



WESTLIFE DEVELOPMENT LTD.

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1st August, 2022

BSE Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

Sub : Compliance with Regulations 30 of the SEBI (LODR) Regulations, 2015, submission of transcript of earnings conference call for the quarter ended 30th June, 2022
Re : Westlife Development Ltd. (the Company) : Scrip Code-505533

Dear Sirs,

In compliance with Regulations 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of earnings conference call for the quarter ended 30th June, 2022.

In this regard, the audio recording and transcript of the said earnings conference call has also been uploaded on the Company's website and can be accessed at the weblink: <https://westlife.co.in/investors-earnings-release.php>

You are requested to take the same on record.

Thanking you,

Yours faithfully,

For Westlife Development Ltd.

Dr. Shatadru Sengupta
Company Secretary

Encl : as above.



Westlife Development Limited
Q1 FY23 Earnings Conference Call

July 29, 2022

MANAGEMENT:

- Mr. Amit Jatia – Vice Chairman
- Ms. Smita Jatia – Managing Director
- Mr. Saurabh Kalra – Chief Operating Officer
- Mr. Akshay Jatia – Executive Director
- Mr. Dattaprasad Tambe – General Manager (Finance & Accounts)
- Mr. Chintan Jajal – Lead - Investor Relations

Moderator:

Ladies and gentlemen good day and welcome to the Westlife Development Limited Q1 FY23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then ‘0’ on your touchtone phone. We would like to remind you that certain statements made by the management in today’s call may be forward-looking statements. These forward-looking statements reflect management’s best judgment and analysis as of today. The actual results may differ materially from the current expectations based on a number of factors affecting the business. Please refer to the safe harbor disclosure in the earnings presentation. I now hand the conference over to Mr. Chintan Jajal. Thank you and over to you sir.

Chintan Jajal:

Thanks Michelle. Welcome everyone and thank you for joining us on the Westlife Development Limited Earnings conference call for the first quarter ended 30th June, 2022. I am Chintan Jajal, Lead Investor Relations at Westlife. From the management team I have with me Mr. Amit Jatia – Vice Chairman, Ms. Smita Jatia – Managing Director, Mr. Saurabh Kalra – Chief Operating Officer, Mr. Akshay Jatia – Executive Director and Mr. Dattaprasad Tambe – General Manager Finance and Accounts.

We shall commence today’s call with overall operational progress highlights by Smita, followed by financial review by Dattaprasad and strategic outlook by Amit. We will be referring to the earnings presentation and financial releases which are available on the stock exchange as well as investors page of our website.

With that, I now turn the call over to Smita. Thank you and over to you Smita.

Smita Jatia:

Thank you Chintan. A very good afternoon, everyone. I hope you and your families are all keeping safe. Today is a moment of great happiness and I am proud to share that for the third time in a row we have outperformed ourselves to post remarkable results.

Our strong performance in the first quarter irrespective of macroeconomic and inflationary challenges was underpinned by highest ever quarterly sales and operating profit, reflecting broad based momentum across all segments.

Our revenues for this quarter are up by 108% year-on-year and 18% sequentially. The same store sales growth for the quarter stands at 97% year-on-year. We have delivered a strong Rs 5.38 billion revenue and recorded a cash PAT of over Rs. 551 million. It was heartening that we continued to see healthy growth across west and south markets with the average annualized sales per store not just remaining over Rs. 60 million but hitting a new milestone of Rs. 67 million supported by our recently opened restaurants which are performing at par with the system average.

Our growth in both dine-in and convenience channels has been continually setting a new baseline for the business. While dine-in grew over pre-COVID levels, convenience platform business has more than doubled underlining the success of our omni-channel strategy. Despite strong inflationary pressures, we have recorded highest ever quarterly profits. Impact on gross margin was partially mitigated by pricing actions.

Our operating EBITDA stood at 17.1% for the quarter led by favorable operating leverage, cost optimization initiatives and improved productivity. We sustained QSR traffic share gains in most of our markets by focusing on elevating our brand, accelerating digital channels and showcasing our core equities of burgers and chicken.

Owing to our multi-channel, multi-day part strategy we were able to serve our customers wherever they are, whenever they want it and however, they want it, further cementing our market leadership position in west and inching towards leadership in south. We consistently find new ways to reach our customers where they are and make their experience more seamless and personalized.

Our omni-channel strategy has given us better business predictability and in the first quarter digital channels which include a mobile app, self-ordering kiosk and delivery made up more than 55% of system wide sales. Building on our strengths we have renewed focus on expansion and offered a differentiated experience through reimaging our stores, creating experience of the future. While the reimaging dramatically improves the customer experience, we have also seen a tangible benefit of over 30% return on incremental invested capital.

This quarter we have opened five new restaurants. With this we have a total of 331 restaurants, 267 McCafés, 65 drive-throughs and 132 EOTF restaurants across 48 cities. We are proud to launch the gold standard drive through with the all women crew near the Statue of Unity in Gujarat which further strengthens our inclusivity agenda.

