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February 9, 2024

To,

National Stock Exchange of India Ltd. Exchange Plaza, Block G, C/1, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Email: cmlist@nse.co.in Symbol: DEYANI	BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Email: corp.relations@bseindia.com Security Code: 543330
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Sub: Transcript of Investors & Analysts Conference Call

Dear Sir/Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of the Investors & Analysts Conference Call held on February 2, 2024, post declaration of Unaudited Financial Results of the Company for the Quarter and Nine Month ended December 31, 2023, is enclosed.

The same is also being uploaded on website of the Company at www.dil-rjcorp.com.

You are requested to take the above on record.

Yours faithfully,
For Devyani International Limited

Pankaj Virmani
Company Secretary & Compliance Officer

Encl: As above





Devyani International Limited Q3 & 9M FY24 Earnings Conference Call February 02, 2024

Moderator: Ladies and gentlemen, good day and welcome to Devyani International Limited Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

Anoop Poojari: Thank you. Good afternoon, everyone and thank you for joining us on Devyani International's Q3 & 9M FY24 Earnings Conference Call.

We have with us Mr. Ravi Jaipuria – Non-executive Chairman of the Company, Mr. Varun Jaipuria – Non-executive Director, Mr. Raj Gandhi – Non-executive Director, Mr. Virag Joshi – CEO and Whole-time Director, Mr. Manish Dawar – CFO and Whole-time Director and Mr. Rahul Shinde – CEO Yum! Brands and Whole-time Director of the Company.

We will initiate the call with opening remarks from the Chairman followed by key financial highlights from the CFO. Following this we'll have the forum open for a question-and-answer session.

Before we begin, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I will now request Mr. Ravi Jaipuria to make his opening remarks.

Ravi Jaipuria: Good afternoon, everyone. A warm welcome to you all to our Earnings Conference Call to discuss the business performance of DIL for Q3 & 9M FY24.

At the outset, I feel very excited to share with you all that we have successfully completed the acquisition of Restaurants Development Co. Ltd. (RD), one of the franchise partners of KFC in Thailand. This has led to the addition of 283 KFC stores as of December 31st and 274 stores as of September 30th to our overall store portfolio.

We have also maintained the store expansion pace for DIL. We opened 94 net new stores in Quarter 3 across our brand portfolio. With this, we have added 209 net new stores in the nine-month period, taking the total store count to 1,452 as of December

31st. With the Thailand KFC acquisition our total store count now stands at 1,735. Please note that the Thailand deal was completed in January 2024.

We are making steady progress investing in our Core Brands and expanding our reach to cover our target consumers to capitalize on the growth potential in India. We are now present in more than 250 cities in India.

The consolidated revenue for DIL stood at Rs. 843 crore for the quarter with a growth of 6.6% on a year-to-year basis. Over the same period, our largest business, i.e., DIL India witnessed a growth of 9.2%. From April to December, i.e., cumulative nine months of the year, the consolidated revenue was Rs. 2,509 crore with a growth of 11.9% over the same period of the previous year.

Consumer sentiment remains subdued, despite Quarter 3 traditionally being a strong and festive quarter. We have also seen the impact of certain international geopolitical events on the American brands that we deal with. The Nigerian currency continues to weaken post a significant devaluation a couple of quarters back again, impacting the current results of DIL.

Overall, we believe that the weak consumer sentiment and depressed consumer spending is temporary and short lived, and we are optimistic about witnessing a recovery over the next few quarters. Amid these challenges our operating and financial performances has remained stable and we continue to invest in the business for long term growth. To successfully navigate the dynamic and evolving QSR landscape, we have implemented multiple initiatives this year including optimizing menu pricing, reducing wastage, enhancing cost controls, and improving operational efficiency.

To sum up, our store addition strategy stands as a testament to our belief in the long-term potential of our Indian QSR industry. As we actively grow our presence, we are strategically positioned to tap into this vast opportunity, ensuring sustainable growth and value creation for our stakeholders.

We are on track to inaugurate 250 to 275 new outlets in the current fiscal year. This ambitious expansion coupled with our commitment to customer satisfaction and innovation, positions us for success in the ever-changing QSR sector.

We had previously set ourselves an ambitious goal of reaching 2,000 stores by 2026. You'll be happy to note that, following the completion of the Thailand acquisition, we are confident of achieving this major milestone by the end of the calendar year 2024.

With this, I would like to conclude my address and I now hand over to Manish for the financial highlights. Thank you very much.

Manish Dawar:

Thank you Mr. Jaipuria. Good evening everyone. A very warm welcome and thank you for your valuable time for attending DIL's Q3 FY24 Earnings Conference Call, our 10th call since the listing in August 2021.

