

Date: August 18, 2022

To,

<b>National Stock Exchange of India Limited</b> Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400051  Symbol: SAPPHIRE	<b>BSE Limited</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 40001  Scrip Code: 543397
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Dear Sir/Madam,

**Subject: Earnings Call Transcript – Q1 FY23**

Pursuant to the Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith the transcript of earnings call held on Thursday, August 11, 2022, in relation to the financial results of the Company for the quarter ended June 30, 2022.

The said Earnings Call Transcript is also available at the website of the Company ([www.sapphirefoods.in/investors-relation/financial-information](http://www.sapphirefoods.in/investors-relation/financial-information)) under FY23 Q1 section.

Request you to kindly take the same on record.

Thanking you,

**For Sapphire Foods India Limited**



**Sachin Dudam**  
**Company Secretary and Compliance Officer**



**Encl:** a/a



“Sapphire Foods India Limited  
Q1 FY 23 Earnings Conference Call”

**August 11, 2022**



**MANAGEMENT:**

**MR. SANJAY PUROHIT - CEO AND WHOLE TIME  
DIRECTOR, SAPPHIRE FOODS INDIA LIMITED**

**MR. VIJAY JAIN - CFO, SAPPHIRE FOODS INDIA  
LIMITED**

**MR. RAHUL KAPOOR - INVESTOR RELATIONS,  
SAPPHIRE FOODS INDIA LIMITED**



**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call of Sapphire Foods India Limited, hosted by Orient Capital. 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. Should you need assistance, during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Rahul Kapoor from Sapphire Foods India Limited. Thank you and over to you, sir!

**Rahul Kapoor:** Thank you, Faizan. Good evening, everyone and a warm welcome to Sapphire Foods' first quarter FY23 earnings conference call. I'm Rahul Kapoor from Sapphire Foods, Investor Relations team. Today, on the call, I'm joined by Mr. Sanjay Purohit, who's our Group CEO and Whole Time Director; Mr. Vijay Jain, who's our CFO.

We've already uploaded our investor presentation and earnings press release on stock exchanges and our company's website. We will begin the call with a commentary from the management, which will be followed by a Q&A session.

This call may contain some of the forward-looking statements, which are purely based upon our belief, opinion and expectation of the company, as of today. These statements are in no way guarantee of our future performance and involve risks and uncertainties that cannot be predicted at this point in time.

With that, I'll hand it over to Sanjay. Here you go, Sanjay.

**Sanjay Purohit:** Good afternoon, everybody. Sanjay Purohit, here. I'm also joined by Vijay Jain who's our CFO and both of us in tandem will take you through the highlights of our quarter 1 performance. Quarter 1 this year, has been the first quarter since the COVID pandemic, when we've seen a full recovery in our operating hours, and that is translated into positive impact on both KFC as well as Pizza Hut businesses, especially the dine-in businesses, and they have seen a strong recovery. Dine-in on KFC has come back to pre-COVID levels and Pizza Hut is just a shade short at 85% recovery.

We've had a really, really strong quarter. We delivered our highest ever quarterly revenue at INR 544 crore and our highest ever EBITDA of INR 111 crore. Our previous highest EBITDA was INR 108 crore, just for the record was in quarter 3 of FY22, this excluded that additional incentive that we accrued in the quarter and we had called it out at that point in time.

So, strong quarter, highest ever quarterly revenue and highest ever EBITDA. This EBITDA post Ind AS stood at 20.5% up 640 basis points, year-on-year. Adjusted EBITDA was INR 72 crore at 13.3% up 1020 basis points and PAT stood at INR 38 crore at 7% up 1570 basis points.

I think the important part here is this strong performance is despite the macro-economic challenges that have impacted our Sri Lanka business and I'll talk about it in a minute, but just at a broad level Sri Lanka used to contribute about 25% of our overall profits in the last year in FY21-FY22. Today, it contributes 10% in quarter 1. So, despite Sri Lanka's performance and that performance also I'll peel the onion in a minute or so largely because of foreign currency translation. Therefore, the India Business has really done well and has more than compensated for the flat Sri Lanka numbers.

Let me now talk about the three businesses. So, KFC had a very strong quarter 65% SSSG and almost we doubled in overall revenue. We talked about inflation in the last quarter and to mitigate this inflation, we are taking a price increase of about 9%. So, though gross margins dropped a bit, our overall cost efficiency programs enabled us to deliver amongst our best ever restaurant EBITDA at 20.3%. So, KFC really strong quarter we have had.



What is heartening is our Pizza Hut performance. And this continues to validate, what we have said and tom-tommed about talked about continuously that our compact omni channel restaurant strategy, which delivers optimal customer experience in dine-in, take away and delivery is the way for the brand to differentiate itself and be a strong number to, and as a result we've delivered SSSG of 47% overall revenue has increased by 85%.

We took a lower price increase on Pizza Hut and limited it to 5%, but as din-in sales recovered our core portfolio also -- our legacy core portfolio also did well. Our dine-in sales recovered, delivery sales held and together with the cost efficiency programs, we delivered our healthiest 14.8% restaurant EBITDA margin. So, Pizza Hut performance was very strong.

