June 2, 2022

BSE Limited
Corporate Relations Department
Phiroze Jeejeeboy Towers
Dalal Street, Fort,
Mumbai- 400 001
Scrip Code: 543248

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, 5th Floor, Plot no. C/1,
G Block, Bandra Kurla Complex, Bandra (E)
Mumbai- 400 051
SYMBOL: RBA

Sub.: Investor/ Analyst Call Transcript

Ref.: Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 *('SEBI Listing Regulations')*

Dear Sir/ Madam,

Pursuant to the aforesaid SEBI Listing Regulations, please find enclosed the transcript of the Investor/ Analyst call w.r.t. the Audited Financial Results for the quarter and financial year ended March 31, 2022, held on May 31, 2022 at 11:00 a.m. IST as **Annexure A**.

The same is being made available on the website of the Company viz. www.burgerking,in.

You are requested to take note of the same and disseminate to all concerned.

Thanking You,

For Restaurant Brands Asia Limited
(Formerly Known as Burger King India Limited)

MADHULIKA VIPIN RAWAT
Digitally signed by MADHULIKA VIPIN RAWAT
Date: 2022.06.02 17:48:45 +05'30'

Madhulika Rawat
Company Secretary and Compliance Officer
Membership No.: F8765

“Restaurant Brands Asia Limited Q4 FY2022 Earnings Conference Call”

May 31, 2022

MANAGEMENT:	**MR. RAJEEV VARMAN - CEO AND WHOLE-TIME DIRECTOR, RESTAURANT BRANDS ASIA LIMITED** **MR. SUMIT P ZAVERI - CHIEF FINANCIAL OFFICER, RESTAURANT BRANDS ASIA LIMITED** **MR. KAPIL GROVER - CHIEF MARKETING OFFICER, RESTAURANT BRANDS ASIA LIMITED** **MR. PRASHANT DESAI - HEAD OF STRATEGY AND INVESTOR RELATIONS, RESTAURANT BRANDS ASIA LIMITED**
MODERATOR:	**MR. NIHAL JHAM - EDELWEISS SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Restaurant Brand Asia Q4 FY'22 Conference Call hosted by Edelweiss Securities Limited. 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 touchstone phone.

I now hand the conference over to Mr. Nihal Jham from Edelweiss Securities Limited. Thank you, and over to you, sir.

Nihal Jham: Yes. Thank you, Peter. On behalf of Edelweiss, I would like to welcome you all to the Q4 FY'22 earnings conference call of Restaurant Brands Asia Limited. From the management today we have Mr. Rajeev Varman, CEO and Whole-time Director; Mr. Sumit P Zaveri, Chief Financial Officer; Mr. Kapil Grover, Chief Marketing Officer; and Mr. Prashant Desai, Head of Strategy, and Investor Relations.

I would now like to hand over the call to Mr. Prashant Desai. Prashant, over to you.

Prashant Desai: Thank you, Nihal. Good morning and welcome to everyone on this call. Thank you so much for taking the time early in the morning. We completely appreciate it. The way we have today -- scheduled today's call is, we will first take you through in detail about the India business. This will be done by Raj, my colleague Kapil, Sumit, and myself, post that Raj will take you through our strategic positioning of the India business -- of the Indonesia business and how it'll look like over the next few years. Post this we will open the floor for all Q&A. We had ideally wanted Vaibhav Punj, our CEO for the Indonesia business also to be on the call, but because of some exigency he can't be on the call. He will surely meet all of us in the next quarter conference call.

With that, I hand it over to Raj, our CEO to take you through the India business executive summary and update. Over to you Raj.

Rajeev Varman: Yes. First of all, thank you, Nihal, and thank you Prashant. Thank you everyone for joining this call and appreciate your support and your enthusiasm with our brand. I'm going to do two things. I'm going to first talk about the Q4 quarter and then after that I will give you the highlights of the year that just ended. Incidentally, if you look at our growth and our story, we're still a young company and this is our eighth year in operation from when we started our first restaurant in 2014, actually the date was November 9th. I distinctly remember that date.

So this FY'23, this coming year, this year that we are in, the end of this year will mark like a halfway through our restaurant growth story which is a journey to 700. And so I just wanted to congratulate the entire investment community as well as my team here for this journey that they started in 2014 and their achievement so far moving forward.

So, on the business highlights for Q4, revenues from operations grew 37% Q4 FY'22 INR268 crore versus INR196 crore in Q4 of FY'21. That was an SSG of 17% and a total revenue is growth of 37%. Now looking at the ADS, the ADS in Q4 FY'22, we recovered 95% of pre-COVID sales. And then in April we actually surpassed our pre-COVID sales at 102% and in May we continued that journey and we are at 111% versus pre-COVID sales, so a great recovery in the last couple of months, surpassing the pre-COVID sales.

Now, the highlight of this is in dine-in, if you look at our business, last time we were on the phone, whatever recovery was coming was coming through delivery and dine-in recovery was kind of behind the eight ball. But if you look at how we are standing in May, we have recovered almost all of the pre-COVID sales. We set at about 96% of pre-COVID sales in dine-in and then delivery we continue to be 140% and that gives you the 111% that we are pre-COVID in May. Regionally, West has been stellar. In our recovery, we are at 141% of pre-COVID sales, South and East 112% of pre-COVID sales, and in the North, we are at about

100% of, May numbers are 100% of pre-COVID sales. So there's some work in the North we'll chat about that as questions come up.