Furthermore, I am happy to see that Tier-2 cities have grown twice the pace of metros compared to pre-COVID level. While we were a bit shy of our intended new store opening target, 12 new stores are currently in ground break. With that I believe we should have around 17 to 19 stores in the first half and on track to add 35 to 40 new restaurants in FY23. We have been making concerted efforts to build and strengthen our brand trust and business through menu innovation, business initiatives like Real Food Good Food campaigns, McDonald's in every celebration amongst others.

Lastly, at Westlife we have no stone unturned to create a great place to work for over 10,000 people strong family. I am elated to share that we were awarded the prestigious

great place to work laureate award as one of the top three companies for being in the top 100 list for 10 consecutive years.

I now hand it over to Dattaprasad, who will take you through the financial highlights of the quarter.

Dattaprasad Tambe:

Thanks, Smita. Good afternoon, everyone. We started FY23 on a strong note.

Our revenue for the quarter was up by 108% year-on-year and 18% quarter-on-quarter to Rs. 5.38 billion with the same store sales growth of 97% year-on-year. Dine-in channels grew by 418% year-on-year and 14% over pre-COVID base of Q1 FY20, convenience channels grew by 13% year-on-year and 112% over pre-COVID base.

Despite significant inflationary pressures in food and paper impact on gross margin was limited to about 70 basis points sequentially, mitigated by price hike and improving product mix. We had taken a blended price hike of around 5% during the latter half of the quarter. Hence the complete flow through will happen in Q2. Restaurant operating margin stood at 21.6% which is 4.5x of last year and 68% jump from Q1 FY20. Operating EBITDA was 18x of last year and grew 82% on Q1 FY20.

On a sequential basis EBITDA grew by a strong 26%. EBITDA margin improved to 17.1% versus 16% last quarter, that is Q4, and 2% in Q1 FY22, led by better operating leverage flow through across various line items and optimized cost structure. On absolute basis our EBITDA stood at Rs 921 million and our cash PAT stood at Rs 551 million which are the best ever profit numbers we have recorded.

I would like to highlight few one-offs and provide some clarification which may help make better sense of our numbers and operating performance:

Firstly, we have recorded a one-off cost of around 27 million pertaining to ESOP charge as seen in the financial results. Please refer note one in our financial results for further details.

Second, please note that our Cash PAT margin on a sequential basis is lower by 140 bps, largely on account of current tax impact in Q1 FY23. We were accounting for deferred taxes in prior periods due to carried forward accumulated losses. However, from Q1 we paid tax at normal tax rate. As our business enters a new phase of consistent profitable growth, we will be paying tax at the normal tax rate of about 25.2% here on. On a comparable basis excluding the current tax, the Cash PAT margin would be sequentially higher to about 11.8%.

Third, our royalty rate for FY23 will be at 4%, FY24 it will be 4.5%, FY25 and FY26 will be at 5%. We are in active discussion with McDonald's Corp for rate from FY27 onwards. Our initial sense is that the increase will be progressive in nature over the years from FY27 onwards. We have mentioned the current royalty rates on the investor page of our website www.westlife.co.in.

Lastly, as many of you have noticed that our EBITDA margins that we report in our operating performance sheet and earning presentation is slightly different from what one would compute from SEBI format financial results. If you take an example of Q4 FY22, the EBITDA margin that we reported in our operating performance sheet and earnings presentation was 16%. While if we use the formula of sales minus COGS, staff cost and other expenses from SEBI format financial results, the EBITDA margin would come to around 13.8%. There are two broad elements at play here:

One is a mark-to-market gain reversal of earlier quarters in Q4. In Q4 FY22 we sold around 700 million worth of our investments and the cash was largely used to square off our debts. As per IndAS when we sell investments the MTM gains which are recorded in the previous period have to be reversed and the reversal is recorded as net loss on fair value changes which is grouped in other expenses.

Simultaneously, the entire profit on sale of investment gets recorded in other income. However, since the other income is excluded in EBITDA calculation while the other expenses get included in EBITDA. It has a negative impact on EBITDA margin. But at the PAT level it would have no impact. Please note that this is a notional accounting entry with no impact on business or cashflow. Hence, to provide more clarity we have shown it as a separate line item in our financial results requesting you to take a note of that.

The second element is a provisional asset write-off. When we reimage or modernize our stores, we take a provision for balance of value of furniture and fixtures which is clubbed in other expenses in SEBI format financial results. This again is a provisional entry pertaining to CAPEX with no cashflow impact. Ideally, if we don't reimage or modernize the stores this amount would flow below EBITDA in depreciation. In our EBITDA margin computation, we exclude these two elements as well as the other income as we believe it gives us a true and fair picture of our underlying business performance.