And I think the other positive part on the brand is that there was a significant gap in our product price portfolio of Pizza Hut and this is really a pizza under INR 100 and this has been plugged with the launch of the very differentiated flavor fun pizzas. I'll speak about it more when we come to the Pizza Hut section. This was test marketed in Chennai and Hyderabad in quarter 1 with really good results and those encouraging results have emboldened us to launch it nationally on the 25th of July. So, that's another positive development on Pizza Hut.

Let me come to Sri Lanka. I think the external environment has been challenging and continues to be so, it has not deteriorated further and therefore there's some amount of stability that has come back to Sri Lanka. On the back, so we delivered an overall 53% SSSG in rupee terms and a 93% increase in overall revenue. So, while we took price increases, inflation was even higher and therefore gross margins dropped. And therefore, restaurant EBITDA also dropped to 15.5%. The absolute restaurant EBITDA grew by 65% but once we do the currency translation impact in Indian rupee terms, the absolute restaurant EBITDA remains flat over last year quarter 1.

So, we continue to do from a local business perspective in Sri Lanka. However, the situation continues to remain challenging but stable. And I would say just very marginally improving perhaps the end of July and August. If you remember we had advised that we should be able to double our restaurant count, which was standing at 550 restaurants and in December '21 we said we should be able to double it in three to four years. And accordingly, our total addition of 37 restaurants has kept in pace with that guidance that we had given.

We opened 18 KFCs, 16 Pizza Hut in India, two Pizza Hut and one Taco Bell in Sri Lanka. So, this was the broad highlights. Specifically, from a number perspective, our restaurant sales are now referencing the slide presentation that you have got access to.

I'm on Slide number 7. Our restaurant sales was INR 544 crore, adjusted EBITDA so that's totally that's up by 80%, restaurant EBITDA INR 72 crore 13.3%, the same quarter last year which was COVID impacted was 3.1%. Our EBITDA is INR 111 crore up 161% over INR 43 crore in quarter 1 of FY22 or 20.5% up 640 basis points. PAT is INR 38 crore versus negative INR 26 crore in the same quarter last year. So, 7% PAT.

I'll now hand it over to Vijay, who will take us through the specific consolidated financial highlights and then I'll come back to give you indication of KFC, Pizza Hut and Sri Lanka.

**Vijay Jain:**

Thanks, Sanjay. Good afternoon, everyone. I will take on from Slide number 9, consol financial highlights. As we said restaurant revenue of INR 543 crore was highest ever for the quarter, gross margin as estimated we were expecting a drop in gross margins on account of inflation and our price increase being lower than the inflation.

So, we drop the gross margins at by 220 basis points. And we had guided that in spite of a drop in gross margins we were confident of not only sustaining, but improving our restaurant EBITDA margins. For restaurant EBITDA margins of 18.5%, up by 690 basis points over corresponding quarter. And even if you look at sequentially it was 18.3% in quarter 4. This translated into higher adjusted EBITDA of 13.3% up by 1020 basis points at INR 72.2 crore.

Slide 11, corporate EBITDA or consolidated EBITDA at INR 111 crore which is highest ever as Sanjay mentioned the previous highest was in quarter 3 of last financial year. This was up by 640 basis points, over corresponding quarter and a growth of 161%. We delivered a PAT of 7%



at INR 38 crore up by 1570 bps. So, the corresponding quarter was a loss making on account of COVID impact, second wave of COVID impact.

**Sanjay Purohit:**

Yes. Let me quickly take you through KFCs performance. As you could expect in, as I spoke about this, when operating hours started to normalize our dine-in sales recovered. So, dine-in sales as a contribution -- I'm talking about Slide number 14 of the presentation, dine-in was 46% and delivery held, but in a contribution sense came down to 35%.

When we look at comparable stores and their recovery versus our recovery at a channel level, absolute ADS versus FY20, dine-in is 102%, take away is 112% and delivery is still double of what it was in FY20. From a new product launch perspective, we had the KFC popcorn, Nachos launch and that's done quite well. It's a very differentiated product and I invite everyone on the call to perhaps try it once. It's really, really tasty.

I'm now going to go to some of the new restaurant launches. I wish I could show you some slides. But there was a really important gap in our mall portfolio that we plugged in quarter 1. Perhaps the largest and most successful malls in the country that fall in our territory is the high street Phoenix or the Phoenix Palladium mall in Parel. And there we've been knocking on the doors of the mall while we've got great relationships with the mall, they were unable to find a space for us to six years.

And then finally, we were able to enter the mall in what is perhaps an absolutely iconic store location. And to my mind it's a one-off location. I haven't seen any such stores anywhere else in the country. So, within a successful mall you have a separate structure. Many of you are Mumbai based and therefore you know what I'm talking about when you go on the road you can see a separate structure and KFC is opened there. We are very proud of that store is doing really well.

And then you can see on the next slide, Slide number 19 some of the other stores that we have opened in Chikali; and Shalimar Bagh, Delhi; in Gerugambakkam, Chennai; and then Vicino mall, Mumbai. Viay, will now take us through the numbers.

**Vijay Jain:**

Slide 20 on KFC financials. Our SSSG was 65% our corresponding quarter with ADS of INR 144,000, the growth of 37%. Restaurant revenue was at growth of 98% at INR 353 crore, this was highest ever revenue for KFC. The gross margins dropped by 200 basis points. And if I break this down into two parts, one was an account of mix, delivery mix was lower compared to the corresponding quarter. Last year same quarter it was 62%, now it has come down to 35%.