In Quarter 3 FY24 we opened 94 net new stores across our brand portfolio. We now have a footprint of 1,371 stores across our four brands with a total store count of 1,452 stores across DIL. This consists of 647 stores for KFC, 570 stores for Pizza Hut and 154 stores for Costa Coffee in our portfolio as at the end of Quarter 3 FY24. Our store distribution India continues to remain marginally in favor of non-metro destinations at 52% of the total core store count. We have added seven new cities in Quarter 3.

As Mr. Jaipuria alluded earlier having completed the Thailand acquisition, our total store count now stands at 1,735 stores as at December end. As a result of this acquisition, the total store count for KFC stands at 930 stores out of the total store portfolio that we have. Having announced the transaction in December 2023, we completed the Thailand acquisition as of 17th January 2024 and we will start consolidating the Thailand numbers from Quarter 4 of FY23-24. Therefore, next quarter you will see Thailand getting consolidated for approximately 2.5 months. We see Thailand as a great opportunity market for DIL. Apart from KFC we do see the potential to introduce new brands from our existing portfolio over a period of time. The existing Thailand business and the team provides us with a strong foundation from that perspective.

Coming back to the operating revenues for Quarter 3 FY24 stood at Rs. 843 crore representing a 6.6% year-on-year increase. This was supported by new store openings. The Indian business witnessed a growth of 9.2% over the same period of the previous financial year. The October-December quarter saw subdued sentiment within the FMCG/mass discretionary consumer sector, marked by a visible pullback in consumer spending. This period traditionally buoyed by festival spending saw some contraction in consumer enthusiasm, reflecting broader economic concerns and a cautious approach to mass discretionary spending. The impact of this cautiousness extended beyond traditional retail and included the QSR sector as well. We have also seen a strong correlation of some of the international geopolitical events on our business because of some large American brands that we partner with.

Post a strong currency devaluation in Quarter 1, the Nigerian Naira has seen further deterioration and further weakening. As you all know Nigeria is highly food dependent economy and the currency impact has resulted in a contraction in the local spending power and consumption. As a result of this we have seen an all-round impact on our Nigerian business performance as far as the revenue and the margins are concerned. The currency impact because of the restatement of dollar denominated liabilities has been captured as part of pre Ind-AS EBITDA and the same has affected DIL's consolidated results as well. As we stated earlier, we have to support Nigeria business financially given the local situation for the next couple of years until the local situation stabilizes.

The gross margin for the consolidated business was flat on a quarter-on-quarter basis and improved by almost 130 basis points over the year-on-year quarter. However, the deleverage in top line as a result of lower radius numbers across KFC and Pizza Hut has led to the impact on brand contribution margins. The brand contribution in Quarter 3 stood at 15.4% flat versus the previous quarter. Reported EBITDA which is post Ind-AS for Quarter 3 for the current financial year was Rs. 146 crore with the margins at 17.4% versus Rs. 159 crore in the previous quarter. Consolidated operating EBITDA on a pre Ind-As basis was Rs. 79 crore versus Rs. 95 crore in the previous quarter. Operating EBITDA margin at 9.3% for the quarter was lower by 2.2% on a quarter-on-quarter basis. This is mainly on account of the booking of FOREX loss as a result of the further weakening of Nigerian currency and the ADS deleverage impact.

Taking the discussion to our core brands:

KFC in India added 50 new stores in quarter FY24 reaching a total store count of 590 stores as at the end of the quarter. Average daily sales for Quarter 3 FY24 was Rs. 104,000 versus Rs. 109,000 in the previous quarter. Revenues at Rs. 524 crore grew 14.1% or on a year-on-year basis. Gross margins for KFC at 69.4% improved by 40 basis points over the previous quarter. Brand contribution margins at 19% for the current quarter was lower by 0.4% on a quarter-on-quarter basis, mainly due to

deleverage arising out of the lower ADS. On premise consumption was 60% versus 61% in the previous quarter.

During the quarter Pizza Hut added 30 new stores. Revenue at Rs. 180 crore was lower by 2.2% on a year-on-year basis. ADS was Rs. 37,000 versus 39,000 in the previous quarter. Gross margins for the quarter came in at 75.8% flat versus the previous quarter. Brand contribution was Rs. 11 crore for the quarter with margins at 6.1% which was lower by 1.6% on a quarter-on-quarter basis mainly due to ADS deleverage impact.

Costa Coffee added eight new stores during the quarter reaching a cumulative store count of 154 stores as at 31st December 2023. Quarter 3 FY24 revenue was at Rs. 40 crore with a growth of 14.6% on a quarter-on-quarter basis and 36.4% on a year-on-year basis, driven by expansion of new stores. The gross margin was 77.2%, an improvement of 0.9% versus the previous quarter. Quarter 3 FY24 brand contribution stood at 14.9%. As you all know, the new stores take some time to stabilize and reach their maturity level. Hence the rapid expansion of Costa stores has impacted the overall brand performance. We expect this to stabilize as we go along.

