Q2 FY2021 Earnings Call Transcript – Nov 06, 2020

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 the Westlife Development Limited Q2 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. Please note that this conference is being recorded. I now hand the conference over to Ms. Devanshi Dhruva from Investor Relations. Thank you and over to you ma'am.

Devanshi Dhruva: Thanks Margreth. Welcome everyone and thank you for joining us on Westlife Development Limited Earnings conference call for the quarter ended 30th September, 2020. 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 have 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 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 participants; given 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 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 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 everyone. I hope that you and your families are safe and healthy.

I am happy to share that in the second quarter of the year we have been able to accelerate business recovery and bring our restaurant operation very close to normalcy across all our markets. The financial year started with uncertainty amidst the COVID pandemic and like everyone else in the world, we were also caught unaware. The challenge was even more daunting for us as the regions we operate in had more cases of infections, extended lockdowns and lower consumer confidence. But we quickly aligned strategies, rationalized cost across operations and upped our safety and hygiene levels.

I'm proud to say that 90 days later we have very effectively navigated this unprecedented crisis and today we not only have all our restaurant up and running but we have also been able to keep all our 10,000 employees with us through this journey. This achievement stands as a testimony to our collective conviction and commitment towards the brand in the business. This crisis has posed an existential crisis for the eating out industry. According to various reports close to 35% restaurants are looking at permanent closures as a direct impact of the pandemic. I'm grateful that we have not only just been able to navigate this crisis but have actually been able to emerge much stronger from this.

There are four things that have been the key to this achievement. The first is the sheer credibility and robustness of the brand that commands strong thrust amongst the consumers. Our agility and execution skills that helped us put all the SOPs in place within a matter of days and create new cost benchmarks. A strong technology backbone further helped us accelerate our omni-channel strategy and remain relevant to customers in changing times. The third was around our strong and long-term relationships with our suppliers and landlords that ensured smooth operations even during the toughest lockdown phase and finally our strong balance sheet that gave us the foundation to take bold decisions.

We are very inspired and encouraged by our recovery - even when Maharashtra, our single biggest market continued to remain close in this quarter. It reinforces our belief that in these tough times we have actually created a unique competitive advantage through our convenience channels, delivery, drive thru and on the go and new used cases that have helped us retain, regain and acquire customers beyond COVID.

As we go forward, we believe the three Ds, drive through, delivery and digital will pave the way for a strong tomorrow. We believe we have all the arms in our arsenal to chart an accelerated recovery. Smita will now take you through the details of our Q2 FY21 results.

Smita Jatia: Thank you Amit and good evening everyone. I'm happy to share that we have finally managed to open all our restaurants and bring back normalcy in our operations starting October. We believe we are clearly in the revival mode and if the pandemic continues to wane, we should be completely back on our growth path.

Now let's talk about Q2 FY21; the quarter was not without challenges as COVID continued to rage through the country. West and South India were the most impacted regions with 65% of the total claimed cases clustered in the region, resulting in extended lockdowns in our markets with adverse impact on business and economy.

But despite these challenges I'm delighted to share that we were able to more than double our overall sales over Q1 FY21 and achieved close to 65% to 70% of pre-COVID levels in the quarter. We were able to achieve this even when our biggest market – Maharashtra, which has close to 50% of our restaurant remained closed for dine-in.

We believe that the new normal has started setting in as the pace of recovery across our operations has accelerated, the recovery rates progressively increases by 7% to 10% every month. Stores that were open for dine in for more than 5 months have come close to pre-COVID levels with those that opened up recently recovering twice as fast. As we speak more than half of our operational stores are marching close pre-COVID levels.

Our convenience platform has been a key driver of the business that zoomed back to its pre-COVID level in September. In just 3 months since we started our unique on the go service, revenues from this channel has grown 4 times to become a the competitive advantage for us. What has been heartening to see is that the growth of our convenience platform have been complementary to the recovery in dine in, and has not substituted it in any way. Revenues from both convenience platform and dine-in have been growing at a healthy rate. If we were to look at the bucket of restaurants that have been open for dine in for 20 weeks, we see both convenience and dine in business grew by 70% vis-à-vis week one level.

It is now apparent that with our new convenience channels we have created an additional usage occasions for our customers that will outlast COVID19. Even as dine in resumes we expect both these channels to continue contributing strongly to our business.

