



February 1, 2022

**BSE Limited**  
**Corporate Relations Department**  
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Dalal Street, Fort,  
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**Scrip Code: 543248**

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

**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 Unaudited Financial Results of the Company for the quarter ended December 31, 2021, held on January 25, 2022 at 10:00 a.m. IST as **Annexure A**.

The same is being made available on the website of the Company viz. [www.burgerking.in](http://www.burgerking.in).

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

Thanking You,

**For Burger King India Limited**  
(Formerly Known as Burger King India Private Limited)

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



**BURGER KING INDIA LIMITED**  
(Formerly known as Burger King India Private Limited)  
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“Burger King India Limited  
Q3 FY2022 Earnings Conference Call”

January 25, 2022



**ANALYST: MR. NIHAL JHAM - EDELWEISS SECURITIES LIMITED**

**MANAGEMENT: MR. RAJEEV VARMAN - CHIEF EXECUTIVE OFFICER  
AND WHOLE-TIME DIRECTOR, BURGER KING INDIA  
MR. PRASHANT DESAI - HEAD OF STRATEGY AND  
INVESTOR RELATIONS, BURGER KING INDIA  
MR. SUMIT ZAVERI - CHIEF FINANCIAL OFFICER,  
BURGER KING INDIA  
MR. KAPIL GROVER - CHIEF MARKETING OFFICER,  
BURGER KING INDIA**



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**Moderator:**

Ladies and gentlemen, good day and welcome you to the Burger King India Q3 FY'22 Earnings 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 the operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

**Nihal Jham:**

Thank you, Aman. On behalf of Edelweiss, I would like to welcome you all to the Q3 FY '22 earnings conference call of Burger King India. From the management today we have Mr. Rajeev Varman, CEO and Whole-Time Director; Mr. Sumit 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. Rajeev Varman for his opening remarks. Over to you, Raj.

**Rajeev Varman:**

Yeah, thank you, thank you very much. Good morning, everyone. And I hope you and your families are safe as we continue this Omicron phase. I think it has been an exciting quarter for us actually a very good quarter for us. We delivered revenue wise INR 280 crores in sales, which is 14% higher than INR 245 crores, that we delivered the previous quarter. So, a good quarter.

And I'm going to stop using the word recovery, because our ADS, our average daily sales actually surpassed the pre-COVID numbers. So, with this quarter, we ended up at 104% of pre-COVID quarterly sales. So, that was an exciting number as well. This was driven predominantly by our sales that come through our delivery, which continues to stay stable at 160% of pre-COVID numbers.



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Dine-in sales also recovered, if you recall, our Q2 numbers were about 65% over pre-COVID sales. They moved from 65% to 78%. So, that was also an improvement. Our regional wise, West, we recovered 119%, South and East we were at 108%, and then North we have still a little -- we had a little room of recovery, we're at 95%. However, in December, we crossed the 100% mark on the North numbers as well at 102%.

So, looking at the December exit number of Q3 as we kind of exited Q3, delivery sales ADS 166%, dine-in was recovered 86%, West was at 126%, South and East at 115% and North as I said was 102%. So very good recovery in sales and this is on top of us doing only 75% the traffic. So, we have done a good job with menu in the last few quarters, moving up the check to a substantial number. And hoping that this moving forward into Q4 and then moving into the next year, we are looking at as traffic recovers to surpass all these sales. So good quarter from that perspective.

Also, just a quick note on the restaurant level EBITDA, we delivered INR 48 crores, which is 17.2% all these are post India's numbers. This is more than the Q2 number of INR 40 crore which was at 16.6%. So that went up as well. The company EBITDA was at INR 32.8 crores, 11.7%, which is again over the Q2 numbers, which was at 10.4%, which is at INR 25 crores. So good from that perspective as well.

And finally, just on the Indonesian acquisition. So, we -- as you recall from our past calls, that this -- we had sent in -- first of all, our Board had approved the offer, approved the offer to go ahead and buy Indonesia. And post Board approval, we made a proposal to the seller. That was also accepted. And the latest is that our shareholders have also approved this transaction. So, thank you very much for that, really, thanks for all the support on that.

This is an acquisition of about 83.24% of the Indonesian business, enterprise value is at 183 which is clear of debt free basis. So that's on that side. Just quick couple of notes on our key pillars. We continue to build our restaurants, we built 20



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restaurants in this quarter, moving up to 294. In fact, one restaurant just opened yesterday and we are at 295. And we continue to build restaurants, we have 9 in construction, and another 65 waiting in pipeline as we kind of move them into construction and forward.

The BK App, Kapil, will spend some time talking about the BK App. But great to work there by the marketing team. We have moved that quarter-over-quarter app sales by 41%. So, thank you, Kapil and thanks for all the work you're doing. And just on the cafe, we have opened 18 cafes. Now if you recall, we had talked about opening cafes in Q4. We pulled it up front and we opened 18 cafes in Q3. There are still eight or nine of them in construction as we speak today and more going into construction for this Q4 quarter.

Stunner Menu continues to be strong, it is continuing to be accepted by millennial audience. And Kapil will talk a little more about that. So, that's just basically a top level summary we will go dive into these areas on this call. What I'll do is now I will turn it over to Prashant. Prashant will carry you through some of the numbers and then, Sumit Zaveri and Kapil will kind of follow after Prashant.

So over to you, Prashant.

**Prashant Desai:**

Thank you, Raj. So, friends coming to slide number five. We are as Raj mentioned, as we speak 295 restaurants, this year, our target was to touch 320. We are well on course to deliver 320 restaurants. Next year, as you know, our target is 390. So, we will continue to do that. You will notice in slide number five, that we have not put the restaurant opening numbers for FY '23, FY '24, FY '25 we want to do and it will be a target of 700.

