Q1 FY2021 Earnings Call Transcript – July 30, 2020

CORPORATE PARTICIPANTS

- Amit Jatia – Vice Chairman
- Smita Jatia – Director
- Pankaj Roongta – Chief Financial Officer & Vice President - Finance & Accounts
- Devanshi Dhruva – Deputy Manager, Investor Relations

Moderator: Ladies and gentlemen good day and welcome to the Westlife Development Limited Q1 FY21 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. I now hand the conference over to Ms. Devanshi Dhruva – Investor Relations. Thank you and over to you ma'am.

Devanshi Dhruva: Thanks Janise. Welcome everyone and thank you for joining us on Westlife Development Limited earnings conference call for the quarter ended 30th June, 2020. We are joined here today by Mr. Amit Jatia – Vice Chairman, Ms. Smita Jatia – Director and Mr. Pankaj Roongta – CFO and VP (Finance & Accounts) of Westlife Development Limited.

Please note that our financial results and investor presentation has been mailed across to you and these are available on our website www.westlife.co.in. I hope you had the opportunity to browse through the highlights of the performance. We shall commence today's call with key thoughts from Amit, who will provide a strategic overview, which shall be followed by Smita to take you through the key business initiatives, its overall operational progress, the impact and response to COVID19 and the strategic imperatives that lie ahead. Pankaj will cover analysis of the financial performance and highlights during the review period. At the end of the Management discussion, we will have a Q&A session.

A request to all participants given the disruption due to COVID19 members of the management are joining the call remotely and there could be some lag when responding to your queries. I urge you therefore to kindly bear with us. Before we start, I would like to remind you that some of the statements made or discussed on this call today maybe forward-looking in nature and must be viewed in conjunction with the risks and uncertainties we face. A detailed statement and explanation of these risks is available in this quarter's press release, investor presentation and in our annual report which is available on our website. The company does not undertake to update these forward-looking statements publicly.

With that said, I would now turn the call over to Amit to share his views. Thank you and over to you Amit.

Amit Jatia: Thank you Devanshi. Good evening everybody and thank you for joining the call today. I hope that you and your families are safe and doing well. The first quarter of FY21 was marked by a completely unanticipated and unprecedented black swan event that impacted the eating out industry not just in India but across the world. The nationwide lockdown led to a complete closure of restaurants reducing revenues to a trickle for over two months. Even as markets started opening up the situation remained volatile with cities opening and then closing again due to rising virus cases.

At Westlife our belief is that all situations are good as long as we are able to realign strategies to manage the situation at hand and emerge stronger from it. We took this crisis as an opportunity to put our agility to test. We revisited our cost structures, further build on our digital platform, put in SOPs for a safe consumer experience, trained our people and adapted learnings from global markets to prepare for a strong revival.

I'm proud of our team that has improvised quickly and leveraged our strong digital backbone to decisively accelerate our omni-channel strategy. This has given us an edge in the marketplace and we have started seeing green shoots beginning June with many stores coming back to pre-COVID level business for delivery, take out and drive thru. We are confident that these initiatives will help us build completely new customer occasions, habits and used cases leading to a strong competitive advantage and business leadership for the long-term.

The pandemic will change certain consumer behaviors for the long-term. Businesses need to take advantage of this behavior change and ingrain them into the business model so as to come out of this crisis stronger and be more relevant to the consumer. We believe Westlife has been able to do that particularly with our convenience initiatives like delivery, take away, drive-thru and the recently launched 'on the go' service. The incremental sales from these initiatives will continue to bolster revenues even as the in-store business bounces back over the next six months.

Moving forward we are focused on our three key priorities ensuring safety and the well-being of our employees, maintaining financial stability and flexibility and ensuring that we are well-positioned to bounce back strongly once the situation improves. With a robust strategy seeded in the consumer insights, strong pipeline of big bold initiatives and strong checks and balances for costs optimization, we believe that we have the springboard to drive quick recovery as and when the external environment improves.

I'll now hand over to Smita, who will take you through the highlights for Q1 FY21.

Smita Jatia: Thank you Amit and good evening to all. I hope you and your families are safe and healthy. Like Amit said we entered FY21 with a black swan event that had a significant bearing on our business. But, we moved quickly to retool our business to the new reality, both at the backend and consumer facing.

The highlights of the quarter were that we put in place a new reduced cost structure, our convenience platform achieved new benchmarks in June and we launched two new exciting products that we believe have the potential to expand our addressable market.

On the cost front we were able to relook at cost across all departments and put in place a reduced cost structure for the organization. We optimized our rental costs by renegotiating on the base and deferments with our landlords. We moved a lot of our maintenance and repair work in house by training technicians and bringing down our AMC costs. We worked closely with suppliers to re-engineer our supply chain and distribution cost. We also deferred our capital expenditure by putting new store openings on hold, cutting discretionary spends and optimizing working capital needs. As a result we reduced all fixed costs.

Moving into the details of Q1 FY21 results; as you can see on slide #7, the nationwide lockdown through the months of April and May had a significant impact on our business. Pankaj will walk you through the details of our financial results shortly. We started seeing some very encouraging trends starting June especially across our convenience platform. The rupee value sale from convenience platforms in June was higher than the pre-COVID time and we believe business from this platform is here to stay. As customers formed new habits and discover new use cases, we are confident that they will get us incremental revenues even after the in-store business comes back to normal in a few months.