The growth in revenues was strongly supported also by cost leadership. Last quarter we shared that we were able to bring down our fixed costs by 30% by optimizing efficiencies across all our functions and operations thereby creating a new benchmark for our business. I'm so proud to share that we have been able to sustain these costs even as our revenues have surged. We are excited about this as this will help boost liquidity and improve our net debt position in the long run. With all these positives playing out, we significantly improved margins and operating EBITDA. In fact, in September we were able to break even - a trend we are confident of sustaining as we move towards achieving and even exceeding pre-Covid levels of profitability in the coming quarters.

Moving onto the initiatives undertaken in the quarter. As shared in Q1, Assurance, Convenience and Access continue to be our key levers of strategy for recovery. We took a strategic and disciplined approach to building and reinforcing trust both in our brand and our business. With our golden guarantee promise we built back confidence in our customers and employees and reinforce McDonald's as a trusted destination across all platforms. We simultaneously accelerated our omni-channel strategy to launch new innovative channels to enhance customer convenience.

In September we launched an impactful brand campaign further double down on assurance and convenience. This further helped in creating a strong brand resonance and we have been seeing its impact both on our brand's cause and on our business numbers.

One of the biggest imperative of building assurance was to keep our employees engaged. After making sure that they remain engaged during the lockdown through our unique work from home training program, we also introduced a reward and recognition platform 'Beat your Best' sales campaign to keep them motivated.

Like I mentioned before, our convenience channel continued to perform strongly. I would specially like to mention our innovative on the go channel that has been a key differentiator. This unique service has helped us transform all our stores into virtual drive thru's has shown tremendous growth week on week. Additionally, it is helping us recruit new customers and create new habits and occasions that will give us incremental revenue even post COVID.

We now have all our stores operational for dine-in in albeit with some restrictions. As shared before, we are seeing the pace of recovery accelerate and expect this trend to continue further catalyzed by the number of COVID cases reducing and the cheer of the festive season.

I'm happy to share that this quarter we have resumed our focus on store expansion and started the process of store openings in three marquee locations, which we will have up and running in H2 FY21.

Our unique McDonald's app that gives personalized offers to our customers has been going from strength to strength. We are seeing downloads increased with active users surging by a whopping 44% year-on-year. Its contribution to GC has also grown 4 times quarter-on-quarter.

Our 10,000 people strong family remains our biggest asset. Their commitment and conviction is what brings our strategies to life and helps us build loyalists. We have mindfully created a culture that fosters excellence and equality. I am proud to share that this quarter we were recognized amongst the 100 Best Places to Work for Women. With this I now hand it over to Pankaj, who will take you through the financial highlights of the quarter.

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

I'm happy to report that we have managed to bring the business back on track in Q2. As I have said before, our balance sheet was one of the underlying strength of our business when we entered this pandemic. Our financial flexibility and agility enabled us to quickly realign our strategies that ensured "Survival" in Q1 and put us firmly on the path of "Revival" in Q2.

Like Smita said, our omni-channel approach has been a key pillar of strategy to us. We believe that a smart combination of bricks and clicks gave us fire power to tide over the challenging times and ensured business continuity.

We started opening our restaurants in a phased manner starting June. I'm delighted to share that we have finally managed to open all our restaurants and bring back normalcy in our operation starting October.

This resulted in overall sales of Rs. 2,095 million for this quarter, a whopping 123% growth over Q1 and we saw 65% to 70% sales recovery in September month versus pre-COVID levels.

Our gross margin improved by 670 basis points on QoQ basis and landed at 63.5% for Q2. I'm proud to share that for the month of September gross margins was at 65.5% on the back of volume recovery, higher average cheque size and cost optimization initiatives that we have taken across supply chain areas. In Q2 the effort was to ensure timely supply to our stores while controlling the costs. In the coming quarters, we will aim to sustain our pre-COVID gross margin levels by continuously re-engineering and optimizing our food and supply-chain cost aided with volume recoveries.

Like I had said in the last quarter, during these past months our goal has been to restructure and reduce our operating costs by driving initiatives both from short-term and long-term perspective. I'm very happy to share that we were able to again reduce our average fixed cost by approximately 30% versus pre-COVID levels that helped our restaurant operating margins being positive for this quarter. And hence the restaurant operating margin for this quarter stood at Rs. 77 million at 3.7% of sales.