Gross profit margin improved by 50 basis points to 66.1%, that's 66.1% in Q4 FY’22 versus 65.6% in Q4 of FY’21. So some great work there. There was some headwinds. Despite the headwinds, we have continued our journey to keep improving our gross margins by some very stellar work done by the supply chain team, finance team and operations team. Moving on to restaurant level EBITDA, it's at INR46 crore, which is 17.3% for Q4 FY’22 versus INR33 crore that was in Q4 of FY’21 that was at 17.1%. Company EBITDA at INR28.8 crore that’s at 10.7% for Q4 of FY’22 versus the INR19 crore, INR19.9 crore that we delivered in Q4 of FY’21 that was at 10.2%. So this is basically the Q4 highlights. Kapil will walk you through the details of marketing efforts and the P&L will be carried by Sumit Zaveri.

Now, just going into the whole year FY’22 to walk you through that, revenues from operations in FY’22 were at INR943 crore, which is a 91% year-over-year growth from INR494 crore in the previous year FY’21. Gross profit margins improved from the previous year by 130 points, going from 64.5% to 65.8%. And then company level EBITDA, was INR73 crore that was at 7.8% FY’22 versus a negative 9.8% in the previous year that was FY’21 at minus 2%. I was talking about the growth journey.

We kind of ended the quarter with 315 restaurants. Today, as we set in May, we are at 318 restaurants. We have a pipeline of 50 restaurants. We have 13 restaurants in construction. So we continue to build those restaurants on a steady basis quarter-over-quarter in a journey to get to 700. We also, as promised, started the cafe business. We started in Q3. In Q3, we had, if you remember, when we presented, we had put 17 cafes. We have added 18 on top of that, sorry, 18 where there in Q3 and we have added 17 on top of that, that takes us to 35 cafes. And actually, as we speak today, we continue to open cafes. So we are at 40 cafes as of May, and we continue to grow that.

BK App, Kapil will throw some color on this, but the good news is delivery revenue growth is 24% quarter-over-quarter and this growth continues in double-digits and we will have some more details from Kapil as we go into his section.

So the next slide, you'll see Slide number 6, which is on store opening status. You can see the last two quarters we started opening about 20 restaurants, which is very different than the approach in the previous seven years wherein most of the growth came in towards the back of the year. We have restructured our efforts and the department as we move forward. We are now doing about 20 restaurants every quarter and we'll continue that pace as we go up to 700 restaurants.

The next slide actually basically gives you what I was talking about in terms of dine-in and delivery sales recovery. You can see the sales. ADS continues to grow and it's growing right now at the growth of our dine-in business. So, thanks to those numbers. We are at, in May, 122, 61% of that business is dine-in. I think that'll continue to grow and our delivery business at 39. Recoveries are at the bottom. You can see that in May we are recovered 96% on our dine-in business. We had a fantastic last week just to share you the latest. And then we have 146 recovery and delivery and 111 overall recovery.

Just going over the next slide, if you look at, this is the regional numbers I shared with you. So, it shows that all these numbers continue to grow in the right direction both, in all three divisions.

So, with this, I will hand it over to Sumit to carry you through the P&L and then we’ll hand it over to Kapil after that for the marketing piece. Over to you Sumit.

Sumit Zaveri: Thank you, Raj. So, I'll just quickly share with you the performance for the quarter and the year. Some of it Raj has already covered. So it could be a little bit of a repetition here. We generated a revenue of INR268 crore for the quarter ended FY’22 and our gross margins continue to remain robust. We happy to kind of share that we've been able to sustain our margin on a quarter-on-quarter basis at 66.1%. And correspondingly, we ended the year at 65.8%. And we feel fairly confident where our margins stand. And then in later part we'll also be able to share what our journey on the margin side look like over next couple of years going forward.

As far as the restaurant appetite concerned, we ended the year at 17, sorry, 16.2%, restaurant level EBITDA and for the quarter we were at 17.8%. And company EBITDA was at 11.3% for the quarter and 90.1% for the full year. We, actually as we stand and we've been constantly kind of working on our performance. And we've -- as we now get into the later part of the, or as we get out of COVID, we feel confident that we are poised for a good positive move forward as we kind of get into the subsequent part of the current financial year, which we've just embarked on in April.

While we are kind of talking about it, I hand it over to Kapil to take us through what we've done on marketing, which is literally where we feel confident that that will lead us into the later part of our growth from here on.

Kapil Grover: Well, thanks, Sumit, and very good morning to everyone on the call. You heard Raj talk about how we've been continuing to improve top line on the back of some very strong marketing programs. I'll start with the Whopper. Whopper is a sub-brand and a key differentiator for our brand in India and many other markets across the world. It's our global property, right. So last quarter we launched Twisted Whopper, which is a limited time offering. And we continue to use Whopper as a platform to engage our audiences.

Now, the last cricket season which started at the end of the last quarter is a big engagement platform. We all know that, right. We leveraged that platform with a new concept called the Meme Premier League. And at Burger King, as you are aware, we always look at unusual and quirky ways to engage our audience. Memes is the new vital language, gen Z, Millennials they use that language to communicate, and it's a very fun and humorous way of sharing a point of view, right. And as Burger King, as a brand, we stand for that point of view. We actually support that that tone of communication, right. So, we garnered over 15 million impressions with this campaign. And we also did another first that this is the first time a QSR brand actually launched NFTs for the winning memes for the participants, right. So that was a big success. And we continue to see great numbers of engagement on that program.

Now, moving to Slide number 12, we've spoken about the Stunner Menu. It’s a branded everyday value proposition and it continues to drive dine-in traffic on the back of a very strong menu, great for at INR50, at INR70. And we also have seen consumers increasingly try these items in their orders, right. So we see increasing check penetration of these items in our restaurants. And we will continue to promote this platform and offer great value to our consumers in the coming quarters.