To conclude, we want to reiterate our commitment to our ambitious growth within the Indian QSR market. We have set a target of reaching 2000 stores by 2026, a milestone that signifies the tremendous potential and demand for our brands. With Thai acquisition, we will be able to meet this target by end of calendar year 2024. The Thailand acquisition will result in external debt in the books of DIL. On a consolidated level the Thailand debt will also get consolidated once we start to consolidate the balance sheet as we consolidate the numbers from next quarter. The gearing ratio remains in a comfortable zone despite Thailand acquisition and consolidation. As we continue to expand, we remain committed to improving our financial performance reflecting our emphasis on prudent financial management and creating long-term value for our shareholders.

On that note I would like to request the moderator to open the forum for any questions or suggestions that you may have. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: First question is on Pizza Hut; given where the brand is in its journey YOY or a quarter-on-quarter decline in ADS to a level that it has come to and the fact that you have added stores at an overall level unlike KFC where you have added stores and revenues are increasing despite decline in ADS. In the case of Pizza Hut that has not happened. What are your medium-term aspirations or ambitions over here with this brand?

Manish Dawar: So, Pizza Hut while we've added 30 stores in the quarter, but you would have seen that overall, our additions are much lower compared to what we have guided and what we've added in the past. So, we are cautious about what is happening on Pizza Hut. We also recognize that there's strong competition which is emerging. However, we've taken steps in terms of the visibility for Pizza Hut as a brand. We've taken steps in terms of the in-store experience as far as the consumers are concerned. And therefore, we are confident that Pizza Hut top line and the ADS numbers will come back once the overall macro sentiment improves and we will start to kind of trend in line with the overall category growth.

Vivek Maheshwari: Manish, there is also concern for your competition that the aggregators have actually in a way democratized and the pizza offerings have gone up quite a bit. In such a

setup I would have thought that you would have better chance because of whatever product fatigue or brand fatigue, or you are a challenger brand. So, you could have also participated in that. Where are you on this issue versus the competition and the fact that the market is probably getting a bit fragmented?

Manish Dawar: So, if you see Vivek typically for example post the COVID time, the local competition virtually got eliminated because of the various constraints that the overall business was under, whereas now we are seeing that is coming back and therefore the food aggregators have a good opportunity from that point of view. Overall, from our strategy point of view as we said earlier that for example during the hyperinflation time, we introduced Fun Flavor pizza and we saw down trading happening within our portfolio. We've compensated that through the premium end side. We've also compensated by reducing the number of offerings that we've had on the fun flavor side. And that's how that gives us the comfort that we will be able to come back on Pizza Hut.

Vivek Maheshwari: And on the KFC side Manish, likewise the ADS at let's say at 104k which is I think lowest at least in the last 12-13 quarters. Do you think that 3rd Quarter captures the worst and ADS should not go down any further or you still think that things are tough?

Manish Dawar: The overall macro environment continues to be challenging. One obviously is from the consumer spending part and then on top of that as we've discussed in our comments, we've seen some bit of impact on the American brands as well because of the overall global geopolitical situation. And we've analyzed our numbers, we've seen a very strong correlation between what is happening outside to what is happening with the brand. So, therefore, we are more in the process of consolidating and making sure that we grow from here. But we will need to see when the macro environment improves, and it'll take a couple of quarters by the time it stabilizes.

Vivek Maheshwari: And last one Manish and Mr. Jaipuria, big picture on Thailand how you are thinking about, what is the aspiration over here? What will be the medium thought process in terms of growth and profitability, anything that you can talk about now that the acquisition is done?

Manish Dawar: So, Vivek from our perspective Thailand gives us a good opportunity. One obviously it is an Asian economy. It is still not a developed economy as the western world or Singapore or for example some of the Middle-east countries. So, there is a great scope for growth in Thailand. Second if you look at from the economy perspective, the way the exchange rates and the interest rate environment is, it is a lot more benign versus what we've seen in India. At the same time if we look at the local consumption from a perspective of outside home food consumption, the incidence in Thailand is sitting at almost about 8 to 9 times in a week. And this I'm talking about Thailand as an overall country versus let's say if you were to compare that to India, given our target population which is roughly about 12%-15% of the Indian population and that incidence sits at once in 35 to 40 days. So, from that point of view, economically it's in a good zone, the growth potential is still available. Poultry is a dominant consumption medium as far as the meat consumption is concerned and that is true with some of the Asian markets. KFC is a market leader in that country with close to almost +1000 stores. McDonald's, which is a distant #2 at about 25%-30% of the store count. So, we saw Thailand as a great opportunity. We also see that within that there is an opportunity to introduce our own brands in Thai portfolio. And that's the reason we are bullish, and we did the deal. On an overall basis it was a great valuation, I mean you've seen the multiples that we've acquired this business at. That is where our confidence stems from as far as the Thailand deal was concerned.