Accordingly, we are pleased to see our new operating profitability baseline been created for our business with both December as well as June quarter posting over 17% of EBITDA margin. These adjustments are visible as separate line items in our SEBI format financial results.

We hope these clarifications will help you with your analysis. With that I now hand over the call to Amit. Over to you Amit.

Amit Jatia:

Good afternoon, everybody. Thank you Dattaprasad. Thank you Smita. And a big thank you to each one of you for joining the call today. Hope you are keeping well. You just heard us report highest ever quarterly sales and operating profit, highest quarterly sales in the Mc delivery app, the highest ever monthly sale in dine-in. We achieved a crucial milestone by crossing Rs. 5 billion sales this quarter. We are consistently outperforming our benchmarks every quarter and with the Quarter 1 FY23 numbers.

I'm proud to share that Westlife Development is witnessing beginning of the next wave of growth. With robust and consistent results for three consecutive periods despite external challenges, it demonstrates that we have built a resilient business that has delivered results and is set-up for a long term.

What makes Westlife unique, is the strength of our people, the scale of our supply chain, the quality of our real estate portfolio, the agility of our system, the power of the McDonald's brand and moreover consistency in our strategic approach. We have believed in our core, stood firm, walk the talk and execution is now paying off. Are agility to identify industry shifts early on has helped us deliver a differentiated experience. Be it our experience of the future stores, our world-class drive-thrus, our digital platforms, every engine is geared to make the consumer experience seamless and fuel growth.

To summarize, I would like to say that while I'm proud of our progress, we are constantly challenging ourselves to invest in the future. We are on track with our expansion plans of opening over 200 stores in the next 3 to 4 years. We expect this will be a year of continued progress, focusing on our foundation of operations excellence, expanding our growing digital advantages and continuing to put the health and safety of our customers and crew first will remain critical. We will tackle any challenges with agility and a strong focus on execution. With a redefined cost structure, increased productivity, strong average unit volumes and healthy restaurant cash flows we are well positioned to deliver accelerated business results and create long-term value for shareholders.

With that let's open the floor for question and answers.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Percy Panthaki from IIFL Securities Limited.

Percy Panthaki:

My first question is on the dine-in business. If I look at the dine-in ADS, only the dine-in ADS on a sequential basis Q4 versus Q1, there is a growth of around 30% and it wasn't

as if Q4 was terribly depressed. There was an Omicron impact but it was the least intensive of the three waves. Apart from a couple of weeks people were up and about their business. So, just wanted to understand that in one quarter what has changed so much that the dine-in ADS has gone up by 30% in just a one quarter period, any insights on that would be helpful?

Amit Jatia:

See as you noticed about Westlife, for us it's all about consistency and sustainability and therefore to some extent these are building blocks. I mean this is the third quarter post COVID where the results have been good. If you look at pre-COVID, probably for almost I would say 16 quarters we were positive same store sales growth, growing our average unit volume year-on-year, quarter-on-quarter. Obviously, things like this don't happen because of tactics. Things like this happen because of strategy. Again, if you hear our calls or read our commentaries, it's all consistently built around 3 or 4 themes. First thing of course, there is a structural shift in QSR and in informal eating out where I have mentioned this before that western fast-food is taking larger share within the informal eating out itself. The second big thing that is happening is that within western fast-food brands that have a high trust score and that talk about safety, hygiene, contact less and I think we've done a number of campaigns around that, they are seeing a slightly bigger benefit than maybe some others. Thirdly there are a number of strategic elements that we've consistently been following. Earlier it was about McCafé only and then it was about say experience of the future and so on. But while these continue to grow, we've added a few new building blocks to it. For example, if you look at our slide #9, we've given a lot more context around menu relevance and its impact around consumer occasions and day parts. We have very transparently talked about going after the meal occasion and the linkage to that is the launch of our fried chicken in south India and the gourmet burgers. Clearly that has started reflecting back in our sales. It's a combination of all of this. Last point I want to make is around McCafé that we had mentioned this in our previous calls as well, that McCafé have been impacted because it's got a tremendous experiential consumption pattern as well. As in store came back McCafé sales have bounced back pretty well as well. This is a combination of the reason why our dine-in is doing quite well.

Percy Panthaki:

I completely understand and fully appreciate the good initiatives that you have continuously undertaken over the last several quarters. My question was more in the sense that see all these initiatives that you spoke about were present in Q4 as well. Just in a one quarter period what has really changed for the dine-in ADS to go up so sharply? Does it mean that in Q4 the Omicron impact was actually so much more huger than what we understand?