Now, that brings me to Slide number 13, which talks about our focus on building an innovation pipeline, which will help us drive incrementality, right. We recently relaunched King’s collection. It's a brand-new avatar of our premium menu. Now this is a range of veg and chicken products that are based on very high-quality ingredients, like a very soft slab of paneer, the real cheese blended with very Indian spices, a juicy grilled chicken fillet and a spicy fried chicken fillet. Now, these absolutely delicious burgers are served with a new masala bun, which is also a new addition to our menu and it adds a lot of premiumness to the range which now priced at INR199. Early days, but we are getting very fantastic feedback from consumers to the range and we will continue to build the premium end of our menu.

The second layer of innovation is a layer of add-on of deserts. Now, these are two products, namely Choco Lava Cake and Mousse Cup, which we're trialing as we speak in the last quarter. Now, we skilled up nationally. Very attractive items, very popular items, very easy to deliver, and they add on incremental APC, especially on the delivery business. So that's become a national rollout in the current quarter. The third layer, and I will talk about this. It's a very strategic menu layer for us. You heard Raj talk about it. You've heard Sumit talk about this earlier, BK Cafe, right.

The next slide details a bit on the BK Cafe. So we've been working on this layer for almost a year, and you heard us talk about it in the previous calls as well. The first cafe went into trial sometime in October, November. And I may mention in the previous calls that our cross-functional team along with our coffee experts and specialists that we've hired for this project have very quickly built capability and processes in the system that we now feel confident of scaling up this region. Just to reiterate, why we feel confident about this layer being scaled up? If you recall, I've shared earlier that cafe will do the following to our business. It'll drive incremental occasions and frequency. It'll add on to the APC, the check size and it'll drive day parts like breakfast.

Now, off the 40 cafes that we have now on ground, we've seen incrementality clearly come through around INR8,000 per store in every cafe store. We've seen improvements in the breakfast day part in specific stores which are in relevant trade areas. And we are able to deliver a payback of about one and a half years on the cafe investment. We also continue to improve the menu. We've recently introduced muffins, which are 100% vegetarian muffins added to the menu. We already have an existing array of snacks that go complementary with the coffee, and now the Choco Lava and Mousse Cup also get added to that. Now, given these great results, we are now going to expedite our BK Cafe expansion, and we will launching 200 cafes by the end of the financial year ending March 31, 2023. And we believe that will add a lot of incrementality to our business.

That brings me to the last slide. I want to talk about how we've grown BK App. We've now seen almost 25% improvement in app sales quarter-on-quarter and that hundred continues for the last few quarters. We've grown awareness, you've grown installs. In the last quarter, we've also started testing our CRM modules. You'll see a lot more activity happen on that in the coming quarters as we made significant improvements to our app delivery ecosystem to grow this channel over time.

So, in conclusion, we continue to build brand Burger King with Whopper as a platform. We continue to strengthen our external value proposition. We are building a strong innovation pipeline that drives incrementality, especially BK Cafe, which has shown very great results in the pilot. And we will continue to strengthen our BK App delivery ecosystem.

At that point, I will hand over to Prashant to talk you through the future updates.

Prashant Desai: Thanks, Kapil. Friends, as you know, we were the first QSR to put it out in front of all our investors what our guidance was, so that you can also track us and we could also internally measure and monitor ourselves and our progress. Taking a cue from that, for FY'23 we are guiding that we will have about 390 stores, but as Raj mentioned, with one big change in that. Earlier a lot of our stores would open between December and March. What we are now intending to do is have a much more even down store roll out strategy, as Raj mentioned, about 20 stores every quarter. '23 may have a limited impact on that, but FY'24 you will see a real big impact of this continuous rollout strategy. So with that one difference we will be all 390 by FY'23. And then by FY'24, as Raj mentioned, as we continue to build 20 stores every quarter, we intend to touch 470.

Looking at SSSG growth, our view is that we will grow our FY'23 SSSG by 25%. Just to put number out there, we should probably what we are saying is that the entire portfolio should kind of average at about 125,000 of ADS, which sets us in a very, very strong footing again for FY'24 as well. Also, keep in mind friends that we are putting out this guidance given where we are from an inflationary standpoint. As a result, if we choose and if we feel that momentum changes we will come back to you with a revised guidance in the next couple of quarters. Having said that, FY'24 and onwards, we want to come back to our earlier guidance, which used to be between 5% and 7%. With so many cafes opening, we are now upping that guidance from 5% to 7% to 7% to 10%.

Gross profit is one area where the entire team single handedly focuses in ensuring that the quality of our business continues to remain extremely strong despite being a very young 8-year-old brand, as Raj mentioned. The team has worked extremely hard, despite the inflationary pressures be it on the product mix. We taking some small price increases of about 3% to ensure that we deliver a very, very strong 66% gross margin in the previous quarter. The team feels extremely confident that we will deliver a 67% gross margin to you. So we are upping our guidance from FY’22 by 100 basis points on the gross profit. Again, we take this further to FY’24. We believe we should be able to deliver another 100-basis point improvement on gross margin in FY’24 at 68%. This factor somewhere a moderate incremental ADS coming from cafe. As Kapil mentioned in his slide, we are currently factoring that incremental area is at about INR8,000. If should this number change, we will again come back to you and revise our guidance upwards.

When it comes to BK Cafe, this is the big shift that we want to kind of share with you. Previously, as you know, our guidance for FY’23 was that we would end FY’23 at about 700 cafe. Given the traction, given the anecdotal evidence that we are receiving, given the way the customers have accepted our coffee proposition, we are now upping the cafe guidance to 200 stores. Let me give you a perspective what that means in some manner. Raj mentioned, we are currently at 40 stores. So we are technically talking of opening 160 stores in the next kind of 10 months, which means we'll open one cafe every alternate day starting today. And that's the kind of strength that we have on our cafe business. Again, as I was mentioning, these 200 cafes, we will have a very, very strong and solid impact in FY’24, by which time we will have of the 470 stores, at least 300 of them will have cafe. So, yes, we are looking at a very, very strong FY’23 for India business, but even stronger FY’24 from an overall standpoint.