As we move from the survival stage to revival, our efforts are centered around three key elements of customer strategy, Assurance, Convenience and Access.

McDonald's globally has always been known for its world-class hygiene standards and we have reinforced the same to our golden guarantee proposition which we believe will inspire trust and confidence for customers to keep coming back to McDonalds. You can find details of this on slide #16 and 17.

Our levers of convenience have been the biggest business drivers, with delivery, 'drive-thru', take-out and 'on the go' service we activated our omni-channel strategy to ensure that customers can order from wherever they feel safe. Like I said we are very encouraged by the performance of our convenience platform. In June per day per store sales from delivery jumped back to 70% of pre-COVID levels. At the same time take out business per day per store from operational stores zoomed 1.7 times of our pre-COVID levels and convenience platform sales came back to pre-COVID levels for the operational 'drive-through' stores. We have also observed that wherever the restaurants are consistently open, it takes about 4 to 6 weeks for them to achieve their pre-COVID level businesses. As a result, our stores in smaller cities such as Nadiad, Anand, Aurangabad have been able to chart strong recovery.

We launched the unique 'on the go' service. Using this feature, customers can order their food on the app and collected from a spot close to the store which is on their way without ever leaving the safety and comfort of their vehicles. With this, we have virtually converted all our restaurants into drive-thru stores at almost no cost. We are seeing the number of orders surge every day from this service. We believe this will enable us create a new habit especially for daily commuters who always look for quick and convenient pickup option.

Access was an important element of business continuity. We ensured that we operated all restaurants that the government statute allowed us to. By the end of June we had 82% stores operational.

In addition to ensuring serviceability across locations we have also been enabled to stay relevant to our customers by tapping into occasions and offering customers a range of value combos and offers, both on delivery as well as through our McDonald's app. The app has been seeing great traction and has been helping us build in-store GCs too.

This quarter we added two new products Schezwan burgers in the West and McSpicy Fried Chicken in the South. With the McSpicy Fried Chicken we have launched a new platform and entered a huge fried chicken market in the South. The feedback so far has been very encouraging with the product scoring 9 /10 on the parameters of taste. We are confident that the product will help us recruit new customers both from the unorganized and the organized sector, leading to incremental sales.

A quick timely and strategic response to this unprecedented crisis was possible only because of the conviction and commitment of our people. Our people went the extra mile to continue serving not just our customer but also our community. We are proud of the fact that we managed to keep a close to 10,000 people with us for helping us revive the business and retain our leadership. This year we were once again named among the Best Places to Work in India.

I will now hand it over to Pankaj who will take you through the financial highlights of Q1FY21.

Pankaj Roongta: Thank you Smita. Good evening ladies and gentlemen. I hope all of you and your families are keeping safe.

I will be now sharing our financial results for Q1 FY21. As Smita highlighted earlier as soon as the COVID 19 crisis hit us we quickly realigned our strategies to ensure survival and the team showed tremendous agility to adapt and overcome.

The months of April and May were a complete washout because of the entire nation lockdown and the stores were shut. However, we started operating delivery as soon as it was brought under the ambit of essential services across all our market. June brought some good news and we managed to open stores in states like Karnataka and Gujarat but states like Maharashtra and Tamil Nadu that constitute 36% of our stores were still under complete lockdown due to increased number of cases. All the above resulted in (54%) decline in same-store sales growth and the (75.5%) decline overall with sales at Rs 939 million for this quarter.

On the profitability front, gross margin landed at 56.8% due to lower volumes. Our focus in Q1 was ensuring timely supply-chain to our operational stores on one hand in a safe and healthy manner while controlling the supply chain cost on the other hand. What is encouraging to share is increasing trend of gross margin in June'20 at 61% as the panic started slowly to move towards caution. Our focus in Q2 and FY21 hence would be to at par on average pre-COVID gross margin levels by continuing to optimize our food costs and re-engineer our supply chain costs to help us on short-term as well as on long-term basis.

As always we stood strong during these crisis and turned this situation into an opportunity for us to improve on our operating costs. We looked into each of our main cost lines for instance rent, utilities, advertising and promotions, other fixed costs and I'm very happy to share that we were able to reduce our average pre-COVID monthly fixed cost by about 30% to 35% which helped in arresting the further decline of our restaurant operating margins. Hence the restaurant operating margin for this quarter stood at a loss of Rs. 401 million.

Our efforts to preserve liquidity have been focused on four key areas: reducing operating expenses, curtailing capital expenditure, managing working capital and enhancing our overall financial flexibility.

We halted discretionary expenses. We also significantly curtailed our advertising spends while continuing to drive brand awareness through our owned channels. Additionally, we have been working closely with our landlords to secure rent abatements and deferrals. We also made cuts in capital expenditures. However, we continue to roll out our omni-channel strategy which is a high priority for us. We have worked extremely quickly to accelerate our omni-channel offering at a very limited incremental cost.

As we navigate through these uncharted waters we are taking a disciplined approach to decision-making. This includes reviewing all our investments, reducing or deferring spends as we re-scope the priorities in some areas and redirect it to other priorities.