Coming to operating EBITDA, as I mentioned above, our efforts to reduce monthly fixed cost; exercising prudent cost discipline on discretionary expenses resulted in a substantial reduction in our cash losses, thereby leading to an improvement in operating EBITDA that stood at a loss of Rs 102 million versus a loss of 58 million in Q1. The company achieved breakeven on operating EBITDA levels in September '20 for the month as volumes picked up gradually coupled with our operating efficiencies and cost leaderships - a trend that we are confident of sustaining as we move towards achieving and even exceeding pre-COVID levels of profitability in the coming quarters. Hence on an overall basis our Q2 registered a loss of Rs 274 million on profit after tax versus Rs 575 million in Q1.

Coming to balance sheet:As I mentioned during last quarter, our focus during these month's have been to maintain robust liquidity position, contain debt as much as possible and build stronger balance sheet so that we can emerge stronger and better to reinvest behind growth. I'm happy to share here that we were able to optimize our treasury and working capital arrangements and thereby reducing net debt by 17 crores versus Q1. The company maintained healthy cash reserves at the end of Q2 on its balance sheet.

For Q3 and FY21 our focus remains on revival where cash conservation re-engineering our operating costs and continue to drive healthier balance sheet remains our number one priority. We are seeing healthy recovery of sales volume across our stores on deliveries, on the go, take out and now even in store while dine in being operational in all our stores. We will continue to manage and utilize our funds in a judicious manner to ensure that the company is able to emerge better and stronger. With that said I will hand it over back to Amit now who will take you through the outlook for the coming quarter. Thank you so much.

Amit Jatia: Thank you Pankaj. Uncertainty and volatility will continue to persist for the next few quarters but it is apparent that consumer confidence is slowly but surely building back. As the initial pain of the COVID-19 crisis starts to subside, we will see its positives, such as higher levels of hygiene across industry, increased adoption of digital, new more efficient cost structures and a very well-trained workforce emerged to create a better and more robust industry. The good news is that across all these parameters we have successfully built a definitive advantage and are already seeing them play out to aid quick and strong recovery.

The pandemic has also given us the opportunity to future proof and optimize our restaurant network to maximize the ROI. We are looking at closing some restaurants during this financial year, most of these are a result of mall closures or some generators in some areas getting wiped away. However we continue to strategically expand our footprint in relevant trade areas.

With Maharashtra opening up, coupled with festive cheer and improved customer sentiment, we are confident that we will be able to pivot recovery further and achieve pre-COVID levels. With this we are sure of achieving long-term vision and creating a value for all our stakeholders. With this, I would like to thank you very much and I open this 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 Percy Panthaki from IIFL.

Percy Panthaki: My first question is on your sales breakup, can you let me know pre-COVID what was your sales breakup between dine-in, takeaway and delivery?

Amit Jatia: Basically the only breakup that we share really is that pre-COVID all our convenience channels were about 50% of sales and dine-in was about 50% of sales.

Percy Panthaki: For the month of September since you are seeing a month-on-month recovery gradually, for the month of September approximately what will be the dine-in share now?

Amit Jatia: The dine-in in share has been growing but in fact all of Maharashtra was still not up but I will tell Smita to…

Smita Jatia: I think October- November- December will be a better measure because as I mentioned in my narrative that the 50% of our stores in Maharashtra dine-in was not open, so I can we will be able to give you a better reference in this quarter.

Percy Panthaki: You are pivoting your model more away from dine-in because that is what the ground reality is that people would prefer not to go out at least for the next few months and when people do that for a few months their habit changes. So what I'm trying to figure out is this pre- COVID split of 50-50, how do you see that stabilizing in the medium term?

Amit Jatia: I have always maintained and what we are seeing, example Maharashtra open for dine-in only on October 10th or something to that effect. But the rapid growth in the dine-in business that we are seeing recover is extremely heartening. And if you recollect from my previous earnings call conversation, and I will answer the question to the best of my ability, but I feel that all these convenience channels are here to stay. As we are seeing dine-in coming we are not seeing convenience channels go down, yet at the same time I do not believe that dine-in is going to remain at 10% or 20% of sales. I think dine-in if it was earlier 50% maybe it stabilizes at 40% to 45%. So the incremental convenience will be beyond 120% and that is why we believe that net-net between dine-in coming to 40%- 45% and convenience going beyond the 100% that it was earlier, we will believe we deliver same-store sales growth just due to this fact and the changed environment. Even globally that the same phenomena even pre-COVID where McDonald's is a convenience, McDonald's is very much consumed outside the premises.