With this, I think we conclude our India presentation. I will now hand it over to Raj to talk about the Indonesia business. Over to you, Raj.

Rajeev Varman: Thank you, Prashant. Again, back with you guys. So, in summary, if you just look at the India business since 2014, there's one word that I share with my team that I'll share with you, study, and discipline. And that is how we run the company steadily disciplined. When we make decisions like the one in cafe that we are going to go speedily on it, we share that in advance so that our investors are aware of it. But apart from that, we have -- continued to have a very disciplined approach to our business. The plan that was put in place, we obviously changed the plan as we go, but a disciplined approach to the plan and a disciplined way to build the restaurants.

Now, we acquired the Indonesia business. The Indonesia business, just a little bit on the market, we don't have time to go into details here. But it's a country with over 270 million people. 65% of the population is in our target group. It's a very similar growth company -- country like India, where it's a very young population, per capita income is twice, almost twice of what it is here in India. Eating out of home is significantly higher than it is here in India. And these are the factors that will define that market, which is a very lucrative market, if you look at the growth of the overall Burger King brand globally, Indonesia will be one of those hot markets of growth among maybe top five or six growth markets for the brand. So, very excited about Indonesia.

I'm just going to share this slide with you just to give you a quick recap on the 2019. Now, it wasn't a calendar year cycle then. And I'm just sharing that time they had 164 restaurants with 141,000 in ADS and the gross margin, which is the biggest opportunity over there, was at 56.7%. Restaurant level EBIDA and I'm talking about pre-Ind AS cash EBITDA was 11.2 and the company EBIDA was at 5.3. Now, this gross margin, as you can see on the slide below, in FY’22 has already been moved to 58.5, this journey will continue. This is the area of expertise for us of delivering a good supply chain discipline. You will find that we will spend the next quarter working very hard to bring those synergies that we spoke about in the last call between the two countries, whether it is synergy in buying equipment, whether it is synergy in buying products, inventory, paper products, all these synergies we are now hooking up and these synergies you will start seeing over the next two quarters coming into play into the business.

We are also going to continue. We have got about 11 restaurants in construction there that will continue. We are building freestanding drive through restaurants which is the restaurants that we started building there. The team over there started building a couple of years ago. Those restaurants come at significantly higher ADSs and EBITDA margin. So, we will continue our efforts around that. And you will hear from us more on that. So the restaurant count as we stand today is at 177. Now, COVID, the recovery in COVID here in India is almost 100% in most of the brands here. In Indonesia, it is a couple of months behind. As we speak today, they are removing the restrictions, whether it is entries into the public transportation system, offices and so forth, they're slowly now removing those. And the recovery this month is at about 80%. We see that over the next two, three months that recovery will continue to progress.

So, as a team, not speaking too loud and not speaking before we enter and learn the market fully, we project that over the next two quarters that we will get the sales back to the heydays of pre-COVID sales. In the same instance, we will also bring in synergies and efficiencies both in CapEx as well as in inventory and drive a margin of 60% and then continue our journey towards 65%, which is the goal I've set in terms of long-term in Indonesia as a brand. So, you will see a lot of that from us when Vaibhav will joins us on the call next quarter.

So, look, it's a good investment for us. We have put in $25 million into this business. We will continue to grow both top line as well as the efficiency of the P&L. I think it's a very cash lucrative business. We generate cash out of that significantly in Indonesia. We are just waiting for the COVID to be behind us over there and very soon we will share that with you. So look here more on Indonesia as we continue into the next quarter and quarters after that. But now I will just ask the folks to open it up for any questions that our team, our investors will have for us. So over back to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Hi, sir. My first question is on BK Cafe. So, how much of CapEx do you need to convert a store into a cafe store? And secondly, does the store need to be shut for a few days while this work goes on? And if so, how many days?

Rajeev Varman: Yes. Thank you for your question, first of all. Appreciate it. So cafe, we have a range of how we are doing this. So there are inline restaurants or freestanding restaurants wherein we put a full island cafe as we are calling it, which will cost you about INR25 lakh, INR27 lakh to construct. And then we have cafes that we will be building which will be extension of our counter, especially like in food courts where you just extend the counter. Those will be -- those we are right now building at about between INR10 lakh to INR15 lakh depending on how many pipes we have to rearrange and so forth. See the cost will dramatically fall as we continue to build these cafes in new restaurants. So in the old restaurants, there's some undoing to be done before we put in the café. But in new restaurants, cafe is designed into the restaurant as we open it. So the CapEx on that we will share with you as we go forward, but it should be in the range of about INR20 lakh that we think additional on putting these cafes up. Your second question was, the store shut down, look here, we are working very parallelly. We don't shut down the stores. We do have some boarding within the restaurants where we are putting the cafes. In many restaurants, we try to do the work at night when the restaurant is closed. And so that it does not affect the sales of the restaurants. So predominantly we are not closing restaurants. We are working on site with the sales. We do board up the area. So it's not a nuisance to the customers. And in many restaurants we work at night.

Percy Panthaki: Got you sir. Second question, I just was comparing the margins for Indonesia and India. So, in India you've done a reported margin of about 11%, which means on a pre-Ind AS level, it'll be somewhere approximately in the region of maybe 3% or something like that. If I look at Indonesia, what you have disclosed in the presentation is pre-COVID. The company level pre-Ind AS margin was about 5%, which is like marginally higher than what you are doing in India. Despite a 10-percentage point higher gross margin in India, why are the India EBITDA margins so much poorer compared to Indonesia?

