Q4 FY2021 Earnings Call Transcript – May 13, 2021

CORPORATE PARTICIPANTS

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

Moderator: Ladies and gentlemen, good day and welcome to Westlife Development Limited Q4 and FY2021 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Devanshi Dhruva - Manager Investor Relations. Thank you and over to you Ms. Dhruva!

Devanshi Dhruva: Thanks, Neerav. Welcome, everyone, and thank you for joining us on Westlife Development Limited Earnings Conference Call for the Quarter Ended March 31, 2021. We are joined here today by Mr. Amit Jatia, Vice Chairman; Ms. Smita Jatia, Director; and Mr. Pankaj Roongta, CFO and VP Finance and Accounts for Westlife Development Limited.

Please note that our financial results and investor presentation had been mailed across to you, and these are available on our website as well. 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 with overall operational progress, the impact and response to COVID-19 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 the participants that due to the disruption due to COVID-19, members of the management are joining the call remotely and there could be some time lag when responding to your queries. I urge you, therefore, to be 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 may be forward-looking in nature and must be viewed in conjunction with the risks and the 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 like to turn over the call to Amit to share his views. Thank you, and over to you, Amit!

Amit Jatia: Thank you, Devanshi. Good evening everyone. I hope all of you and your families are keeping safe. FY2021 was challenging but inspiring year, a year that redefined resilience as the world fought an unprecedented pandemic and its economic fallout.

For us, it was marked by the commitment and the conviction of our Westlife family that helped us turn this adversity into an inflection point for a new better, bigger, and bolder McDonalds. We use this crisis to consolidate our strengths. We leveraged our diversified real estate portfolio, long-term rental deals and led strategic rental renegotiations. Our backward integrated, closed loop supply chain and the world class training processes ensured business continuity in what I can call the most difficult and challenging time for the business. We have also done some exemplary work on the cost leadership front. The cost structures we have today are much stronger, and resilient to volatility.

At the same time, we created new competitive advantages by tapping into our robust technology and process backbone. We launched new products, new channels and helped consumers create and adapt to new ways of consuming us through Drive Thrus and On the Go. Through the year we navigated a million uncertainties and came out stronger, with all our 10,000 people with us.

We have been seeing our efforts reap great results. As we speak, our brand trust is rising consistently, making us the preferred customer choice in uncertain times, convenience is performing robustly, aiding incremental revenue growth and omni channel strategy has come to life in a strong way making us accessible to customers wherever, whenever, and however they prefer.

The business recovery has also been phenomenal. The last two quarters of the year have helped us recover the losses of the first two quarters of FY2021. We entered the year with a strong balance sheet and despite all challenges, I am happy to share that we have exited the year with an even stronger one. *(Last line was inaudible in the audio call due to call drop and poor internet connection)*

Smita Jatia: Thank you Amit and good evening everyone. Hope you and your families are safe and healthy.

I am pleased to share that we have exited the year on a high note. Q4FY21 has been our strongest quarter this year with a positive SSSG at 10.5% and year on year revenue growth at 6.3%. *(These lines were inaudible in the audio call due to call drop and poor internet connection)*

Our robust revenue recovery in the quarter continued to be driven by our convenience channels. This aided by smart cost control bolstered our margins. I am happy to report that with the exclusion of an exceptional cost, our operating EBITDA for the quarter stood at a solid 11%. We closed the quarter with a PAT of Rs 21 million and a positive cash flow of Rs 322 million. With this we believe that we are entering the new year with a good momentum and a balance sheet that puts us in strong stead, despite the challenges that lie ahead.

The start of FY2021 was marked by the onset of the pandemic. The nation-wide lockdown that was announced on March 23, 2020 extended well into the first half of the year. During this time, we were guided by our survival strategy pegged on brand trust, enhancing convenience, cash conservation and maximizing our supply chain strength for business continuity.

We started deploying a revival strategy in the second half of the year as the restrictions started easing and customer confidence started to build back. We saw strong and quick recovery across platforms. Our convenience platform namely Delivery, On the Go and Drive Thru along with the

Golden Guarantee promise and customer experience helped us build back revenues on a sustained basis.

As a result, we saw staggering improvements across the business parameters. Our revenues more than doubled in the second half of the year. I am happy to share that strong recovery in H2 FY2021 coupled with cost leadership helped us wipe away all the losses of the first half.

Despite many regulatory headwinds, our sales growth was steady through the year culminating at more than 106% recovery in this quarter. This was aided by close to 90% recovery in dine-in and accelerated performance of our convenience channels that clocked a solid 42% growth over last year. In fact McDelivery reported its highest ever sales in the month of March. Our Drive Thru channels reported an 81% growth in the quarter and On the Go grew three times over the last three quarters.

We are seeing our 'Out of Restaurant' channels that primarily include Drive Thru, Delivery, On the Go continuing to perform robustly. This gives us great confidence that convenience is here to stay and once dine-in recovers completely, we will be pegged for exponential growth. We believe we have pivoted to become a destination that serves customers seamlessly whenever they like, wherever they like and however they like.

