1%). So, what are your thoughts, how are you seeing macro on the ground right now.

Manish Dawar: Vivek, the way we look at it from a SSSG perspective, our medium-to-long term outlook on both the main brands has not changed. If you remember, we talked about KFC at being 5% to 6% and for Pizza Hut we talked about 7% to 8%. So, we are not changing any outlook from a medium-term perspective. But from a quarter-to-quarter perspective, there could be volatility. So, therefore, we "do not comment on a quarter-on-quarter basis, but otherwise we are not changing any of the guidance.

Vivek maheshwari: I understand that Manish, but given how the quarter has trended in the second half, do you think we are closer to the bottom right now or things, you expect, can get worse before start improving in the second half because the lower base starts to impact only from the December quarter?

Manish Dawar: Vivek, we believe that we are towards the bottom end of the cycle, because, if you see on a macro basis this sector typically follows consumer staples. When there was a downside coming, we saw similar trends. We have started seeing some recovery in the consumer staples and therefore that gives us confidence that this sector will also follow similar trends from a recovery perspective. Second, if you were to look at the input price - chicken prices have started to moderate and you will see that in the numbers in the next quarter. Oil prices have already tapered off from the peaks they were at. Similarly, if you were to look at the flour prices, they are slightly lower. Even on the packaging material side, we are seeing that the paper prices have started to come off a little bit. The only piece which remains a concern is therefore the milk prices and the cheese prices and 'we have all seen the multiple commentaries in public domain. So, we are hoping that cheese prices should also start to stabilize in about 6 months' time. Therefore, with this, we do feel that we are towards the bottom end of the cycle and things should start to recover from here.

Vivek maheshwari: That's quite interesting. Manish secondly, any update on how we are thinking about FY24 store additions in both the key brands?

- Manish Dawar:** In the past 'we have talked about 250 to 300 stores. If you look at our FY23 performance, 'it is close to 305. So, we are maintaining the same for next year as well. We will on an overall basis be close to 300 store additions for FY24 as well, with a broad split of say ~100 for KFC, (~100) for Pizza Hut and another 60-70 stores for Costa and the rest will be some of our smaller brands & International operations.
- Vivek maheshwari:** Second on gross margins in case of KFC there is 100 basis point expansion quarter-on-quarter. Is this entirely led by lower chicken price or there has been product price hikes as well?
- Manish Dawar:** In Quarter 4, there was no product price change. Gross margin movement was primarily led by the cost of chicken and then there were some benefits from oil and all. Even in case of chicken, the full benefit has not flown because we are sitting on inventory that will take another couple of months to taper off. But we are seeing that all the new contracting, new Purchase Orders (POs) that we are raising is at a lower price.
- Vivek maheshwari:** Hopefully, input prices stay benign or cool-off even further. What are your thoughts on product pricing strategy at that point of time because your gross margins still are lower than 'let us say where the peaks were, but the consumer sentiments are also weak. So, how do you intend to manage the equilibrium in terms of sales versus margins?
- Manish Dawar:** Vivek, see if you look at the product pricing or the consumer pricing, it is not just related to the input pricing, there are multiple factors at play. So, as with KFC 'we have taken a slight price increase in the month of April, which is just the last month and it is to take into account the outlook we have for the year. We also need to balance our overall portfolio from a top-line and margins perspective. You would have also noticed that in KFC, we introduced a "Value Layer" by way of Rolls and KFC Lunch. So, therefore there are a lot of other inputs that go into the pricing decision. But just to give you the reassurance, in KFC, if you remember our peak margin performance was 69% to 69.5%, we should see that coming back over the next few quarters.
- Vivek maheshwari:** Sure. And just to follow up Manish, isn't it a bit given how consumer sentiments are and I understand, I hear you in terms of we probably closing to the bottom now, but do you not think taking a product prices at this point of time can be a bit counterproductive?
- Manish Dawar:** So, we are cognizant of the category and the brand. So, for example, if you were to ask me the same question for Pizza Hut, my answer will be different because Pizza Hut, despite the fact that the milk and cheese prices continue to go up throughout the year, we did not take a price increase during the back quarters and therefore we have taken a hit on the margins. Even now 'we have not taken any pricing on Pizza Hut. So, therefore pizza as a category is different. KFC is a different category and we try and compensate the consumers by way of deals, by way of offerings, by way of new "Value Layer" to just compensate from a consumer perspective.
- Vivek maheshwari:** Perfect. And last question if I may? Manish, you mentioned about ONDC, 'there is a fair amount of debate going on everywhere in terms of the promise that ONDC has versus the incumbents, the discovery part and so many other aspects. Can you just elaborate a bit on your take on this ONDC phenomena?
- Manish Dawar:** So, Vivek, 'we have also seen the same thing as you have and 'that is the reason 'we have participated in ONDC, 'it is yet to gain traction, yet to gain momentum. So, so we are already there. We are working on KFC to come on ONDC, but that is still

