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November 10, 2022

To,

National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmllist@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: Regulation 30: Transcript of Investors & Analysts Conference Call

Dear Sir/Madam,

Transcript of the Investors & Analysts Conference Call held on November 3, 2022, post declaration of Unaudited Financial Results of the Company for the Quarter and Half Year ended September 30, 2022, 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

Varun Kumar Prabhakar
Company Secretary & Compliance Officer

Encl: As above





Devyani International Limited

Q2 & H1 FY23 Earnings Conference Call

November 3, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Devyani International's Earnings Conference call. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you, and over to you, sir.

Anoop Poojari: Good afternoon everyone, and thank you for joining us on Devyani International's Q2 & H1 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, President and CEO, and Mr. Manish Dawar, CFO 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 detailed statement in this regard is available in the presentation shared with you earlier.

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

Ravi Kant Jaipuria: Good afternoon everyone. I warmly welcome you all to our earnings conference call to discuss the business performance for the quarter ended September 30th, 2022. I'm pleased to share the DIL has maintained its store opening pace and opened 88 net new stores in the quarter, the highest ever. We are making consistent progress in expanding our reach and investing in our core brands to capitalize on the growth opportunities available. In line with our strategy, we have continued our focus on consolidating our presence in metro cities, along with the expansion in non-metro towns. At the end of Q2, our total store count stood at 1,096 stores across the portfolio, with a split of 52% in the non-metros and 48% in the metro cities.

On the demand side, we have noticed that as we are coming out of the pandemic, the consumer response is mixed for various categories. Continued retail inflation seems to have impacted the consumer demand to some extent in the staples and discretionary categories. Although the inflation in input cost is stabilizing, the overall pricing levels continue to remain higher on a year-on-year basis. We have managed to take some judicious price corrections during early part of the financial year to protect the margins partially and are hoping that inflation will cool off as we go along, leading to enhanced consumer demand.

Consolidated quarterly revenues for the quarter were approx. INR747 crore, a growth of nearly 45% over the corresponding period last year. Our innovation pipeline continues to be strong. We launched peri-peri Chicken in KFC and the same has met

with an encouraging consumer response. We are also investing in making our business future-ready with the launch of all digital “KFC Smart Restaurants”.

DIL is the leading long-term QSR player in the country having a portfolio of multi-dimensional and well recognized global brands, and we remain confident about the potential of our brands and the food services sector in India. Our investments in the Core Brands, expansion of our footprint and innovation will help us to achieve sustainable growth. A recent study by one of the research outfits pegs the market growth of Indian QSR industry to remain above 15% for the coming years, and we are confident of growing higher than the overall market growth.

With this, I now hand over to Manish for his comments. Thank you.

Manish Dawar:

Thank you Mr. Jaipuria. Good afternoon everyone. A very warm welcome and thanks to all of you for sparing your valuable time to attend our Q2 & H1 FY2023 earnings conference call, our fifth such call since the listing.

We have crossed a strong 1,000 store benchmark in the current quarter for our Core Brands consisting of KFC Pizza Hut and Costa Coffee. DIL opened 88 new stores across the portfolio, the highest ever in a single quarter. The revenues for Q2 stood at INR747 crore versus INR705 crore in the previous quarter, a quarter-on-quarter growth of 6% in a seasonally low quarter. On a y-o-y basis, revenues grew 45%. Revenue growth has been broad based across various brands and is a combination of new store openings, pricing and volume growth.

Gross Margins at 70.2% were 90 bps lower versus the previous quarter. This slight impact is the result of consistently high input inflation. While we've taken price corrections over the course of the year for our brands, the same has not been enough to offset the entire margin impact because of the increase in raw material and packing material prices. As we go along, we are seeing the input prices stabilizing over the remainder period of the year and therefore, we expect our margins to come back. The impact of gross margins flows down and gets reflected in the company consolidated brand contribution margins which came in at 19.6% versus 20.5% in the previous quarter.