Our other big win was cost leadership. With great support from our vendors and partners and by maximizing our operational efficiencies, we were able to bring down our fixed cost significantly. This has given us added firepower and helped us strengthen our financial performance further.

Moving onto the highlights of this quarter. This quarter reflected a 5% to 7% growth in the IEO category and a shift in the distribution. Western Fast Food or what we say the organized sector has grown by 18% due to customer preference for hygiene and assurance. Within this, we have gained shares both in WFF and IEO. This has reflected in the SSSG for the quarter at 10% and future potential to capitalize on.

Assurance and convenience remained the key tenets of our strategy. We continued to tap into key occasions to keep the excitement going. Our efforts to promote premium McCafe beverage also showed great results. Convenience continued to outperform through the quarter.

Our unique McDonalds app has been value-based platform that has consistently helped us build guest counts and engage customers. More and more customers are taking to the app and we have seen the app downloads surge and active users increase by over 50% year-on-year.

Finally, I am glad to report that after COVID induced blip in 2020 we are now back on track with our expansion plans much in line with our Vision 2022 commitment. This quarter, we have opened a flagship store at the departure terminal of T2 International Airport in Mumbai, while 4 to 6 new stores are under development as we speak. In an effort to ensure safety of our employees and customers, we are also aiding vaccination of our crew.

With this, I now hand it over to Pankaj to take us through the financials. Thank you.

Pankaj Roongta: Thank you, Smita. Good evening, ladies, and gentlemen. I hope you and your loved ones are keeping safe.

We delivered a strong Q4 and have entered FY2022 on a much firmer footing. We have been able to continue the strong Q3 momentum in accelerating sales and profits while rationalizing costs.

Let me now give you highlights of our key performance indicators.

We clocked sales of Rs.3,576 million about Rs.357.6 Crores for the quarter which is a 6.3% growth on a Y-o-Y basis despite regulatory headwinds, lockdowns, curfews, and capacity limitations across the market. We also registered a Same-store **S**ales Growth of 10.5% for the said quarter.

Sales were driven by an almost complete recovery in dine-in and an impressive 142% recovery in our convenience channels.

Convenience has been one of our biggest growth drivers especially MDS and Drive Thru. They have grown by over 26% and 80% respectively over Q4 of last year. They helped us not only in creating new occasions for our existing customers, but have also fostered new ways of consuming the brand and helped us recruit new customers.

This acceleration in sales coupled with cost leadership has led to a 93-basis point jump in our gross margins that landed at 66.5% for the said quarter.

Throughout the last year, we have been restructuring and reducing our operating and fixed cost. As a result, and backed by volume recoveries, the restaurant operating margins touched a five-year high of 16.4% for the quarter, a whopping 527 basis point growth on a Y-o-Y basis. This is truly representative of all our cost efficiency measures that define our cost leadership.

Fixed cost reduction layered with judicious control on discretionary expenses resulted in a significant improvement in our operating EBITDA. It stood at Rs 325 million for the quarter, up from Rs 196 million, same quarter last year, resulting in an operating EBITDA margin of 9.1% for the quarter, a solid 65% growth on a Y-o-Y basis. We also booked one time cost in Q4 that are pertaining to salary reinstatements and special incentive to our McDonalds family.

We are happy we are able to give back to our employees for their hard work excluding this onetime cost, our operating EBITDA stands at 11%. We believe we will be able to continue our robust performance in FY2022 once all the channels are operational again.

All the above, resulted in a net profit of Rs 21 million versus a loss of Rs 167 million in the same quarter last year. Our cash profits for the quarter stood at 322 million.

What is important to note is that our cash profits of Q3 and Q4 together have helped us wipe off 100% of the losses of first half of the year and hence we delivered cash profits of Rs 24 million for the full year on a lower sales base versus last year.

Our focus throughout the pandemic has been to maintain a robust liquidity position, contain debt and build a stronger balance sheet. I am happy to share that we were able to optimize our treasury and working capital arrangements thereby reducing our net debt significantly. We are almost a net debt free company at the end of Q4 and have held the cash and cash equivalents on our balance sheet.

As we step sure footedly in FY2022, our priority is to continue to this fiscal discipline and flexibility, accelerating our convenience channels and expanding the business.

Despite unprecedented challenges, the last year has also thrown at us some great opportunities. We have clinched some really attractive real estate deals and have a strong pipeline of network expansion projects for the coming year.

With that said, I will now hand it back to Amit, who would take you through the outlook for the coming quarter. Thank you.

Amit Jatia: Thank you very much Pankaj. Before I go to the outlook, I will just take a minute to summarize some of my opening comments. Basically, we have seen our efforts reap great results last year. As we speak our brand trust is rising consistently making us the preferred customer choice in uncertain times, convenience is performing robustly aiding incremental revenue growth and omni channel strategy has come to life in a strong way making us accessible to customers wherever, whenever, and however they prefer. This is what we were able to achieve last year.