Coming to operating EBITDA. As mentioned above our efforts and success to reduce the average monthly fixed cost resulting optimization of Q1 G&A by about 20% to 25% over the similar quarter last year on discretionary spends. These efficiencies partly obstructing decline in restaurant operating margin resulted into an operating EBITDA loss of Rs. 577 million. As every cloud has a silver lining similarly June trends were very encouraging and we witnessed our operating margin at a loss of Rs 150 million as volume started to go up coupled with our operating and cost efficiencies. All of this resulted into a Q1 loss of Rs 768 million on profit before tax and Rs 575 million on profit after tax.

As an outlook for Q2 and FY21 our focus remains on survival (during lockdown) and revival (as normalcy restores) where cash conservation, reengineering our operating cost and targeting a healthy balance sheet remains our number one priority. We are seeing healthy sales volumes across all our channels - delivery, 'on the go', take-out and we believe with the right structuring of cost that we have achieved we will be able to bounce back much better and stronger.

With that said I will now hand it back to Amit who will take you through our Q2 FY21 strategy. Thank you very much.

Amit Jatia: Thank you Pankaj. As we move forward we have a clear plan charted out for a quick recovery. We will continue to focus on assuring our customers of our safety and hygiene practices to keep your confidence intact. We will also leverage a strong digital backbone while keeping our costs under check.

Having said that, the government continuing to extend and reinforce lockdowns in our key markets, I see uncertainty and a bit of a fear psychosis continuing to have an impact on the demand in the coming quarters.

But, we see four clear advantages for us:

1. Strong brand love and resonance with world-class safety will continue to drive brand preference and give us an additional share of the market especially from the unorganized segment.
2. Our omni-channel approach that combines the brick-and-mortar and digital will enhance convenience giving us yet another competitive advantage.
3. Continued menu innovation will aid our retail, regain and acquire strategy and widen the customer net.
4. Our strong financial foundation will ensure business stability and continuity.

With this we are confident that we have all the elements to ensure a quick recovery, significantly grow market share and maintain category leadership.

With that, I now open up for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Just only one question actually which essentially trying to understand the cost line items let's say starting with rent. When we say you are able to negotiate at this point in time, just trying to understand are the six months, one year **timeperiod** renegotiations or how are those structuring? Line by line on few of the SG&A part of it beyond gross margins, on what we see difficult the performance is fully dependent in terms of…..

Moderator: Sir we just lost the line for the current participant, so would you like to answer that or should we proceed to the next question?

Amit Jatia: No, I only got part of the question I will answer that and then we can move on to the next in the interest of time. So essentially, I got the question around rents and the timeframes, so I would like to re-emphasize that in all malls we typically have a revenue share. That covers a very decent sum of our portfolio and irrespective of that in other places we have been able to get six months to one year, and that's the kind of negotiation we have been able to do with the landlords who generally have been very supportive. And additionally in certain other stores we are continuing to work with them for a slightly more longer period. The idea is to restructure deals where we feel the sales are good but the rent structure needs to be corrected. So that is where we stand on this. We can move to the other question because that's the only part I got.

Moderator: We take the next question from the line of Avi Mehta from IIFL Securities.

Avi Mehta: I just wanted to reconfirm two data points, one if I heard Pankaj correctly, June was 61% of pre-COVID level. Was that correct?

Amit Jatia: 61% Avi was the gross margin of June.

Avi Mehta: While we highlighted take out saw healthy recovery and some stores above pre-COVID level, would you be able to share how overall June was versus pre-COVID?

Smita Jatia: As I had mentioned in my commentary if I take all our convenience channels which are delivery, 'take away' and 'drive-thru'. These are our traditional convenience channels, they are back to the pre-COVID levels of our operational stores and currently we have (+80%) of our stores operational. Also there are times where because of states lockdown there are stores which are on and off closed and open. So all I can tell you is now that if I look at my convenience channels, they are pretty much back to pre-COVID levels on all operational days.

Avi Mehta: So you had highlighted 50% roughly in the last conference call is convenience and you said 80% of that is open and that is back at pre-COVID and the remaining would contribute some portion is that a fair way to look at it Smita?

Smita Jatia: Yes I would say that's a fair way to look at it and as I had again mentioned that these are new habits which are getting formed, so we are pretty confident that this is going to be incremental sales once our in-store opens as the lockdown starts getting reduced.

Amit Jatia: Also most recently we launched 'on the go' and we are very encouraged with that. That's also a very important habit changing digital transformation and what we have seen in other markets that these habits are here to stay. So essentially we converted every single restaurant into a 'drive-thru' and traction in that started from June, so we are hoping that in the coming months it really gives us a good traction. In fact wherever 'drive-thrus' have been opened, the operational 'drive-thrus' are pretty much come back to pre-COVID levels in most places.

Avi Mehta: And Amit, Smita have we have seen pickup in convenience further that applies in July as well and even after fourth quarter, even after the end of the quarter, so that has applied for every opening is that understanding correct? What I was trying to basically get here some insight if you could share on how overall sales levels are trending because while this is an extraordinary situation, the visibility is exceptionally low and if we get any insights here it will be very helpful.