under evaluation. Pizza Hut is already there. So, we would like to participate if it gains traction and 'that is how 'we have started testing waters with Pizza Hut.

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

Percy Panthaki: My first question is on Costa Coffee. So, basically, if I just compare the size of Costa Coffee revenue versus the market leader here, 'it is around 1/10th of the market leader and I see a significant growth opportunity and catch up possible here. So, just wanted to understand like Starbucks has reached this journey of Rs.1,000+ crore over the last decade. What are your ambitions and what are your thoughts on Costa as a brand, cafes as a format and looking slightly medium-term what growth aspirations and what turnover aspirations do you have from this category.

Manish Dawar: Percy, "it is a great category because coffee is a very, very aspirational category from a youth perspective. We really activated the brand post-IPO since there were some concerns with respect to our agreement post Coke acquisition of Costa, and since then we've really expanded the brand. So, versus last year, we have more than doubled the store count. We were at a 55-store count last year, we are now close to 112. Our revenues have grown by almost 140% - 150%. So, therefore we are absolutely there. We are expanding the brand. The consumer feedback for our coffee is very positive. They believe that Costa Coffee taste is excellent. The flavor and the aroma is above par so all of those things are positive. We are positive on the brand but this will not be a mass play like KFC or Pizza Hut because coffee as a phenomenon is right now majorly in the metros and the Tier-1 cities. So, we are focused, we want to expand, we want to play in that category which is growing and 'I have already indicated in my previous response that we are looking at about 60 to 70 store additions for Costa for the next year and that will also grow as we see the response to the brand.

Percy Panthaki: And any light you would like to throw in terms of that Rs. 1000 crore benchmark, how many years do you think you can take to go to that level?

Manish Dawar: No, I would not like to comment on that.

Percy Panthaki: Next question on KFC. Although Vivek has asked this I still go a little bit deeper into this. 'You have taken close to 3.5% to 4% pricing on KFC in April 'that is what Sapphire said and 'I am assuming that that's Pan India phenomenon.

Manish Dawar: Yes, about 3% to 3.5%.

Percy Panthaki: Right and basically, this is on the back of close to 10% pricing taken in about 12 to 15 months ago. So, if I look at it on a 15-month basis, the total price increase is close to about 13% to 14% and I understand there is a mix effect, etc., it 'does not really translate to a 14% but what we've seen in categories like pizza and not just recently, but even like Jubilant has been listed for 10 years so we have long data history, etc. Whenever 'we have seen high price increases in QSR categories, we have seen that the price elasticity of demand actually goes greater than (-1). So, what I mean to say is that if you have taken a 3% price increase, the number of transactions or volumes might fall by more than 3%. This 'does not always happen, but it happens after a certain inflection point. So, how do you judge this and are you sort of pushing the envelope a little bit? I think 'it is a risky move, especially because the key ingredient, which is chicken, is now going into a YoY deflation scenario. So, in this a scenario was this really warranted? Are you trying to balance overall Company margins because Pizza Hut is not making that so why not earn a little more in KFC? What is the thought process behind this price increase?