- Vivek Maheshwari:** And just one small follow-up; in terms of margins, I think that business is about 15% give or take whereas India margins are about 20% at brand contribution level. So, what is the thought process on the margin bit?
- Manish Dawar:** Over a period of time, Vivek we are very confident we'll be able to get to the India levels. And please remember that Thailand as an economy is highly tourism dependent. If you look at the data the COVID impact is still there. They have still not fully recovered from tourism perspective as well. So, as the overall tourism recovers, the brand numbers start to improve. The positive leverage would also come in for the brand. Therefore, in our view the margin levels should improve from where the numbers are.
- Vivek Maheshwari:** Just a feedback from some investors who have this worry that the Thailand foray doesn't in any way represent your concern or whatever the slowing QSR and Devyani's position in India. So, that's just one thing that some investors have expressed concerns about. I don't know if you can address it here or not but yes that's about it.
- Manish Dawar:** So, we are not slowing down on India and obviously India is an independent strategy. It's not that the Thailand acquisition will impact whatever plans or the growth aspirations we have for the Indian business. So, that will continue. But at the same time, given the current environment, it's a good hedging bet as well.
- Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global.
- Devanshu Bansal:** Wanted to check, as in this calendar year also we are targeting aggressive store expansion. So, are formats like Pizza Hut, Costa Coffee sort of generating enough free cash flow to sort of support this expansion that we are planning to?
- Manish Dawar:** Devanshu, they are. KFC has not changed compared to our model, whereas Pizza Hut has been impacted. As far as the Indian overall potential is concerned, then we have to continuously invest because this business is a store-by-store business. We have to build brick by brick store by store. So, it is not that once the India potential emerges we'll be able to say that we can add now 3000 stores in a year together. We have to be at it at the same time as we alluded in the past that we follow a dynamic store addition strategy. So, we've tapered down Pizza Hut a little bit and increased KFC a little bit. If the current situation continues, we will adjust some bit of numbers here and there but overall, our investment is more from a long-term point of view. We still believe that as far as Indian market is concerned the long-term potential is huge and QSR is underpenetrated and therefore we need to invest.
- Devanshu Bansal:** And from margin perspective; while there was a SSD decline for both formats, KFC Pizza Hut. But in KFC we have been sort of able to deliver a relatively better margin performance compared to Pizza Hut. So, wanted to check is there any kind of difference in operating models for the two brands where costs are more variable for KFC vis-à-vis Pizza Hut?
- Manish Dawar:** The leverage impact or the deleverage impact whatever you may call it is much stronger on Pizza Hut because if you look at the KFC ADS numbers, they are much stronger. Whereas Pizza Hut are lower numbers and therefore, a small change as far as the top line is concerned impacts the margin more dramatically. So, once we are able to cross those threshold levels, even Pizza Hut also will get into that zone. But to that extent KFC is insulated. KFC is a better business obviously and that is one of the considerations that we factored when we acquired and got the Thailand opportunity, as it was a good KFC opportunity.

- Devanshu Bansal:** Manish, can you also talk about the funding of capital required for Thailand as in where is the capital going to be raised and what is the interest rate associated with that?
- Manish Dawar:** The total value of the business was about Rs. 1,060 crore. Out of this DIL is investing Rs. 340 crore roughly and this is what we borrowed locally from the banks in India. Temasek represented by CAMAS is investing another about Rs. 325-330 crore. And therefore, they are participating with us at Dubai level. And then there was a local debt which was sitting in Thailand, which is replaced by a lower cost debt now as part of the deal.
- Moderator:** The next question is from the line of Saurabh Kundan from Goldman Sachs.
- Saurabh Kundan:** My question was whether if you can quantify the geopolitical impact you were talking about on KFC and on Pizza Hut?
- Manish Dawar:** In the middle of the macro environment that we have in terms of what is happening on the inflation side and on the consumer spending patterns, though it is difficult to quantify but we can draw correlations between these two. We can talk about this more in detail in one-on-one sessions. But there is a strong correlation.
- Saurabh Kundan:** The second question is on Pizza Hut, just wanted to know is there a minimum target committed to Yum? Is that why the expansion can't be completely paused? I'm not suggesting completely pause it but just theoretically can it be completely paused?
- Manish Dawar:** Theoretically you can completely pause it and obviously when we work with Yum, there are targets defined. And we are working on these targets, we can see that for the last 25-26 years and we have never ever defaulted on these targets. It's the fact that we believe in business and we believe in the brand and that is the reason we are expanding.
- Saurabh Kundan:** Where in the reported P&L is the Nigerian currency impact recorded? It's about 2% of sales, is it?
- Manish Dawar:** Yes. It's a good point that you've raised. So, if you look at a few quarters back, when the devaluation had set in, we had reported this as discussed with the auditors at start of the quarter. Whereas now because it is business as usual although not official devaluation, but the currency is still weakening, we have merged this with our overall operational numbers. So, when you look at our presentation of the numbers it sits as part of the overall G&A, which is the brand and corporate G&A which is the difference between the brand contribution and the pre Ind-AS EBITDA. The reason the expenses are at an elevated level is because it has an element of number coming out of Nigerian currency.
- Moderator:** The next question is from the line of Percy Panthaki from IIFL.
- Percy Panthaki:** One quick accounting related question. If I basically derive your corporate or common costs by deducting the restaurant EBITDA margin from the total company's EBITDA margin, that number around Rs. 50 crore is much higher than your usual run rate of around Rs. 30 crore. So, can you explain that?
- Manish Dawar:** Percy as I said, this number accounts for the Nigerian currency devaluation impact. This is an exceptional item which earlier used to be below the EBITDA.
- Percy Panthaki:** How many more quarters we will see this unallocated or corporate costs at this inflated level?