Smita Jatia: So Avi how I would put it is that because India has still not gone into a new normal, we are still in the lockdown stage, so hence it's very difficult for anyone to give what visability of new normal will be once the lockdown gets released. And hence, what we are saying is that all the channels which are operating today in the lockdown situation are pretty much back to pre-COVID levels and these channels are pretty much our convenience channels which are our 'drive-thru', MDS and take out. Take out per day per store sales has increased 1.7 times of our pre-COVID levels, so we have seen a very healthy pickup of takeout and as what Amit mentioned, we are adding other initiatives like 'on the go' which will again add to our convenience channel while our in-store picks up as the lockdown starts getting released. And this is what we are going to see moving forward in the second quarter and also as our closed stores start getting operational.

Amit Jatia: The only one other point I would like to add is that wherever there has been consistency in the opening of the stores, within the 4 to 6 weeks we see it coming back to pre-COVID levels. So that is what gives us tremendous confidence. But as long as there is some consistency in a city or in a market, there is a very good chance that within 4 to 6 weeks it comes back to pre-COVID levels.

Avi Mehta: Amit just one bit from a consumer response point of view, wherever dine-in is operational, how are things trending versus normal if you could share that as well?

Smita Jatia: Avi I would not comment on dine-in at all because there is hardly any stability in dine-in because it's open for a couple of days and then again it's getting closed. So I don't think we would like to give any predictability on that. But as I mentioned in my commentary that in small towns like Nadiad, Bharuch where there is stability and the dine-in has been opened, in those stores we are seeing sales coming back to our pre-COVID level. So this is the only predictability I can give and one of the things I can tell you for sure is the convenience platform is being built on our goodwill of trust, our trust on quality and hygiene. So the minute the consumer is getting access to the brand they are feeling confidence to either walk in or use us through our convenience platforms.

Avi Mehta: Smita where I was coming from is have our sales in dine-in also recovered close to that range, that is why, so I was essentially trying to use that as an understanding on how you will look at it beyond the next few quarters, is where I was coming from.

Smita Jatia: That's what I said wherever like in certain small towns where dine-in has opened and we got stability of 4 to 6 weeks, we are looking at them coming to positive comps and coming too close to pre-COVID levels.

Avi Mehta: Lastly just a book-keeping, the 61% that we saw in June that is more of the steady-state run rate? Obviously April and May was impacted by a lot of headwinds - I missed that comment Pankaj, you are saying that could move closer to the higher average that we have seen earlier period?

Pankaj Roongta: Avi what I said is that in June we saw almost 450 basis points improvement in gross margin over the quarterly average of 56.8% and our focus in Q2 and FY21 is to hit the pre-COVID levels of gross margin as all the efficiency measures and volumes have started to pick up.

Moderator: We take the next question from the line of Anand Shah from Axis Capital.

Anand Shah: There is a difference between the sales growth by the SSG and it's a big one, almost 20% difference, so you excluded the like on like stores which were closed completely for the quarter or something in the calculation or how was it?

Amit Jatia: I didn't understand that Pankaj if you got it.

Anand Shah: So I said the SSG was down 54%, your sales is down 75%, typically you always get some percentage growth from new stores, so your sales growth is always higher than our SSG to that extent but here your sales decline is much higher than the SSG decline, right?

Amit Jatia: So the fully shut stores for the full month is excluded in the SSG calculation, yes.

Anand Shah: Is there a number you can share on that as to how many stores were fully shut and you excluded?

Amit Jatia: It was very-very varying,[I mean suddenly Pune was shut down.

Anand Shah: So on a month on month basis you have done this calculation and that's how you arrived on this?

Pankaj Roongta: Yes that's true.

Smita Jatia: In one of our slides it's shown the month on month the number of stores which were opened on an average. So it's very difficult to kind of give an average number on the whole but this is the best we could do to calculate SSG in this scenario.

Anand Shah: Also anything you can share on McCafé in terms of how it would have done given that it's in a different form of consumption and also the link on that to the gross margin, is that one of the reasons why your gross margin is also hit because McCafé sales would have got the hit?

Amit Jatia: Sure, so first let me take the second question; that the gross margin has nothing to do with McCafé, it was more to do with logistics and the distribution center and finally you have to store cold and chilled products and things like that. And obviously trucks were not going as efficiently as they were earlier, so McCafé has no role really to play in it. McCafé obviously the in-store there is zero business but 'take away' is doing quite alright. I don't know exactly what's the thing, but what I know that it is doing quite well overall.

Smita Jatia: So basically as the business started coming back, once we started delivery and 'drive-thru', 'on the go', obviously the first business to come back was with burgers and fries and as the burgers and fries business is building we are seeing that through 'take away' and 'on the go' McCafé is already starting to build, so it's too early to comment whether McCafé is doing well or not. We are very confident that as take away and 'on the go' business levers start building, which they already are, McCafé is going to build and it's also about kinds of communicating and advertising. As Pankaj has mentioned in Q1, we were conservative to kind of conserve advertising cost because there was a lockdown but as the lockdown gets released then we start again building top of mind of McCafé, we are confident that this business is here to stay.