The business recovery overall has been phenomenal. The last two quarters of the year has helped us recover the losses of the first two quarters of FY2021. We entered the year with a strong balance sheet and despite all challenges, I am happy to share that we exited the year with an even strong one. I am pleased to report robust year-on-year growth across key business parameters including revenue, margins, and profit.

In terms of the future and the outlook, of course uncertainty and volatility are the order of the day and will continue to persist, but, we are more confident than ever about our strategy and will continue to invest in brand, technology and growth with a sharp eye on the cost. We believe that we have been able to future proof the business to a large extent. We believe as normalcy returns, we will be amongst the first brands to revive on the back of high brand trust and strong convenience brand.

Further. as we saw in the last quarter of this financial year, as dine-in builds back coupled with our strong Out of Restaurants channels like McDonald's Delivery Service, Drive Thru, On the Go and take away, we are well poised to deliver strong SSSG. We have cracked the code on being able to do much more with much less.

Our new leaner cost structures will help us deliver strong profitability and insulate our balance sheet while navigating challenges of the second wave of COVID. We are back on our expansion plans and will continue to open new stores in strategic locations. We will also invest in new cutting edge technology solutions to enhance the omni-channel experience of our customers and strengthen our rock solid foundation.

With all arms in our arsenal, we are confident of delivering great value to all our stakeholders. Thank you and with this, I open up for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hello, Amit, Smita, Pankaj and Devanshi. Trust all is well with you and near and dear. I have got three questions Amit. I will probably take the first, one at a time, so when we look at the last 12 months, credit to you and team for managing very efficiently, but how about the next 12 months and 24 months? Should we expect a faster growth, other than in 15 odd restaurants which you had opened, what I am just trying to understand is given the strong balance sheet, given the opportunity possibly in real estate and in general market, is there a change for a faster expansion in 2022-2023, of course assuming that there is a steady state situation in three months' time? That is question one.

Amit Jatia: Basically, the first good news is that obviously we have entered wave 2 much stronger than we were even in wave one. Not only have we learnt a lot but the customers have learnt a lot as well, so for example in wave one in the first instance consumers were even little scared to order delivery, and to allow anybody to even come and leave the delivery at their doorstep. While we have entered this particular wave, I think that particular business has remained pretty steady, even the government to some extent has learnt and therefore the clarity is slightly better than how it was in wave one. Having said that, as you heard, our cost structures are pretty robust, so to that extent we are entering pretty strong, obviously we have put our business plan together for FY2022 and our thought process was very strong and a sort of very high opportunity growth business plan that is what we have intended to do. For example, we currently have 5 - 6 restaurants under groundbreak at this point in time and we do not intend to stop restaurant growth, we intend to continue with it. I do agree with you, I do believe that real estate is a bit of an advantage for us. Therefore, when people would ask me why are you'll not at the airport, you will see that at very difficult time but with a pretty good real estate long term deal structure we have been able to open at the international departure and even though the flights are less, we are doing quite well there. So, yes with a strong balance sheet, our idea is to go ahead faster, we will be opportunistic, we will open in locations that we were earlier finding difficult, and our original plan was between 25 to 30-35 restaurants was what we were thinking about. Currently, I am not sure how wave 2 will go. We will not change our plans, we hope to be able to stay with these numbers that I have talked about, but if we have lost this quarter, we may have five stores here and there but thematically we want to go aggressively and build restaurants. This is the time to do that, with the kind of balance sheet we have.

Manoj Menon: Absolutely. Thanks, Amit, for that. The second one is actually on the situation at this point in time okay let me do it this way. What we have seen in the past, is that the QSR industry probably, had higher linkage to new consumer recruitment, the general well-being, the consumer confidence and of course the PFC growth, GDP growth etc. I am just trying to understand from a plan B point of view, assume for a minute, that if there is a distress in the economy, I hope it does not really happen and there will be enough interventions like what happened last year, I am just trying to understand, what is your thought process or anything, which you are thinking of improving, the value proposition which you anyway are as a brand, I am just trying to understand your preparedness for a plan B so that it is probably a smooth landing in such a scenario. I am going strictly by the empirical evidence of the last ten years of the available data of India QSR Industry where despite the high penetration opportunity I have noticed that if this industry goes through significant volatility versus the opportunity.