And you will see later on also the guidance slide we've kind of moved that. And the reason I wanted to kind of share with all of you is you see we have actually delivered on every single guidance that we have shared with you be it with respect to store openings, be it with respect to the ADS guidance and be it



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with respect to our gross margin guidance. So, what we will do is, having achieved all the guidance for this year, we will come back to you guys for -- when we come back to you guys for the March quarter full year numbers, that's the time we will now revisit that guidance, including the guidance for the store rollouts in Indonesia, including the guidance for the BK Cafe rollout as a result of this we kind of excluded it from here. But when we come back to you with March there will be three more -- two more numbers in addition to the India store rollout, it will be the BK Cafe in India rollout plus the Indonesia store rollout.

Raj spoke about this in terms of slide number seven in terms of our recovery. What we've done is for your benefit, we've broken this recovery down Q1, Q2, Q3 financial year 2021 and '22 wise. If you recall, two quarters back, we have chosen to share with you that our pre-COVID numbers on ADS basis when we ended March '20 was INR 110,000. And we said that it's better to compare our performance this year with the March '20 numbers, because comparing with March '20 will always give you a very high efficiency. As a result of this, we've shared this number with you for your benefit, as you will see in the last quarter as well, the recovery continues to grow. And we were at 114,000 of ADS for the March quarter -- sorry for the December quarter.

Raj spoke a little bit about slide number eight. As Raj mentioned, the delivery recovery continues to remain strong. And as you will see the first quarter of this financial year, our dine-in recovery has slunked to 32% because of the second wave. It then moved up to 65% in Q2 and we ended Q3 at 78% recovery. But heartening to know towards the December numbers where the dine-in ADS recovered 86%. Similarly, the recovery on the delivery side for December was almost 166%.

If you look at the Q3 overall number, the dine-in ADS currently is at 47% and delivery is at 53%. If you guys will recall when we ended March '20 for the full year, our dine-in business was 65% of our business and delivery was about 35%. You know in our review, we've kind of shared this with you that we believe



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we are predominantly a dine-in business. And as the world opens up, as schools and colleges open up I'd say the dine-in traffic kind of completely recovers, we believe, the balance of 65%, 35% should return back in FY '23.

Talking a little bit about slide number nine, as I said the recovery now stands at 104%. And if we just map by December month, the recoveries is around 111%. Raj again mentioned this, because we have our MFDA gives us the rights to open restaurants all across the country, we shared with you our individual wise recovery, West has again met this recovery at almost 120% for Q3, followed by South and East at 108% and as Raj mentioned, North which was kind of lagging also in December crossed the 100% recovery number.

What I will do is, quickly turn it over to Sumit, our CFO to quickly share with you the highlights of our operating performance. Over to you, Sumit.

**Sumit Zaveri:**

Thanks. I'll kind of summarize literally summarize what Prashant and Raj took you through the financial performance slide, which is Slide 11 is literally the summary of what we achieved during the quarter. We grew our sales by 14% got to INR 280 crores of sales. We achieved a margin of over 66%. And if you've been tracking our performance, you will realize that quarter-on-quarter basis, we've been improving our gross profit margins, we are at 66%. We strongly as an organization believe that we should just continue to be where -- what we've achieved, we improve on from there on. So, we strongly believe that what we've achieved is certainly sustainable. And we can build out based on that going forward.

Looking at the restaurant EBITDA margins, we got to 17.2%. Again, there, we've improved from what we achieved over the previous quarter and at a company level 11.7% in terms of company level EBITDA, improvement from 10.4% to 11.7%, on a quarter-on-quarter basis. So, it's been a good quarter. We believe that we've created a base from where we can kind of work towards improving further.



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So, with that, I'll just hand it over to Kapil, who can take us through some of the initiatives that we took on the marketing side, which has certainly helped us in achieving what we achieved in quarter three.

**Kapil Grover:**

Well, thanks, Sumit, and a very good morning to everyone on the call. Now, in the last quarter, we've seen very good improvement in our sales recovery, and especially dine-in, while our delivery sales stayed very strong. Now, we've been focused on strengthening our brand and Whopper is a key pillar of that strategy. We continue to drive very exciting engagement programs and limited time products to build that franchise.

After a string of awards that we won for our social media campaigns like gate the Whopper, which is around the Valentine's Day, and the great cricket hack which we did around the 20-20 cricket tournament. Last New Year, we launched incredibly fun campaign to engage with the youth and helped them stay sober on the first day of the new year.

While people celebrated New Year with abundant caution outside or in the safety of their homes, Burger King make sure that they didn't need to worry about a delicious, plain grilled Whopper, or a crispy veg Whopper to start their first day in the New Year on a good note. So, the Sober Whopper was a customized product, and it was available exclusively on Burger King App.

I'm very happy to share that the idea connected very well with the Indian youth and also got coverage in countries like South Korea, Australia, France and Italy. So, that's where we continue to build the Whopper franchise.

I move to slide number 14. We've done a lot of foundational work on the Burger King App. And we are now seeing very good momentum quarter-on-quarter with a growth of 41% in sales in the last quarter. We now have 177 e-bikes on the ground, delivering orders which are placed on the Burger King App. And we will continue to grow the percentage of e-bikes in our street. We also continue to invest in driving BK App





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adoption through digital marketing. And by the end of last quarter, we have had cumulative 2.35 million installs and over 400,000 monthly active users on the Burger King App. So that part of the business continues to grow for us every quarter we stay invested behind that.