Anand Shah: With advertising also I mean you generally spend about (+5%) of sales, is there any mandate I would assume from McDonald's that you spend this much and is there an exceptional such a scenario where you can tinker with that percentage?

Amit Jatia: Yes, my point is McDonald's and us, it's about what is right for the brand and right now there is no push around what commitments are in MMA rather it's about what is the right thing to do for business, so we are quite okay there.

Anand Shah: On this 30 - 35% reduction you have done on fixed cost, the Q1 obviously was difficult and business progresses and revenues assume some of these costs will also go up, you feel that you can sustain this 20%-30% drop in short of cost for the next few quarters as well?

Amit Jatia: Yes that is the plan, and as I had mentioned even in the previous call Anand that we are trying to work on a platform where a much lower sales, 10% - 15% still give us the same margin. So the entire focus on the cost structure is structurally getting it right. There are some short-term gains as well like on utilities. But, even in utilities we are reprogramming ourselves to keep it long-term as well. So about 10% - 15% lower sales we are shooting for the same margin.

Moderator: We take the next question from the line of Latika Chopra from JP Morgan.

Latika Chopra: I just wanted a sense on the consumer behavior, did you see whichever stores were opened where you could get a decent sense of 4 - 6 weeks, how the ticket sizes moved for you? That's my first question and the other one was on this whole delivery perspective, did you see faster traction for your own digital assets versus aggregators or the momentum was similar across the board, both the channels?

Amit Jatia: So to answer the first question is yes, we have seen far greater average check and particularly in the stores that are now pretty much pre-COVID levels and more because surprisingly we are seeing positive comps in those particular stores as well. So yes the average check is much higher. The second thing is yes our assets are doing quite well actually because there is a significant push from our side. We also see 3PO struggling a bit due to various aspects but as far as we are concerned we are pushing our own assets and particularly 'on the go' and take away and 'drive-thru' have been a pretty big boom that we had all of these platforms in place.

Latika Chopra: Just one bit on the ticket size, would lesser promotions or more pricing supported that in terms of…?

Amit Jatia: No, because we have always built our platforms around long-term everyday value, so for example the McSaver meal, so in that sense that has not changed. I think maybe options are limited, bigger families are coming in, they are buying more, they are buying the more premium products, maybe it's also because of pent up demand to some extent.

Moderator: We take the next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: Now we are seeing instead of the national lockdown the local lockdown, so are you getting any benefit of that in the rentals for example the weekend closed or suddenly there is a working hours closure, so you would have renegotiated the rent but now this is a new development, right? Two days closed in the weekend, any benefit you get because of that?

Amit Jatia: No, we are not going transactional in our rent negotiation. Obviously, it is all a master, so we are not going back. But, essentially what we have ensured because who knows lockdown may come back after six months or three months. So we are working on a concept with the landlord and in many cases we have gone to revenue share, so if suppose two days are off then the revenue is not there, so the rent comes down automatically. That is how it is. As I mentioned earlier in all the malls we are on revenue share in any case, so that is factored in pretty much.

Abneesh Roy: In terms of the beverages, another fruit juice company said that because of the cold juices linkage with cough and cold etc. fruit juice, so essentially FMCG companies they have seen a big dip. So in your case Smita said that now beverages are coming back. But within beverages is it largely the hot beverages which are selling, so cold beverages would find much lesser takers versus the pre-COVID?

Amit Jatia: I don't think so. I feel it's across the board, we are not seeing that as much. Essentially, in fact on 'take away' and 'on the go' we are pretty much back to pre-COVID levels on our McCafé sales. but at least we have not noticed such a difference is the same product mix as before.

Abneesh Roy: In the small cities you said that if there is stability of 4 - 6 weeks even in the dine-in has settled or you are seeing recovery back to pre-COVID? My question is in such small cities also you would have seen the street food and the smaller restaurants getting impacted, so is that a market share benefit you are getting in those small cities or such players are quite limited there so what not much a benefit?

Amit Jatia: I think we are getting the benefit. I have a strong firm belief that there is going to be a structural shift in eating out after this COVID issue and as I have maintained in all my calls, I see brands like McDonald's that are known for trust that have been around with our supply chain etc. are going to gain from that. So, while I do believe that overall eating out may shrink a little bit but remember in India large part of the eating out market is roadside vendors and for whatever reason unfortunately unbranded and roadside vendors are going to take a beating because people are going to move towards safety and security and health and that's why we have had a significant focus and the recent launch of the Golden Guarantee. So, basically yes we will gain market share, yes we are seeing some more traction because of the impact on the unorganized guys.

Abneesh Roy: Your latest innovation 'on the go'; wanted to understand the thought process. One is have other markets or McDonald's already seen this and have they seen this success yet and within India what is the customer proposition here because we can either order at home or in the office when you start going? Or we have the 'drive-thru' anyways. For you it's easy because you are setting your asset more but for the customer what is the value add?