Generally, our delivery prices are 10% to 15% higher. So roughly 50% of drop is contributed by the change in mix. The balance 50% is on account of inflation. And as I said previously, that our price increase was 9% while inflation was well into double digits into mid-teens. Still, we were able to drive restaurant EBITDA margin expansion 20.3% one of the highest ever margins on KFC, which was due to dine-in recovery as well as the cost efficiency which enabled us deliver a very strong EBITDA performance at restaurant level for KFC. So overall very strong quarter for KFC. Our momentum continues in terms of store expansion, the revenue growth and still delivering some amount of margin expansion in KFC.

**Sanjay Purohit:**

Quickly the Pizza Hut channel, I'm on Slide number 23, dine-in had a smart recovery and now contributes 37% of the total business. Delivery contribution has dropped to 47% but as an overall ADS level continues to hold. When we look at recovery versus FY20, dine-in is at 85%. And when I look at say, when I compare dine-in 85% to say KFC at 102% largely we see this gap in coming out of Karnataka and perhaps a few malls stores where dine-in transactions are still not back to pre-COVID levels. So that explains the slight gap between dine-in recovery on KFC and Pizza Hut.

Other than that, I talked about the flavor fun pizza launch. I'm on Slide number 24. The starting price ranges at INR 79, there are five delicious sauce flavors. So, there's a classic Italian, tandoori, cheesy and scheszwan sauce. It comes only in the personal pan size range and there are 12 pizza offerings. So, it goes up to I think about INR 149 or INR 189 for the top and non veg range. We're really excited with this launch. It comes with a cheesy dressing and it tastes absolutely fantastic and bases the encouraging response that we've got in the test markets that



we ran Chennai and Hyderabad; we are hoping that this will also do quite well at the national level.

We continue to open stores in Pizza Hut and you can see some of the pictures, we're very proud of the kinds of stores that we open also that Capital Mall, Nalasopara Mall we're doing about a lakh ADS and it's just a beautiful store and I think similarly across the board, the stores that we open look good, the customer experience is great. Quickly, Vijay on the numbers.

**Vijay Jain:**

On Slide 28. Pizza Hut delivered SSSG of 47% with ADS of 61,000 and a growth of 24% versus corresponding quarter. Again, Pizza Hut too delivered all time high revenue of INR 122 crore up by 85% over corresponding quarters and 16 store additions, 16 restaurant additions in the quarter. The gross margins dropped on Pizza Hut by 110 basis points led by inflation on cheese, packaging and a bit of oil.

But again, we had an excellent margin expansion of 14.8%, this is probably one of the best ever performance increase of Pizza Hut restaurant EBITDA level. I think the previous highest was quarter 3, the festive quarter where we delivered 14.9% excluding the additional incentives. So really good margin expansion. This was possible on account of dine-in recovery which we saw, our strategy on compact omni channel format.

So, the new additions which you've been happening since April 18 onwards are on this higher profitable format. And our cost efficiency program has enabled us deliver highest ever restaurant EBITDA for Pizza Hut. Within this 14.8% I always give a color on pre 18 and post 18 restaurants. So, the stores which have opened post 1st April 18 they are delivering now, moving from mid-teens level of profitability towards high teens and this is enabling us to drive margin expansion on Pizza Hut. So, overall, very heartening performance on Pizza Hut. Specially things that are compact omni channel strategy being played out and we have been able to deliver a significant margin expansion on the brand.

**Sanjay Purohit:**

From our Sri Lanka perspective, let me first give you a quick insight into what is happening on ground in that country. So, we saw the images of the general public uprising against the Government and against the President and the Prime Minister. We saw what happened there after that there's been a Prime Minister elect, Prime Minister who's been appointed, little more stability from a political perspective. I think people are realizing that there isn't a silver bullet answered to their issues. From a from a general consumer and general public perspective, inflation has hit them quite hard. And month on month we have seen inflation. So, overall, general food inflation, they have been hit.

We have taken price increases, but I think we have to be able to still retain transactions we have still not taken price increases in line with inflation. And I think Vijay will give you a little bit of color on that. Having said that, availability of gas, electricity that enables us to do business as slowly and steadily stabilize and perhaps improve and that is on the upward tick.

Quarter 1 typically is a low quarter for us from a seasonality perspective in Sri Lanka. Quarter 2 onwards is when I if I just look back at the trend over the last five, six years, quarter 2 and then quarter 3 are the very big, are the best quarters. So, I'm anticipating as the business stabilizes, as the overall environment and economic, macro-economic conditions stabilize, our business also should do well.

We continue to be the number 1 QSR operator. Internally we monitor our market share and this is our estimates of market share. And we believe that we have steadily increased and gain market share in the total QSR business in Sri Lanka. So, we continue to do better than anyone else in Sri Lanka and again, that's because of our advantages the brand is very powerful. Our innovation and product program is very strong. We are most accessible, the highest number of restaurants we got there. And we have our own delivery capability also.

When last or in June, July when there was severe shortage of petrol for our delivery vehicles, we hit upon quite an innovative idea of delivering on cycles. And about 10%, 12% of our total deliveries was then being handled on cycles. And now we have -- now as fuel has got more available, we are able to deliver again back on our bikes. So, Sri Lanka from an overall perspective, I think we have seen the worst of what used to happen there. We have continued to



open stores in Sri Lanka because we see that as an opportunity and we opened two Pizza Hut and one Taco Bell in Sri Lanka in the quarter. So, Vijay the numbers?