- Manish Dawar:** That is not the objective. We 'do not want to balance the company margins through KFC. We are absolutely cognizant and careful on every and each brand of ours and we want to make sure that we nurture all these brand in there because as we've elaborated this in the past that at a brand level we have separate CEOs. There are separate teams and they 'do not allow us to take those leverages. So, therefore that is not the case but having said that as I responded to Vivek that if the overall portfolio call it is not just the chicken prices. So, for example there is labor also, there is flour also, there are other overheads, there are store running expenses and at the same time on top of that as 'we have launched a "Value Layer" to attract the new consumers in and to ensure that the existing consumers also can draw benefit from that and therefore, we have to balance out the entire portfolio. So, therefore, if you look at for example, the response that we've seen to our Rolls and the KFC Lunch is phenomenal and we think that could become a very strong leg as we go forward and because we have much more granular data available, we think the earlier price increase has got absorbed and if you see this recent price increase in April, we've taken after a gap of 12 months. So, our last pricing was in April of last year, then throughout the year there was no pricing for KFC and now, after 12 months, we have taken about 3% to 3.5% of pricing so 'that is how it is. Whereas Pizza Hut, if you remember it had a different pricing strategy. We took pricing in small bouts and it was almost throughout the year. So, therefore 'it is a different strategy dependent on the brand and so on and so forth. And you have to balance the portfolio from various manifestations.
- Percy Panthaki:** So, basically 'you are saying in spite of this price increase, 'it is not as if the margins will go higher than what they used to be a year ago or something like that?
- Manish Dawar:** No, 'that is the reason I said we will come back to our old margins, but we want to expand the category, we want to grow the consumer base, we want to attract the new consumers into the into the category and that is what we are trying to play with these kind of balances.
- Percy Panthaki:** And last question from my side, this gap between SSSG and ADS growth. So, SSSG growth is 2% for KFC, ADS declined 6%. So, there is an 800-basis points gap between these two. Now my understanding is and correct me if I'm wrong, you would need approximately flat ADS so that you don't bear the negative impacts of operating deleverage because the cost per store will increase at a particular rate so from that point of view, just wanted to understand that to get this flat ADS, what SSSG would you require going ahead and in case my basic assumption itself is wrong that to avoid deleverage you will need a flat ADS, then correct me on that.
- Manish Dawar:** So, Percy there is a very strong third element which I think you have missed to mention and that is at what pace are you adding the new stores. So, for example, if you are expanding say 10% year-on-year in terms of store additions it will be a different equation versus let us say if you are adding a 30% store additions it will be a different equation versus let us say a brand which is adding 100% there will be a completely different equation. So, it depends on how soon you are expanding and therefore that variable plays a very important role when we try and balance out the ADS and SSSG.
- Percy Panthaki:** For that variable you already know what your expansion plans are for FY 24-25, so put those actual numbers and maybe on those basis you can sort of answer the question?
- Manish Dawar:** So, we can work that out and connect offline. So, if it is not a problem we can do that.
- Moderator:** The next question is from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: Manish you made a comment about the value layer in Pizza Hut mainly the Flavour Fun range as I assume, is there a case where you believe that I know you mentioned that longer term it will get more customers into the fold, but was there a case that ex- of this launch maybe the ADS or the SSSG of Pizza Hut would have been significantly different?

Manish Dawar: Nihal we can get to various hypothesis, but the point is, for example, let us say when you want to draw a newer category of consumers in it takes a much longer time period to be able to protect your existing consumers and get the new category of consumers in. Now when we launched the “Flavour Fun” Pizza category that was the time we saw hyperinflation also and therefore while the newer consumers took time our existing consumers started down trading and rather than lapsing out of the brand or lapsing out of the category. So, therefore from that point of view it has been a good initiative that we have been able to protect our existing consumer set and this will help us in the long term. Now, obviously we can all argue that, for example, if let us say this was not there the numbers would have been different and again I mean there is no because that was not the case and now for example the new innovation that we have launched from a menu refresh perspective is going to help us and compensate. We are going to mass media as far as the new range is concerned that is at the top end of the category. We are taking initiatives from a gamification perspective because that draws the youth in. So, therefore we are balancing the portfolio again from both sides. So, therefore that initiative is taken. We have already launched this in April so it has already started.