Akshay Jatia:

So, as we've discussed obviously yes, there was an impact of Omicron in January where dine-in was partially open. There were restrictions, there was a capacity constraint, a lot of states were going in and out of lockdown. We don't know exactly what the overall impact could have been but there was an impact on overall quarter delivery which is evident as we ramped up in February and March. However, if you see our performance this quarter, it's largely firstly the first quarter of the year with summer holidays with a festive period to an extent is pretty good. Secondly, obviously it's a first normal period post COVID where customers are going out again. So, dine-in has come back. Not that we don't expect to continue to see this momentum because like we just discussed right before this, there's a fundamental shift that's happened for the category as well as for brands like ours where customers are a lot more familiar. They're a lot more used to eating out at a McDonald's and it's something that they now look for consistently. We've seen that growth both in frequency as well as average ticket size when families are coming back to our restaurants. Most recently we've just put out some communications in our advertisements centered around our new campaign revolving around families.

Percy Panthaki:

My second question is on margins and I'll break it up into two parts. One is on the gross margin front, there's a price increase which you took but it wasn't effective for the full quarter. So, what I wanted to understand is that now that it is there for the full quarter Q2 onwards, what kind of gross margin delta can we attribute in future to this timing effect? That's the first part of the question. The second part of the question is that if I look at your other expenses, occupancy and other expenses line that is quite sharply at 54% YOY and that was I mean while the overall sales etc. was clearly much above consensus and our expectation. I think this one-line item is also above our estimates and if not for that the margins would have been even higher. Can you just throw some light on why this line item is slightly on the higher side? That's all from me.

Amit Jatia:

First I'll take the second question. When you compare year-on-year, I feel it's not really comparable and that's why we've kept giving sequential data as well. Because at that time you see we have a number of real estate sites that are percentage based. If you look at our sales at 200 crores versus 538 crores, that is one element of the cost increase. The other thing is you see I have said this long time ago, maybe it's a good time to revisit that. Typically, our advertising in a year is above 5% for the whole year, 5% to 5.2% and in different quarters it varies. Therefore, the booking is done based on that as well. So, it's a resultant of that. I don't see anything really out of line there. Coming to your first question around the pricing effect and all of that. Basically, I don't like to give a specific because things keep changing but there are two things that are happening. One is inflation, I am at least beginning to read and see is kind of flattening out and I'm seeing prices come down. I feel in the coming quarters it'll give the good

and it will reflect back and our immediate objective with this price increase is to kind of get back the gross margin that we've had in the previous quarters. We are hoping that from next quarter onwards the full effect of this will take us back to the previous quarters of gross margin.

Moderator: The next question is from the line of Vishal Gutka from PhillipCapital.

Vishal Gutka: Just wanted to understand in the presentation you stated that you are on the verge of becoming the market leader in south India. I just wanted to know who is bigger than us in the burger segment? I thought that you are the one of the largest players in the burger segment in south India as well.

Amit Jatia: Sure. We don't look at market share from a burger point of view. Burger we are by far the leaders across the whole country. But we look at leadership in what we call informal eating out. And in informal eating out, one of the big factors is of course chicken and our recent launch which is now over 12 months is resonating extremely well and our average unit volumes there, as I've said in our calls earlier has risen per restaurant, per year by 50 to 75 lakhs, 5 million to 7.5 million per year. Therefore, we think that it is still going to continue to grow. We believe that the consumer in their mind have to still connect and I feel there is an opportunity, they have to still connect brand McDonald's with the fried chicken as a menu item. I feel that is where the opportunity lies to take it to the next level.

Smita Jatia: I'll just add a little bit flavor to this. In the south we saw that the eating out was dominated by bone-in-chicken and chicken. Hence, we took this insight and that is where we are playing with along with our burger leadership. Together we are confident that with burger and chicken as strong portfolios we will be able to get even higher leadership in the south market.

Vishal Gutka: Second question on reason you stated that Tier-2 cities have grown faster than metro, so my understanding is maybe because in those markets dine-in share would be higher. That could be one of the specific reason that Tier-2 cities have grown faster than metros, any other reason apart from that you are seeing on the ground why the cities have done better than metro cities?

Smita Jatia: Again, I will go back to what Amit mentioned. There's been a whole shift in the IEO structure where organized players after COVID are getting better share of the wallet because of food safety, hygiene, contactless and this shift is not something which was momentary. We are seeing that it is definitely staying on. Secondly, again convenience as a habit has got built in small towns which was predominantly first dine-in. So, because of both these factors, there is a new baseline. As I mentioned in my

commentary also that new small towns and new cities are now coming at system average and not becoming a lag for the first one year.

Vishal Gutka: Just last question on McCafé as the sales recovered to pre-COVID levels now because if I look first quarter where we saw the store being operational fully for McCafé sales, so any comments on McCafé would be really helpful?

Amit Jatia: No, it has recovered to pre-COVID levels. As I've always said before that we have two big opportunities. One is of course to put it across our portfolio of 330 restaurants. There's an opportunity of 18 and 19 new McCafés right there which we are of course doing. On the other side the average sales per McCafé, per restaurant, per annum we believe that over time it's going to double again. There's tremendous opportunity on this beverage category there.