Rajeev Varman: Yes. Let me answer it differently. Let me tell you why the Indonesian margins are better. See they have a, again, the story goes that we started in 2014, more than two decades after the incumbents we already here. So our rents in those -- in the Indian markets continue to be the current market rents. In Indonesia, the journey was started in 2008. And so they have some fantastic rents that run approximately 9% of their P&L, significant advantage over the business year. Then also on delivery percentages or cost and delivery, their cost on delivery is significantly lower than our India numbers. They're paying anywhere between 5% to 10% depending on the vendor that, aggregator that's working with them. So they see a significant advantage in there as well. So these are inherent good strong advantages that are very attractive to that business. There's an opportunity over there in gross margins and that's a area of specialization for our company and our team over here that we have been showing and the results are in front of you so if you look back eight years. So we will bring those synergies into Indonesia business and make it even more profitable business. Prashant, you want to add anything else.

Prashant Desai: Percy, also, if I can come in here, Prashant here, if you look at the Indonesia business that we've presented, it's a pre-COVID, not impacted by any COVID-related activity kind of margins. Whereas when you look at the India business as Raj mentioned in his presentation, we just kind of met 100% recovery when it comes to the dine-in business. And dine-in, as you know, is a far more profitable business compared to delivery, which was a significant larger part of our FY'22 business. So as you will move forward, as the Indonesia business kind of consolidates by September, and then kind of marches onto what Raj mentioned to about a 60%, 61% kind of gross margin trajectory, India business is now on a significant growth path, having recovered completely from a dine-in perspective, add to that, the cafe strategy that we set. So by the time you look at my FY'23 full year numbers, compared to the numbers that we have presented on Indonesia pre-COVID our margins will be significantly higher there. And obviously the major benefit of all the effort that we are doing in FY'23, you will see a very, very high double-digit kind of a company level EBITDA in FY'24. So, it just largely to do with that.

Percy Panthaki: So, Prashant, any kind of flavor you can give on what kind of margins we should expect over the next one to two years at EBITDA level. You have given the gross margin which basically is, by FY'24 200 basis points higher than FY'22, which means that automatically that 200 basis points benefit we'll see on EBIDA. Secondly, if I look at your margin of around 11% this quarter, we had seen a 95% COVID recovery in Q4 as per your presentation. So even if I do adjust for that 5% remaining, the margins will be like between 12% to 12.5% adjusted for any COVID impact and with the gross margin that goes to maybe 14% to 14.5% percent. So is that a stable state margin for us at a reported level this 14%, 14.5% or do you see further upside to that number as well?

Prashant Desai: Yes. We definitely see further upside to that, Percy. Our view is as follows here, and which is what I was trying to give you a flavor. Our view is, if we don't see any further disruption, the way the business is scaling up, all the initiatives that Kapil mentioned on the product side, and if this inflationary pressure also were to kind of ease out with the 25% same-store growth, given the kind of store openings that we are doing on an even out basis averaging 20 every quarter, our gross margin guidance, the operating leverage that will kick in because we run a very frugal operations. FY'24 on a pre-Ind AS basis, if we don't deliver you a double-digit company level EBITDA margin, we ourselves will be disappointed, Percy.

Moderator: Thank you. Our next question is from the line of Varun Singh with IDBI Capital. Please go ahead.

Varun Singh: Yes, thank you. Sir my question is on retail expansion guidance that you have shared with us. So, I mean, over the last four years sir we are kind of more than doubled our store count from FY'18 to FY'22 from 129 stores to now roughly 315-odd stores. But I mean, that is very encouraging sir 2.4 times retail expansion and our revenue grew 4 times from INR378 crore to now INR1,500-odd crore, which is again very encouraging, but sir our losses, which is I'm only considering a profit before tax excluding other incomes so that is 2.5 times. So 2.4 times retail expansion, 2.5 times is the increase in losses. So, I'm just wondering, sir at what level of revenue, and of course, sir, I mean, the store addition guidance that you have given, we expect our store count to double exactly, I mean, in next four years, from 315 to 630-odd levels. So how are we looking at this profitability? And at what level of revenue we expect that we should be breaking even? This is my first question.

Prashant Desai: Thank you, Varun. Varun, as you know about our business and you kind of answered a lot of the questions you asked yourself in the sense that because we are in such a rapid expansion kind of a trajectory, our depreciation is very high. So if you were just to add back that depreciation, our business does not make cash losses. We generate fair degree of operating cash plus you have also remember we run a negative working capital business. So the way we look at our business internally also is how much cash does this business throw up, which we can then deployed towards opening new stores, which as we had mentioned last time, our payback on the new stores that we open are about somewhere in the range of about five years, which kind of a 20% return at a store level. So, our request to you Varun is look at our business purely on the operating cash that business generates till we are in a very, very strong growth trajectory path, because depreciation will take away a lot of the profits that we make from a customary reported P&L perspective. However, maybe this year we should be still be able to kind of, if everything goes well, what we are saying, we won't disappoint you on being PAT positive. But as I keep continuing to talk to analysts and investors alike, our business runs on operating cash. And that's the metric that we internally used to gauge how good, bad, or ugly we are in terms of our performance.

Varun Singh: Understood sir. That's very helpful. Sir my next question is on BK Cafe. So if, for example, we invest INR45-odd lakh to for an island like cafe. Also, I understand that in incremental store cost of undoing the business is not there. And as a consequence, CapEx will be relatively lower. But assuming just a number like INR40 lakh of investment for BK Cafe, so what is the peak kind of revenue we expect from this category, sir?