Amit Jatia: The customer value add is to my mind phenomenal and by the way we have done this in some other markets for sure but essentially what 'on the go' does it becomes like a 'drive-thru', so as you are approaching the restaurant you use the app to order and by the time you reach the restaurant we bring the food to the doorstep in the car. The customer doesn't have to leave the car and basically it makes all our restaurants 'drive-thrus'. So 'on the go' to the consumer is an absolute phenomenal thing and what COVID has done is it's bringing the habit in. While we worked on, 'on the go' earlier as well; in the past to get consumer traction around that was getting difficult but this is like how we are doing meetings on zoom and on teams and that traction has come, it was always available but I think that behavior is here to stay. Similarly this 'on the go' behavior gets in grained, in the consumer, they sees the use and the benefit of it and then it becomes an incremental business long-term. So it is here to stay basically.

Moderator: We take the next question from the line of Kunal Sharma from Perfect Relations.

Kunal Sharma: First, what are your plans for scaling up delivery, given historically pizza has been a more delivery friendly he category, example like fries and burgers not consumed within a short time as drawn away from McDonald's in stores. Second, our listing process we didn't go for an IPO but reverse merger in the promoter group company, any reason for preferring this route and lastly what's the long-term potential in number of stores and sales you see for the Westlife over the long run? Thank you.

Amit Jatia: The first question was on delivery, I think these are all in my views to be honest outdated questions. Burgers are delivered around the world and in India. We have been doing burger delivery from 2005 and the consumer focus is on convenience. There are all different food types always tastes better when you go to the restaurant and have it straight of the oven or of the grill and delivery takes this 10-15 minute and there is food deterioration in whatever food category you talk about. So essentially, it is finally reflected in our sales growth, where we have grown our delivery business four times over the last 3 years and we do significant volumes. So finally, the consumer is the king and consumers made that decision. As far as the listing process is concerned, I don't even remember what was the reason at that time for it was 2013 and I think that you could take off-line, I will have to remember why we had done that. We are 7 years out of that and it's not even a question anymore and in terms of potential number of stores again we have discussed that earlier. In our estimate pre-COVID about 800 stores were what we were looking at but our vision 2022 talks of around 400 to 500 stores but all of that is now got to be revisited.

Kunal Sharma: Could you just share the same-store sales growth for the quarter?

Amit Jatia: Same-store sale (-54%).

Moderator: We take the next question from the line of Asim Bharti from IDFC Securities.

Asim Bharti: What is the difference between 'take away' and 'on the go' model? To me they both sound the same.

Smita Jatia: So 'take away' is the traditional 'take away' was when you had to come into the store and you could take your food away. In the COVID-19 times just now what we had done is as we have shown in one of the slides, we put a counter outside the restaurant where the person could come and 'take away' the food. However 'on the go' is when you can pre-order your food before you are approaching the store on our app and by the time you reach the store your food will be ready and it will be delivered to you in the car. So 'on the go' is our digital strategy of convenience while take away was our traditional strategy on convenience.

Asim Bharti: So when you say that you have converted most of your stores onto 'on the go' model, so I would assume in terms of cost it will just be some changes in the app right, nothing at the store level?

Smita Jatia: Absolutely, there was no incremental cost in converting our stores into 'on the go' and as what Amit has said that we converted them without any cost and pretty much have made all our restaurants like drive -thru restaurants.

Moderator: We take the next question from the line of Sharan Sadrangani from Longview Finance.

Sharan Sadrangani: This is in keeping with your 'on the go' model. In the US Starbucks here have launched a similar sort of model called Curbside pickup where in the store is actually only half of the kitchen, so they are under 1000 square feet and you have a server coming out and delivering the food and the beverages to the customer in the car. So do you see adopting that model over here where you open stores that only house the kitchen and a counter where you can….

Amit Jatia: No I don't think that would be bulk of the stores, okay if you think of a few, maybe, but in the scheme of things and in the…

Sharan Sadrangani: No in terms of driving future growth hoping…..

Amit Jatia: That's what I am saying driving future growth, basically this is not the model that we feel will build the business and the brand on. As I have always maintained these are kind of brand extensions and when all the brand extensions come together it makes McDonald's a very powerful proposition for the consumer. So we therefore like the restaurant to have in - store it McCafé, Breakfast, delivery, drive-thru, 'take away', 'on the go' and then all the platforms come together our average volume keep rising and the customer convenience go through quite very-very high levels. So it's not going to be something where we do an only Curbside price store. As I have maintained that we will not be primarily doing dark kitchens as well.

Sharan Sadrangani: And my second question was on your app, what sort of growth have you seen on your app, just taking your apps in terms of deliveries?

Amit Jatia: We don't share the breakup but what I can say is that actually post-COVID we have seen quite a decent jump in sales out of our app. Particularly in the recent past as we have been pushing it hard because obviously that's the only channel available to us. The good news is we had about 3 - 4 million customers and we have been able to do a bit of a push strategy to them and we have improved fair frequency and we have been able to convert them into users rather than just having the app. So, fortunately the pre-COVID effort of recruiting these customers has helped us a lot.

Moderator: We take the next question from the line of Nirav from B & K Securities.

Nirav: I have just one question. How do you compare the global McDonald's currently and with India right now, the key trend?

Amit Jatia: I don't think it's comparable although strategically we are on the same direction. Globally the drive-thru business is a very large part and their stores are very anchored towards 'drive-thrus'. So in the US 80-90% of the stores would be 'drive-thrus'; of course along with in-store while in India the whole portfolio is quite different but typically the whole global strategy is around digital platforms, around delivery, around McCafé growth so in that sense we are fully aligned.