**Vijay Jain:** Slide 34.SSSG was 53% in LKR terms, our ADS grew by 34% in LKR terms at 333,000. In Indian rupees due to translation impact and due to currency depreciation, our ADS dropped by 18%. Our revenue in LKR terms grew by 93%. And when you convert into Indian rupees, it grew by 17% for the quarter.

Gross margin had a big impact on account of high inflation. And we were actually estimating this and the idea was to minimize the impact at a restaurant, EBITDA level. And most specifically, the idea for this year was how do you actually try and deliver and grow the absolute EBITDA in LKR terms. So, while restaurant EBITDA dropped by 250 basis points, the LKR EBITDA margin actually grew by 65%. And when you convert that into India rupees, it was flat here on year.

So, overall, as Sanjay mentioned, external challenges continue to remain and it gets further aggravated by the fact of depreciation of the currency when you translate the number in Indian rupees for consolidation. However, Sri Lanka used to form 25% of our company EBITDA mix in FY22, which has come down to now close to 10% in FY quarter 1 of this particular financial year and this drop -- in spite of this drop, this impact has been not just mitigated, in fact, surpassed by the India business performance. And this has allowed us to still deliver overall very healthy quarter and our highest ever corporate EBITDA of INR 111 crore.

Over to you, Faizan, we can open the session for Q&A.

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

**Percy Panthaki:** Hi, sir, just wanted to understand firstly for your India Business. Typically, what would be the Q1 ADS as a percentage of the full year ADS in a normal year?

**Vijay Jain:** Q1 is typically is on annual average. In terms of seasonality, I can just explain how the quarter wise seasonality plays out for Sapphire Foods. Q1 is typically annual average at a restaurant EBITDA level and at a corporate EBITDA level. A quarter 2 we see a slight dip on account of seasonality, especially on our KFC business because of the various festivities, the various religious activities, the Shravan's in the North, Shravan's in the West, the Navratri's, which impacts us the quarter 2 seasonality which gets more than compensated by our Q3 performance, which is a festive quarter where the fields actually goes up. So, quarter 3 is higher than the annual average and quarter 4 is typically the annual average. So Q1 and Q4 is annual average, Q2 drops a bit, which gets more than compensated by the Q3 performance.

**Sanjay Purohit:** And that Q2 drop is largely North and West. And if I just looking at North and West and nonvegetarian that is the drop. From a Pizza Hut perspective, I think it is reasonably stable right through the four quarters, perhaps quarter 3 is slightly higher because of the festival. Does that answer your question, Percy?

**Percy Panthaki:** So, I was just saying so Q1 is in line with annual average both on ADS as well as EBITDA margins?

**Sanjay Purohit:** Yes, largely yes, Percy. You were able to hear the answer Percy, because I thought you got dropped off, you were able to get our answer on the entire seasonality Q1, Q2, Q3?

**Percy Panthaki:** Yes, I was able to hear you, yes. Second question is on Sri Lanka. So, just wanted to understand in terms of the margin directory so Q1 has done 15.5%, but was it a sliding scale across the three months, I mean the exit margins for the quarter were they significantly lower and therefore Q2 margins on that trajectory, do you expect it to be below Q1 for Sri Lanka?

**Vijay Jain:** Again, we don't get into quarterly guidance but what I can tell you is we don't anticipate overall Q2 absolute EBITDA for Sri Lanka to be any worse off than quarter 1, largely should remain on the same trajectory as quarter 1 in terms of absolute EBITDA. And why I'm calling out absolute EBITDA again and again, because this is the year where it's going to be very difficult to predict the percentage margin, the way there is a high inflation in the country, the price calls cannot be every week, price calls, right? And again, at the same time you to hold on to the



transactions so, heartening part is that we have been able to hold on to the transactions in quarter 1.

So, the way we are going to drive this year's P&R in Sri Lanka in LKR terms, can we hold on to the previous year's LKR EBITDA and drive upon that and grow up on that. So, we anticipate a drop, when you translate that EBITDA into Indian currency last quarter had called out there would be a drop on translation.

We anticipate this drop could be anywhere between now INR 10 crore to INR 20 crore, this was overall INR 50 crore EBITDA last year, roughly I'm giving you in at a corporate level. So, that could be a INR 10 crore to INR 20 crore at Indian Rupees level. But again, as I said this has been more than compensated by our India performance and the overall mix of Sri Lanka business at EBITDA level has come down to 10%.

**Percy Panthaki:** Understood. So, basically the absolute EBITDA that you have done in rupee terms in this quarter, that kind of average quarterly run rate is sort of sustainable for the full year?