Prashant Desai: BK Cafe is like an infant currently, right, six-month-old infant. First, I just correct you, it's not INR40 lakh, what Raj mentioned was INR25 lakh to INR27 lakh for an island cafe. So, maybe you probably heard INR20 lakh, it's not INR40 lakh, it's INR25 lakh for island like café. As Kapil mentioned, if you're incremental ADS today is INR8,000 when the infant is six months old, even if you multiply this INR8,000 into 365 days, you'll get somewhere around INR30 lakh of cafe sales coming. Cafe obviously operate at a significantly higher gross margin compared to our burger business. At a store level EBITDA also cafe will have anywhere within 35% to 40% restaurant level EBITDA margin. And which is where Kapil’s slide guided that our payback on cafe is about one and half years. To your question as to where do we see this cafe sales going, I mentioned this last time. Even at the current INR8,000 incremental cafe, we have a one-and-a-half-year payback, which is why we are now opening a cafe every alternate day, where this will reach too early to predict, right. If you do the math, when you look at the data published by lot of the incumbent, you will get a sense in terms of where this can go. But just bear with us, as we keep coming back to you every quarter we will significantly upgrade our cafe guidance on ADA as well. But as of now from your modeling perspective, take an incremental INR8,000 cafe.

Moderator: Thank you. Our next question is from the line of Prateek Poddar from Nippon India Mutual Funds. Please go ahead.

Prateek Poddar: Yes. Hi, just one question. You achieved 122,000 of ADS in the month of May and cafes are still not rolled out. This 25% SSG seems too conservative. Is that a fair understanding?

Prashant Desai: Absolutely, Prateek. I know you've been -- we've been talking on this as well, and you are, right. As I mentioned to everybody of the call, it does seem conservative, but you just bear with us given the way where inflationary trends are, it’s better to kind of be on the side of caution as we speak with a broader larger community. But as I said, luckily we are listed, which gives us an opportunity to come back to you every quarter. And as I said, if inflationary trends begin to kind of slide down, if you don't see any significant pressure from a consumer spending perspective, we will come and revise these guidelines first, but it's a fair understanding. It's conservative.

Prateek Poddar: Okay. And second question was, when I looked at Indonesia, right, can you just give some highlights as to why there was so much of restrictions which led to such poor numbers in Indonesia this quarter? And why is it that, I mean, someone asked this, but they're still lagging behind India. Is it more of timing effect in the sense because of restrictions we couldn't get back to what numbers which were there pre-COVID, is that a fair way to understand the Indonesia business today?

Rajeev Varman: Yes. So, I just looking at, sorry, this is Raj. As we looked at COVID, as it started from the West and came this way, where we started locking down for this Omicron in January and then started reopening in Feb, they're just reopening now there. Whatever the government policy is there, as well as how late it came in and how long it was there kind of determined the fact. But vaccination rates are good over there. In fact, I think Jakarta is all vaccinated now, which is the main hub for the island. So, it's just a matter of when it came in and how long it was there and the vaccination rate there, but I can tell you now that all the opening has started and soon, but surely we should see that that market will open up like India, and we are just poised for that. And we are ready to go with a very aggressive marketing program starting July. And you will see that we will ramp up not only organically, but because of these very big spend that we are going in with a big celebrity and a very high traffic program, you will see those numbers come back very quickly.

Prateek Poddar: Okay. Yes, one question, I have two questions, last two. One is on cafe ADS, maybe just to give us some context as to how should we think about how big this number can be, because it's an infant, but because of global experience, if you can help us understand where can this number settle to. And today, even in the six months, I'm sure this is a mean number, how much would be maximum and how much would be, let's say, the lowest within the system, just to appreciate the mean, the number of the mean, right, because it can get skewed because of the low number of stores today.

Prashant Desai: I know Prateek. We've been asked this question. Varun also asked the same question. As I said, currently budget an incremental INR8,000 on every cafe that we open give us some more time, another three to six months to come and come back to you with a number. And as I said, there are enough reference point available. There was earlier in estate company in India on the value side, had a number on a ADS. Now we have our incumbent which has cafe ADS which they -- which you guys know. So there are the data points to get a sense as to where it goes, but we think very differently. We are not using them as a benchmark. We are using as the largest cafe as a benchmark from a thinking point of view. From a delivery standpoint, as I said, currently go with INR8,000 Prateek give us some more time to come and kind of answer that question more intelligently.

Prateek Poddar: And did I hear you right, Prashant, you said that by '24 you would achieve double-digit EBITDA margins on a company level pre-Ind AS, right, that is what you were?

Prashant Desai: Correct.

Prateek Poddar: Okay. And have you entirely completed your cafe menu or there are more offerings to be added in the cafe menu in the sense? Yes.

Kapil Grover: So, hi, Prateek, it's Kapil. So our core menu is pretty much set. I think we've got a good range of hot and cold beverages and complementary snacks that go with it, and we will keep improvising it. I would say we are 80% there and 20% we'll keep iterating and improving as we go along.

Rajeev Varman: Yes, there's going to be, just like in burger business, we have limited time offers that define two and a half, three months of operation and then those limited time offers kind of change. When I say offers, it is new products, it's, sometimes it's variations of Whopper and so forth.

You will find that same discipline coming into our cafe business as well. Cafe is not just coffee; cafe is a complete business in itself. And as a company we are pretty seriously looking at that as a very separate business. So, Kapil and his team will continue to innovate on the menu side, and make sure that whatever menu we are producing is complementary to our business on the other.

Moderator: Thank you. Our next question is from Palak Shah from Infina Finance Private Limited India. Please go ahead.

Palak Shah: Hi, thank you for taking my question. Firstly, I just wanted to get a sense, so why is recovery not lower? Is it because of increased competition or a high presence in North?