Moderator: We take the next question from the line of Manjeet Buaria from Solidarity Advisors.

Manjeet Buaria: This is Manjeet Buaria. I have one question on the cash burn for the quarter and what is the net cash balance at the end of this quarter? If you could please share that.

Pankaj Roongta: Manjeet in terms of the operating EBITDA we have already shared the number, which is around a loss of Rs 577 million. We do have a strong cash reserve in our balance sheet at the end of

June which will tide over any adverse situation that we may face. So operating EBITDA you can translate to the cash reserves that is in Q1.

Manjeet Buaria: So it is roughly the same as Q4 net cash if I adjust for your operating EBITDA in some sense. So would that be fair?

Pankaj Roongta: Yes.

Moderator: Sir we just lost the line from the current participant. Next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: My question is on are you getting any assistance from McDonald's US in terms of lower royalties due to loss of sales?

Amit Jatia: So basically we are getting a lot of support from McDonald's and all the new procedures, the SOPs that are coming from them. So, we are able to move around very quickly from a consumer point of view. The other big learnings we are getting from them is market that are far ahead of us in the curve like the Korea and Taiwan; we are seeing some good advice and ideas which we are building in already so that we can really accelerate our own growth curve. Other than that, they are being supportive on all measures specifically on royalty and all we have got some good deferrals from them. Now we believe we are already on a pretty good royalty program of 4% and that's where we are at this point in time.

Devanshu Bansal: One more question about the rent. Is this kind of a deferral there is the rent preference or we have negotiated in terms of absolute amounts?

Amit Jatia: It's both, it's a mixture. Finally there are 320 restaurants so essentially in many places we have restructured, in some cases it's a 1 year plan, in some cases it's deferment for some time. So it's a mixture of all of that but essentially by and large landlords have been pretty supportive to our business and our work.

Moderator: We take the next question from the line of Hemant Patel from Alder Capital.

Hemant Patel: Can you give us some insights about the supply chain challenges that you have faced during this quarter and you briefly touched upon logistics. So just wanted to know how you have managed to the deal with that?

Amit Jatia: Supply chain challenges are there because there was disruption but of course luckily we had a ton of stock from March and then we were able to manage through that but then what happened is that as we started running out of stock. The first issue is that we had to hold that stock and our products are all refrigerated and chilled. So the distribution center was running as if nothing has changed, so we couldn't let that product go to waste, so there was some incremental cost there.

The second cost incremental is that stores were on-off, so obviously full trucks versus part trucks because the key was to deliver to customer. At that time was not about just cost so therefore that cost also came into the system. So therefore you need a certain amount of consistency in order for us to be able to maximize our distribution cost and optimize them. So we are beginning to see at least some sanctity and some predictability even though there is open and close but now we have a decent base of stores that are running regularly so that's giving us some strength there. Outside of which there have been on and off like eggs for example, it's a short shelf-life product, very-very sensitive. So we have had some disruptions in that but I would say by and large is 70%-80% we have done alright.

Hemant Patel: So would you say that the greater challenge at the moment still lies around on the demand side of it rather than supply? I mean as you go into the Q2.

Amit Jatia: Absolutely, no question about that.

Hemant Patel: A quick take on employees; so wanted to understand given the fact that we have 80% of our sales happening from convenience model which are out of restaurant. Just trying to understand how would you look at the employee factor moving for the business. Would over a period of time employees per restaurants come down and would you see more productivity gains out of it as we move on to the next couple of years?

Amit Jatia: We have been fortunate, in fact other brands in the industry are following our norm and even 10 - 15 years ago we realized that during the weekends we need more people and during the weekdays we need less. So we have always had a very strong part-time base of workers and because they are part-time right, during these times it has been very-very helpful to us in managing our cost structure better. By and large we have tried not to lay-off people or anything but because of this whole part-time situation it has helped us dramatically to address it. Longer term yes, we always irrespective of COVID we have things in the pipeline to keep increasing our efficiency and our productivity but the productivity gain is largely going to come from growth in average unit volume because at our unit volumes I feel we were quite alright in any case. So, we have done a time and motion study but that's all sort of pre-COVID which I believe that once things settle down will continue to give us growth and that is why in the last 2 - 3 years you wouldn't have seen labor cost change too dramatically.

Moderator: Next question is from the line of Amnish Aggarwal from Prabhudas Lilladher.

Amnish Aggarwal: A couple of questions from my side; if I look at McDonald's as a business model with very strong food courts in the stores, very strong brand, now with this entire scenario of COVID, now consumers shying away for some time, what sort of strategic changes do you think you will be undertaking to make the model much more resolute and much more sturdy for the long term?