**Sanjay Purohit:** Yes, Percy.

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

**Jaikumar Doshi:** Just a follow up on what Percy asked on Sri Lanka. Look, if I were to sort of -- from what I recall, your brand EBITDA for Sri Lanka was around INR 70 crore, INR 72 crore last year, and corporate EBITDA was INR 50 crore, INR 52 crore. So, there is a corporate overhead of INR 4 crore to INR 5 crore per quarter. Then I look at this quarter's INR 10 crore brand EBITDA, I would assume that corporate EBITDA would be INR 5 odd crore. So, when you're indicating that corporate EBITDA for Sri Lanka will not be more than INR 10 crore, INR 20 crore lower than last year, you were indicating INR 30 crore for full year at least. And which means that you are assuming, significantly higher or rather in absolute terms versus INR 5 crore or INR 6 crore this quarter, you're expecting improvement. So, are you seeing any improvement of the ground or you think that the political stability will gradually sort of translate into recovery or allow you to take more price increases to offset inflationary pressure?

**Vijay Jain:** So, bit of correction in those numbers, Jay. So, when you look at INR 5 crore corporate overhead last year, when you translate into Indian currency even that translation would drop, right? INR 5 crore to INR 3 crore and that's why the math if you're estimating INR 10 crore restaurant EBITDA, the math says that it has to be in the range of INR 7 odd crore. That's why I said it should surpass INR 30 odd crore for the current year. I think that might.

**Sanjay Purohit:** Restaurant EBITDA, yes, you understood it, yes.

**Jaikumar Doshi:** Perfect. Second question is, this quarter we have seen very strong recovery or sequential performance, or more or less full recovery in dine-in for all dine-in centric QSR, be it Mc D be it sort of KFC, we witnessed some weakness in UBs results versus expectation. Today and your channel makes it clearly indicates that dine-in is still 85% recovery versus FY20 level. You're seeing similar sort of trends for Pizza Hut of Devyani as well. So, do you think Pizza as a category, this is a new normal where more or less, all stores will settle at a lower post pandemic will settle at a lower dine-in absolute sales than where it was earlier. And if that is the case, so are you sort of -- are you getting that feeling first, could you give us some thoughts or insights there?

**Sanjay Purohit:** Not so at all, Jay. I mean, if I just look at some of our strong malls, I mean, if I just look at Bombay, Mumbai, and if I say, Infiniti, Inorbit Vashi, Seawoods -- sorry Seawoods we are not there, some of these malls our dine-in is back, in high street dine-in also is back. I think it's just a matter of time, that we'll see full recovery on Pizza Hut also. It is pockets where it has not recovered fully so, Karnataka still today it -- or in quarter 1, I have still not recovered fully.

And I think when we speak to other people, Bangalore from a retail perspective was still not you know, back to pre-COVID levels. So, I think pizza as a category, we know we can't extrapolate it at least for Pizza Hut run by Sapphire not at all.





- Jaikumar Doshi:** Understood. Now you mentioned that there are specific pockets in Karnataka, Bangalore some malls where you are seeing recovery. When you talk to other brands and at least I'm sure we would, you don't manage KFC there, operate KFC in Bangalore, but is KFC recovery or let's say Mc D recovery in those malls, those pockets also lower than pre pandemic. Have you had a chance to ...
- Sanjay Purohit:** No, I don't know that, Jay. Because we don't run KFC in Karnataka. So, I'm not able to comment on that.
- Jaikumar Doshi:** Understood. Now, my final question is for Vijay. So, Vijay you did mention that first quarter, EBITDA is typically average of full year. So, it means that INR 72 crore is, everything being normal should ideally mean you would do INR 288 crore of EBITDA full year. Does that factor in the store addition that you've also planned or this is the bare minimum and store addition could add a bit more?
- Vijay Jain:** So, Jay, again, I would not get drawn into annual number over here, annual number guidance, I just tried to give an indication on trend, how quarter 1 is and how quarter 2, quarter 3, quarter 4. At Sapphire we would always avoid giving a quarterly or annual number-based guidance so, that's for you to
- Jaikumar Doshi:** That trend takes into consideration store addition, is that right?
- Vijay Jain:** So, Jay, what I actually meant was percentage margins, right? So, percentage margins of 13% is what we said we were, is typically an annual average. So, you are drawing me into a conversation where how much is the absolute EBITDA considering the store additions, I'll not get drawn into that conversation, Jay.
- Sanjay Purohit:** Jay, and plus in any case, your model is so detailed that we might have to come to you to say what will happen to us in two years down the line.
- Jaikumar Doshi:** Sir, I was tempted to ask this question because I know you don't guide but Percy was asking that question on ADS trends, and you yourself indicated EBITDA trends, so I thought I might as well push my luck?
- Moderator:** The next question is from the line of Kapil Jagasia from Edelweiss Financial Services.
- Kapil Jagasia:** First of all, congratulations for a great set of numbers specially because of disruption in Sri Lanka. Sir, my question pertains to Sri Lanka operations only. So, if you could let us know, what would be the inflation for a raw material basket in Sri Lanka and like what would be the cumulative price hikes taken by us so far in this? Sir, if I'm not wrong, you had mentioned something like 15% price hike taken in the last quarter so, any more price hikes taken this quarter, the ballpark number would be fine for both?
- Sanjay Purohit:** Yes, so, roughly another 15% to 16% price hike in quarter 1 FY23 whereas the inflation would be anywhere between 30% to 40% for the quarter.
- Kapil Jagasia:** So, the cumulative inflation would then that would be like if we look from the large 12-month perspective?
- Vijay Jain:** It would be upwards of 60 odd percent.
- Kapil Jagasia:** So, are we envisaging like further price hikes or like are we like done for now, if the situation remains the same?
- Vijay Jain:** Too volatile, the initial indications of July, August says that the things are improving but too early to take a call either way, so it's volatile, we'll just keep a watch how quarter 2 passes by, I think from quarter 3 onwards, we should be a bit more confident about how this situation goes in which direction.
- Kapil Jagasia:** My next question is if I look at the Pizza Hut India Ads numbers for this quarter is at 61,000 and, you know, that's like FY19 level, so we have kind of, you know, reached those levels. But



if I look at the Domino's number at around 84,000, 85,000. So, we are a good 30% away from reaching that. So, I'm sure we plan to aspire to reach those levels or even surpass it. So, what would be the two, three key initiatives that we would be taking over than near to medium term to improve this number?