Percy Panthaki: So basically you are saying that there will be some sort of incrementality in the sense that once people open up and start going out, it's not as if the shift between dine-in and delivery or convenience is going to be a zero sum game. It's going to be accretive is what you are saying, is that understanding correct?

Amit Jatia: Basically, what I'm saying, just to make sure you get it right, that if dine-in was 50% earlier of our business that business might become 40%-45% somewhere there, at least in the short term. I believe long-term it may even come back to 50% in terms of rupee number. Meanwhile the other 50% is going to go to 60% to 70% and together the business is going to be more than 100% of the past which is what will give us same-store sales growth which is driven purely by what we call convenience.

Percy Panthaki: My second question is on your costs, so in this sort of pandemic all consumer companies are restructuring and reengineering their cost base and the guidance that we get from most companies that part of it is here to stay but part of it is very temporary in terms of travel cost and the other costs which will come back when things normalize. So if you could just give me some flavor on what you're doing in terms your cost engineering and how much you have saved and out of that how much is permanent?

Amit Jatia: As we said on July 10 of our earnings presentation that basically a 30% of the cost we have been able to reduce. Obviously some of it will come back but if you recollect I had mentioned that even at a 10% to 15% lower sales we want to maintain the same margin and that is what I feel is here to stay and month-on-month we are seeing this plays out. So for example. rent negotiation, in some cases they are long-term structural, in some cases the support is there till March. But simultaneously business also kind of comes back. So if I can leave you with this got that at least a 10% lower sale if we are able to maintain the same margin that would mean that we become productively much better.

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

Avi Mehta: I just wanted to understand if you could give some quality to comment on how the product mix has been in terms of either it is towards value-added products or in beverage if you could give us some sense on how that has behaved?

Amit Jatia: Avi we don't share breakups, even pre-COVID and post-COVID on the breakup. But if you are alluding to McCafé, I don't see that McCafé has dropped in any way. In fact it has been recovering quite well, maybe Pankaj if you can throw a bit more light then please go ahead. But I don't see McCafé is dropping by any chance because if you see our gross margin we are almost back to where we were but if I were to look at the last month of September, they are pretty much on the same gross margin as we were in the past. But Pankaj you have anything to add on the pro-mix?

Avi Mehta: No Amit, where I was coming from is this driven by a pro-mix improvement because you have done a lot of work in the backend and that's what I was trying to kind of ascertain to some extent, that's where I was coming from.

Amit Jatia: No, it is a bit of both, because we have gone back into supply chain and looked at every single cost quite dramatically. It started with the zero-base budgeting, a lot of wastage reduction at the plant, looking at all optimization, including distribution costs actually, so it is a mixture of the two. But I don't think that product mix shifts have been anything that has given us too much gain. But important thing is we have not lost out as well.

Avi Mehta: There is not much movement downwards of McCafé or Maharaja Mac or any premium products which we are introducing recently.

Amit Jatia: No, in fact if I may give you a clue, premium products are doing quite well.

Avi Mehta: The second thing was September, if I kind of hear your commentary, September is at 70%-80% odd levels and you have achieved breakeven now that should logically suggest that even if we move to pre-COVID levels you would probably end up with the higher-margin trajectory or margin level then what was there earlier. Is it fair to understand or otherwise the incremental revenue is not kind of contributing a significant return in terms of margin? Is that understanding correct Amit?

Amit Jatia: Let me explain, so firstly the 65% to 70% is for the quarter, is not necessarily for September. The bottom numbers are all about operational stores but broadly your understanding is still correct that we do believe that Smita and Pankaj both talked about break even in September, so at a pretty decent level of sales we have been able to not lose money. And if you look at this quarter it answers a lot of questions that half the sales we basically have made restaurant operating margin positive at 7.7%. I think that's pretty powerful. So we do believe that our cost structure is far better than it used to be and you should see these flow-through through the bottom line as we move forward.

Avi Mehta: **I**f I see your Bucket 1 chart, probably even for the stores that are more than a few months old are fairly at 70%-80% odd levels only, which means is your space utilization something that you would have to relook given the pandemic is likely to remain, and hence would you relook at store sizes, or how would you, is there any thought over there?

Smita Jatia: Again as I mentioned before dine-in 50% of our stores have just started operations in October pretty much 7th or 8th and hence we will have to see the next couple of weeks and couple of months to understand what the consumer is doing in and where the consumer is playing. As of now I don't see us increasing or reducing our store sizes. As Amit said we are already starting to open stores also and these stores are of the same model of what we were pre-COVID. Unless we see any drastic shift and Amit also said that the convenient levers pre- COVID and post-COVID are going to be incremental. So we are saying that the dine-in will come back, maybe lesser GCs but a higher average cheque, we are not sure. But the next few months will tell us what the consumer is going to do when it comes to going out location and celebrations.