- Manish Dawar:** I will not be able to predict as to how the currency behaves going forward.
- Percy Panthaki:** Assuming that the currency is remaining where it is today, then will you see, is this a permanent rebasing upwards or it will anniversarize and the cost will come down at some point of time?
- Manish Dawar:** Let me just give you some numbers so that you're able to understand it better. So, pre the devaluation, the Nigerian Naira to a dollar was roughly around 450-460, somewhere in that range. Post the devaluation it got pegged at about 660-670 whereas currently it is sitting at almost close to +900. So, it's a very significant devaluation which has happened. But just to give you a broad guidance in terms of what is the normalized number as far as the G&A is concerned, you can take roughly at about 5% on the current top line basis.
- Percy Panthaki:** And this would include whatever currency impact is there?
- Manish Dawar:** No, this is without the currency impact.
- Percy Panthaki:** Now my question was that supposing if this remains around 900, do you see this extra Rs. 20-odd crore continuing into perpetuity or does this anniversarize and come down? I just wanted to understand the accounting of this.
- Manish Dawar:** So, if it remains at a 900 level, you will not see a further impact. And therefore, as far as the currency is concerned it will revert to the original level and same as the balance sheet because we've taken the impact of 900 at all line levels and already factored that in.
- Percy Panthaki:** So, this will come down by which quarter, immediately in Q4 or it will take a couple of quarters for it to come down?
- Manish Dawar:** You're talking about the currency?
- Percy Panthaki:** Yes, this extra Rs. 20 crore in the corporate cost is what I'm talking about.
- Manish Dawar:** Let me just elaborate it better. So, next quarter if the currency remains at 900 then you will not see further impact in the books.
- Percy Panthaki:** So, then it will come back to the original Rs. 30-35 crore kind of a number.
- Manish Dawar:** Exactly. If the currency comes down to say 700 level, you will see the benefit coming in. If the currency goes to the 1000 level you will see the hit coming in.
- Percy Panthaki:** Secondly, I just wanted to ask on Thailand. It's a good acquisition in terms of the valuation and the good part is that it's a decent margin business already. You don't have to do any major surgery on it, but just wanted to understand from growth point of view. KFC is a very strong brand, already having very high market shares in the QSR space. From here on increasing market share even if it does is not going to be a major delta. Secondly, as you mentioned, the eating out frequency is also decently high. I don't know how much upside there is on that also and there are many stores also. In terms of increasing the number of stores, I don't know if that is a big lever. Would I be right in assuming that Thailand will not be a very high growth geography for you? I just wanted to understand on Thailand one is that the brand already has a pretty high market share. Secondly the number of KFC restaurants are also sort of decently high. And thirdly the number of eating out occasions are also much higher than what they are in India. Considering all this would I be right in assuming that this franchise will not be a fast-growing franchise for you?

Manish Dawar: Let me explain you the dynamics of Thailand Percy. As part of the overall diligence and acquisition we had got an independent market study done in terms of what is the potential for KFC in Thailand. And that study indicated that we can actually double the store count. I'm talking about KFC as a brand and not RD as a company. So, if there are total about 1000 KFC outlets in Thailand, over the next 7 to 8 years we can actually double that count. This is what the market study indicates. Therefore, that is one potential. Second if you look at when we talk about outside home consumption which I said is almost sitting at 10 times, this is not the consumer that is coming to QSR readily. So, for example when we talk about outside home food consumption, this would include the street food, this would include the fine dining, this would also include if you were to pick up a sandwich from a 7/11 or Marks and Spencer for that matter. Over a period of time as the income levels grow the consumers will keep on graduating and will keep on up-trending to the premium brands and to the KFC because it already is a very strong brand there. At the same time if you see the dominant contributor to the street food also in Thailand is fried chicken. As the consumers upgrade, they would come to KFC and therefore, all of that kind of gives us the confidence that from a growth perspective the opportunity is still there.

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

Jaykumar Doshi: My question is on Thailand acquisition and broader framework. So, with this acquisition the international contribution to EBITDA will be over 25% or so. I know India business EBITDA is depressed at this point of time. But do you have a sort of framework in mind or would you keep consider or evaluate more opportunities in the Yum! ecosystem outside of India? Is there a threshold that international may not cross 30%-35% in the medium term in terms of future investments?