Now that brings me to the next slide, slide number 15 on BK Cafe. Raj spoke about the fact that we've been able to fast track this project and roll out 18 cafes by 31st December. Now these cafes are a mix of high street, drive throughs and malls so, we can get learnings and improve the model before we scale up. So far we've seen that the consumers have given very positive feedback on the menu, both hot and cold beverages and the food. We're also seeing some very good pattern and improving overall beverage sales and traffic in key day parts by offering this new proposition to our consumers. But as we said, it's very early days for BK Cafe and we will keep you posted on how this progresses over time.

Now that brings me to slide number 16. Last quarter, we continued to grow Stunner awareness in trial, that's our value proposition. If we measure this versus July 21, which is when we launched a 360 campaign around Stunner, the Stunner Menu volumes have grown by 39%, which is in a way very strongly correlated to dine-in traffic growth in the last quarter. So, that tells us that the consumers have a very good acceptance and trial of the Stunner menu. And we're getting fantastic feedback on the products. So that in a way sums up the marketing update for the last quarter.

I will now hand it over to Prashant to talk you through the key performance indicators.

**Prashant Desai:**

Thanks, Kapil. Appreciate that. So, friends, as I was sharing with you earlier this slide used to be our guidance slide. Given the fact that we've achieved all the three guidances that we shared with you for the current year, what we want to do when we come back to you in March is now start incrementally sharing with you the new guidance, because most of our



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guidance will now need to be revised upwards from what it was previously.

So, we will now come back to you in the March quarter full year numbers with our new guidance on store openings. It will also include the guidance on BK Cafe, as well as our guidance on the individual operation, where our view is that we should be able to -- now that the shareholders have approved this, we will be soon launching our QIP. And subsequent to the successful closure of QIP and acquisition of the Indonesian business, we will come back to you in the March quarter and guide you for the Indonesian business segment.

Now with cafe starting, we will have to revisit our guidance upwards on the gross margin side on the same store side. As Raj and Kapil both mentioned still early days for cafes, initial response continues to be extremely strong and promising, but we are just asking for another quarter for you so that when we come back to you, with our March numbers we guide you much more appropriately with a very strong degree of confidence on that. So, as a result of this, we kind of released the previous guidance slide, and we will reinsert it in the next quarter.

In terms of what's the update on the transaction, as you know, which was a related party transaction, being a related party transaction the promoters were not allowed to vote. So, the procedure was really with the minority shareholders. So, the minority shareholders overwhelmingly have voted in favor of acquisition of the BK Indonesia Business, we continue to be very, very strong believers not just in the Indonesian story and the Indonesian Burger King story, but in its growth as well.

Now, we have to go and raise this money to acquire this business. So, we will very soon be launching our QIP as a result of this and hopefully with our current existing and new investors embracing our Indonesian purchase we should be able to acquire the Indonesian business. We also -- the other development, now we got acquiring the Burger King Indonesia business, we have proposed the main chains to Restaurant



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Brands Asia Limited, the shareholders will approve that, we'll now wait for the ROC approval before we kind of change this.

So that's it from our side guys. A strong quarter, but just one small thought I want to kind of leave with you. This year was also like last year kind of boiled with second wave and now the Omicron wave. So, in all this we are actually looking forward to the next year probably will be a very, very big year for Burger King. For the India business, for the Indonesian getting consolidated with cafe now, these are very meaningful parts of our business. Hoping that next year we will have probably much lesser on almost zero disruption because of this looking forward to dine-in business. Again coming back the traffic bouncing back as Raj had mentioned in the previous call during this COVID period our check sign has grown by about 40%. And if traffic comes back (inaudible) next year FY '23, we will have a very different FY '23.

So, with this, we open the floor for Q&A. The team is here to take on any questions that you may have.

## **Questions and Answers**

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask the question may press '\*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '\*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Vicky Punjabi from JM Financial. Please go ahead. Vicky Punjabi, your line is unmuted, request you to please unmute your line and go ahead.

**Vicky Punjabi:**

Yeah, thanks for taking my question, sir. Am I audible?

**Moderator:**

Yes, you are. Please, go ahead.

**Prashant Desai:**

Yeah, Vicky.



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**Vicky Punjabi:**

Yes, sir. So, sir, my first question is actually on the margin front. Now, I was just comparing the current quarter with the December '19 quarter. So, I see a gross margin expansion of 140 bps and an EBITDA margin expansion of 30 bps. And I just -- when I look at two quarters in terms of character, there is definitely a higher element of delivery in this quarter versus -- I mean, delivery mix this quarter versus say a December '19 quarter. So, I mean, just one of the implications that I could draw out here is that, if we have a same kind of a revenue per store, and the delivery mix is higher than what the dine-in mix is, it will have an adverse impact or on like-to-like basis the margin would be lower, the EBITDA margin would be lower. Is this a true understanding? Or the fact is that, the incremental prices on delivery does offset the incremental expenses here?

**Sumit Zaveri:**

So, Vicky -- Prashant, you want to take?

**Prashant Desai:**

No, no, Sumit, go ahead.

**Sumit Zaveri:**

So, Vicky, yes, what you are seeing is correct that dine-in and delivery has a differential in terms of margins at an EBITDA level, but your question, first, saying does the price differential offset the impact? Yes, price differential and the idea of having a price differential is to offset and be competitive on the platform. So, that does help retain the gross margins.

There is an incremental cost to do that business. And that does impact on the EBITDA side. But what we have always been maintaining that as the business starts recovering, and as we see the restrictions on the COVID coming off, we very clearly see that the business will move towards and tend to move towards dine-in. That's literally the character of the QSR business in India and that's what we've seen.

If you look at even our slides on what we have observed ourselves of dine-in recovery, as the restrictions kept on moving out, we've constantly seen the share of dine-in increasing. And if you see literally in the month of December, we got to 86% of our pre-COVID levels of dine-in. So, while it does impact, we do strongly believe that as restrictions go back,



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we will go towards and closer to the pre-COVID levels of dine-in delivery ratios. That's something which we strongly believe.