Pre-IndAS EBITDA at INR113 crore for the quarter witnessed a growth of 42% on a y-o-y basis. The pre-IndAS EBITDA margin came in at 15.1% versus 16.1% in the previous quarter. Reported EBITDA, which is post-IndAS EBITDA was INR166 crore for the quarter, with margins at 22.1% versus INR123 crore a year ago, which again reflects a 34% y-on-y growth. Profit before tax for the quarter stood at INR59 crore versus INR47 crore last year. The PBT for the quarter was lower than the previous quarter because of the significant currency impact in Nigeria and higher IndAS adjustment as a result of the new store openings.

Our three core brands continue to perform well. KFC with 32 new additions reached a mark of 423 stores at the end of the quarter. Being a seasonally low quarter ADS was INR121,000 with a healthy SSSG of 13%. Revenues at INR443 crore for KFC remained robust and have grown 4% sequentially and 47% on a year-on-year basis. The quarter saw the full impact of raw material pricing increases and this led to lower gross margins at 67.9% versus 69% in the previous quarter. Brand contribution margin was in line with the performance on the gross margins for KFC. On-premise consumption remains steady at 64% for the quarter.

Pizza Hut added 30 new stores to reach a total of 466 stores. ADS improved marginally to INR45,000 with a SSSG at 3%. Revenues came in at INR181 crore, growing 36% year-on-year basis. Higher input prices and impact of changing product mix impacted the gross margins a little bit. Gross margins came in at 74.5% versus 76.2% in the previous quarter. Brand contribution margins were 17% versus 17.5%

in the previous quarter, and on-premise consumption remained steady for Pizza Hut also at 45%.

Costa Coffee added 19 new stores to reach a total of 88. Revenues grew to INR22 crore. Gross margins came in at 79.6% primarily due to higher input costs. Brand contribution at INR4 crore and brand contribution margins at 19.6%, were lower due to significant addition of new stores during the quarter. As we go along, we expect this to come back to our normal levels. The ADS at the brand level was INR31,000, reflecting dilution due to new store additions.

During the first half of the current financial year, we've added 158 net new stores. Consolidated revenues for the first half were at INR1,452 crore, a 67% year-on-year growth. Gross margins at 70.6% and brand contribution margins at 20% have remained stable, despite inflationary headwinds on H1 basis. Reported EBITDA on a consolidated basis for the six months stood at INR330 crore, representing a 22.7% margin. Profit after tax for the half-year stood at INR132 crore.

Overall demand environment remains a little impacted in the face of continued inflation and elevated retail prices. We expect softer input costs in the coming quarters which will help us with the demand, as well as the margins. We maintain our goal of sustainable and profitable volume lead growth for our brands.

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

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

The first question is from line of Nihal Jham from Nuvama.

Nihal Jham: Sir couple of questions from my side. Firstly, despite the Gross Margin impact that we've seen both for KFC and PH, brand margins have not seen that big an impact. And this is, I think, a reflection of the opex efficiency that we've been building in. And even versus last year, there is an improvement to the opex per store, when you look at both the format. So, is it that there are new initiatives that we keep doing to highlight the same or we tweak the store format, which is leading to a better store ROCE, better than what we were doing even last year?

Manish Dawar: Nihal, as we've said in the past, we continue to open stores at an aggressive pace, and you would have noticed that we've opened almost 158 stores. Obviously from that perspective, the operating leverage starts to kick in. And that is what is happening. What is happening on the Brand Contribution, and lower down EBITDA, is that it's the Gross Margin, which is kind of flowing down. Otherwise, operationally, we are absolutely in good shape.

Nihal Jham: Understood. On the Brand Contribution, it won't be at the pace of operating leverage because this is per store that is being taken. In fact, as the store expansion happens, it should ideally impact, like it happened in case of Costa.

Manish Dawar: In case of Costa there are differences. The base was small, and the new store additions have been very, very aggressive in the last two quarters. And therefore, the impact is much more compared to, say, Pizza Hut and KFC, where your base store number is high. And therefore, your percentage addition versus the Costa percentage addition is much lower. Also, within Brand Contribution, we have labor cost, which will not go up significantly as a percentage of sales when we expand. However, we also have rentals, which is a combination of fixed and variable rentals, which gives you the operating leverage. So that is what impacts the Brand Contribution as well.