Amit Jatia: Also I must add that month-on-month we are seeing, in fact week-on-week we are seeing pretty decent traction back in the business. So we are quite hopeful that even with the festive season and all of that it is kind of looking pretty decent right now.

Avi Mehta: But Amit and Smita where I was coming from is, in the slide Bucket 1, which is (+12) weeks since dine-in is opened even there you are at 75%- 85% what you have indicated.

Smita Jatia: So even here the environment was still not conducive enough. As you saw in Bucket 2, the same set of stores in 8 weeks has gone to 70-75%, so as the fear psychosis is going down and the consumer confidence is building, we are saying that this dine-in is going to go back to its pre-COVID levels and total sales are also going to go back to its pre-COVID levels.

Amit Jatia: Because one should look at the environment around also, you can't just look at when the stores opened. The point which I want to make here is that the acceleration is coming and finally you see the circular of opening started from September, if you were to see here a lockdown unlock

4.0 or whatever it was called. So the external environment what you hear all that fear psychosis then, now there is positivity. All the communication coming is, cases are down, things are good, so we are seeing that reflects right away in the business.

Avi Mehta: Where I was coming from Amit is you have driven a lot of this recovery by investing in driving or pushing the convenience channel. Now your rentals are essentially as a percentage of sales which means that benefit partly flows to the landlord and how do you kind of balance these two aspects is where I was coming from that is where the question was being built?

Amit Jatia: Avi, see your percentage of sales are very low, they are low single digits. They are not 15% and 20%. I feel we do owe some rent to the landlord. My occupancy cost in totality is 9% and lower so I don't see the connection. Whether it's take away or what, what is material is the average unit volume and if we do 10 crores per store I am more than happy to pay the landlord the 5%-6% that we typically pay. I don't mind and that is where the landlord will want us, will make really good money out of us and that will give us more restaurants. So I have no issue in paying 5%-6% of sales to my landlords.

Avi Mehta: Your book keeping you said 35% of restaurants have closed. Is that, I hear it correctly I think the initial statement?

Amit Jatia: What was the question?

Avi Mehta: You said in the initial commentary the percentage of stores, restaurants that are close was that 35%, did I hear it correctly?

Amit Jatia: No, absolutely not.

Avi Mehta: Not for us, for the industry I mean.

Amit Jatia: Yeah for the industry you are right.

Moderator: The next question is from the line of Anand Shah from Axis Capital.

Anand Shah: Just a few questions here essentially again on dine-in, while you shared a lot of stuff in the previous question, any markets you are seeing which have been open for this 4-5 months and where sentiments have recovered, the dine-in has reached to whatever 40%-50%-60%-70% levels, do you think these consumer exhibiting that?

Amit Jatia: Yeah, we have markets where sales are between 90% to 110% already and particularly in small towns where the impact is lesser, we are seeing dine-in back pretty nicely.

Anand Shah: Also at the store level in terms of consumer behavior again in terms of cheque sizes that have also gone up materially?

Amit Jatia: Cheque sizes have become quite healthy actually. From reason consumers are buying more premium products, they are buying more, group sizes have gone up, so that has worked out quite well for us.

Anand Shah: This I am sure would also be visible in the convenience side?

Amit Jatia: Correct, absolutely even take away for that matter. I think one of the hidden gems which the analyst community will figure out slowly about McDonald's is the power of our take away where basically we get in store pricing, no last mile delivery cost and yet take aways are huge size of business already today. Unfortunately we cannot say breakup but think about it this way that the power of take away is like a front counter kitchen, that's the power of operational speed that we have. Now because of social distancing norms obviously we have to keep a number of seats empty and yet with take away being so powerful for us we feel that coming back to pre-COVID sales level is definitely a reality because of the power of the take away. So I just thought I will lay that out as well.

Anand Shah: On this social distancing norm that you highlighted list of 50% of the stores in Maharashtra, they would still be operating at the 33% capacity so does that have any indications in recovery?

Amit Jatia: 50%.

Anand Shah: It is now 50?

Amit Jatia: It's now 50.

Anand Shah: But is this capacity at all a constraint in dine-in recovery or you are able to manage it?