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

Avi Mehta: Just wanted to pick your thoughts on the AUVs. For the last few months now, we are essentially stabilizing at an annual run rate, it's close to about 6 crores. I cannot see any reason why this should moderate down given your initiatives but if you could give me a sense on what could be potential risks which could drive this down or how should I look at that?

Amit Jatia: Again, you have been on our calls regularly, I have seen that. And you will see the consistency in conversation. If you look at global McDonald's, firstly we have given a lot of insight into our thinking across our investor day and particularly more in the earnings deck. Against slide #9 represents a lot more than what is evident to everybody and if you recollect, I have been always saying that the real game for McDonald's in India is yet to play out. So, first let's take coffee alone and I just talked about how we can double it in the restaurants and double the average unit volume. Again, if you look at Meals, we haven't touched the tip of an iceberg. We were leaders in snacking and we are starting to now move towards leadership in Meals. As you can see from that slide, Meals is a much larger segment and a much larger occasion for the consumer than snacking. So, as we grow that all of this leads towards AUV growth. So, in the past I had given specific ways of how we would get from 5 crores to 6-6.5 crores and that was around McCafé, it was around menu and it was around delivery and all of these three things have played out. Now we have added a new dimension while these are still playing out and I believe this is what will take us from the 6.7 to the 7-7.5 crores. We feel the game is not over. Globally McDonald's plays across all the segments and average unit volume is \$2.6 million, pretty much the highest in the category. And even if you look at Asia, Asia pretty much stays in the \$2 million category and when I compare countries similar to Indian per capita they are at least over +10 crores and we have a whole bunch of stores that

are in that category as well. So, as aspirationally we don't think that it is going to slow down. I have given you some context to how it is going to move and Smita just wants to add something.

Smita Jatia: Just to put it very simplistically Avi basically all our growth in AUV has come from strategic platform. It's not at the back of any discounting or one-time promotion and therefore we are confident that all our strategic platforms which Amit just mentioned will continue to play out both on delivery and dine-in.

Avi Mehta: So, if I summarize or what I understand is logically the 6.7 should rationally move to say 7-7.5 as these initiatives gain pace. That's the right way to look at it and how AUVs flow through to margin so that would be right at least the expectation going forward? Would that be a fair thing?

Amit Jatia: Absolutely, I have been saying this too, that end at least at Westlife we have two jobs to do. One is of course completely increase penetration because there is a huge opportunity there but we also have been talking consistently about growing our average unit volume because I will give you one example. Some time ago, our average unit volume was 5.5 crores, today is 6.7. So, when you take 1.2 crores and multiply that by 331 stores you can see the impact of that is 400 crores in incremental sale without putting any more CAPEX while new stores will keep coming and they capture a different set of elements of unpenetrated markets. So, we believe that this double benefit is what is going to take our margins to our aspirations which are much higher than where we are.

Smita Jatia: The only one small caveat I would like to put in there is that we are going to now accelerate on new store openings. So, that will keep our AUV in the range of 6.5 to 7 however if you look at our comparable stores, definitely, we are going to be giving our comparable sales which is something which we have always been focused at.

Avi Mehta: Smita, if I may just differ on that logically, right now, if you are at 6.7 your existing stores would be much higher. So, that's why I was actually going towards what Amit was saying but I take your point. I get what is the backdrop. Just Amit continuing, just on the margins front you have always indicated that mid-teens aspiration but that was a under an earlier system of reporting. Would it be possible for you to give us what is the reported margin expectation that we can look at say few years down the line? If you can share a guidance for more on a reported basis?

Amit Jatia: We will come out with a vision document but I can use past as an example for the future. I think we have been improving roughly about 130 basis points every year pre-COVID and then again as we are coming out of COVID, we have been able to do that. So, I am

hoping that yes about 100 basis points a year for the next 3 years is really what we are pushing towards. So, definitely want to go from now the high-teens under IndAS to the 20s. That's where our ambition lies.

Avi Mehta: If I hear you correctly, you will be sharing an updated guidance in the vision document soon. Is that correct?

Amit Jatia: Yes.

Moderator: The next question is from the line of Kapil Jagasia from Edelweiss Financial Services.

Kapil Jagasia: My first question is like earlier we used to follow this cluster policy of opening the stores in the major metros around 70% of growth in major metros and 30% in the smaller towns. So, now with this intensifying competition, have we changed our strategy there or it would continue to remain a breakup of or a mix of 70-30 going forward?

Amit Jatia: Our strategy around store openings have nothing to do with competition. It has to do with unpenetrated consumer areas that we should be focusing on. So, for example in Mumbai today we are by far leaders and Mumbai is a consumption market. We have over 100 restaurants here and at least in our immediate competitor base we have a huge margin in cities like Mumbai- Pune-Ahmadabad our six core cities including some of the cities like Surat-Baroda etc. so we don't want to lose our leadership there. So, you will continue to see openings in that area as well. Meanwhile we are going to now accelerate the, we are only in 48 cities and I see that as a positive rather than as a negative. Our strategy has been focused inside out, it has been cluster and so on but as more and more clusters have opened, it has now given us the ability to go into small towns as well. That's how the openings have moved from 25-30 to 35-40 which will now go towards the 50-60s if you want to deliver our 200 stores over 3 or 4 years. So, we will reduce the number, percentages keep changing. We will not reduce the number of openings in our core markets but we will add a lot more openings in our smaller cities as well and therefore it will become a 60-40 kind of ratio.