Nihal Mahesh Jham: There was a related question that if I look at the intensity of launches in Pizza Hut it is being significantly higher than a lot of other brands including a KFC but say if you look at within your own brands the performance of PH has been lacking. So, is this a category issue in pizza’s you think because I know the price hikes have been lower in PH, so what do you think is the reason may be the SSSG profile of PH has been lower than a KFC over the last couple of quarters ?

Manish Dawar: So, Nihal our hypothesis if you look at pizza as a category it is a very price sensitive category and traditionally if you look at I mean pizza category there used to be very high volume of discounting, high volume of deals, offerings and so on and so forth whereas KFC from that perspective the brand has been built very differently and therefore the consumer expectation is very different. So, obviously it will take some time to correct the pizza piece and that is what we are trying to do.

Nihal Mahesh Jham: One final question Manish was that on the chicken side you mentioned there are some benefits which will play out given you are sitting on some inventory in case of Pizza Hut, is it the case that maybe the raw materials we use ahead are higher price or how will that play out in the coming quarters?

Manish Dawar: So, Nihal if you remember when we entered the inflation scenario our margins took a hit after a gap because we normally hold higher inventory and similarly now when the benefits are coming it will take a little while maybe another couple of months by the time you start to see those numbers in, but otherwise from a ordering perspective we have already started locking in the orders and therefore we know and we are certain that the chicken prices will come down.

Nihal Mahesh Jham: I was asking for cheese actually more from the Pizza Hut perspective, is the incremental usage of RM going to be gross margin dilutive or it is not going to have an impact?

Manish Dawar: Yes, if let us say the cheese prices continue to go up it will be gross margin dilutive.

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

- Tejas Shah:** So, first question is last quarter looking at good traction in KFC demand and sluggishness in pizza we had indicated or made a comment that we might accelerate our KFC expansion and decelerate a bit on PH, but in this quarter expansion actually PH has done better than KFC and even in your commentary for FY24 there is not much difference from our past number, so just wanted to know is there a rethink on that comment or that was just an observation on last quarter?
- Manish Dawar:** So, Tejas as you know I mean we talk about our guidance from a store count perspective on a yearly basis and not on a quarterly basis. So, let us say depending on the property availability, depending on portfolio, depending on what is our priority on a given location and so on and so forth obviously the quarter-to-quarter movement can take place. So, if you have to look at the full year numbers for KFC, we opened almost 126 stores and for Pizza Hut we have opened almost 93 stores. So, therefore during the year when we said that KFC will be 100 plus and Pizza Hut will be 100 minus, the numbers are as per that. In Quarter 3 if you were to look at KFC store addition was twice the PH addition because Pizza Hut in Quarter 3 was 17 and KFC was 38. So, therefore on a yearly basis is what we give the guidance and that is how we manage our portfolio.
- Tejas Shah:** Second Manish on employee cost growth both sequentially and YoY there is an inflation there and even if I adjust it for store expansion and I do calculation on per store basis also there is a 14% inflation there, so just wanted to understand how should we think about it in FY24 and was there any one off in this particular quarter?
- Manish Dawar:** Yes, there is a one-off. As I said earlier in my opening remarks we provided for a statutory bonus in Quarter 4 for the full year. As you know, under the payment of bonus act, you are supposed to calculate the allocable surplus and that calculation is done on a yearly basis once your audits and all the numbers are finalized. So, that is a one-time impact which is there and going forward we will be providing at a similar rate. So, therefore that is the reason Quarter 4 employee cost also looks elevated.
- Tejas Shah:** So, on annual basis it is not the one off on quarterly it might?
- Manish Dawar:** Yes.
- Tejas Shah:** And last one on this fully owned subsidiary Devyani International in Dubai just wanted to know what is the vision that we have at this and what are we planning to do in the overseas market with this or is just the consolidation of overseas investments for us?
- Manish Dawar:** Yes. So, that is what we are planning to do and plus let us say if we were to expand overseas in future we have enabled us as a company to be able to have that subsidiary. So, otherwise there is nothing concrete as of now, but if there is something we will come back to you guys.
- Moderator:** The next question is from the line of Ashish Kanodia from Citi Group.
- Ashish Kanodia:** The first question is on Pizza Hut. If I look at the brand contribution margin on a YoY basis it has almost halved and the gross margin has not gone down that drastically even if SSSG is down 3%. Apart from just the impact of negative operating leverage because of negative SSSG, is there any other reason the brand contribution has declined so steeply?
- Manish Dawar:** So, Ashish as you know there are multiple factors which are playing out there. As I said during the current quarter we provided for the statutory bonus and that has impacted all of our brands -be it KFC, Pizza Hut or Costa, it is company wise. Second, if you see over a period of time towards the backend of the year we have