Amit Jatia: I will tell you that weekdays in fact are doing quite well and in fact our weekday sales have gone up. On weekends we face some capacity constraints, there is no doubt about that and we are still figuring that out. But like I mentioned to you what is saving us is primarily the take away and 'on the go'. 'On the go' has actually worked out very-very well and again we can't say numbers but that's going very well and we think it's going to become a pretty substantial part of our business and it's only because of one thing, it's nothing to do with anything other than convenience. As people learn that as they are approaching the store they can place an order and our crew will come and give it to them in their hands outside, if we can do a good job of that operationally, I see that as a very large part of our business moving forward and these are incremental use occasions. We would have otherwise missed because the person does not want to come in, order, even pre-COVID. So that is how we are able to overcome the weekend capacity issue a little bit but yes, it is there.

Anand Shah: Once things do normalize and these convenience platforms become incremental this definitely would have positive implications for your margins, right? Apart from whatever cost savings you have done.

Amit Jatia: Absolutely.

Anand Shah: Your stores are always designed more for dine-in to that extent. So these would be long-term positive to that extent.

Amit Jatia: Absolutely, so good news is many-many years ago we realized what's the optimum capacity that is needed and all our recent stores; last since 2016 when we reinvented our old business model from that time onwards we had optimized the size and we feel even after COVID we are beginning to believe that, that is still the right size for two reasons; one is that we don't want to remain at the 5.5-6 crores of sales, average unit volume that we had pre-COVID. The idea is to take that to 7-8-10 if you so believe and therefore you still need a certain minimum amount of seating in the restaurant as the scale continues to grow.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: On one of your slides you indicated that cheque sizes in September or October were about 30%-35%. Could you just also walk us through the trend of what you are seeing the cheque sizes say from the start of the lockdown to September and the second question was on your sales through aggregators? Has that number reached pre-COVID levels or would it still be lower than pre-COVID levels?

Amit Jatia: Trends to be honest we don't share and we just wanted to indicate that yes average cheque has been moving well so that's what it is but typically maybe I will give the answer in a different way. That delivery average cheque is always higher because group sizes are bigger so as the business has got a larger delivery base, right, no wonder the average cheque is higher so I am sure it would have trended quite well through this period and in September it is what I just described.

Aditya Soman: Other question was on sales through aggregators?

Amit Jatia: So aggregators yes, they are back to pre-COVID levels from our point of view, they are.

Aditya Soman: So from here on if they continue growing, the growth will be incremental?

Amit Jatia: I think so because our own app is also doing quite well and overall I do believe that we are at over 100% of pre-COVID sales in overall convenience sales.

Aditya Soman: Just on the cheque size trend, can you just give us a directional sense, I don't want that a 15% in April or 40% April, just in terms of, has the cheque size increase continued or has it started reducing because obviously part of it would be as you said as dine-in comes in, your cheque size gradually will increase?

Amit Jatia: I think there will be a little bit of a drop but I think if the habit is here to stay because both take away and delivery both are a very solid average cheques because of group sizes also. So I think it's here to stay but yes as in store builds base I expect to see some drops as well.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum PMS.

Sabyasachi Mukerji: I wanted to understand the delivery economics. When we deliver on our own and vis-à-vis when we deliver through aggregators and what is the better model and how are the margins qualitatively if you can give some light?

Amit Jatia: So on that I have said this in our earlier calls as well that essentially, we actually tend to do quite well with aggregators because they cover the last mile connectivity cost and even after their margin this works better for us. So yeah that's the answer to that and if you look at our numbers of this quarter, even with it skewed towards delivery I think we have maintained our margins quite well. We have been able to pivot the business towards this digital and delivery side and been able to build the business model to be profitable for us. Remember that we were charging a Rs. 35 or a Rs. 30 delivery charge from 2005 so our customers are used to that. That helps a lot as well.

Sabyasachi Mukerji: Any change on the share of our own delivery vis-à-vis the aggregator delivery, during the last 6 months you have seen?

Amit Jatia: No actually in this period because we have also been pushing our own app quite nicely. We are seeing a pretty good uplift on our own app so while I mentioned earlier that aggregators are pretty much back to pre-COVID levels, we feel that in fact our own app is higher than pre-COVID levels.

Sabyasachi Mukerji: Can you share the AUV number for this quarter, Q2?

Amit Jatia: What?

Sabyasachi Mukerji: The average sales per restaurants number that you used to share in the presentation that has….