Secondly, I kind of did cover this as a part of my mention. The gains on gross margin that we've got so far, we strongly believe that we should be -- we strongly knew that we would sustain it and only kind of improve from there on. So, just to summarize, we strongly believe that we are a dine-in led business. As the restriction goes back, we will go towards a higher share of dine-in. And secondly is the gains on the margin side that we've got, the gross margin side that we've got we will be able to sustain and only grow from there on.

**Vicky Punjabi:**

Okay. So, sir...

**Prashant Desai:**

Just one thing I wanted to kind of buildup on that, what Sumit mentioned in terms of, as I mentioned, our check sizes during this period has gone up. So, though your percentage margin may have come down, but when you look at the dollar margin or the rupee margin per se because your check sizes have expanded by 40% overall from a business standpoint it's not made a very meaningful difference, though as a percentage basis, if you look uphill battle. But on an actual would be, it's not making much of a difference. Sorry, Vicky, go ahead.

**Vicky Punjabi:**

Sure. Sir, I just wanted to -- just clarify my understanding out here, what we mean is that delivery stay strong, while dine-in recovers. So, overall, once the dine-in recovers completely, we will have a higher revenue per store what we were seeing versus pre-COVID levels, and plus the margin, the gross margins would continue to strengthen from there on, partly also -- I mean, despite the dine-in proportions moving up, is that my -- is my understanding right out here?

**Prashant Desai:**

Yes, yes, absolutely, Vicky.

**Vicky Punjabi:**

Okay. Sure.

**Rajeev Varman:**

Just the three numbers I want to share with you. We spoke about this in the last quarter, we said that we would exit this year, fiscal year in March, going North of 66% on margins, we



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have already done that in Q3. We said that we would exit Q3 -- we would exit this year, fiscal year March, getting sales to back to pre-COVID levels, we have already got this in Q3. We said that we will get to 320 restaurants by March of this year, fiscal year. And we are well on track to hit those. So, that's why we kind of put this into a very good quarter because it helped us with all the opening ups and the market and the malls and so forth. It just kind of got us at quarter head start on all our numbers. And that's why we are kind of placing this as a good quarter.

**Vicky Punjabi:**

No, sir, yeah, definitely, it's a strong quarter. Just one more thing I wanted to understand on the BK Cafe expansion side, I mean, while we are currently kind of piloting the model, once we have a -- once be firmed up on the model side, there is something on the number of stores that's being expanded generally. And then there is BK Cafe that comes in. So, on the new store launches, what is the thought process here, do we currently go without the BK Cafe and then in three to four years, we have to again renovate to get BK Cafe? Or would we actually go with BK Cafe across most of our new store expansions. Just wanting to understand the thought process of cafe expansion?

**Rajeev Varman:**

Vicky, cafes are here to stay, right? So, all our new restaurants are actually designed with cafes in them. So, we will be opening cafes all across our portfolio. As I said, I think two quarters ago, that there'll be a full-fledged cafe and then in a food court, we will have a what we are calling is a B model, which will have a counter area, and we'll have the menu board and the cafe menu over there. But we are now inherently building these into our designs. So, all the new design actually already, we have already done that. So, all the new restaurants that we're opening now already have cafes in inside them. And this will continue as we continue to build restaurants next year and the year after that. I hope that answers that.

**Vicky Punjabi:**

Sure. Thank you lot. Thank you lot. I'll come back in queue for more questions. Thank you.



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**Rajeev Varman:**

Thank you. Thanks for your questions, Vicky.

**Moderator:**

Thank you. A reminder to our participants, please press ‘\*’ and ‘1’ if you wish to ask a question. The next question is from the line of Anish Moonka from JST Investment. Please go ahead.

**Anish Moonka:**

Thank you. So, when I try to understand the long-term business economics of a QSR company, and please correct me if I’m wrong, customer retention plays a very critical role. So, not just to check if the customer is coming back to us after visiting once, but also to check that is he or she coming to us in 7 days, 14 days or 28 days. And thereafter to get data driven insights as to how much integration are we able to make in their day to day lives? So, what does your data tell you? And where is the direction? Thank you.

**Prashant Desai:**

Kapil, will you take that.

**Kapil Grover:**

Yeah, sure, Prashant. So, hi. So, we are actually in the midst of working on a very comprehensive CRM tech integration and long-term sort of play around understanding customer through data, that is already in the works and we should be rolling that out in the coming quarter. So far, what we are getting from researchers and customer interactions, both qualitative and quantitative, is that we are seeing a good incidence of our products on the Stunner Menu and the new launches that we’ve done in every checks the customer are trying it, and it sustains over time. So, we’ve seen that stickiness on the menu. But as I said, we are in the midst of working on a very comprehensive CRM program. And we should be able to share a lot more database insights in the coming quarters.

**Anish Moonka:**

Noted. So secondly, on the menu, so as we see it, the majority of India remains a dal, roti and rice eaters and would go for a QSR not more than once a weekend. As we saw with KFC, when they were struggling 10, 15 years ago, to become an everyday brand, they introduced the rice box, and that changed everything. So how is Burger King planning to position themselves as a weekday brand, as we understand that’s where the untapped volumes are? Thank you.





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**Rajeev Varman:**

Yeah, thank you, Anish for that question. If you actually reflect back on QSR usage in India today, it's approximately about eight times in a given month, right. So, that's how often they are going into the restaurants, those numbers in the other Asian markets, for example, China and Indonesia are significantly higher, China being at about 28 times a month, and Indonesia is somewhere in between those two numbers. So, that growth is happening as we speak now. When I came to India in 2014, the concept of burgers and Western QSR was basically a snack, and people would have that snack and then go back and have their dinner.