Rajeev Varman: Sorry, in North. Yes, so North, yes, thank you for your question. Sorry, I didn't hear that. So North business you're talking about. Yes, recovery in North is at about 100%, whereas the other markets are in double-digit SSG pre-COVID numbers. There is couple of things over there. We have opened more new restaurants in North in the last little while. That, as you know, that the younger and the newer restaurants kind of start at a lower ADS, so the ADS drive over there is lower because of that. Then we have the slew of restaurants, 18 of them that are on the metro, on the Delhi Metro circle. And you must have heard just recently Delhi announcing that the metro traffic has recovered about 75%. So those restaurants are kind of at the lower end of the scale of recovery. And those are the two factors that are kind of driving the ADS recovery over there. I think this last month of May has seen some good rapid growth in traffic coming into the restaurants. So, we are very positive that this will be caught up very quickly.

Palak Shah: So just one on that, what percentage of our stores will actually be in North?

Rajeev Varman: Almost around 50% of our portfolio currently is in North.

Palak Shah: Got it. Secondly, you've mentioned that the gross margins will actually improve 200 bps over the next two years. Does it actually include cafe benefit, because earlier we were guiding it the same number without cafe benefit?

Prashant Desai: Yes, that's correct. Currently it factors the cafe and it also factors the current inflationary trend. So if either the inflationary trend were to ease, or as I mentioned, if we were to work better on the cafe side, we will come back and revise them upwards. But currently, taking both the factors into account, it includes the cafe.

Palak Shah: Got it, got it. Just, thirdly, on this cafe business, the cafe you've actually upgraded the guidance to 200, additional 200 stores next year, but the year after seems to be a bit of a slowdown, because 160 stores you're adding only 100 stores, is it because of the layout of the existing stores?

Rajeev Varman: Yes. You're talking about the cafe, right? Yes, so look here, I mean, all new stores, not all, but most of the new stores, predominantly most of them will open with a cafe, right. So, they will be a handful of cafes, stores that will not get a cafe because of space restriction or the layout of the store or just the market where it is located. It doesn't make sense for us to open a cafe. So there's going to be a handful of those stores that we will weed out. We don't have that number today. And we kind of getting a discipline around that process. And once we get that discipline, we'll remove those stores. But then at some point, the number of cafes opening will almost be equal to the number of new stores opening.

Palak Shah: Got it, got it. And just lastly, on Indonesia, two things, what is the operating margin for FY'22 and going forward what's our store opening guidance in Indonesia?

Rajeev Varman: Yes. So, just, let me just share a broader view on this. See, there's some headwinds from inflation. We understand it's here, it's there, it's everywhere there, right. There's also a big synergy that we are going to drive which is not just going to help with margins in Indonesia, it's also going to help with margins in India. If you're buying products now from 315 stores to suddenly over 500 stores, you are going to start seeing that synergies in our buying, which we will share with both markets. And that is not just specific to products that they are higher cost on or they're buying at a higher cost, it is generally for all items that we are purchasing. Every single item will be looked at. Every single item will be renegotiated based on the size of the business on those things that we can export and those things that we can import. So those synergies will continue to come in and that guidance should be is what we are kind of guiding on it. Again, like I said, on the onset on the call that our journey is to go to 65. I'm not putting a date on it right now, and because of my discipline approach to this business. 60, we are heading towards the end of this year. We should exit at 16. And then we will then put a robust plan to now move that 60 to 65. So that's the long-term 2025- ‘26 plan for Indonesia in terms of margin.

Prashant Desai: Palak, just to add to what Raj mentioned, if you factor that piece and we shared in the presentation that pre-COVID at a company level, we were in between 5% and 6% EBITDA margin when gross margins were roughly about 57%, 57.5%. If we end up with 60% gross margin by the end of this year FY’24, the Indonesia business also should be very close to double-digit company level EBITDA margin, maybe high single-digit company level pre-Ind AS.

Moderator: Thank you. Our next question is from the line of Chinmay Gandhi from Reliance Nippon Life Insurance. Please go ahead.

Chinmay Gandhi: Yes, thank you for taking my question. Sir my question is with respect to the region-wise breakup which you’ve given, so I mean you answered on the North part of it in the previous question. So, just if I look at West, hello.

Rajeev Varman: Yes, we can hear you, continue.

Chinmay Gandhi: Yes, sorry. So if I look at West, in May it is almost 140% of pre-COVID levels and if I compare it to say South is still at say 112%. So, I mean, and the data has increased over the last couple of months. So, I mean, can you just throw some light on this?

Rajeev Varman: Yes. So, we shared what's going on in the North. So you already have that. I can tell you on the South piece of the business. We have couple of things. One is, if you look at the market like Bangalore and Hyderabad which is predominantly driven by technology parks and technology business, a lot of those folks are still not back. I think they're starting to get back from July onwards. I think the offices are opening up and people will be moving back at least from the top couple of firms that I know. And those, because of the high dependency on this migration technology force that lives in smaller parts of India, these markets are just waiting for the saturation to come back. And once this comes back in those two markets, specifically Hyderabad and Bangalore, we should start seeing those recoveries back to those kind of levels. We are driving good delivery business in those markets, especially in Bangalore does a phenomenal delivery business. And I think the dine-in business will recover as soon as these offices and so forth open up. A lot of our traffic depends on that, on those things, anything else. And West, it's -- the numbers are great. We did have the advantage of IPL in full disclosure. We did a phenomenal job setting up that month. And we have got some great restaurants. And I think the 141 kind of gives, sets a benchmark for the balance of our business, so that we can kind of move that towards that. And it also sets the benchmark for people to understand that long-term this is doable in all markets with the current program that we have implemented, which is running on your television sets or in the country at large. We are delivering those kind of numbers and that's the benchmark. So there'll be some nuances in markets, but I think 141 is kind of a benchmark that we look at and hopefully we can get all those markets to that benchmark.