- Nihal Jham:** Understood. The second question was on the recent SKU launch in Pizza Hut, the Flavour Fun range. If you could just highlight what is the ballpark contribution of that and for some of the stores based on the data, where this number could end up or where is it heading to?
- Manish Dawar:** Nihal, as we have launched this recently, it's too early to kind of give you the exact read. But we've got good response from the consumers, the consumers are liking the product. And we think this is one of the growth levers that we have if we have to grow the ADS and to bridge the ADS gap with the competition. So, we are bullish about this. Obviously, we need to stabilize this whole piece. It's a bit early in the launch, and it's a very, very important piece. So, we'll talk about in detail as we kind of go along, but otherwise good response. Consumers have liked the price point, consumers have liked the quality, and therefore it is going as per our expectations.
- Nihal Jham:** Sure. So, do we have an internal target, which is possible to share about what is it that this could be contributing to the ADS in the long run?
- Manish Dawar:** Nihal, we will come back to you on that one.
- Nihal Jham:** Sir, just one last question. On the store addition, we are running ahead of guidance. Do we expect that this sustains and will be 100 stores for each of the formats or will it improve further?
- Manish Dawar:** So, as of now, we are staying with the same guidance, which is about roughly about 250 odd stores. We could kind of breach that a little but formally, we are not changing the guidance. But again, I mean, we've seen a good quarter, and our pipeline is building up very strongly. So, we hope to expand on an aggressive basis.
- Moderator:** The next question is from the line of Percy Panthaki from IIFL.
- Percy Panthaki:** So, you have sounded off word of caution on the demand front. So just wanted to understand what's the reason behind the same because the Q2 numbers were quite decent. So, are you seeing that in October, we have seen a slowdown versus what a normal festive season should be?
- Manish Dawar:** The basic reason is if you as you know, there has been high input inflation in the first half of the year. And obviously, we've taken a price increase as well, which we've kind of alluded to in the past. And therefore, the kind of volume increase that we used to see in the previous years, that volume growth was a little slow and that got replaced with the pricing growth. So, that is the caution that we are talking about. And nothing exceptional as such, because if you look at the SSSG numbers for KFC, it is very strong at 13%, which obviously, is a combination of pricing and volume, both, but more of pricing and less of volume at this point of time.
- Percy Panthaki:** So, there's a trade-off between volume and pricing, I understand that part of it, but if I look at solely in total sales or total value terms, there would be no slowdown, right? the slowdown which you are calling out is only for the volume part of it. Is that understanding correct?
- Manish Dawar:** You're right. Yes.
- Percy Panthaki:** Okay. Understood. And as far as margins are concerned, Gross Margins, there is the input cost inflation, which is weighing down on them. But where do you see this going? I mean, are you waiting for input costs to come down for margins to restore or are you taking price increases to restore the margins? Or are you accepting margins at the current level?
- Ravi Kant Jaipuria:** So, as you can see, some of the basic input costs have already started coming down. Chicken prices are down. Oil prices are down, and even gas prices have been

reduced. So, I think, going forward, it seems that the inflationary impact may not be there. And we are not looking at raising prices for the time being. Hopefully, the volumes will also start kicking in by the second half of the year. And of course, our second quarter is a weak quarter. So, that is also why we've seen some volume dilution.

Percy Panthaki: Understood. And the last question is, if I look at your capex per store, and this is of course, just a mathematical derivation of looking at your total capex and dividing it by the number of stores added in first half, it's about INR13.5 million. So, do you think this is a fair number which will continue even for the next two to four quarters?

Ravi Kant Jaipuria: That's what it looks like.

Manish Dawar: Yes, it's a combination of, new store addition, as well as the refurbishes that we are supposed to do. So therefore, there is some element of refurbishing, which also sits in and which obviously will not get reflected in the denominator from the new store perspective. But from a ratio perspective, you're not very far.