Now, we introduced and strongly went after the concept of combos. And we really took the lead in making sure we came up with some fantastic introduction and strategies at that time, we were actually taking a combo at INR 50, so take any product at INR 50 became a combo. So, we in grilled, that kind of culture at that time, we have not looked back from there, we continue to drive that experience with our customers. And today, if you look at our combo percentage has significantly climbed beyond what we used to do, which was at 26%, 30% this has gone North of that.

The other two things that I'll tell you is how we learn that these repeat businesses, it's through products, it's through our product mix. So, if you look at our product mix, we started the King's collection, which has gourmet line of products. And, lo behold, we are expecting to sell a few of those. And now today we are selling upwards of 80 of those units per day. And that is not with 100% of the traffic back in our restaurants. So, there's massive room over there, that's sustaining, it is not going up and down, it's sustaining, it's continued and grow from there, which tells us that though that entire menu that collection has resonance with our clients and they like it.

The second one is the Stunner, the introduction menu or the entry level menu, and we shared those numbers with you or Kapil shared those numbers with you, those are gaining massive traction. And you can imagine we have not yet gone on TV this quarter. And the only promotion we had was last year





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as we went on television with Stunner Menu. I think this is the other one which will gain and will drive people into our restaurants at the entry level for trials and then we have a laddered menu to our King's collection to gain, check from there on.

So, as we look at the business, we feel strongly that we have put in the discipline and the item and the structure menu architecture in place, which will give us long term growth on not only a repeat business, but also on new trials because of the entry level menu.

**Kapil Grover:**

Just to add to what Raj spoke about our menu being structured in a manner. To your question we have also been very conscious of the Indian taste palate in the design of the menu from the day one when Raj set up the whole speech with the legit team, the entire menu that we sell in India is an India exclusive menu designed to the taste preferences of the Indian consumer. And even today we continue to stay focused on that so, ideas like for example the Masala Whopper is a Whopper which is made for the Indian taste palate and you'll see many more ideas that come out like that.

For example, the Tikki Twist Burger it's got products and ingredients which are -- because Indians like multi textural food it's called crispies and a spicy sauce, right, the Makhani Burger. So, we have a menu which does reflect the taste preferences of our Indian consumers.

**Moderator:**

Thank you, Mr. Moonka. Request you to join the queue for any follow up. Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

**Avi Mehta:**

Hi, sir. I just had three questions. First, I wanted to kind of just understand, is there any divergence in the gross margin between time and delivery? What I mean is do people tend to order more premium products online versus offline? Or does the check size have any difference in the gross margins?

**Sumit Zaveri:**

Yeah, so first of all, Avi your question on check sizes, we've actually seen very similar check sizes between dine-in and



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delivery. From the perspective of gross margins that we realized on both products is very similar in terms of percentage as well as rupee margin. The reason is that we do follow a price differential as a mechanism to kind of make sure that we do realize very similar gross margins from both dine-in and delivery, as a business model.

**Avi Mehta:**

Perfect, that's clear. So, I was trying to kind of see if that is a -- if the changing mix has any risk or how -- and does that have in that gross margin, but now, I'm clear on that. The second bit is essentially on the operating restrictions that we've seen, because of this new COVID wave. Could you give us any color over there on how the customer response has been from this disruption? And more importantly, I know it's crystal ball gazing to some extent, but any expectations that you might have on -- by when do you expect dine-in to kind of get back to normal?

**Rajeev Varman:**

So yeah, thank you, Avi. If you reflect on what's just globally happening, there are markets now opening up, UK is one of those markets that substantially opened up. We are seeing here, for example, in Karnataka, just recently, they kind of opened up and removed the weekend curfews, those kind of hit very hard to the business when there's a curfew on the weekend where we do a lot of business. So those are slowly kind of been taken off.

Now, you're absolutely right, we don't have a crystal ball or we don't claim to have any knowledge on how this is going to progress. But all that we're seeing around is that, while we had a kind of a restriction here in January as Omicron kind of came and set in, it is kind of -- from whatever we are seeing in terms of the markets opening up, kind of going into the rearview mirror slightly, I would say that cautiously, because we have seen this go back and forth. And everyone on the call is aware of that. So -- but for us, we are looking forward to a very, very strong next year, because we have -- see the discipline is we have put the menu, the architecture, the business economics, and the way we have structured our restaurants in the last two years, well planned, ready for the next year. So, we dressed



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ourselves mentally and physically in our restaurants, with all those initiatives we have taken.

Good example is this app. We launched our own app, while we were doing transactions on delivery through aggregators, doing a fantastic job with that. We were staying way above the average in the industry in terms of daily sales to aggregators. But we bought the discipline of coming up with this app, we have gained 41% quarter-over-quarter transactions on our app. This is a very strong tool, it's going to help us understand our consumers better. It's also going to give the last mile kind of an experience, a strong experience to our consumers. So, this is another tool that we've prepared going into next year.

So, if you would look at the dress up, we have got cafe ready to rock and roll for next year. We have got an app that is very strong and gaining momentum. We have got an entry level menu Stunner, which we launched during COVID, which is gaining traction and gaining gates, you will see that this will be something that we will be mass advertising across the country. So, also in place.

And then finally, we have the growth of our restaurants which continue in the direction we have not missed a beat after we came after the second wave. We haven't missed a beat, we have put up our pipeline together, today we have 65 restaurants in our pipeline. We have eight or nine in construction as we speak. So, we are not skipping a beat. We have all planned, ready to rock and roll for next year. Feel very strongly about that here.