Kapil Jagasia: As normalcy has now resumed with our restaurant space. So, what can be the like same-store sales growth for the next 2 years or 3 years for us like average ballpark number?

Amit Jatia: I have always maintained that a good number which I feel quite aggressive because remember same-store sales is compounding and now if you are at 5 crores average unit volume and you grow 10%, that's 50 lakhs. When you are 6.7 crores and grow 10% that's 67 lakhs and rupee is what the consumer spends, not percentages. So, we are saying

aspirationally we can stay above 8% same-store sales growth. I feel that sustainably that's a good number to go by.

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

Nihal Mahesh Jham: The first one was that while we have given an SSG growth I was just interested in understanding that if we compare the same base of stores to the pre-COVID of Q1, what would be the improvement over that for the stores that are currently there?

Amit Jatia: Our same-store sales growth of pre-COVID? Saurabh you want to answer that?

Saurabh Kalra: So, if we take it versus pre-COVID and I was to take Q1 FY20 as a proxy we would be around 30% more same-store sales than that number.

Nihal Mahesh Jham: 30% on absolute level versus Q1 FY20?

Saurabh Kalra: Yes.

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

Gaurav Jogani: My first question is with regards to your comments in your PPT that you have given that even the new stores are now performing at the same par with a system average. So, if you can throw more light on it, what is leading to this and how sustainable is this going ahead?

Amit Jatia: See, Obviously the brand keeps getting built and what happens is if I use a simpler example to make my point, you take Mumbai. Today we have been in Mumbai for 25 years and therefore our presence and availability is there but yet let's say there is an underpenetrated area, let's take say a suburb Vasai. Right now, when we open there, there is familiarity with the brand. People have consumed McDonald's somewhere or the other in the city regularly and therefore when we are opening there, we are seeing the average volume starting off quite well to start with. Similarly in small towns we are seeing that the numbers are starting off pretty strong much different than what it was earlier. This is what we are observing and hence the comment.

Gaurav Jogani: My second question is with regards to the strong sustenance in the convenience channel. If you see it's almost now 2X versus the pre-COVID levels and even grown at strong base of 13% odd. So, where do you expect this to stabilize in a normalized environment, once things stabilize? What percentage contribution do you expect going ahead from this?

Amit Jatia: I think what you are saying today is where is going to be and if you recollect, I mean again I feel that we have been very consistent in our comments. I had always maintained I mean at that time everybody was asking me why our stores not smaller, this-that and I would say that dine-in is going to come back to 100%. People are not going to just keep ordering; they need a change. There is a reason why people eat out, that is sometimes to celebrate, it is about refueling on-the-go and things like that. So, we believe that, that is here to stay and therefore we believe however convenience is also here to stay. We are continuing to aggressively build drive-thru or on-the-go is working, take aways working, delivery so I think 58%-60% and 40% is a good number. Globally of course our convenience channels are almost 70%. So, I feel over a 5-10 years horizon that's where we are going to move but for now 60-40 might be where we will be.

Gaurav Jogani: Just a follow up to this is now with the new contribution structure seeing 60-40 that we are expecting ahead. How does this help in our margin profile? How incrementally does it contribute to our margin profile?

Amit Jatia: See, margin as I mentioned to you as we keep growing average unit volumes, the margin flow through will come. I think between delivery and in-store and all now there is not much of a difference. I have always maintained in every call over the last 5 years that if business is happening somewhere you have to make your unit economics work there. We have to go where the consumer is, we can't have the consumer coming to our business model. So, now between delivery and in-store there are pros and cons to each and both business models are working well. So, we look at as long as average unit volume keeps rising and we keep cost in control both I feel we are pretty strong in both these areas. You will see margin flow through come in and I feel now we have history right. I mean even in the really difficult period of '14-15-16-17 every year we were improving our EBITDA by 130 basis points. For us it's about sustainability, consistency and strategy not tactical. So, you will see that flow through come irrespective.

Gaurav Jogani: Just one last bit on the comment earlier made. In terms of the mark-to-market gain actually I just missed that bit of the one offs. If you can just repeat that, it will be really helpful and how it changes the other income line item for us?

Dattaprasad Tambe: So, basically, what has happened is in Q4 FY22 when we sold of around 700 million of our investment, as per the accounting standards the mark-to-market gains which were recorded in the previous period had to be reversed. Now when the reversal happened, it happened in the other expenses in the SEBI formats whereas the realized income was being booked in other income. Now typically for an EBITDA margin calculation we exclude the other income and thereby the mark-to-market gain reversal also has to be excluded which when the investors or you calculate the EBITDA margin through SEBI

working it was getting included. Hence we have separately reported now in our SEBI results.