not been able to take a price increase on pizza and that was a conscious decision despite the milk prices and the cheese prices going up which impacted the gross margins a little bit. the period that you are referring to, in that period the gross margins have also got impacted. Third, there is some bit of deleverage coming in because of the ADS as we are expanding the portfolio. For the new stores it takes some time to mature. So, that is the other piece. So, therefore there are multiple things at play and then we also talked about the “Flavour Fun” pizza that we launched which impacted the pricing piece. So, therefore there are things which are there and we think these initiatives are good from a long-term perspective and we have taken immediate steps to correct that also. So, as you know I have talked about this menu refresh, we have talked about gamification in the ordering of the pizza. So, all of those initiatives have been taken so that we are able to come back.

Ashish Kanodia: And then I think in your opening remarks you also talked about increased marketing spends. Now if I look at both Pizza Hut and KFC there are new product launches I understand maybe in the longer run it will not have significant impact, but maybe from next two quarter perspective do you see you know while on gross margins you are taking some initiative, but purely because of marketing spend there could be some impact on the brand contribution margin purely because of higher marketing spends?

Manish Dawar: It is a marginal uptake on the marketing side and obviously the marketing guys and the brand CEOs take that call given what the launch is, what is the priority and so on and so forth. So, therefore it is balancing depending on if let us say there are some major new initiatives in the quarter we go and support it and Yum! also helps us there. So, eventually it will come back and settle at the normal levels.

Ashish Kanodia: And just the last one is I think on the inventory bit, when I look at the balance sheet the inventory levels are fairly very low compared to the scale, so when you say carrying high-cost inventory does that mean it is basically the contract which you already have, so there is a particular contract for the next two months, three months and that is why you still have high-cost inventory?

Manish Dawar: Yes, it is a combination of some bit of forward cover, some bit of physical inventory that we hold because as you know we are present across the country and we have our own warehouses, we have our own stores. So, we cannot risk the stocks running out. So, therefore that inventory has to flush out by the time the new prices start to impact and the same thing holds true when we were entering into the inflation scenario our gross margins got affected towards the end of the year category.

Ashish Kanodia: And just on the overall demand I mean I hear your thoughts that maybe we are reaching the bottom and I am not looking at specifically for numbers, but just some commentary in terms of how the last 45 days demand trend has been versus just adjusting for the seasonality Q1 versus Q2 if you adjust for the seasonality and if you look at that the last 45 days do you see the sentiments improving?

Manish Dawar: Look we have seen some sentiments improving, but again there are multiple other factors as well. As you know there is IPL going on, there is summer holiday season also. So, there were some festivals also in between like over the weekend there was Mother's Day and all of that. So, therefore I mean, but otherwise we are seeing improvement in the last 45 days.

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

Jaykumar Doshi: Just a follow up on the previous answer and your comment on the demand has bottomed out, but usually we see 8% to 10% increase sequential increase in ADS for most QSR brands in June quarter versus March that is the usual seasonality, are

you suggesting by your comment of bottoming out that you are seeing a similar seasonal uptake this year as you normally see every year or is the seasonal uptake still lower than the usual seasonality?

Manish Dawar: So, Jay what you are saying is right and those times it used to hold very strongly pre COVID. During COVID we saw major disruption in terms of these trends and obviously we have seen some shift in quarters depending on whether restrictions were there, whether people are working from home, they were going to the office, etc. So, we will have to wait and watch for another few quarters so that we are able to comment that whatever was happening in the past, it is coming back. So, when we say that we think the inflation seems to be bottoming out that is more from the input prices that we are seeing and therefore it is not just in our category that is across various categories and various industries with that the disposable income for the consumer grows and therefore that should come back into the consumption category. So, that is the whole analogy when we say that we think that the downturn seems to be bottoming out.