Amit Jatia: Sure, firstly that is because it takes time when you are building in a country like India. It first takes time to get the supply chain in place, get the ecosystem in place, and really the growth I have seen has come only from 2010 onwards, so effectively if you ask me, we are still very nascent and even the consumers are still discovering what this is all about, so that is point number one on a broad basis. Now, a major thing has happened the way we see it, if you think about QSR as an industry, it is an impulse business and impulse business is driven by convenience and this is nothing to do with India, this is how the sector works anywhere in the world. A pre-COVID, even a brand like McDonalds was occasion led and we were driven pretty much by occasions where consumers would come and use. What COVID has done, is it has pivoted the brand towards convenience and what we are seeing is, when in store sales were zero, to when in store sales went all the way up to 70%, we did not see any dent in the business of convenience all the four channels which is takeaway, Drive Thru, On the Go and delivery as the in store business built back up. So, broadly I feel that we become from an occasion, we are moving towards becoming a convenience brand, which bodes very well for us. Secondly, as you look at the structure of the industry, what has happened is, we do a lot of research right from 1995-1996, so we have a lot of empirical data, the eating out frequency in the last quarter went up by about 5% while Indian fast food was a bit flat, Western fast food grew quite nicely and we feel that the shift towards organized play is going to continue to happen as we move forward and all that bodes very well for the kind of business that we are in. So, I believe, that while you know we believe in operating in a volatile world, I cannot predict exactly when wave 2 will end and wave 3 will come and so on but I feel that with the new cost structure, with the new pivot towards convenience, with all the channels now working at full play, we will be amongst the fastest to recover and broadly that is the best I can say for now.

Manoj Menon: Understood, and finally, maybe this is relevant three or six months down as well, anything from the global McD system of learning or consumer behavior etc., which is relevant for India, that is why I said if it is probably, it is too early, and I am happy to discuss this three month down the line?

Amit Jatia: No, broadly they keep sharing all the data, they do a lot of research, even including India, so we are seeing a lot about how consumer behavior is, so we have tonnes of data around that, Manoj that is the sharing, there is a lot of support, conversations, there are countries that are ahead of the curve like particularly I have seen in Korea, Taiwan, I would have mentioned that last year as well and fortunately the system shares all that with us very openly, so we feel that we are able to foresee what is coming up with better than anybody else, so that is how we are sort of capturing the data and using that to our advantage.

Manoj Menon: Amit, that is what I am just trying to understand, it is not a guidance as such, but I was just trying to get if you could share some of those learning's may be, may or may not be relevant for India but anything which could let us say for example, change your trajectory material in the medium term from the global learning and I will come back in the queue.

Amit Jatia: Yes, we will come back to that in a bit. I think it is better to have a separate call around all of that because that is too granular but let us see we can create some call where we can talk a little bit more about that.

Manoj Menon: Thank you Amit and all the best.

Moderator: Thank you. The next question is from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah: Thanks for the opportunity. I have just one particular question from me. If you can share what would be the mix of convenience in dine-in in Q4, once that dine-in is now almost normalized, how is the mix settled, last year used to be more like 50-55% convenience and then in dine-in now, how does that mix essentially looking once these normalizes?

Amit Jatia: Sure Anand, basically if I were to look at January as a benchmark, we were almost 100% of pre-COVID sales, so that was good news, in that our convenience channels were almost 55-60% and in store was about 40% to 45%, roughly that was the break-up and in store was still at only about 70% of pre-COVID, that may also give you a bit of color on this.

Anand Shah: Okay, so in January you are saying you are 100% of pre-COVID but the dine-in is at 70% and contributing 40-45% overall?

Amit Jatia: Correct, absolutely.

Anand Shah: Okay and does this have any margin implications in that sense once convenience goes up, I mean is it more profitable channel on a platform versus dine-in?

Amit Jatia: I think our numbers of the last quarter itself define everything, I think we have reset our business model over the last year, that is what gives us confidence and we have talked about it through each quarter as we went. Restaurant Operating Margin, I think we are amongst the few companies that actually break out a Restaurant Operating Margin so clearly and in the last five years, this is the highest Restaurant Operating Margin that we have been able to deliver. So, I will go back to my philosophy as I have said this before - my philosophy is wherever consumer business is happening, we have to make that business model work for us where consumption is happening, and therefore as the pivot has happened because globally as I mentioned to you, we are a convenience brand, as this pivot has been accelerated, we have been able to adapt and adjust our business model to make it work. You might also recognize right from day one I have always said that it is about partnership with the 3POs, we do not see them as a threat in anyway. We feel that as long as we are able to build a partnership, it becomes very powerful, so I think we have got our business model towards the new reality post COVID as well.

Anand Shah: Got it, it is quite visible in number and just last question as things have normalized, have you seen any changes in the average order values, I mean earlier it has gone up and would have maybenormalized in their number, users would have gone up, any color you can share on this?

Amit Jatia: Yes, what we feel is that when there is consumption of premise outside of the restaurant generally the average check tends to be higher, so because we are still skewed and we hope to stay this way in a way, even if in store bills we expect same store sales growth to come obviously, the average check is a bit higher than in the past and I think this trend is going to stay because some of our strategies moving forward will also play into that and you will see that evolve over the next 2 -3 quarters.

Anand Shah: Perfect, and just last one if I may squeeze, any guidance on the store expansion back to that 25–30 that you are generally looking at?

Amit Jatia: So, the plan was built around 25–30, as I mentioned earlier this quarter obviously there is no movement, we cannot construct, so we have lost this quarter although we have five or six restaurants in groundbreak, so the intent is to stay within that maybe it is 20 to 30 may be not 25 to 30 as we had hoped. So, there will be a few restaurants here and there, but the intent is to get back to the FY2020 growth plans and more.