Gaurav Jogani: Basically, the Q4 numbers for that has been restated to that extent?

Dattaprasad Tambe: Typically a one-off of Q4.

Gaurav Jogani: Just one thing here. With the other income for this quarter seems to be a bit lower to that extent and given that we are making good cash profits so how is this other income expected to be ahead because for this quarter it's just around 1 million odd if I total up?

Amit Jatia: DP can take that but I feel it's just to do with a mark-to-market on our treasury, that's about it. So, that keeps fluctuating. It's not a big deal but Dattaprasad you can answer that.

Dattaprasad Tambe: Basically, what has happened is in this quarter as you know with the Repo rate increasing by almost 90 bps the overall valuations in investment have gone down which is typically a market phenomenon. That's the reason we are having if you look at it results, we are having a mark-to-market loss this time. That's the reason.

Moderator: We have Mr. Nihal Mahesh Jham connected again in the queue. Please proceed with your question Mr. Jham.

Nihal Mahesh Jham: I was asking on the chicken part of it, I have seen the soft launch Mumbai. I just wanted to first confirm that and if you could share metrics where you shared that run rate for the South stores. Is it similar in Mumbai also for the stores that you have launched, the chicken portfolio that is?

Amit Jatia: It is a soft launch Nihal and we don't share results this early and it's a five-six store test and we have a whole process of what we do. So, it's too early to talk about and it's not even to measure sales. It is more to get all the operational aspects right and get a first-cut view on consumer qualitatively. Quantitatively five-six stores don't give you enough. So, it's too early Nihal. The important thing is yes there are some restaurants here that have the product.

Nihal Mahesh Jham: Do we have a timeline of when we plan the roll out for the (+100) stores in Mumbai or that's depending how the project progresses?

Amit Jatia: I mean no timelines as yet, our philosophy is keep working on Horizon 2 so while Horizon 1 is playing out, you need to keep working on tomorrow's initiatives. Since this has done very well in South, it's part of that program. So, it's all there is a lineup and our priorities

here could be quite different from maybe the fried chicken. No plans as yet to give out but whenever we are ready, we will come back with that.

Nihal Mahesh Jham: Just one more question from my side was that we obviously have highlighted on the menu innovations part in the presentation and over the last 18 months there been multiple SKUs across day part that we've launched. Incrementally what are the parts that you think are still missing and where you want to keep innovating and adding menu innovations?

Amit Jatia: That's hard to explain on a call but I'll tell you 2 years ago, 3 years ago if I would have said Gourmet burgers the context would not be understood. I believe that our menu is still the tip of iceberg and I will use McCafé it's easier to explain. In McCafé alone, we just played primarily on core products right now. There is no innovation, there is no indulgence as yet, for example, take smoothies. While we have two or three smoothies in there, I remember a global program where we had taken smoothies on television and sales really-really shot up or smoothies not just at McDonald's but in the whole category. Similarly, in McCafé alone there is tremendous menu play. Even in our core menu there is tremendous menu play. Whether it's to do with burgers, whether it's to do more work on the chicken side, whether it's to do with wraps, that we've not talked about, our desserts. Dessert again is a \$300-400 million market. We just touched the tip of an iceberg but McFlurry is the hero there and there's a lot of work that one can do. A Breakfast is another area. Therefore, my whole point is that there is a lot of work to be done but if you have to prioritize it right otherwise your energies can get dissipated without results. So, it's a big subject but the important thing is we've just touched the tip of an iceberg. There's a lot of room to grow our menu.

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

Jay Doshi: My question is when I look at 1Q FY20 versus 1Q FY22, dine-in is broadly comparable maybe about 10%-14% higher but convenience channel has gone up from roughly about 1.5 crores annualized revenue per store to 2.8 crores. That is 1.3 crores again in a quarter where everything has opened up and there's a push for dine-in. Can you provide some more color? First a book keeping question. If take away a part of convenience or only on-the-go is convenience?

Amit Jatia: Personally, that's I don't think that take away is part of convenience. Take away is a part of dine-in. Saurabh, please confirm that.

Jay Doshi: This is effectively drive-thru, delivery and on-the-go. Can you provide some color in terms of what when you look across these three sub-channels within convenience

where have you seen maximum traction and what explains this kind of stellar performance? We don't think any other QSR players has manage such?