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

Devanshu Bansal: Congratulations on the highest ever store addition in a quarter. Sir, I wanted to understand the Pizza Hut SSSG performance, which was about 3% and this is despite mid-single digit price hikes, as well as launch of Flavour Fun Pizzas, which were not present last year. So, what according to you led to a slower performance this year for Pizza Hut.

Manish Dawar: Devanshu, if you see there is some bit of base effect as well. As you know, we have a higher concentration of smaller format, delivery-focused stores, which were operational during the same quarter last year when dine-in was still impacted due to Covid. Obviously, from a volume perspective, pricing has also impacted a little bit and that's the reason we made that cautionary statement - what I was talking earlier. So, therefore, we've seen some bit of impact in Pizza Hut, which is a combination of pricing impact, plus some price dilution due to Fun Flavour Pizza, but it's too early to kind of take that read. We still believe that Fun Flavour Pizza is a good initiative and long-term, it should become one of the very, very strong growth engines that we could have. So therefore, we are not overtly worried in terms of the recent quarter's SSSG numbers.

Devanshu Bansal: Okay. So, just a flavour or outlook, if you can provide some trends on SSSG performance during the festive period, it would be really helpful for both the formats.

Manish Dawar: Yes. So, too early to say but let's see. Diwali time was good time, obviously, but let's see. We'll have to take the entire quarter. It is just one month gone. But so far, so good.

Devanshu Bansal: Okay. And last question is, we added a KFC Smart Store during the quarter. So, the question is to understand what is the outlook on this one? Will further additions in the KFC format be on these lines? If yes, then what is the revised capex per store for this format versus the earlier format?

Manish Dawar: Devanshu, in the overall context of additions, the capex will not significantly change. Basically, we are trying to digitize the stores by minimizing the orders taken at the counter, whereby the consumers can actually go to the kiosk and order on their own. Very small read, because it's not really representative. It's just two stores as of now. We've seen that the APC tends to grow a little compared to the APCs in a non-digital store. But again, we are not guiding anything. We are just sharing whatever we've seen so far.

- Devanshu Bansal:** Yes. So, I only want to understand as in what stores are expected to open going ahead, what percentage of stores will be the smart store format and what would be the normal store format?
- Manish Dawar:** Too early. We really want to experiment it well with this format. And let's see how it goes. So, as of now there is no fixed percentage that we are talking about. We have opened one store in Gurgaon and another store in Bangalore. So, let's see how it kind of shapes up.
- Moderator:** The next question is from the line of Pujan Shah from Congruence Advisers.
- Pujan Shah:** My first question would be on Costa Coffee. We have, so far done well in Costa Coffee. So, what are the insights you may want to give? Like are we planning to grow at the same speed and what will be the ADS you're looking at in this specific segment?
- Manish Dawar:** Pujan, as we've talked about in the past, Costa, we're looking at adding about 40 to 50 stores. Obviously, the current quarter has been good. We had a strong pipeline. But overall, our guidance remains the same. The brand is doing well. And our near to medium term objective for Costa is to reach an ADS close to INR40,000. So again, it's not going to happen next quarter, but that is what our target is.
- Pujan Shah:** Okay. And my one question would be, we have just exited two stores in Q2 FY23?
- Manish Dawar:** You're talking about Costa?
- Pujan Shah:** No, no. Total, we have exited stores of 49 showing in the presentation slide number 29. So, it's two stores from quarter one to quarter two, right. So, we have exited two stores.
- Manish Dawar:** Yes. We have added 2 stores in the International Business.
- Moderator:** The next question is from the line of Sanjay Satapathy from Ampersand Capital.
- Sanjay Satapathy:** The commentary that you have given about the staples, you're essentially talking about Pizza Hut. Right, sir?
- Manish Dawar:** No, when we talk about staples, obviously, we are talking about the core FMCG sector. Because, if you see, the discretionary sector kind of follows staples a little bit and that is where we kind of try to read the trends in terms of what is happening on consumer behaviors; how the consumers are reacting, etc. We track the consumer staples as well. We, as you know, get classified as consumer discretionary.
- Sanjay Satapathy:** Understood. Sir, when we're also talking about bit of a slowness, softness in demand and you're talking about the staples, are you essentially referring to what happened in quarter two or you were also giving some kind of guidance that your October was not that great and hence things are slowing down and growth outlook is getting weaker?
- Manish Dawar:** No, we are not giving any guidance. We only talked about the quarter which has gone by. As I said, on Pizza Hut, for example, we talked about the volumes getting impacted a little bit. So that is the whole context.
- Sanjay Satapathy:** And as such, it is a seasonally soft quarter. So, I don't know how much one can read through from that. So, if you can just give us some flavor about how the festival season was in the month of October?