Anand Shah: Got it. Thanks a lot.

Moderator: Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Team, congratulations on a good set of numbers. My question is more on trying to understand the margins going forward once the COVID impact is completely gone. So, I understand that your dine-in is around 90% normal and dine-in is about let us say 45% of your total sales, so once that normalizes your total sales goes up by 500 BPS and your gross margins let us say 65%, so out of that 5% around 3.5% flows down to the EBITDA level. So, is this calculation correct or am I missing something are there certain discretionary costs which are not yet fully normalized in Q4 and when the COVID impact is completely gone that will come through and therefore this 3.5% is not totally accretive and it will only be partially accretive. Any kind of sense you can throw on this very rough calculation that I am making?

Amit Jatia: I will try and share it in the way I understand it, essentially I do not see a shift in dine-in and dine out any more to cause any margin impact on us as I mentioned earlier, I think we have got our business model reasonably set around where the business is today, so that is point number one, point number two we have been able to optimize a lot of the cost and I think a lot of it is here to stay. Important thing is, it is about average unit volume, okay and if you recollect I said earlier that with the new business model, even with a slightly lower sale we will be able to deliver robust margins, which I think we have in this quarter. So, in the future, margin flow through will continue to come through average unit volume growth. In summary that continues to stay as it is and I do not see anything changing because of shift in the way we are selling to the consumer neither do I think that when COVID is fully gone the business model will change substantially from where it is today. Of course there are headwinds around inflation, as we all know, but I feel that is a constant challenge in India I had been saying this over the last five years and therefore we are always kind of thinking and being prepared for that, so this is at least how I see it.

Percy Panthaki: I think I did not express myself very clearly. I was not talking about any shift from dine-in versus convenience or vis-à-vis, what I was saying is that the normalization in your dine-in business is to the extent of 90%, now if we say that that is completely normalized from 90% to 100%, that is about a 10% bump up and since dine-in is approximately half of our business at an overall sales level that will be a 5% bump up and 65% of that which is your gross margin flows directly to the bottom line that is what I was talking?

Amit Jatia: No, fair enough, I mean you are asking in the same way only, so effectively what I am trying to say okay, I will put it this way that as in store builds, in store is currently about 70% pre-second wave, so as in store builds, I expect same store sales to go up which is the 5% you talked about, Number two, as in store sales builds, yes the flow through will come to the bottomline which is what I was saying that as the average unit volume goes up, so I was just saying it in different way, so you are absolutely right. builds I do expect in store sales to grow and as in store sales grow I do expect the margin to flow through to the bottomline.

Percy Panthaki: Okay, so the Q4 costs that I see which are reported in your Q4 results they are fully restored cost. There is nothing that you are holding back, I mean proper reengineering of cost is one side, I mean obviously that is permanent but there is no temporary cost hold back which is there as part of your Q4 margins, is that understanding correct?

Amit Jatia: Yes, you are right and we in fact declared a bonus for all the effort our team made and that is also in the cost by the way. It is a onetime cost and if I were to take that away then actually our operating EBITDA goes to 11%.

Percy Panthaki: That is all I wanted to understand Sir. Thanks, and all the best.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from PL India. Please go ahead.

Amnish Agarwal: Amit, couple of questions from my side. Something it is related to the one which is just answered on the margin being 11% if the onetime bonus is not included. So, if I calculate that number of 1.9% actually then the outflow on account of bonus and employee benefits incremental in Q4 comes out to be around Rs.68 million and if I exclude this Rs.68 million from your Q4 numbers then actually it means that your numbers at the employee cost level declined on a QoQ basis. So, is my thinking right or am I missing something in this?

Amit Jatia: No, the exact calculation I will let Pankaj answer that, so you could have a better sense to this, includes the re-instatement of some salaries and the bonus, I think let Pankaj answer that he might be in a better position to respond. Pankaj, can you please take that?

Pankaj Roongta: Amnish, there are two elements of the employee cost when we look at the P&L, one is on the G&A and second on the operating cost for the crew labours, so of course things are not like-to-like on a quarter-on-quarter, compared to last quarter versus this quarter, and as you rightly pointed out, the impact of the one time cost has been 2% so, if we were not to book that onetime cost the operating EBITDA goes to 11%. The second thing is that we have been talking about lot of efficiencies in the operating cost, including the structural cost improvements, operating hours etc., so that also has an impact on the overall costs that you see excluding this line items, while costs are becoming better and as Amit said lot of them are structural in nature, so as we recover the business, as the store operating hours goes back to normal these savings and optimizations are here to stay.

Amnish Agarwal: Okay, so should I presume that if I exclude that onetime bonus and restatement on a Q o Q basis the payroll and employee benefits, they have actually declined from Rs.33 Crores to nearly Rs.29 Crores?

Pankaj Roongta: Yes, so part of them is also contributed because of the regulatory restrictions in terms of operating hours as factor but a lot of it is the structural cost improvements that we have been working on. Yes, so they are not like-for-like comparison like that.