Jaykumar Doshi: Second question is if you were to add back those or if you were to provision for bonus across the four quarters then what would have been your KFC brand contribution margin in this quarter, just trying to understand this 17.5% print has bonus associated with them, so pertaining to the entire year when I look at your overall numbers your employee cost is up 200 basis point YoY, so just want to understand what will be the underlying margin?

Manish Dawar: So, there is almost a 1% impact because of this. So, therefore, and that has not just impacted KFC, it has impacted the other brands as well.

Jaykumar Doshi: So, just a quick follow up there so when I look at KFC gross margin is down 70 bps YoY, brand EBITDA margin is down 430 bps YoY, so 360 bps YoY decline. Of that 100 bps is attributable to this onetime bonus provisioning and the remaining 250-260 bps is attributable to operating deleverage is that the right understanding or was there any one off in the base quarter as well?

Manish Dawar: So, as I said we took some initiatives on the local marketing. So, that is also going and impacting the brand contribution margins. There is deleverage which is there on again I mean on KFC and Pizza Hut both. So, it is a combination of multiple factors.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: First I wanted to just appreciate the competitive intensity so if you could give us some update on how it is happening in KFC and in Pizza category, is there an increase or similar, broadly on that?

Manish Dawar: I would say it is more or less at the same level and let me just give you a little bit clarity. So, if you were to look at KFC first you know that Popeyes has launched last year. So, they are expanding. We believe the competition will expand the chicken consumption will help grow the category and will help the brand. So, therefore it is a good thing. On pizza we have seen there is lot of local competition which has started to come up post the COVID because during COVID time there were a lot of small-scale players who did not renew their licenses or they shut the shops because of financial difficulties and all and now things getting normalized, there are lot of smaller brands available and the local competition is there. So, some of that is coming back and therefore that is where the competition intensity is going but let us say if you were to ask me on a national level any other very strong brand which is emerging we have not seen that yet. We believe that if the competition intensity is there it is good for the brands because there is more noise in the markets, people tend to consume more. So, therefore it is a good thing.

- Avi Mehta:** Where I was coming from was essentially on the marketing intensity or cost intensity in pricing-based competition as well if there is any change or is because we have clearly up the ante on marketing, does that essentially mean our share of voice has gone up, is that how I should read it or that is where what I was trying to ask.
- Manish Dawar:** Yes because, for example, let us say right now given where the consumer sentiment is, given the inflation scenario. So, it is more to protect the environment and to come back so rather than becoming too aggressive.
- Avi Mehta:** And second I just wanted to pick up on the last question sorry I missed that you said it is bottomed out the seasonality if you could just re-explain that?
- Manish Dawar:** So, the question was do you think the consumer sentiment or a demand or let us say this inflation has bottomed out. So, that is where the whole piece was and therefore I was trying to link that end of the day it is the inflation which impacted the entire demand in the first place and that is the starting point where we are seeing the signs that the inflation is bottoming out and therefore we think that there would be revival in the consumer demand as well.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** Just two questions if I draw the attention on Slide #16 where ADS has declined from a peak of 127 to 106 and you partially mentioned that it is a function of SSSG, but my whole question is that when you say that the value piece is growing much faster in pizza, can you give some more qualitative comments that what SSSG and the impact which has come because of the competition also?
- Manish Dawar:** So, Shirish if you look at Slide 16 which is what you are alluding to so that is a KFC slide, it is not Pizza Hut.
- Shirish Pardeshi:** No, I gave the example of Pizza Hut because you said competition from local side is more on Pizza and not KFC?
- Manish Dawar:** Sure, I will come to Pizza Hut as well. If you look at it, it is not just the SSSG which is where I talked to Vivek and Percy earlier because there is a strong element of how rapidly you are expanding your stores as well. So, for example, in a given vicinity if you have one store and you end up having another store let us say whatever a kilometer away it gets the demand divided, for example, if you go to a new city for a new store obviously nothing happens. So, it is not just let us say what is the count, what is the location, what is the vicinity. So, there are multiple factors which play out there and ADS is a combination of how many new stores are opening, what is the location of the new store, how is your SSSG doing. So, all of that then eventually gets reflected in the average numbers.
- Shirish Pardeshi:** But if I say that if you have a store which is open for like say three years before and if I look at the SSSG would that be a significant number which will be higher on SSSG and even ADS?
- Manish Dawar:** So, we do not bifurcate the stores and disclose those numbers. We disclose it on one set of population and the definition of SSSG is that whatever stores where we are measuring this out of that set of stores whatever stores are present in the comparable period last year.
- Shirish Pardeshi:** And similar comments on pizza?