Amit Jatia: Right now I feel, in the pre-COVID it had touched 5.5 crores but will have to get back to you. At this point in time because we are about 75% of pre-COVID you can do the math.

Sabyasachi Mukerji: Divide by 365 that will give me the right number. There was a promoter stake sale in Q4 of last year in February if I'm not wrong. What was the reason behind and are you looking at for the stake sale in the near future?

Amit Jatia: We declared what the purpose was at that time. It was for personal reasons and that's it. I don't think I need to go beyond that and at this point in we are not anticipating any promoter stake sales.

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

Abneesh **Roy:** Last few months you have seen the tailwinds of the shift towards organized consumption but now if you see the streets of Mumbai, the vada pav stalls are open, the local restaurants, the migrant labor is coming back and in India we know that people have jugad and eventually everything will open. I don't know how much of that forecast was 30% closure of unorganized restaurants will be true in the medium-long-term. So my question is, are you going to see this tailwind taper down in coming months because if vada pav is back, if local restaurants is back?

Amit Jatia: We were competing with them earlier; we will compete with them again. And the tailwinds have nothing to do with vada pav or anything else because that's way one can say that people are at home and they are cooking, there is a whole bit of research that people are enjoying cooking and ready to eat and FMCG is growing because people are cooking at home. Basically our research tells us that currently western fast food and QSR dip has been the lowest across all categories whereas its Indian fast food whether it is to do with roadside vendors, in fact dine-in places are down quite substantially and that's all basic research. Now I believe firmly that we were competing with them earlier, we will compete with them again. If the things move towards normal it comes back to what it was and in fact with our new convenience channels and all the new things that we have done if you see pre-COVID we were on a roll, we were on a pretty strong trajectory and I think that if things get better why should we not be back at that pre-COVID trajectory and why would something that has not impacted us earlier impact us now in the new normal. That is the way I see it.

Abneesh **Roy:** **'**On the go' is a brilliant concept and globally also McD does it in many markets. So now currently it's doing well, if I compare currently customer can get some freebies when he does 'on the go', he gets French fries at a lower level, he gets more at a higher level. So isn't that a natural consumer shift to 'on the go' versus other forms of ordering and is that a short-term measure and how do you see customer taking advantage of that?

Amit Jatia: As far as delivery is also concerned if you go to our apps, there are offers that we give continuously about different things and when you start a new service you want consumers to get hooked on to it so that they start realizing such a service exist. So it's a part of normal thing, in fact our brand is the only brand that has not been discounting. If you look at all other competitors every advertisement talks about a 50% discount and trying to bring customers in through discounting. While as far as we are concerned, we still talk of everyday value and the point is to get a service to get going, if you give them offer that's part of QSR across the board, pre-COVID, post-COVID, during COVID and even in delivery that's a standard thing. So it's nothing off the cuff.

Abneesh **Roy:** So discounting messages are also coming back versus complete dry out last 3-4 months. So is that because of festive season or is it because competition from the ones which you discussed, and I also mentioned those are coming back. Is its structural discounting coming back or more of festive?

Amit Jatia: I saw in 2013-'14-'15 and please see all my commentary, it's all on the website where everybody else was discounting except HRPL, Westlife and McDonalds. We had kept everyday value as our core and we focused on re-imaging, we focused on McCafé, we focused on our menu and that's how we grew our business and basically sometimes some brands prefer to keep their footfalls through pricing I guess. I don't know as may be a good question for them but you will notice from McDonalds all our advertising is around safety, hygiene, use of take away, I can show you ad clips, maybe we can email it to you but all the ads that we are playing right now is all around take away, delivery, 'on the go', hygiene, standards of McDonalds and things like that. So we are not discounting, right now we don't believe in buying customer through discounts. At least that's the way we look at it and this point.

Abneesh **Roy:** But no comment on the industry level?

Amit Jatia: On industry level see that's a better question for the other industry players but we are used to it. Like I told you we saw it in '13-14-15 and you still saw our results I mean compare our charts and you will find that we did alright.

Abneesh **Roy:** In your opening remarks I heard twice that profitability will improve and endeavor will be to bring it beyond the pre-COVID level. So beyond pre-COVID level what is the reason for that enthusiasm? Is it because the gross margin level, the milk prices and the cheese prices are a bit soft or is it because structurally some of the cost elements have been negotiated lower? What is the reason behind that optimism?