- Manish Dawar:** Look, the point is, one, Q2, as a standard, is a seasonally soft quarter. But again, at the same time, if you go back to last two to three years, there have been COVID impacts in various quarters. In some places the restrictions were there. Some places that were open, some places it was opening faster. So obviously from that perspective, it's a little kind of a mixed read, because various quarters because of COVID have behaved in a very, very different manner.
- Sanjay Satapathy:** No. My question was that, how has the festival season been?
- Manish Dawar:** It's too early to speak about. Obviously a Diwali time has gone well. The other big festival season really is the December month, which is where you get into Christmas, you get into New Year's and all. So, that is the real bump of which kind of happens.
- Sanjay Satapathy:** Understood. Sir, if I can just ask the last question that when you have talked about this cost side and also you have just mentioned about the prices of various items have fallen recently, including chicken and many other things. So, should one kind of make a conclusion that cost is bit behind you and you are rather looking forward to relatively a period in which you would focus more on volume growth and also margin will come back?
- Manish Dawar:** I would say largely yes. Still, for example, despite the fact that we've seen the prices coming down (as Mr. Jaipuria said, the gas prices have come down, the edible oil prices have come down. The chicken prices have started to soften), they still are at an elevated level versus where we used to be historically. So let's see how it kind of stabilizes. The movement has started which is a good thing. So, it is no longer just going up and up. We've seen the peaks, now it is coming down. So, let's see how it pans out and basis that, we will focus on our growth engines.
- Sanjay Satapathy:** Understood. Thanks, sir. After a long time, you have made some cautionary remarks and that is why, all these questions. Wish you all the best.
- Moderator:** The next question is from the line of Nitin Gupta from CLSA.
- Nitin Gupta:** Congrats for the good set of numbers. So, from the demand perspective, just wanted to get a sense on like, how do you see the demand impact on the premium end? And similarly, like, how was the demand situation in the metro markets?
- Manish Dawar:** Fundamentally, we've not seen a big difference, Nitin. The Metro markets continue to behave strongly. We've seen, if at all, the growth in non-Metro markets is also becoming very significant. And we've always kind of maintained in the past that the profitability for us in the non-Metro markets is stronger than the Metro markets, because obviously, your rentals are lower, your staff cost is lower, the utility costs are lower. And that's how we've been kind of expanding our portfolio as well. So today, if you look at our total store count, almost 52% of the total stores sits in the non-Metro markets. So, we are bullish on non-Metro markets. But again, as you know, the large consumption hubs still remain the Metro markets, but the future is, non-Metro is what we believe.
- Nitin Gupta:** My question is from the context of staple companies where they have highlighted that the premium discretionary offerings are literally doing better than the mass in discretionary. So, something similar, like we have Fun Flavour Pizza or launch for the mass and like for recruiting a consumer. So that drive, definitely we have launched, we might be gaining it, but just wanted to get a sense, like whatever the premium end offerings we have? So, do you see any impact on those or those are relatively immune at this point in time?
- Manish Dawar:** Look, in the short-term, there will be some impact, obviously when the consumer is coming into the store, and there is a new product or a new SKU available, people try and experiment, right? So, therefore, that's the reason I'm saying that in such a short

span of time, it is not good to kind of take these leads. We've launched Flavour Fun from a longer-term perspective. It's more of a strategic call rather than a tactical call. And we are absolutely bullish on this. In short term, of course, there could be some aberrations here because people tend to experiment with whatever is new.