Amit Jatia: No. Thank you Jay we appreciate that. While of course I cannot provide specific details but I'll tell you that remember we are in the convenience business, right? QSR is all about convenience and for example we've been talking about on-the-go for a while. I'm just using this as an example. Now obviously nobody really took that seriously in our comment but today on-the-go has become a very decent size of our business. Of course, we feel we want to grow that as well. Of course, as dine-in came in that played down a little bit. The other big one is drive-thru. Drive-thru I feel is a major play for us because even globally we do enough business through the windows that could justify a whole restaurant. And if we have 65 drive-thru and the plan is to double that and what happened through COVID is that the habit for using the drive-thru got formed and that habit has not dropped, it's only growing. It is things like this that outside of delivery, delivery also continues to grow. We are watching the rupee amount of delivery which continues to grow. But it is these two-three other incremental things that have also helped grow our convenience channels. Therefore, we believe that it's going to continue to grow particularly with the effort we are putting around drive-thru as well. Saurabh, Akshay you all want to add anything to this.

Saurabh Kalra: No Amit, no addition from my side. I think you've covered it up. I think drive-thru is a big focus for us as we grow more and more drive-thru. We should be able to get the traction and more and more restaurants as we grow drive-thru.

Amit Jatia: Great. I hope that answers the question to some extent.

Participant: Sure.

Moderator: The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited.

Amnish Aggarwal: My first question is that for us Tier-2 cities, they have done very well this time around and their throughput has grown at double the pace. Can you share with us that how much is the sales contribution coming now from Tire II cities and what is the throughput per restaurant there in terms of say like for example we added 1.6 crores per quarter per store. How far that your number would be for the Tier-2-Tier-3 cities?

Amit Jatia: Sorry Amnish. We don't break up our sales by Tier-2 cities and all of that and neither sorry I can't share that breakup.

Amnish Aggarwal: Just giving some direction that is it significantly different from where you can say the Tier-I or metro cities would be?

Amit Jatia: No, it's not like that. It's very different. You see it's all about age of the city as well. Particularly it's hard to tell you that. The important thing is that it starts off very well and it continues to grow. But remember that in a Tier-2 city finally you can build one or two McDonald's. You can't build 5-10-20 and therefore the volume that it does and it comes to system average we are quite happy with that. In summary whatever best I can tell you it is starting off very well. Earlier it would take 2 to 3 years to build to system average. Now it is starting close to or maybe sometimes ahead of system average and the good news is that it is continuing to grow. Remember yet 80% of our stores are still in a Tier-I cities. So, this is building out and I feel it just shows the opportunity for growth, more than anything else at this point.

Amnish Aggarwal: Second thing is that if we look at the current quarter our dine-in is 58 and delivery or convenience channel is 42. Now pre-COVID this number is far lower. Do you believe that now dine-in will sustain around 58 or do you think that convenience will pick up from 42? What is the long-term trend which you are witnessing in both the channels?

Amit Jatia: I think I answered this a little while earlier but I'll repeat that one. We are a convenience brand and it's all about impulse purchase. So, globally also 70% of our stores is off-premise, 70% of the consumption of our businesses off premise. So, I feel it is here to stay and as I said 60-40 is a good base for us to work on and longer term if it moves towards I'm talking 5-10 years as the category matures a going towards 65% is where I see India at very long term.

Amnish Aggarwal: So, 65% dine-in you are saying?

Amit Jatia: No long-term, right now you please take it as 60-40. I'm saying as the category matures over 10 years, that is where it could go to at best.

Amnish Aggarwal: And Amit finally fried chicken I think we are piloting the same in a few stores in West India but in how many stores in South we have launched this product?

Amit Jatia: South is across the board. I don't know we have 170 stores, maybe 200 stores. I'm not sure of the exact number, probably 170 stores we have in South India and it's across the board. In West it might be in 5-10 stores somewhere in Mumbai.

Amnish Aggarwal: Amit final bit on the royalty. As I think it was stated during the initial remarks that it will now move up gradually to 5% by '25-26 and you are in negotiations with the parent

company. Do you think that it will eventually go to 8% or there's a probability that it will go to 6%-6.5% only which is a maximum paid by any other your global brand in India?

Amit Jatia: No basically the important thing was to just clarify I think the rest is speculation today. The important thing is that it's at 5% till FY26, our contract is at 8% after that and essentially all we are seeing right now is that it's not going to go from 5% to 8%. It is going to be a gradual increase and we are working through it. By the way globally McDonald's is at 8% around the world including in markets with similar per capita income that's because they bring something to the table and if you think about it more deeply that you see as brand McDonald's we have for example chicken and coffee as well, we don't need to build other brands or bring in other operators licenses to be able to be leaders in these segments and I'll just leave it at that for now. But the main point is that up to 5% there is clarity up to FY26. After that all we are saying is it will not go straight to 8%. There'll be a gradual movement which is being discussed with the parent.

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

Amit Jatia: I just want to take this time to thank everybody for being on the call with us today. I really appreciate it and have a lovely weekend ahead.

Moderator: Thank you. On behalf of Westlife Development Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Disclaimer: Please note that this transcript has been edited to correct any inadvertent grammatical inaccuracies or language inconsistencies that may have occurred while speaking.