**Avi Mehta:**

Sir, if I understand correctly, you're saying that as of now it seems the consumers are taking it in their stride and we should -- I mean given what we've done, it seems hopefully kind of if we say touchwood or fingers crossed, things to kind of fall in place for the next year, is that understanding, sir? I just want to clarify that.

**Rajeev Varman:**

Yeah, Avi, as a company, what you do is you prepare yourself, right? You prepare yourself, if the business comes in next year,



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are you prepared for it? Are you prepared if there is going to be restrictions? And what I'm saying is this company has prepared itself, from all ends from technology, from the food side, the way we are constructing our restaurant, the way we are moving forward with our menu, we have prepared ourselves to actually go head on with the business next year. We expect and we feel strongly about next year. And we are prepared, we have put all our tools in together to move forward next year.

**Moderator:**

Thank you, Mr. Mehta. I request you to join the queue for any follow ups. The next question is from the line of Akshen Thakkar from Fidelity International. Please go ahead.

**Akshen Thakkar:**

Congratulations on a good set of numbers. I had two questions. One was a housekeeping question and one was generally I would say a leading question. Housekeeping question, first. On the call, you mentioned that your margins across delivery and dine-in gross margins are same, just wanted to double click on that a little bit. So, if you have higher prices, and gross margins are same, does that mean that you are treating delivery charge net of from sales or as a part of call or do you have it as other expenses, if it is part of other expenses accounting would mean that gross margins on delivery are higher and at an EBITDA level, maybe you are similar. So, just question on that, I'll wait for your answer and then ask my second question.

**Sumit Zaveri:**

So, Akshen, one is that yes, there is a price differential. There is also discounting that happens in order to be competitive on the platform. And hence, that's offset that allows us to maintain or manage very similar margins between dine-in and delivery. To your question on the delivery charge for the costs that we incur. That is effectively kind of would sit part of other expenses line on our P&L are the costs that we incur to do that business, which is part of other expenses line.

**Akshen Thakkar:**

Okay, sir. Is the understanding on this correct, the gross margins are similar for dine-in sorry for delivery that would mean that your EBITDA margins are lower today?



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**Sumit Zaveri**

On the delivery side, yes, because there is a cost of incremental cost of doing that business. Yes, absolutely.

**Akshen Thakkar:**

Okay. And when you compare, even you've mentioned that you started doing in-house and doing that e-bike when you compare cost of delivery for self fulfilled orders versus on platforms, is there a difference today, on the cost of orders?

**Sumit Zaveri:**

At the moment, actually, we just kind of starting to build that entire piece. And our intent is really speaking strategic in nature, when we are saying we want to do our delivery, delivery on our own. And if I was to kind on this market the entire piece, the first part and you know in one of the questions that I think Anish had asked, we want to effectively just kind of make sure that we understand our customers better, so that we can service them better. That's the first part that we want to kind of work towards.

The second part is experience that the customer gets when he gets the food at home, we want to make sure that that experience is kind of far more superior when the order gets delivered through our same platform. The third piece, and Raj was just talking about the technology investments that we've done. And today our technology investments are done not from the perspective of just delivering or servicing the customer purely from delivery perspective. But to engage with him on all different platforms or all different ways in which we service or connect with the customer be it delivery, be it dine-in, be it takeaway.

So, it's a completely different perspective with which we are just building this entire environment. Of that environment delivering or having a e-bike is one piece. At this point in time, we are higher in terms of cost, we would be higher than what we would incur with respect to aggregators, as far as we are concerned. But there also we've kind of very clearly laid out the path of how we would get in line with what we incur with respect to aggregators compared to what we incur with aggregators and we see as we get scale, we would effectively be able to kind of get in line with those costs as well.



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**Akshen Thakkar:**

Okay. Got it. The second question is a little more (inaudible) I'm just looking at Slide 11 in your slide deck. And I'm comparing margins from Q3 where your overheads simply have grown, more or less in line with sales. I'm talking about restaurant level overheads and the margin improvement essentially come from a little bit of gross margin improvement and corporate overhead improvements. And you are, let's say, 11.5%, 12% handle on corporate EBITDA, and you're saying that to go to low teens wherever it lands up happening. The part to that in your view will be better absorption of corporate overheads or do you see that there is some scope of operating leverage on employee or, other expenses? Is that -- you've seen recovery, but overhead absorption I would part it as above sort of corporate EBITDA level would have been slightly better, but that seems to be growing in line. Now, it could be possible that in Q1 and Q2, maybe you had costs, which were lower, and as businesses come back you've ramped up those costs so maybe in future any difference? Just wanted to get your thoughts on this as we think about margin is your business, will it be, A, gross margin, B, corporate overhead, or will it be, C, the restaurant level overheads? Thank you.

**Sumit Zaveri:**

Akshen, I'm just kind of answer that and then maybe Raj can add to that Akshen. So, very clearly, one is, gross margin. And we've been saying that we will work towards improving the gross margin, through various efforts growth in scale to kind of bringing new categories and cafe is a classic example of that, which we strongly believe should help in improving the gross margins from where we are today. So that's the first part.

So, second part and, initially, when we were talking about the recovery, we spoke about saying the way we expect the business to kind of move towards more timeliness recovery kind of we very clearly at the same time understand that the opportunity that we have with respect to the sales that we can achieve at the store level is not fully captured in as we still are getting out of COVID.

So, effectively at the store level, we expect that as we continue to kind of improve our sales from the current levels, we will see



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the broader absorption of the costs, fixed costs at the store level as well, one of the key one would be on the rent side. And that's something which we expect that should kind of also help improve.