Amit Jatia: The optimism was there starting from 2016 when we laid out our vision 2022 and essentially through the times when people thought that how can a company double its margins when we are at 6%-7%, they are talking about 13% to 15% and for the last 5 years we have grown our margin by 130 basis points and I think that we have a pretty good feel on where the business is going, what we have done with the cost structure, how the volumes are evolving and that is why as I mentioned in my call last time, I am saying it today, I said it 4-5 months ago that the whole idea is that 10% lower sales can we at least maintain the same margin as before and the idea is not to stay at 10% lower sales. So therefore, if for some reason, what our strategies work and we even hit pre-COVID sales we expect margins to be better. So that is our hypothesis and theory.

Abneesh **Roy:** In store dine-in, two sub questions here. On the caps which are there in the few states 50% cap in-store dine-in etc. Any discussions you are having when if it all you expect that to be removed. Second is in South India for example Sri Lanka has had closure of stores come back, at least multiplex stores have been closed in Colombo again and then we see on news wave 2 of Europe etc. Does it impact consumer behavior in terms of footfalls to the restaurant in the last few weeks?

Amit Jatia: I don't think reading about what is happening in other parts of the world is going to impact but if there is bad news in India it will impact. There is no doubt about that. At this point in time what I am seeing in India is that people are really fed up of being inside and they want to go out full stop. And that's what is happening and I see lot of enthusiasm or people coming back to restaurants and like I mentioned earlier day on day we are seeing an improvement. So we are quite positive about it and while I cannot talk about October but we were pleased with the way things went and especially Maharashtra has opened as well. So we are quite on a very positive and optimistic platform right now in our thinking.

Abneesh **Roy:** And cap on the seating, any discussion?

Amit Jatia: Cap on the seating, no see it is what it is. My point is that things happen and you have to work your business around it. I have always said all times are good time for business so 50% cap I mentioned earlier that it hurts us on weekends, fortunately all our other convenience channels are doing really well so they make up but what it has done in the bargain that it is also equalizing the weekday-weekend business and weekdays have gone up quite nicely and I actually prefer that because weekends will come back, right. One day the 50% may become 60-70 even 18 months later if it goes away. So I have now got the new weekend-weekday business plus I have got the weekend business back. So I feel that all these things are in many ways positive for us because it pushes consumer behavior and makes it more used. Like if people are now using 'on the go', they are not going to forget about it once the pandemic has gone so that's an example.

Moderator: The next question is from the line of Sabyasachi Mukerji from Centrum PMS.

Sabyasachi Mukerji: I had two questions bit on the longer term. So you had clocked a restaurant operating margin of 17.5% in Q3 FY20. When do you see yourself reaching that number, any thoughts on that?

Amit Jatia: The pandemic has completely disturbed the whole thing and therefore one has to see how sales come back. I think the kind I alluded to all this over the last 3-4 questions that came about that at a 10% lower sales we are expecting to make at least the same margin. So we need to get to that number of sales and we will be there. When we were at 75% in September, as long as the Indian market don't close down again, as long as there is no second wave, as soon as we start hitting numbers that we have done before I see that we will get to those margins. So it's all sales driven and with a better cost structure I see no reason why we won't get it but I can't tell you when that is going to happen. There is too much uncertainty in market for that. If a second wave comes then anything I say is gone, right, it's off the table.

Sabyasachi Mukerji: With the new cost structure if we hit the pre- COVID sales number it won't be very difficult to kind of clock mid-teens operating margins that we were earlier aiming for, is that understanding correct?

Amit Jatia: Yeah the understanding is that we are still shooting for our vision 2022 when it comes to profitability. So that understanding is correct rather than quarter-on-quarter as you rightly said that's more a long-term discussion, so we have not changed our profit targets on a vision 2022 point of view.

Sabyasachi Mukerji: On the expansion front, store expansion front. What is your target, I am not asking for the next two quarters or maybe two-three quarters but for a long term maybe 3-4 years kind of a perspective what is your long-term store number that you are looking for in the next 2-3 years?

Amit Jatia: Is going to be the same, you got to give up all of last year but essentially we will come back to the 25 to 30 openings every year at the earliest. I feel can we start by April, I don't know but definitely by June. So pretty much from next year maybe we should be back to our old trajectory of store openings.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Amit Jatia for closing comments.

Amit Jatia: Thank you everybody for participating on the call today. Really appreciate it for your patience and time. I take this opportunity to wish you all a very Happy Diwali coming up next week and also a Happy New Year. Thank you, bye.

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