Manish Dawar: Jay, as a strategy as we said earlier, we are not diluting as far as the India strategy is concerned and there's no change as far as the India growth aspirations is concerned. You would have noticed that there are multiple questions that even in a subdued macro environment we have continued to invest, this is because we believe in the long-term potential of this country. Having said that, Thailand came up, it was a great deal and we managed to structure it well. It was addition to where India sits. It has an opportunity from other brands perspective also. So, therefore, we've not laid a framework and our focus continues to be India. As of now we are not evaluating anything else.

Jaykumar Doshi: Secondly, there is a lot of noise in numbers, geopolitical sort of headwinds as well as weakness. But when you look at your January numbers SSSG or December, where the base was weak. By any chance can you give us some color if you were to adjust it for geopolitical headwinds that you probably may have? Is there a sort of further deterioration in SSSG trends even on a weak base or is it similar to what it was in August-September or is there any optically improvement in SSSG?

Manish Dawar: Jay, it is kind of too early to talk about the January numbers.

Moderator: The next question is from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: My first question was that if I look at KFC last quarter, we had the impact of Adhik Maas where we still delivered a decent performance. And maybe the expectation was that despite the base being favorable and the fact you don't have the impact, the performance would have improved. So, is it just in your experience the worsening of the macro situation or any other specific factors which has led to say the worsening of the SSSG performance for KFC specifically?

- Manish Dawar:** I think it's a combination of macro elements Nihal. In terms of the spending power, in terms of what is happening on the lending side if you look at the overall consumer debt, it is sitting at almost all time high. There are multiple macro events which are kind of there and then as we talked about this whole geopolitical event which is there. It's a combination of various macro situations which is impacting the overall performance.
- Nihal Mahesh Jham:** Related question on Pizza Hut, now with fun-flavor being in the base, you did highlight that some of the initiatives that we are taking in terms of maybe increasing the visibility of the brand. What else in your understanding at least if you look at competitor data and the performance are the missing points which you can improve which can get Pizza Hut back to the trajectory, we were seeing a few quarters back?
- Manish Dawar:** In terms of missing points Nihal, as such there are no missing points. But as you mean the local competition also is getting very significant and with Zomato and Swiggy obviously kind of extending their reach and helping the local competition, to some extent that is also impacting the overall brand. Then of course the macro elements that we've talked about KFC they get applied to Pizza Hut also. It is not that the pizza category is isolated category. If at all I would say the traction is more on non-pizza category than the pizza category.
- Nihal Mahesh Jham:** Just one final question if I may that when we look at the dynamics you mentioned about why you went ahead and acquired the KFC operations in Thailand. This kind of a framework maybe even applies to some of the other southeast Asian countries and now the African because we don't have say a currency issue here also. So, if you apply the very framework are you then wanting to explore some of the other opportunities available or would it be that once the Thailand acquisition in a way fructify or we see the results will we go ahead and look at the next leg of international acquisitions for us?
- Manish Dawar:** Nihal, every country, every business and every brand is different and how they are positioned in the local market is also different. Overall, we will not be able to compare what some of the other acquisitions or some of the other players have resulted and what their experience is. We are bullish for the reasons that I've explained on the call earlier. Let's see how it pans out. As I said earlier as of now, we are not evaluating anything and our focus obviously is India and the focus is to kind of understand and learn the Thailand business, integrate it with the Indian business and make sure that we are able to leverage on the opportunities which are there in Thai market, both from margin as well as the top line and the new brands that I talked about. There is an agenda for Thailand as well, we are focused right now on that only.
- Moderator:** The next question is from the line of Tejash Shah from Avendus Spark.
- Tejash Shah:** Manish, you spoke about consumer sentiment being one of the reasons for the challenging ADS for KFC and Pizza Hut. But surprisingly and positively we are not seeing the same trend playing out in Costa. So, would you say that the competitive landscape has a higher weightage for the drag down there versus in something like Costa where perhaps it is, I'm just assuming it is relatively better.
- Manish Dawar:** Coffee penetration versus a pizza penetration or versus a chicken penetration is sitting at a very different level. And we are highly underpenetrated as far as Costa is concerned. At the same time for example if you look at Costa has a good presence at the airports and high footfall locations. From a travel perspective, the airports are doing well. So, therefore, to that extent Costa is kind of less impacted versus the other categories.