Chinmay Gandhi: Sure. Thank you. So, in terms of West, how much stores would be there of the total stores which would in West?

Prashant Desai: So, the way we are distributed is West and South has equal share of store content and North has 50%. So that's how it is. And West and South are equally distributed between themselves. So, 50% North and roughly 25%, 25% split between West and South.

Moderator: Thank you. The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: Hi, sir. Thanks for the opportunity. I just had a couple of follow ups on your previous response. On the West recovery, you -- and particularly in the month of May, you do mention that your overall ADS is about 122, but when the West recovery is at 140, does that mean that the West region ADS is more like at a 130, 135 range, or is it that the base for West is lower and that could be more in the similar to your overall ADS?

Prashant Desai: Pratik I know, just bear with us. We don't want to share that ADS level West, North, South, East data for a competitive reason. I hope you appreciate that. But it is obviously by average is higher than the company average. Just allow us to kind of keep this data to ourselves.

Rajeev Varman: Yes. Just one thing we'll tell you, it's not a lower base.

Pratik Rangnekar: Sure. Thank you. And just as you had mentioned earlier, you had, you mentioned that in the West, you had a benefit of IPL. Why is it just West? I mean, what was particular about that?

Prashant Desai: Well, matches were here, right, Pratik. So, first phase of IPL until the playoffs were all played in Bombay, Brebon, Wankhede and DY Patil.

Pratik Rangnekar: So you had a higher dine-ins in this region. I mean, just for the city of Mumbai or something like that, or is, I would assume that IPL would benefit delivery and everything altogether like it would be like all India…

Prashant Desai: No, of course, the late-night business because of IPL across the country was there, but I said, West had an added advantage of all the matches being played over here.

Kapil Grover: And yes, so we did have the benefit of the dine-in recovery as well in this market because of the IPL event happening in West in all the cities where it was held.

Pratik Rangnekar: Got it, got it. And just, lastly, I think someone had asked earlier on the competitive intensity in the North, I kind of missed that. If you could kind of give us an update on how that is trending with McDonalds coming back in that region?

Rajeev Varman: No, it's, as you can see the footprint of the compilation is bigger in West and South, right, and much smaller in the North. So, today, if you look at the North market, we are extensively in a lot of cities, where we are the only ones with presence there. Whereas West and South, if you look at the total, we are significantly lower in penetration than the competition. So, the intensity is actually bigger in West and South.

Moderator: Thank you. Our next question is from the line of Shirish Pardeshi from Central Capital. Please go ahead.

Shirish Pardeshi: Yes. Hi, good afternoon. Thanks for the opportunity. I have two question. The first question is I'm referring on Slide 21. So when I compare the employee cost versus net sales for India and Indonesia, the arithmetic number shows that Indonesia employee cost is higher as a percentage of net sales, any specific reason you would like to offer.

Sumit Zaveri: Shirish, generally, first of all, when we are looking at the current quarter, which current year effectively, in India, we know has recovered more as compared to Indonesia. So that's one part and the recovery are different. And hence obviously being the fixed cost of these would look different. Secondly, if you really look at it from the perspective of wage scales, there is a difference in wage scales between India and Indonesia and the wage scales in Indonesia is slightly on a higher side. But at the same time at the full recovery levels, we've seen that both the businesses should literally be at very similar percentages in terms of employee costs. And if you look at it the kind of ADS that Indonesia market was doing at almost around 140,000 so at full recovery, we are -- we feel that both the markets will be very similar. So at this point in time, your observation is correct, but we see it settling down at very similar levels as we go on.

Shirish Pardeshi: But just if can offer Sumit some qualitative comment, where we want to benchmark in the medium to short term, because, obviously, our journey is that we are expanding the store count.

Prashant Desai: So, Shirish, currently what also is happening is the Slide 21 that you are looking at employee benefit expenses, it also includes the corporate employees, right. Let's put this in a slightly different context for you to understand and for everything on the call. So if you look at my store level people cost, it's very similar to where India is in the range of about 10% to 11%, right. When you look at this from a corporate overall cost perspective, both Indonesia and India will be in the zone of about 5% of my top line. Where Sumit was coming from because in FY'22, the Indonesia business got more impacted because the COVID recovery was delayed because COVID came later in Indonesia, the number looks a little distorted compared to India FY'22 number, where Sumit was trying to explain is when you go forward, as Indonesia as a country opens up both at a restaurant level, people cost as a percentage of revenue and my total corporate cost as a percentage of total revenue for Indonesia business will mirror what India is. It is 11% and about 5% respectively.

Shirish Pardeshi: Sure. That's very helpful Prashant. My second and last question on the store, Raj mentioned that now most of the new stores will also have add on BK Cafe. Now, does that mean that our CapEx per store and our size of stores will expand going forward?

Prashant Desai: Yes. If you look at it when we had gone IPO, the number that we are sharing over DRHP was about INR2.81 crore for the CapEx for first store on a portfolio basis. What Raj mentioned is INR25 lakh to INR27 lakh for island cafe, INR10 lakh to INR15 lakh for extension, weighted average if you take INR20 lakh, you can take that INR2.8 crore number as a INR3 crore number.

Shirish Pardeshi: Exactly. That's what I wanted to check.

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

Prashant Desai: Thank you so much friends for making the time early in the morning. We appreciate it. I know some of you have reached out us saying that we did the results on the last day, but that was only to do with our consolidation. As you know, last quarter we were among the first ones to go and announce our result. You will expect similar trend to continue as we move forward. This was largely because of consolidation. As you know, yes, we are looking forward to these interactions and we look forward to presenting you our business the couple of months' time when we come back to you with our Q1 numbers. Thank you, everyone, and stay safe.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us, and you may now disconnect your lines.