And then largely, there is -- we expect that the corporate costs in terms of growth will grow at a slower pace in terms of -- as compared to the larger growth in revenue that we will see. And, when we talk of larger revenue growth, it will be same store as well as new expansion. So, we do expect over a period of time effectively, even the corporate costs should start kind of broad basing from the current levels that we have. So, it's very clearly defined into three buckets very clearly for us, gross margin improvement, broad basing of store level fixed cost largely on the rental side and the broad basing of the corporate costs on an overall business. So, that's how we will look at it, it's not going to be just one line. Sorry, Raj, can give you...

**Rajeev Varman:**

That's a comprehensive answer. So, basically, I mean your rents, I mean, that's a big chunk over there, right? If you look at that number over there, that's a direct reflection of top line, right? So, as your top line grows, you move from, MG or minimum guarantee rents towards, percentage rents. So, as that change happens, as volumes increase, you will find that number shrink in the middle, the expense line. And the corporate overheads you can see between Q2 and Q3, you've seen a significant decrease in overall corporate overheads. And those, as the business grows, and that's why we call this a scale business, scale cash business, because as that number of restaurants grow, the number of the sales grows through those restaurants, cafe sales gets added on and so forth. It does not add additional corporate level kind of expenses. So you will find that number kind of shrink as we continue to grow.

So, that's a direct, so both those lines are actually a direct reflection of the sales numbers on top both existing restaurant sales as well as new restaurants coming in and adding new sales. Thank you for your question.

**Akshen Thakkar:**

Okay. Thank you, guys.





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

**Pratik Rangnekar:** Hi, thank you for the opportunity, and congrats on a good quarter. I think in one of the earlier calls, you had mentioned that in the North region, some of the protests and all were having an impact on your revenues or your ability to capture sales. But if I look at the jump between the quarterly average and the December exit, I would have probably expected a bit more sharper jump in the North area. Any thoughts on why that region is lagging?

**Rajeev Varman:** Yeah, that's a good question. The answer is no different than what we gave before. It is exactly the reason for it. We have significant of our portfolio in -- on Metro stations. And as you can look at the Metro, especially in the NCR area, it is still not back, right, it's running a percentage of what it used to run pre-COVID. So, that's a significant impact, because those stores, we've, I think, between 18 to 20 stores in that market in that Metro market.

Also, if you see that we have built basically have our portfolio up in the North. And many of these restaurants are in malls and the number of malls also in the North is higher than what we see in West or what we see in South. So, you will find that as the malls completely open up, whether it's this policy of double vaccinated people going inside the mall, or today, the malls are open, you can go to the food court, you can buy the products, but you cannot sit there and eat, those things are still in place, right? They're still in place in several markets. And as those things get removed, and we come back to normalcy as whatever the new normal is, then you will find that these will effectively click very quickly, very quickly you will find because it is the captive audience. Metro is the captive audience and so, are the malls.

So, as soon as the restrictions are removed, you will see a very immediate action on the other side with sales increasing. And that's just direct correlation for that.





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**Pratik Rangnekar:**

Got it, thanks. So, one question on the gross margin part, it's very encouraging to see the continuous progress that we have made here. Any color that any more color that you can provide on how this has come across? Is there a pricing element here or maybe some breakup that you can provide between pricing and mixture? And also, if you could quantify, maybe broadly the impact of RM inflation that you're facing this quarter?

**Rajeev Varman:**

Yeah. So, the first question, I'll just quantify saying that we're supposed to add 66%, as we exited Q4 we have already done that. See, basically, if you look at gross margin, how do these gross margins improve as you grow? For example, I'll just make this -- simplify this, it's not as simple as it is, but I'll simplify this.

You have a restaurant that is potentially a remote restaurant in a city where you're transferring your trucks for one restaurant. As you build two restaurants, the same truck is carrying food for two restaurants. When you go from two to five restaurants, the same trucks carrying food for five restaurants. So, your transportation cost, which is secondary transport potential costs would continue to go down. So, that has an impact on your total GP.

Secondly, as you build significant amount of portfolio in a certain market, then you're able to get local vendors, whether it's vegetables or other products, you can get local vendors there. And that drives down even more the transportation costs as well as bringing in more vendors is always attractive in terms of total buying ability and the cost of buying. So, these things are cumulative. And we have a very strong supply chain department led by Sandeep Dey. And when we did this in 2014 we've set this travel journey, we had spoken about getting to 66%, we had spoken about going from 66% to 68%, none of that has changed. All the work behind that whether it's in transportation, whether it's in the way we get to different new vendors to come in or whether it's basically engineering our products, whether it's going down to ingredient levels, we even negotiate ingredients on behalf of our suppliers that process our food.



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We go and negotiate the ingredients, so the ingredients purchased by them goes cheaper and then that goes to gets transferred directly to us. So, it's just hard work and it's not something that we are all brilliant people here, we're just hard-working group of people that continuously work hard every day to continue driving this number below and Sandeep and his team do a great job doing that.

**Moderator:**

Thank you. Our next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

**Pranav Tendulkar:**

Hi, thanks a lot, sir. Just two questions, what are the long-term view on the royalties? I might have missed it in previous conversations that is one. And second is what is the KPIs -- top five KPIs and priorities for men? Thanks a lot.

**Rajeev Varman:**

Okay. So, royalties, we kind of have spoken about this several times, well, I'll just kind of reiterate that. We started off in 2014 paying 2.5% royalties on restaurant we opened that year, the following year, royalties went from 2.5% to 3%. And when I say we had 2.5% for the ones we opened in 2014, those were for 10 years, for 10 years they were maintained 2.5% and then they will go up to 5%. Those we opened the following year we had 3%. They stayed 3% for 10 years, and then go up to 5%. The royalties are capped at 5%, they're capped at 5%. And they don't go up from there.