Amnish Agarwal: Understood, and Sir, my second question is on McCafe basically, so can you throw some light on how many stores now we have of McCafe and now how are we trending on that in terms of the through put and the contribution from McCafe as we close this year?

Amit Jatia: Yes, McCafe has been building quite well and sales are coming, obviously it is not yet where it was pre-COVID but has been building quite well. We have about 200+ restaurants that have McCafe.

Amnish Agarwal: Okay, because the last number in Q3 was 227, so is it still on that?

Amit Jatia: Sure, so it is not lower than that for sure.

Amnish Agarwal: Okay, and how much it would have contributed to sales for us in the current year? Has there been any dip now because of this lockdowns and low dining?

Amit Jatia: We do not give the breakup, but yes, in the early days there was a dip in McCafe sales from pre-COVID times and quarter-on-quarter it has been growing quite well, it is still not where it needs to be because McCafe has a lot of play around in store as well. So, we do not share the breakup but the good news is that on quarter-on-quarter we are seeing McCafe build quite well. Also we have added some good elements around delivery of McCafe in terms of hot coffee and things like that, so that channel is also building up quite well, in fact, in many of the 3 POs as we are listing McCafe separately as well. So it shows up when you do search on coffee.

Amnish Agarwal: Okay, so in this context, would it be fair to presume that given usually that the café business has got higher gross margins, then once the recoveries fully set in, in terms of dining over a period of time, then it could provide a good delta to our gross margins?

Amit Jatia: Amnish, it should but I will also keep inflation a bit in play, so those are sort of our things in our hands that can allow us to offset some of those inflationary costs. I think for our business I feel we are on a very strong trajectory with gross margins, so we are not pushing it as a business but yes, if McCafe builds logically where you should get more gross margins. However, like I mentioned to you there is also lot of headwinds on inflation, so we are hoping that that extra little thing can cover that up.

Amnish Agarwal: Yes, and Amit, in your remarks you have elucidated that you are getting very good real estate deals and you are now on a very firm expansion path, so can you give us some idea that where would be the rental and other payments you make for these real estate deals now, vis-à-vis which you were doing in the pre-COVID levels?

Amit Jatia: It is hard to say but to give you an example: we were more importantly able to open in the international departures, because we are very particular about the contracts we sign and finally we believe that the restaurant should be able to make money. So, good example is that for last 5-7years we have been trying to get into the airport, but we never found the deal structures to be appropriate enough for at least us to sign. However, we have been able to enter and I think even these 5-6 flights that are currently running we are able to do decent sales and we are able at least break even. So, there are difficult areas like the BKC we already have a restaurant but at least those areas the kind of offers that are coming to us are sensible, I would not say that they are cheap by any standards but at least they are something that one can negotiate and talk, I cannot give a percentage because each deal, each location matters and finally it depends on the sales we can do in that location. So, BKC is today's reasonable BKC is still unreasonable from rest of India for example, so I hope you are able to see what I am saying that there is reasonability for the area that we are going into and we are able to conclude these deals that we would have earlier not been able to do.

Amnish Agarwal: Yes, absolutely and Amit, final bit from my side, can you add, I know it is very tough time lot of **uncertainties,** but any colour on how you can say the April is trending or how the first 2-3 weeks of April were, if you can throw some light on that? Thanks.

Amit Jatia: Amnish, that would be a bit of forward-looking statement but what I can say is that I think we are definitely better than last year, there is no doubt about that. At least delivery is running and there were no disruptions in delivery other than some curfews impacting some restaurants but in store is completely shut right now across our territory. So, it is definitely not where we want to be, but it is definitely not what it was last year. So, it is somewhere in the middle but demand from delivery is pretty good from that point of view.

Amnish Agarwal: Thanks, a lot.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss Securities Limited. Please go ahead.

Nihal Jham: Thank you so much and good evening Amit, Smita and Pankaj. Amit, may be this was asked earlier, but just wanted to clarify, as I understand between your convenience and your dine in channel, you have always maintained that margins are similar, but I would understand that at least from the gross margin side the dine in channel would be higher considering the commissions and some of the other aspects. So, is that a right assumption? Why I ask this, is that despite such a strong share of convenience that you mentioned about in Q2 we have actually seen an improvement in our gross margins, if you can just highlight a little bit on that?

Amit Jatia: The gross margin improvements may not necessarily be because of shifts in that area, it could be because of the work we have done on raw cost. Again, if you look at our last earnings call, and the call before that, we had mentioned that we are working with our suppliers to get into their costs and their supply chain and some of the work has yielded result and there is more work continuing in that area. But, currently if I am not mistaken the gross margins around both, the way at least we look at gross margins it is quite alright. We look at commissions separately, we do not take commissions as a reduction in gross margins and on that front, I think we are pretty even on the in store and delivery, Pankaj can confirm that actually. But to my mind it is quite even.

Pankaj Roongta: Yes, there is not a significant difference between the two.

Nihal Jham: Sure, and just related to that I do notice that you have launched a recent range of premium menu Burgers, does that also have anything to improve the gross margins or is it currently a decent proportion of the sales and some comments around that?