- Tejash Shah:** But how would ADS and penetration, is it that after 200-300-500 store benchmark as we go along the ADS potential for the incremental store actually drags down the average?
- Manish Dawar:** No, let me explain you, for example if you look at the presence of Costa Coffee at the airports for example. If you look at our airport performance versus a High-Street performance for Costa is very different. The High-Street performance of Costa would mirror what is happening with KFC and Pizza Hut whereas the airport performance for Costa is very different. The airport presence for KFC and Pizza Hut is much lower compared to what Costa's presence is.
- Tejash Shah:** And second, in this quarter have we closed down any store across different formats?
- Manish Dawar:** We have closed some stores for Pizza Hut. As we've kind of guided in the past that our store closure target is always under about 6%-7% of the new stores that we open, so we are well within that.
- Tejash Shah:** And the vintage of the stores that we have shut down, were they opened after the COVID or before COVID?
- Manish Dawar:** It's a combination of both.
- Tejash Shah:** Lastly despite the subdued consumer sentiment that you called out, our store expansion is getting accelerated. It also kind of as you said that it qualifies your belief in that turnaround is imminent. Any quantitative data that you look at to get that confidence or is it just a cycle that we are hoping that it will turn around at some stage?
- Manish Dawar:** I agree with you that we are bullish on the store expansion, but we have kind of tapered it down as far as Pizza Hut is concerned because we are seeing a higher impact on Pizza Hut. If you remember around the IPO time, even IPO and post that almost for whatever more than a year, we were targeting Pizza Hut to open almost +100 stores every year whereas now we are talking about opening 60-70 Pizza Hut stores. We have tapered it down and to that extent we have adjusted the opening numbers. On an overall basis if you look at Costa, we have upped the numbers which kind of compensates for that. On KFC we have upped the numbers a little bit. So, from a portfolio perspective what you are saying is right. But within that we are kind of adjusting the numbers to whatever is required to be done.
- Moderator:** The next question is from the line of Dhiraj Mistry from Antique Stock Broking.
- Dhiraj Mistry:** My question is again back to Thailand. You have already mentioned what kind of growth and all you would be envisaging from Thailand. It's an immense growth opportunity. My question is related to the funding of that growth whether the Thailand business is enough cash flow generating business where there no additional capital requirement would be required or whether it would be self-funded from Thailand business itself?
- Manish Dawar:** It will be self-funded from Thailand. Again, as I said we have to kind of get into greater details with the business. But the models that we worked out, one as far as the store expansion strategy is concerned for Thailand, they will be able to self-fund it. At the same time whatever debt also is sitting in the books of Thailand, they will be able to repay that also from the cash flows that they are generating. It's just been a couple of weeks when we have completed the transaction. We have to do some more work. But as of now it appears that we will be able to kind of put Thailand in a self-funding zone.

- Dhiraj Mistry:** And for other geography like Nigeria is facing right now headwind but in future down the line for other international business, for Nepal or Nigeria, whether that would require future funding from the India's cash flow, or it would be again if there is no enough cash flow generation from that business, we will take a pause on their expansion?
- Manish Dawar:** Even Nigeria and Nepal also we've talked about in the past that they are kind of self-funding in terms of whatever expansion they are doing. Nigeria we've got into this situation because of the unforeseen and very significant currency devaluation. That's the reason we are talking about some funding. Otherwise, once this situation stabilizes even Nigeria also will be self-funding only and that is how it was in the past as well.
- Dhiraj Mistry:** On Pizza Hut, if I look at competitors' data their SSSG decline as well as ADS decline is much lower than what we have witnessed. So, despite fun flavor pizza we have been kind of losing market share to the market leader. What kind of strategy you are trying to play apart from fun flavor pizza to increase footfall or gain market share in that Pizza Hut segment?
- Manish Dawar:** Overall, Dheeraj as you mean despite the fact that pizza is the largest category in the Indian QSR space, it is still a growth category. And relative to each other what you're saying is right. But there's a strong emergence of local players and they are also kind of fueling the entire growth in the category. Our strategy is mainly around innovation and value as far as the pizza market is concerned. That is what I have alluded to earlier. The brand still remains a strong brand as far as the consumer recall is concerned. The customer experience is great from a dining perspective. Therefore, that's what gives us the confidence that we should continue to kind of expand Pizza Hut.
- Dhiraj Mistry:** One last question from my side. Like KFC in this quarter, we have added 50 stores. We have witnessed gross margin expansion on a quarter-on-quarter as well as on YOY basis. But the EBITDA margin has contracted a bit. Is this EBITDA margin contraction purely because of the store addition what we have done during the quarter or is there any other factor as well?
- Manish Dawar:** It's mainly coming out of deleverage Dhiraj because for example as you know, and you've seen the ADS and the SSSG has come down while we've managed to maintain the margins. But overall, because of these two reasons deleverage also sets in and that is what gets impacted for the fixed expenses and that's how it is.
- Moderator:** The next question is from the line of Majid Ahamed from Smart Sync Investment Advisory Services.
- Majid Ahamed:** My first question is what's your view on Nepal market? I'm seeing there is slow growth there in the market and what's your plan there?
- Manish Dawar:** Nepal Majid as you know is a small country and has a very limited opportunity. We operate both KFCs and Pizza Huts in the Nepal market. We have got about 25 stores across our brand portfolio and from an opportunity standpoint that market presents about 2-3 stores a year. So, it's not a huge opportunity versus India and it gets managed largely out of the eastern region from India. So, there are no big overheads that we incur. But on its own it's a great market. KFC is a very strong brand so therefore it kind of works very well for us.
- Majid Ahamed:** One more question that I have is what's the view on Vaango? There's not any store addition and nothing is happening there. Any thoughts you can give on Vaango?