Nitin Gupta: Okay. And on the "KFC Smart Restaurant". So, like, apart from the self-ordering kiosk, is there anything else like we have tried out in the store?

Manish Dawar: It is largely a self-ordering kiosk at present. That is where the big difference is currently. So, rather than placing a manual order and someone punching the order for you, you place the order on your own through the kiosk. You make the payment through the kiosk and then you go to the counter to collect. So obviously from a look and feel perspective, the store is much more futuristic. From a consumer perspective, it kind of attracts the younger generation because they want to take control of things. It is digital enabled. And as I said earlier, we've also seen that there is some bit of APC increase. Too early, very small read, but APC I think, tends to kind of grow a little bit because consumers tend to add other things if they are able to see it on the screen at the same time.

Nitin Gupta: And lastly, just wanted to get a sense on Vaango. How has been the performance given the unit economics are in place? So, any call we have taken to sort of scale up the brand?

Manish Dawar: So, we are scaling up the brand. Again, as we've said in the past, Vaango is still not a destination brand. It does very well where the captive footfall is there. But even in Vaango, we are expanding the stores, albeit at a smaller pace, because for us, the big priority is KFC, Pizza Hut and Costa at present. So, it's not that we are neglecting Vaango. We remain bullish about the brand. There is no other Indian QSR brand which is available in the market, and therefore, Vaango, also, in future will become a sizable category.

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

Avi Mehta: I just had two questions. First wanted to understand this demand commentary better. Is there any geographical divergence in the demand trends between the metros and smaller cities?

Manish Dawar: Not really.

Avi Mehta: Okay, sir. And the other bit was from your comments, would it be a fair comment to make that we are going to focus more on sustaining or supporting customer growth versus the near-term margins across the segment? Is that the right understanding?

Manish Dawar: Look, we are focused on both sides, because volumes are important. And a business can only kind of grow if there is healthy volume growth. Obviously, this time, the inflation has been unprecedented. We've seen this kind of inflation, I don't know, maybe after a decade or so. And having said that, we've taken the price increases as well. But the kind of pricing increases we've taken been, we don't think we could have taken a higher pricing increase beyond this. And therefore, to that extent, we've taken a temporary hit in our margins. But now, as the input inflation is coming down, as Mr. Jaipuria mentioned earlier that we've seen a reduction in gas prices, we've seen a reduction in chicken prices, even the edible oils are reacting favorably. So, we are absolutely confident that our margins will come back.

Avi Mehta: Got it, Manish. Just the last bit from my end. You did kind of allude to these pressures kind of settling. Could you give me a sense on what's happening on the other costs, like employee rentals for new stores? Is that broadly stable or is there any sign of inflation there as well?