Smita Jatia: The Gourmet Burgers, which we have added just now is just on test, so it is just in about five restaurants in the West and five restaurants in the South. We are seeing good results, so in the future definitely it will help us in gross margins but currently it is real low contribution to the system.

Nihal Jham: The plan is obviously to keep some of the SKU's not all the SKU would end up being a part of menu in the future?

Smita Jatia: Absolutely, so that is why the test and we are figuring out what is consumer preference and then soon once the new normal sets in we will be launching them.

Nihal Jham: That is helpful Smita, just one last question from my side Amit. You mentioned about getting back to your store additions of between 20 and 30, now traditionally McDonald's has had one of the larger store compared to some of the other peers, so incrementally looking when you are speaking so much of the convenience channel, is there a thought of maybe stores which are smaller in size or probably been not in high streets just you have thought about incrementally where could most of your store come up?

Amit Jatia: Firstly we have had a lot of internal debate around the size of the store and at least in our case the jury is still out there we are not jumping into smaller stores, that is the easiest thing to do in the world but there is tremendous discussion around what that would mean and all. So, I maintain that currently we will continue with the current format of stores. In terms of openings, it will continue to be a mix of the kind of cities - key cities, i.e. the six key cities, while I do strongly believe that we have a lot of small cities as well, where we do very well, but I do believe that there is some momentum that is coming a bit more in these cities and that could be a good way for us to accelerate our openings. So, that is something that we are thinking and looking at as also. So, I do not know if that answers both your questions.

Nihal Jham: To an extent it does, maybe later on I will get into discussion with you. I will move back into the queue. Thank you so much. Please be safe.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global Financial Service. Please go ahead.

Ashit Desai: Thank you for taking my question. Amit, so I am still not clear on the math behind the one-off salary incentives and bonuses, so I think Pankaj mentioned some split between employee costs and G&A. Two things here, one is salary raises and bonuses are annual features, so 1) why are we calling this a one-off and if the rate of increases are much higher which you may call it a one-off. What could be the normal run rate for employee cost, and I see even HO cost going up some Rs.17 - 18 Crores to Rs.26 Crores. So, what should be the quarterly run rate to look at on both these line items?

Amit Jatia: So, Pankaj you will take that?

Pankaj Roongta: Yes, on the maths of why we are calling it onetime, I think Amit already said it because in the last nine months what we have been saying on our previous earnings call, Q4 is the quarter where we have reinstated the salaries and we announced a special bonus for the hard work done by our employees in this year of pandemic, so that is why we are calling it a onetime cost, and hence that was not booked every month in the last 12 months it was a cost that was booked in Q4. About your second question, so the cost is coming in two lines, one is on the labour front at a crew level, which is in stores and the second one is G&A. I was talking about the combined effect so things are not like-for-like because of the difference in number of stores, operating hours, the cost rationalization, there is an impact coming a bit from all the efforts that we spoke about. So it is not a straight calculation that one can do to arrive at those numbers.

Amit Jatia: Yes, so one is before restaurant operating margin that is at the restaurant level and we break out our corporate overheads very clearly which is the G&A line item, which is what Pankaj is referring to, a combination of both.

Ashit Desai: Okay, so if you were to look at G&A which has moved up from Rs.17 Crores to Rs.26 Crores, then this Rs.26 Crores would be the run rate to take for quarters ahead or it should be lower?

Amit Jatia: No, it will be lower, that is what Pankaj is saying, because the entire impact of the bonus has been hit into this quarter, which is normally not the case, it is normally split across every single month of the year, so given the work and the results that we got and particularly the cost reduction and the ROM growth. It has been a pretty tough year and we wanted to ensure that all the people at least got their bonuses, so it is a single hit in this one quarter that is what Pankaj is referring.

Ashit Desai: I am sorry to drill deeper on this, but the 11% margin is if you were to split this entire increase over few quarters?

Amit Jatia: Correct.

Ashit Desai: Yes, it is not entirely removing that part in the fourth quarter?

Amit Jatia: No.

Ashit Desai: Yes, that is right. Got it and lastly any pricing actions that you have taken in April-May and also your comments on input inflation, if any?

Amit Jatia: Sure, so price increase we have not taken. Nothing especially in April-May, absolutely nothing. In terms of inflation, I do worry about it obviously we can all see and read where the things are. Supply chains are little bit not intact, not that we feel anything at this point in time but I would be honest, it is a worry on my head right now and the good news is that we are aware that something like this could happen and again if you refer to all my calls over the last 5-7 years, I have always said that if we will not do knee jerk reactions, if suppose some cost comes out of nowhere we will evaluate where that cost is going and we will fix that over a quarter or two. So, I think therefore some effort in terms of further reduction of raw cost and hopefully some come back through McCafe these are couple of our initiatives that will help us offset some of those costs. So, yes inflation is a bit of a worry moving forward.

Ashit Desai: We have not taken any pricing actions as of now?

Amit Jatia: No.