- Manish Dawar:** So, Vaango is a good medium to long term bet and as you know, the Indian food brands are difficult to scale up because of highly regionalized and highly domesticated flavors. And therefore Vaango, we are building cautiously. So, there is a value proposition that we are creating with Vaango, and we are optimizing all of that. In the long term we believe that as the overall dynamics for QSR play out there is a strong potential for Indian brands also and that is how we are building Vaango.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** I think we have been in the business for many years, and we understand the consumer psyche, how it is moving and what is. We could do lot of things around Pizza Hut but I was a bit surprised on the KFC part of the business with the negative SSSG. So, what is it that, though the external factors are important but in terms of value layer what we have introduced but this time it has not responded. My therefore straight question is that is it that the niche consumer is not attractive finding a solution for moving to KFC? I understand Pizza Hut will have a problem but these all factors are not working, so, what more needs to be done?
- Manish Dawar:** Shirish, you come from consumer background, and you know that the consumer brands take number of years to kind of get built with a particular proposition. So, to your question in terms of what is happening, obviously there is a macro level environment which is impacting KFC as well and that is the reason the numbers are where they are. But to your other point from a lunch perspective, we've introduced the lunch, but it will not happen overnight. We are bullish that there is a space available and therefore we will be able to capitalize on that space over a period of time. But it'll get built, and we are very confident about it. If you were to look at our Wednesday proposition, we've been at our Wednesday proposition for a number of years now and that is today how Wednesday has become a very sizable contributor to our weekly sales. So, therefore, from a consumer perspective you have to introduce, you have to optimize, you have to be at it and that's how we are approaching KFC.
- Moderator:** The next question is from the line of Latika Chopra from J.P. Morgan.
- Latika Chopra:** For Pizza Hut, it seems the off-premise sales actually were under pressure in the quarter versus on-premise sales. Anything specific that drove this kind of trend?
- Manish Dawar:** If you look at our overall off-premise has remained at the same level as a percentage to the overall brand sales. I think the off-premise has gone up by about one percentage point versus let's say the previous quarter. Therefore, there's nothing. It's overall directionally the ADS is lower, and it is getting contributed from both channels which is off-premise and on-premise.
- Latika Chopra:** I was comparing it probably to a year ago trend on a YOY basis. So, that's why I was just trying to understand why the share kind of moderated by a percentage point.
- Manish Dawar:** Because as far as Pizza Hut portfolio is concerned, our trends if you were to look at, it's part of our presentation also. They have pretty much remained the same between off and on-premise.
- Latika Chopra:** The second thing was could you give us any fixed opening targets that are in mind for FY25 and the split across the core formats? I know this number could be dynamic depending on the demand situation but at this point how are you thinking about FY25 store openings?

- Manish Dawar:** So, as we've said in the past, Latika we are looking at overall about close to 275 or maybe 250 to 300 stores. That's a little larger bracket for 25 also. The broad constituent will be about 120 to 130 for KFCs, another 70-80 for Pizza Hut, 50-60 store for Costa Coffee. So, that's a broad constituent that we are looking at.
- Latika Chopra:** At this point we are maintaining that rollout plan and then keep reviewing it every quarter.
- Manish Dawar:** Yes. That's correct.
- Latika Chopra:** And the last bit if I may, I understand there was an impact due to some of those external factors that you alluded to for KFC and Pizza Hut. But in your assessment if you adjust for them and you look at the underlying SSSG, what impacted that more? Was it a reduction in average ticket size or was it reduction in footfalls adjusting for those external factors to the best possible assessment for KFC and Pizza Hut? Also, if you could also talk a little bit about the product mix that will be useful.
- Manish Dawar:** So, for the external factors that we've talked about it's largely we are seeing very clear correlation with the transactions because the transactions have dipped to that extent. There is a trend and a correlation available and that is what has resulted in the overall impact as well. So, as far as APC is concerned, obviously it is kind of trending better versus the transactions in this quarter.
- Moderator:** Thank you. Ladies and gentlemen, that was our last question for today. I would now like to hand the conference over to the Management for closing comments.
- Raj Gandhi:** Thank you, Mr. Chairman and all the investors, analysts who have been on the call. I do hope that we have been able to respond to your questions satisfactorily. Should you need any further clarifications or would like to know more about our Company please feel free to contact our investor relations team. Thank you once again for your time today to join us on this call and participate in our growth journey. Thank you very much.

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