- Manish Dawar:** So, therefore, that could also include some of the stores which got opened very recently in that period that would also include some of the stores which were very old in that period. So, therefore the maturity curve even though it is one-year prior number would be very, very different.
- Shirish Pardeshi:** On the new offering like 10 new pizzas which has been launched by Yum! and also the Rs. 99 chicken roll over last 45 - 50 days what is the response I mean is it that consumers are going to get down trading and that is one of the things which we are trying like "Flavour Fun" Pizza what we tried during the COVID time?
- Manish Dawar:** So, if you see the new pizza that we have talked about is it is a refresh that is not in the "Flavour Fun" range that is on the premium pizza that we have. It is only launched towards the backend of April. So, it is too early to give any read, but we thought that therefore number one in the Quarter 4 results it has no impact and second we wanted to keep all of you updated on the new initiatives we are taking so that is the reason we have talked about it. As far as the KFC lunch and the rolls are concerned we first experimented with that in Bengaluru and Gurgaon. We got the response and then we expanded nationally and also the full quarter read is still not there because I mean this happened in phases, but otherwise whatever numbers we are seeing on KFC lunch and the rolls the response is excellent.
- Shirish Pardeshi:** Just quick word on the international business Nigeria and Nepal because not much discussion has happened so far?
- Manish Dawar:** So, that is a small business as you know. If you look at Nepal we have KFC stores, we have 4 of Pizza Hut stores, so it is about 22 store count. We have 37 KFC stores in in Nigeria. We are not making any fresh investment in Nigeria as we have stated in the past because of currency issues. So, whatever profits we generate locally we invest that back into the business both the businesses on a brand contribution level and EBITDA level are positive. They sustain the CAPEX momentum that they have. So, it is a completely self-sufficient business and the whole objective is to continue to grow the business out of whatever they are generating and then over a period of time we will build a business out of that.
- Shirish Pardeshi:** Any comments on the own brand beyond KFC, Pizza Hut, and Costa?
- Manish Dawar:** Vaango is doing well. We have crossed a store count of 50, but again since these numbers are very small in the overall context that is the reason we do not talk about it, but otherwise we can talk about Vango in detail, we can talk about Nepal, Nigeria food Street, but overall, all of these businesses put together would be single digit of the total business.
- Shirish Pardeshi:** I agree, when you are doing the annual number at least one slide could have helped us how we should look at because you have given a lot of commentary on KFC and how the growth is going to plan out over FY25, so that is why I was looking for some qualitative comments how growth we should be building in this numbers?
- Manish Dawar:** So, we can look at it as we go forward and your suggestion is valid that at least on a full year basis we can do that. So, it is a very valid suggestion.
- Shirish Pardeshi:** Just last question on Slide #34 where I look at the other income has moved from Rs.16 crore last year to Rs. 33 crore this year, so what is the nature and how this growth has happened is primarily because of the store expansion fees what we are drawing from Yum! or is something more sitting in it? How should we look at it going forward?

- Manish Dawar:** If you see there is this IndAS adjustment which we are supposed to do and there is some element of IndAS adjustment which goes and sits in this category as well. So, that is the main reason.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the Management for closing comments. Over to you, Sir.
- Raj Gandhi:** Thank you very much, thank you Mr. Chairman, thank you our colleagues and thanks to all the Investors and Analysts whoever participated in this call. I do hope that we have managed to respond to all your questions satisfactorily. Should you need any further clarification or would like to know more about our Company, please feel free to contact our Investor Relations Team. Thank you once again for your time today to join us on this call and participate in our growth journey. Thanks.

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