**Sanjay Purohit:** So, I think one is so plugging this gap in our product price portfolio. This is a large, this forms a large portion of the overall pizza market, pizza under INR 100 and that has been one of our lacunae. Now it was important for us to when we launch something here, to do it in a manner that is quite Pizza Hut then therefore from a product perspective also, we are known for superior product so, it has to deliver that kind of Pizza Hut product superiority.

So, I think this one is, this launch is one important factor in us improving ADS. I think apart from that, as we continue to get our execution right, improve our accessibility on the brand so our product innovation at the top end so, both the San Francisco dough as well as Momo Mia Pizza, all of them have done well. We've done a couple of pasta launches.

So, I think the story on Pizza Hut continues to be strengthen the areas where we win, which is product and innovation and our dine-in omni channel experience on value, on our regular range we have, we are now competitive versus the principal competitor. And we have plugged one big gap in the portfolio. And on delivery, we continue to hold and improve and improve accessibility. So, this is continuing to execute what we have called out on the brand, Kapil.

**Vijay Jain:** And sir, just to add to that Kapil, while you're seeing bridging gap versus the number 1 competitor, I don't think we're in that particular race, because again the model allows us, our omni channel allows us to deliver a higher profitability at lower ADS as well. So, we've been -- I've been talking about our new compact omni channel model which we have been opening since April 18, which is already now moving from mid-teens to high teens. And in this model if the ADS goes to a 70,000 as well, we can deliver a 20% kind of a profitability. So that's the power of that model. I'm not saying that we can deliver 70,000 tomorrow, but we don't have to reach the level of 80,000 odd to deliver that kind of profitability. This is because of our dine-in mix, which gives us higher profitability.

**Kapil Jagasia:** And I'm sure like you would be spending a lot on AMP also, to improve this number like going forward, like just a ballpark number, just like a bookkeeping number, what the AMP spend would be for us this quarter, as percentage of sales?

**Vijay Jain:** 6% of our revenue is towards marketing.

**Kapil Jagasia:** And this is like significantly higher than the 4% earlier, right?

**Vijay Jain:** It was always percent 6%, so, 5% goes to National Kitty which Devyani would spend nationally on the brand and one person happens to local sales marketing.

**Kapil Jagasia:** So, we are kind of looking to settle at the number, 6% can be like...?

**Vijay Jain:** It was always 6% and we are happy with that particular percentage, it's not either going down or going up at this level.

**Moderator:** The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Institutional Equities.

**Krishnan:** Are you surprised by the resilience of the takeaway channel particularly for Pizza Hut, sustaining at 16% despite the recovery that's happening on dine-in? And what do you expect this proportion to be, going forward?

**Vijay Jain:** So again, while mix are good to look at, we don't really predict mix because what happens if there is a one channel performing far superior to the channel, the mix can go up and down. What we look at is at what levels we are compared to the previous quarters or the previous years and takeaway at 110% I think we're comfortable at this level and from here as the overall business grows with our flavor fun addition, I think the growth should come across all the three channels and not just one channel versus the other, but difficult to comment on our mix.