- Manish Dawar:** It is stable. It is standard inflation. As far as the employee cost is concerned, it typically gets driven by the State Governments from a minimum wage perspective. And we've not seen any exceptional minimum wage revisions in the current year so far. If at all, last few years, we saw higher minimum wage inflation compared to this year. So therefore, that is not an issue. Rentals, as you know, the prime commercial rental locations in the country are always in great demand. So, let's say if you talk about, let's say, across the country, there would not be more than 50 such locations. But outside of those 50 such locations, the rental market is much better. The landlord's attitudes are very different. They are willing to work with the larger brands. They are wanting to kind of compromise on their demands if they want to deal with the larger brands. And that's a significant change that we've seen during COVID. And it continues post-COVID as well, beyond the absolute prime commercial locations of the country.
- Moderator:** The next question is from the line of Tejas Shah from Spark Capital.
- Tejas Shah:** A couple of questions from my side. Sir, what percent of our store capex would be directly, indirectly impacted by INR depreciation in terms of imported equipment that we must be using? And is inflationary pressure at large showing up in capex per store as well?
- Manish Dawar:** There is an inflation pressure on the capex also, Tejas, because as you know, all of our fryers are imported for KFC. All of the ovens are imported for Pizza Hut. And obviously with the dollar value changing, that impacts the pricing. But again, if you look at the overall context, in terms of what is the depreciation, what is the capex in the overall store economics perspective, it's completely negligible.
- Tejas Shah:** Okay. But sir, capex would have increased by how much on y-o-y basis?
- Manish Dawar:** Last one year, which is again impact of COVID and the inflation, we have seen about 9% to 10% inflation in the capex level, because not just the imported equipment, we saw some increase in the air conditioning plants also. So, as I said, I mean, 9% to 10% in the overall context is completely insignificant.
- Tejas Shah:** Sure. Sir, secondly, Government is actually putting a lot of effort on digitizing the e-commerce part with ONDC. So, with the franchise and the network that we have, do we see any merit on logging onto that network or are we still contemplating?
- Manish Dawar:** Look, it is a space we are closely watching. And let's see how it kind of grows, because you need to have the entire ecosystem built up before we jump into it. So, we're watching it closely. The moment it starts to gain traction, we will be keen on that. But as of now, we've not kind of taken a bet on the ONDC so far.
- Tejas Shah:** And the last one on bookkeeping. Tax Rate guidance for this year if you can help?
- Manish Dawar:** So, you will see at the end of the year or maybe next quarter onwards, the normal tax coming in the books, which is 25%. So therefore, in your modeling purposes, you can assume a 25% tax going forward.
- Moderator:** The next question is from the line of Amruta Deherkar from Wealth Managers India Private Limited.
- Amruta Deherkar:** My question is regarding Costa Coffee. As in now that we are focusing on Costa Coffee, because in the new stores we see that the margin is a bit lower. So, on a fairly established store, what is the kind of margin for profile Costa Coffee outlets have?
- Manish Dawar:** So, if you look at the Brand Contribution level, the normal margin profile is about 28% to 30%. The current quarter obviously has got impacted because of the bunched up

new store openings, because the last two quarters we opened quite a significant number of new Costa stores versus the base. But over the next few quarters, it should get evened out.

Amruta Deherkar: What is the time period required for Costa Coffee stores to simply breakeven or to become an established outlet?

Manish Dawar: The breakeven happens in the first six months. But it takes almost about 15 to 18 months for a store to fully mature.

Amruta Deherkar: My second question is regarding capex. You said that there's a certain component of refurbishment costs in the overall refurbishment cost that you are talking about. So, roughly how much is the recovery refurbishment cost that you need to incur for a store? And how often do you need to do that, I mean, after how many years?

Manish Dawar: Okay. So, we don't split the capex from that perspective, but let me explain you how the entire refurbishment works. So, there is something called a minor refurbishment and a major refurbishment. After every five years we typically do minor refurbishment. Minor refurbishment basically is the customer area where we will change the upholstery, we will do a new job on the paint and polish and look and feel and all of that. Major refurbishment is done once in 10 years, which will also include the kitchen area as well.

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

Shirish Pardeshi: Congratulations for the good set of numbers. Manish, I am on Slide 21, where I'm seeing the Pizza Hut's numbers. We have reached almost 466 stores, but then somewhat the ADS is not showing that kind of trend. So, just wanted to understand, hypothetically if we want to reach an ADS number of not exactly the market leader, but say around INR60,000, INR65,000, what it takes? What we need to do? And maybe do you think in the next three years we will be able to get there? And the related question is that, how much price increases you have taken in quarter two and maybe in the first half?

Manish Dawar: So, in quarter two, we've not taken any price increase. There could have been a small marginal, 0.5% or 1% and that's it. Majority of the price increase was taken in quarter one. So, therefore, from that perspective, quarter two numbers are kind of neutral. Obviously, your question on ADS, we've talked about a SSSG number of 7% to 8% for Pizza Hut, and we continue to have new launches. We continue to have innovation pipeline. We've launched the new Fun Flavour pizza now, which will help us to kind of bridge the gap with the market leader.