Ashit Desai: Thanks that is it from me. All the best.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life Insurance. Please go ahead.

Chinmay Gandre: Thank you for taking my question Sir. My question is on the rentals front, last year we did get some benefit because of the negotiations that we did in initial part of the year. How much of the benefit would be recurring in FY2022 or largely the benefit was for FY2021 itself?

Pankaj Roongta: The rent negotiations that we have done, is again on a full year basis. However, they were front loaded as we had shared that in our previous earnings call, but because we structured the rent negotiation over a period of time, so every quarter we booked rebates and the negotiated amounts and so Q4 has also been booked for a rent concession. Now, as we move forward and we have been sharing also previously by Amit, we are working on the network optimization, right. So, there are opportunities that we are figuring out on the real estate deals which are available for rental negotiations or relocations or what long-term restructuring we can do and that is one of the best real estate competitive advantage that we carry because our deals are of longer-term, the inflation only comes after five years so that we are able to drive this optimization also in the years to come may be in a different way but these cost optimization are here to stay as much as our intent is.

Chinmay Gandre: But the negotiations per se the rebates were primarily for FY2021, and the impact would have been decreasing every quarter-by-quarter because the rebates you would have booked would have reduced, right?

Amit Jatia: Yes, the negotiations were differently done for segment of stores depending on the strategy that we adopted for the cluster of stores, some rebates were negotiated for 12 months and then every quarter the phasing was done. Some were front loaded because of cash perspective, so it was not a straight negotiation that you do in a set of 300 stores, but what we ensure is that it is not a one time activity and the benefit of it comes in every quarter.

Chinmay Gandre: Yes, for FY2022 also we have kind of started reverse rating for the quarters and what was the total saving if you could quantify in FY2021 on digits?

Amit Jatia: The breakup we will not share but Pankaj can answer the other question.

Pankaj Roongta: The break up of the rebates we do not share Chinmay, but on the second part which is what are doing about FY2022 and beyond, as I said network optimization is a continuous exercise for us in the development cycle. So, we not only work on the new site creating a funnel of stores, deciding the next locations and the formats, it is also in the phase of cost optimization of which stores are giving us opportunity for a cost negotiation or for relocations or for rental deals. So, this is not something that we will do because 2021 has rebates this is kind of a continuous cycle for us.

Amit Jatia: So, we will go back to landlords and talk about FY2022 to the best of our ability basically, and malls also you know as I have mentioned before we have revenue share, given that revenues are zero that does help us a little bit.

Chinmay Gandre: Yes, thank you Sir.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital Limited. Please go ahead.

Gaurav Jogani: Thank you for the opportunity Sir. My question is with regards to the increase in the payables, so there is sharp increase in the payables, both in terms of, if you see actually the amount and also your number of days. So, is it this is a trend that is expected to stay ahead?

Pankaj Roongta: On the payables yes, when we started from Q1 to where we are, there has been working capital optimization with all our partners and vendors. So we started the quarter one with the higher cycle then brought it down as the cash cycles were getting normalized. Going forward we will be intending to come back to our normal cycle of payments. However, if the industry offers renegotiation on payment terms, we are also working on that ground. With the balance sheet strengths that we have closed the year with, going forward we will try to be in the range of credit terms that we operate with our suppliers but finding the optimized way of working capital as well.

Gaurav Jogani: Yes, so because the reason I asked, it is almost double, if you see in terms of number of days, so it was like 30-31 odd days earlier and now 70 days. So, what kind of number can we build going ahead, considering it is coming down back to the normal levels of, in negotiation as you are feeling you are going to do?

Pankaj Roongta: Yes, lot of it depends on the volumes as well, so if you take, FY2021 will not be the right reference, if you take FY2020 reference, that is the kind of levels of payables that we would build for business on the credit terms.

Gaurav Jogani: Would this have an impact on the cash flow because I see a lot of this has contributed to your networking cash flow for this particular year, so is that supposed to have some impact going forward?

Pankaj Roongta: No, I think it is the other way round. So depending on our cash cycle getting normalized that is how we structure our working capital payouts, so it is not the other way round where you are saying it will have an impact on cash. So, as we are moving forward depending on the business normalcy and the cash cycle, then we negotiate with our vendors and suppliers to able to fulfill the obligation that are mutually decided.

Gaurav Jogani: Sir just one last quick one from my end, is the capex guidance considering that we are looking to open 25–30 odd stores this year, but also the fact that we have been able to get some good deals. So, like what kind of capex that we can look forward for FY2022– FY2023?

Pankaj Roongta: So, our average capex if you have seen the previous figures has been around Rs 100 to 150 crores, now on this year guidance of 20 to 30 stores depending how the situation is, you could expect around Rs.100 Crores of capex for this year as well.

Gaurav Jogani: Thank you and that is it from me.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now hand the conference over to Mr. Amit Jatia, for closing comments.

Amit Jatia: Thank you very much. I really appreciate everybody joining the call today and taking the time to discuss Westlife results with us. Wish you a very good evening and do take care and stay safe. Thank you.

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