Amit Jatia: So that's what we have been talking about through this call that crux to us is pushing our convenience channels out and we talked about all the three and particularly is the launch of 'on the go' which convert all our restaurants into 'drive-thrus'. The second big focus is around digital. So everything is now digital and therefore digital strategy to recruit customers, retain them, communicate with them, to build demand and to use all digital channels like 'on the go' through an app, delivery businesses through an app. We have our own app which has a lot of customers, so how do you increase their frequency and convert them into regular users. So that is the second big challenge and the thing that we are doing. The third is of course around the assurance. So we talked a lot of that and if you see later on take the time to read our earnings presentation our Golden Guarantee is something that I feel is going to go a long way and lastly of course the cost reduction. So while I do believe very strongly that the business is definitely going to bounce back to pre-COVID levels and will continue its growth and we have to just handle this particular period and use this time to ensure that the new customer behavior is factored into the way the brand things that works. So we remain relevant to the consumer and I feel, I hope from through this call and through our earnings presentation you get that sense because we are quite pleased with the way the consumers' responding to all the work we have done in the past. So that is how we are structurally changing and adapting to the new reality through the things that I just talked about.

Amnish Aggarwal: If you look at this some of the initiatives like for example this year entire convenience portfolio, convenience way of you can say is that servicing the customers. Now in that aspect if you look at for example, our Breakfast menu which has been there but not being pushed to that extent. Now in the light of these changes whether it is digital, whether it is convenience; what sort of changes do you see coming to the menu of McDonald's?

Amit Jatia: I don't see any change. In fact Breakfast is a big convenience platform. The people in their offices would order Breakfast and our Breakfast is very-very easy to travel and to go. So I don't see any shift in the menu due to this and by the way this is all pretty very standard part of global McDonald's. All these convenience channels globally do contribute to a significant part of our sales. The only thing is that in India it has got accelerated because of COVID which is great actually for us, otherwise the time to take the traction on all this was longer. So it has accelerated and we feel that these business models are here to stay and as in-store builds back, we think there are same-store sales will actually build up quite nicely.

Amnish Aggarwal: Finally just one final bit. As you said some time back that current royalty with the McDonald's charging is 4% but as far as I understand I think few years down the line it is going to increase significantly that you say in from the current level. So given this pandemic now is there a possibility of that timeline being pushed back or that number being reduced?

Amit Jatia: No I think we are quite happy with the royalty plan and it's a very-very attractive plan and globally that is the royalty that McDonald's charges everywhere else and we get things that are worth it. So there is no discussion right now on all of that. As long as particularly we get over these couple of years, I feel business will be back to normal and we need to work with the brand and also make them get their revenues.

Moderator: We take the next question from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: There are few follow-ups going to the gross margins explained the logistics and the refrigeration aspect. My question is, is the raw material cost per unit dynamics also link to the scale. So if the number of burgers for example is lesser does it become more expensive in that case for burger?

Amit Jatia: As we have explained we intend to stay at 61% and move back up as Pankaj mentioned in his comments. We are expecting GM to get back to normal and all of these factors we are dealing with. So that's how we see it.

Abneesh Roy: And in terms of food aggregator it's a critical part now of your business model. We have seen Amazon also enter in some of the cities. So could you tell us how has been the response or the impact on you and are you getting a benefit because of the overall bargaining power reducing for these as more players come it's good for you from a bargaining power perspective?

Amit Jatia: I have always maintained that our bargaining power is pretty strong because we treat them as partners and they treat us as partners and yes they have options, we have options as well and that keeps the balance. But it's finally about how you manage your relationships and especially at least from our point of view we have had a good relationship with all our third-party aggregators and we treat them as partners rather than suppliers and they treat us as partners and therefore even through the pandemic we have been able to work together to grow our business for mutual benefit. So if more players come that's okay, for us it's neutral. As long as more business is coming from consumers that too all of these players put together that's good for all of us.

Abneesh Roy: We have seen malls come back in the smaller cities. So still consumer behavior wise if you see he doesn't want to go to malls easily. So in those stores are you seeing business - one are they open and second is the response similar to how stores in the outside mall cities, is it similar to that?

Amit Jatia: The traffic is still thin in the malls. So I think it's going to take a while for it to build as consumers get confidence. So right now what we are seeing is that in the mall, the traffic is thin.

Abneesh Roy: Earlier we have seen your growth and overall QSR growth is linked a bit to the cricket properties. Now cricket obviously is not happening but OTT consumption has the increased significantly. So is there some data anecdotal say that there is some benefit because of the OTT consumption going up wherever stability in the markets are there. Are you seeing that happening?

Amit Jatia: We have not tracked it but obviously delivery business is strong and with cricket delivery goes up. But you know there are different I mean these are all very incremental minor shifts to my mind because that's not where bulk of our business comes from in any case. So I don't see or we have not tracked that because of OTT whether our sale has gone up or down. I don't think I know the answer to that Abneesh.

Abneesh Roy: Multiplexes haven't opened but they have already tweaking the menu. They have brought in Haldi drinks and all that, when they open they will bring, that is the thought process. In your case you already had the health platform quite strong but linked to the COVID have you tailored your products in some way to make it more appealing?

Amit Jatia: No I don't think we have gone in that direction as yet.

Moderator: Thank you. Ladies and gentlemen due to time constraint we take that as the last question. I would now like to hand the conference back to the management for closing comments.

Amit Jatia: Thank you everybody for joining the call, really appreciate it and have a lovely day ahead. Thank you, bye.

Moderator: Thank you. On behalf of Westlife Development Limited we conclude today's conference. Thank you all for joining, you may now disconnect your lines.