- Sanjay Purohit:** So, I think we have to look at absolute ADS here, Krishnan and 110% we have recovered perhaps slightly above FY20. That's the way to look at it.
- Krishnan:** My question was more from the perspective that I would have thought that once dine-in comes back, COVID restrictions ease, there was an expectation at takeaway as the channel may decline and it has still sustained at higher levels?
- Sanjay Purohit:** So, I think someone else also asked this question and we have been consistently saying that dine-in will come back, when dine-in comes back it will overall add to the sales, we don't expect either takeaway or delivery which is really off premise consumption, though takeaway someone is coming to our premises and ordering, they're still taking away and consuming it at home, and that component of our business continues to hold. So, it's just contributions here are less meaningful than how we have recovered from an absolute basis.
- Moderator:** The next question is from the line of the Devanshu Bansal from Emkay Global Financial Services.
- Devanshu Bansal:** Congratulations on a great set of numbers. I wanted to check with this. plugging of a key gap through flavor fun in Pizza Hut. Are we also revisiting our 7%, 8% SSSG guidance that we have provided for this brand?
- Sanjay Purohit:** No, we are not revising our guidance at this moment. Let it play out Devanshu, and then we will see. But we are very excited about this launch.
- Devanshu Bansal:** And a successful traction here can actually bump up our SSSG, is this a right way to look at it?
- Sanjay Purohit:** Yes, potentially, yes.
- Devanshu Bansal:** And you indicated that Q2 typically for KFC sees a decline in ADS due to festive season. And can you sort of ballpark quantify what is the level of decline in Q2 ADS versus Q1 ADS?
- Sanjay Purohit:** So, first of all, I just want to explain this, this happens because our KFC is largely North and West. So, we've got Tamil Nadu also. When you look at us, we are perhaps impacted slightly more, we recover also equally fast as soon as for example right now Shraavan ends in North today, from tomorrow onwards, people will do revenge KFC eating. But for the short term, there is this norm that we see.
- Devanshu Bansal:** Can you quantify this ballpark based on historical trends?
- Vijay Jain:** So again, we don't want to get into a specific quarterly numbers, what I can tell you is again at a restaurant EBITDA level, typically quarter 2, we see 100, 250 basis points kind of a drop at a KFC level, due to seasonality factor. Again, depends upon where the Navratri are, and which quarter it is falling, sometime it falls in quarter 2 versus quarter 3, partially it falls in quarter 2 versus quarter 3 and the same recovery happens in quarter 3.
- So internally, the way we look at is quarter 2, quarter 3 combined, that quarter 2, quarter 3 combined gives us the annual average for us. Again, this year, the Navratri's starts from last week of September. So again, we'll have that last week of September Navratri impact. So, difficult to predict quarter on quarter but that's the range we see an impact at a restaurant EBITDA margins level.
- Devanshu Bansal:** Got it. And we took a certain impairment charge for Sri Lanka operations in this quarter, though it was a non-cash charge, but just wanted to check, do you also foresee any such impairment for Sri Lanka operations?
- Vijay Jain:** So again, at least not at this point in time, because we continue to deliver our Lanka numbers in LKR terms so the business continues to grow over there, even in the current quarter, the LKR terms we have actually grown our profitability. And again, for the full year if you're able to deliver the same number as last year or marginally grow our EBITDA in absolute terms, I don't think it will require to take an impairment charge. But again, the situation needs to be monitored quarter on quarter.



- Devanshu Bansal:** Sue. And lastly, what is the CapEx inflation that you're seeing, both for India and Sri Lanka operations?
- Vijay Jain:** Sorry, come again?
- Devanshu Bansal:** What is the CapEx inflation that you're seeing, both for India and Sri Lanka businesses?
- Vijay Jain:** So, for India business we've seen inflation in the range of anywhere 7% to 8% on both the brands, Sri Lanka this is in the range of 15% to 20% CapEx inflation.
- Moderator:** The next question is from the line of Tejas Shah from Spark Capital.
- Tejas Shah:** Couple of questions from my side. First, on ADS recovery, it has been heartening in both the brand, but inflation has also decent role to play in ADS numbers for the industry at large also. So, just wanted to know in terms of volume, where are we tracking versus pre-COVID number, build transaction if you tracked. I'm sure you must be tracking it if you're comfortable, giving any qualitative comment also on that?
- Sanjay Purohit:** So, I don't know the immediate numbers from an ADT perspective but I can explain to you ADT versus quarter 1 of last year, ADT and ADS are in the same trajectory.
- Vijay Jain:** In fact, our ADT has grown faster than our ADS. So, both the brands in India we have grown transactions higher than the SSSG growth,
- Sanjay Purohit:** As compared to last year.
- Vijay Jain:** So that's heartening for us.
- Tejas Shah:** Any indication versus pre-COVID 1Q FY20?
- Vijay Jain:** From a transaction point of view, see if the recovery in case of KFC is just about 100% and we have taken a price increase so in terms of transaction, we would be trending below pre-COVID levels. Same thing would be for Pizza Hut because we have taken a 5% price increase even in case of Pizza Hut as well.
- Tejas Shah:** Second question is, you spoke about how we have actually filled the gap in our portfolio. Just wanted to understand when you go about menu innovation, it's always difficult to manage the conflicting objective of managing gross margin at that particular offering level and also obviously filling the gap in whitespace in the portfolio. So how do you go about it? Is it that each product, each launch matches certain gross margin thresholds or you play it at a very portfolio level and perhaps not at gross level but at EBITDA level it kind of compensates the margins?
- Vijay Jain:** So again, it's a combination of both. So, each launch you have to individually measure the gross margin for each launch as well and then you have to predict what kind of mix it would turn out and that's why we do pilots in various states, before we actually do a national launch. So that's at the individual level.
- But again, at the overall level, not just the new product launches, if you see the event inflation has impacted us in quarter 1. The idea is to keep our eye on ADS and the throughput with the dine-in recovery happening, it has added to the overall revenue of a particular store which gives us a huge operating leverage in terms of the cost management, it allows us to deliver an expanded restaurant EBITDA margin in spite of drop in gross margins.
- So, this particular category which we have launched, flavor fun, we don't expect a material impact on our gross margin level. It would definitely have some marginal impact, but not a material impact. Whatever impact it will have, we expect it to get more than compensated by the throughput it will add to the store and thereby give us actually an expansion in the restaurant EBITDA margin.