Our agreement, our master franchise agreement is until 2039. So, we have the luxury of a very good royalty rate. And that royalty rate is capped. So, that's good news for everyone investing in this business, certainly very good news for all of us over here.

Now the KPIs you're talking about, the first KPI of this business is the most important KPI, that's traffic. How many people come into your restaurant on a daily basis, how many people place an order, it's -- we call traffic is the blood of this business. The blood is what dictates every other number that happens in this business. So, traffic will be one of the biggest and strongest KPI of this business. Sales, obviously, with our



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check, APC, simple definition of sales, as I tell, my team over here is, how many people come in and how much do they buy, that sales basically. So that's a major KPI.

Our gross margin we have spoken about in a big way, it's a major KPI, a growth is a KPI for us, we want to make sure that we are continuing to grow. When we say sales, we not only take sales of existing restaurants and new restaurants, we also look at things like cafe coming in adding sales during breakfast day part, cafe coming in and adding sales between lunch and dinner. So, this is a very strong initiatives that we put in whether it's Stunner Menu, whether it's the King's collection, whether it's the cafe, whether it's our app, all these are to drive sales. So that's a major KPI.

Growth is, obviously, I just spoke about it. And obviously our restaurant level EBITDA margin and our company level EBITDA margin. So, this is how we run our business. These are the boxes that we put on our chart if you come and see our MBOs, our management business objectives, all our people have these business objectives on their MBOs. Hope that answers. Thank you for your question.

**Moderator:**

Thank you. Ladies and gentlemen, due to paucity of time will be able to take one last question that is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

**Shirish Pardeshi:**

Hi, team. Good afternoon, thanks for the opportunity. Just two questions, the first question is on -- if you can spend a minute or two, how we should look at the BK Cafe business? So, maybe if you can share some commercials, this purely from the building our model perspective next two to three years, maybe if you can outline what is the number which you are looking? And quickly follow up on that, what is your experience I mean it's too short, I mean, almost a month and half you would have spent time on building this business, but initial feedback on the customer traffic and things how it is moving?

**Rajeev Varman:**

Yeah, I'll turn it over to Kapil to give you what the customer reaction so far has been, it's been very positive. But just on the



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guidance and numbers, I think Prashant said it on the onset, give us some time. We don't want to be sharing half numbers, we want to understand it very well. When we say we have 18 restaurants open, many of them are open only for a week maybe a little more than a week. So, we don't want to at this point sit here and kind of share half numbers. So, please give us some time. We are extremely delighted with what has happened with this cafe business. We are extremely delighted with the products that we have put forth, our objective and subjective both quality and qualitative and quantitative research whatever we have done that Kapil will share his thoughts on that.

But as is being overwhelmingly accepted as a very good roll out and we are extremely happy with it. That's why we pulled it up. We are supposed to do this in this quarter in Q3. And we are not taking a pause, we are going forward and continuing to build these cafes. So, it can tell you how strongly we feel about it. Kapil, you want to add anything?

**Kapil Grover:**

Yeah, just to add to what Raj said, see, it's about how we have laid the foundation of this business. And we continue to learn from all the experience that we are gaining from these cafes. First of all, good traction on the menu, we're getting good feedback. As I said, in my slides, on beverages, both hot and cold, and also on the food. Now there is consumption of a lot of hot beverages in the North, because very cold there, a lot of cold beverage in the West, because of weather, there's -- that mix will shift as the weather changes. So, as I said, we'll keep learning from it.

The food menu, good fashion, and we keep optimizing it, we keep adding new products, this is customer feedback, and you will see that menu evolve over a period of time. In the next quarter, we will definitely have more to share with you on this business.

**Shirish Pardeshi:**

Okay. Just last question on the Burger King Indonesia acquisition, somewhere I read we have done the acquisition of 83%, while it also says that cash free and debt free basis at



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100% acquisition. Slightly confused, is it that 100% acquisition or if it is not, who owns the balance 17%?

**Prashant Desai:**

So, I'll take that Suresh. Currently, as you know, and we had shared the details in the call when we declared the bid for the Indonesia business. The balance is owned by the original franchisee in Indonesia. It's a retail group out of Indonesia, very large retail group called Mitra Adiperkasa Group. If you go back to those transcripts, you will realize that besides acquiring 83% of this business, one of the condition to bid for this business was to infuse \$40 million into the Indonesia business. Because the Indonesia business is likely to grow from where they are today, which is about 176 restaurants to about 350 over the next five years.

So, if you look at that \$183 million, that's their enterprise value, post all the adjustment in terms of lease, lease liability, debt related normalize working capital, the equity value of this will come anywhere between 125 to 130. We are currently acquiring 83.5%, post the infusion of \$40 million, the primary infusion into the Indonesia business for that expansion, we believe we will end up owning about 90% of the business in Indonesia and 10% will continue to be held by the partner which is Mitra Adiperkasa Group.

**Shirish Pardeshi:**

Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, due to the paucity of time that would be our last question for today. I now hand the conference over to the management for the closing comments. Thank you and over to you.

**Rajeev Varman:**

Okay, thank you. Thank you so much, again, really appreciate everyone joining the call, your enthusiasm with the questions, thank you for that as well. We've had a good quarter and we're now sitting on it. As a team, we are continuing to trust the business, trust the tools of the business, continue to plan around the business, getting ready for next year. I think this acquisition of our business in Indonesia and continuing to grow that business over there, growing the business over here, building



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cafes here in India, building cafes in Indonesia will become part of what we will be doing going into next year.

We feel strongly about next year, we felt that as things come back to normalcy that the economic model that we've put together in the last two years it's becoming even stronger and we felt that this will be a driving force to what we'll do in the next year. So, thank you again for joining the call, I really appreciate it. Please stay safe and have a good evening. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.