Shirish Pardeshi: But do you think three years' time we will be able to reach to INR65,000?

Manish Dawar: I will not be able to commit any number.

Shirish Pardeshi: No, no. I'm not asking for commitment? I'm asking to reach that level, in your frame of things, what do you think? I mean, you said Fun Pizza which will get you somewhere. But then do you think whatever speed at which we are growing, of course operating leverage will kick in at some stage. But do you think is it possible to reach that level in three years?

Manish Dawar: Look, it is possible. It is not beyond possibility. But again, you have to look at the macro environment as well. If you look at let's say, the current year, there has been a huge inflation in the first quarter. And obviously, this inflation has not been just food inflation this time. It's very well rounded and impacted various categories. The consumer wallets have not grown so much. And therefore, to some extent, the consumer is getting impacted as far as the sentiment and emotions are concerned. And they kind of tend to pull back in this scenario. So, let's see. And, there are big headwinds globally as well. If you look at what is happening in Europe, what is

happening in China, I mean, these are huge headwinds. Therefore, we have to kind of be a little cautious from that perspective. But otherwise, we are bullish on that the business.

Shirish Pardeshi: That's really helpful. I just have one last question. It's a fundamental question. Whenever I've seen the companies entering into new space or white spaces or maybe launching new products and fill in to try and get the more customers footfall. Now, what I need to understand fundamentally, this all new product introductions, is it directly targeted to premiumize the portfolio and hence, the assumption is that the margin expansion will happen and we will not dilute. Is it true for both the brands, in KFC and Pizza Hut?

Manish Dawar: It works on both hands, because one is, obviously the premiumization journey remains a key objective. But if you look at the Flavor Fun introduction, it is to drive the footfall and the volumes. Therefore, you have to work at all the ends to be able to make the brand more salient and appealing to the consumers. And obviously, if you have to grow both the margins and the top line, you have to balance it at both the ends.

Moderator: The next question is from the line of Yashwant Thippeswamy an individual investor.

Yashwant T.: I have two questions. The first question is about, are we planning to cater outside for parties, could be like weddings or small get togethers. Because I've seen quite a few people unorganized in the sector are providing. There is an opportunity out there. So that's my first question. And the second question is, are we planning for any discount program for the investors because I see there are three lakh investors, retail investors. So, which is straightly aiming at three lakh families there.

Manish Dawar: So, we are not planning to cater to the weddings. So, our objective is to continue to do what we are doing, in terms of opening stores, giving consumers a good response, come out with new innovative products, etc. So, that is what we are sticking to. As far as your other question about the shareholders' concern, let's consider it internally and we can come back to you.

Moderator: The next question is a follow-up from the line of Pujan Shah from Congruence Advisers.

Pujan Shah: Sir, one of my question would be if we are exiting any stores, so what are the parameters we are looking into when we are closing out the stores and what are the ratios or something analytical factor, which we look at into for the closure of the store?

Manish Dawar: Typically, we look at the store profitability. And obviously, that kind of takes into account all the lines at the store P&L level. Whenever we open a new store, we typically try and work to make the store successful in about 18 to 24 months period. Beyond that, which is let's say two and a half years, we would take the call around store closure. And normally, a reasonable amount of store closures, we already bake in our business model. And that's how we kind of manage the entire business, because not all the stores will be successful as we continue to expand. For e.g. we've seen at number of places, you open a store and there is some infra development which starts, let's say there is a flyover which starts getting constructed and the traffic shifts, or there is some roadwork which starts, or let's say there is a new road which is getting worked upon. So obviously in India, these challenges are there and we plan for it.

Moderator: Thank you. That was the last question for today. I would now like to hand the conference over to management for closing comments.

Raj Gandhi:

Thank you, Chairman and all the investors, analysts who have been on the call. I do hope that we have managed to do respond to all your queries satisfactorily. Should you need any further clarifications or would you like to know more about the 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. Thank you very much.

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