- Tejas Shah:** Sure. And Vijay, you made an interesting comment that the new format allows us to play this portfolio game, does it mean that some of those offerings are more profitable in delivery versus dine-in? And hence now with the very omni value proposition that we have, we can experiment much with mastering the offerings?
- Sanjay Purohit:** No, that's not what Vijay meant. What Vijay said was because of our strong dine-in contribution in an omni channel format, versus if you're dependent purely on deliveries or largely on delivery omni channel restaurant at slightly lower levels of ADS also potentially can deliver similar profitability at a restaurant level to the market leader. I think that's the point that Vijay was making.
- Moderator:** We'll take the last question from the line of Amnish Agarwal from Prabhudas Lilladher.
- Amnish Agarwal:** I have a question mainly on your new launch, which is the flavor fun pizza. So, the question I have is that how is our product or what is the difference between our product viz-a-vis the Pizza Mania which a Domino's is selling from past so many years, that is one? The second part is in terms of quality, like Pizza Mania usually it's said that it is not having mozzarella cheese, but cheese sauce. So, is our product different from that? And the third is what percentage of the total pizza market is in the less than INR 100 or you can say these kinds of products? So, this is my question.
- Sanjay Purohit:** So, I don't know about the competitor's product. I'll just tell you what flavor fun is all about. And so, we didn't look at competition specifically and try to match their product, nothing. What we did was if we had to have a pizza under INR 100, what is the kind of offering that a consumer would love from Pizza Hut. And therefore, we've got five different sauces, we've got a cheesy dressing, so you're right, it's not mozzarella cheese, it's a cheesy dressing. And we've got 12 different pizzas with different toppings.
- So, I think, I mean, if you have the product like I said, you will understand as to -- so each pizza also has two toppings at a bare minimum. So, this is the product that we have launched. Roughly, I would think that -- so don't hold me to these numbers, Amnish, because we are looking at unorganized sector also in many of the markets that we operate. There is an unorganized pizza market also, I would think in a value perspective, value sense, this would be anywhere between 20% and 25% and 35% of the market. So, I'm talking of -- and like I said, there are markets where there are small local players even there, there is an opportunity for Pizza Hut to play.
- Sanjay Purohit:** And I'm inviting you again, Amnish, to go and try out the product. It's sensational.
- Moderator:** The next question is from the line of Percy Panthaki from IIFL.
- Percy Panthaki:** Can you give some idea on Sri Lanka, given the macro disruption, how many stores are we planning to add this year on a net basis?
- Vijay Jain:** So, again, we are not giving Percy annual guidance. We said when we have 550 restaurants across the three verticals, we said we'll double it over three to four years. We are holding on to that guidance. So, this year we don't have a specific number but hopefully double-digit number even this year.
- Sanjay Purohit:** And for KFC and Pizza Hut, you're not giving annual guidance for the India addition?
- Vijay Jain:** No, none of the business.
- Sanjay Purohit:** None of the businesses we give an annual guidance.
- Vijay Jain:** So, again, three to four years will double the count and I think we're on track for that.
- Sanjay Purohit:** And I just wanted to ask your store openings this quarter, they should not be treated as run rate for the annual number, right?



- Vijay Jain:** No, Percy, you're asking the same question three different ways, but I'm not giving you annual number, 550 restaurants as of 31st December, across the three verticals will double it over three to four years.
- Moderator:** The next question is from the line of Srinivas Iyer from Rock Fort Consultancy.
- Srinivas Iyer:** Congratulations for excellent numbers. My question you have already to Percy Panthaki, but again I'll ask you. In Q3 last year we opened 68 stores. And why have we slowed down and we opened only 37 in this quarter?
- Sanjay Purohit:** So, Srinivas, we said this that it's not a quarter-by-quarter number that we are putting out there. We are saying that 550 restaurants at the end of December, we will double that in three to four years' time. I think we have spoken enough now about quarter-to-quarter performance, the 68 to 37 again is comparison that is really not what I want -- what we want to get into. We're still holding on exactly what Vijay talked about. And I think you can make your inferences from that is my submission.
- Vijay Jain:** Again, just to add to that, Srinivasan, you cannot really deliver exact number of numbers divide by four in each quarters, so you will have a quarter which will have a lower number a quarter which will have higher number. Largely we should be able to hold on to the number annually and over a three, four-year period.
- Srinivas Iyer:** Understood. Second question, compared to other QSR store, QSR company we are at a significant discount. What is your plan to address this issue?
- Sanjay Purohit:** So, that you have to -- you are the person who'll tell us why we are at a discount. All that we can do is stay focused on our business. We will -- we are focused on our business. I've said this earlier also, I don't look at the share price from a day-to-day basis. I think people will understand our story and the way that we execute. So, that's it, Srinivas, I'm saying, once you put out a buy order on the stock perhaps it will, I'm just joking, Srinivas. But I think we are just focused on the business and to do well here, that's it, that's only thing that we can do.
- So, I'm just saying from an interest of time perspective, perhaps we will try and close this conference call. Anyone wishing to understand more, you know our channels, Rahul is our Head of Investor Relations and he will help any of you all understand any specific things. Again, I want to reiterate we've had a really strong quarter in Sri Lanka, while we've grown well, from a Lankan rupee prospective, translated into Indian currency.
- We have dropped, we believe that we should be able to hold on to this absolute level as we move forward. But both KFC and Pizza Hut have had a very strong quarter. And overall, from our sales, from a revenue, from a restaurant EBITDA perspective, from the outlook on the brands, we are very, very positive and confident about the future going ahead. So, thank you all for joining in on the call. I appreciate your patience and your efforts in understanding our business. Thank you.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Sapphire Foods India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.