



Date: November 16, 2022

To

<p>The Manager, Listing Department BSE Limited P.J. Towers, Dalal Street, Mumbai – 400001</p> <p>Scrip Code: 543283</p>	<p>The Manager, Listing & Compliance Department National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai – 400051</p> <p>Scrip Symbol: BARBEQUE</p>
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Dear Sir/Madam,

Subject: Transcript of Q2 FY23 Earnings Call held on November 9, 2022

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

We hereby enclose the transcript of Earnings Call held on November 9, 2022 at 5:30 PM (IST), post announcement of financial results of the Company for the second quarter and half-year ended September 30, 2022. The audio recording of the Earnings call along with the Transcript have been uploaded on the Company's website at www.barbequenation.com.

This is for your information and records.

Thanking you,

Yours faithfully,

For Barbeque-Nation Hospitality Limited

Nagamani C Y
Company Secretary and Compliance Officer
M. No.: A27475

BARBEQUE-NATION HOSPITALITY LIMITED

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Barbeque-Nation Hospitality Limited

Earnings Conference Call

Q2 FY2023

November 9, 2022

Management:

Kayum Dhanani – Managing Director

Rahul Agrawal – Chief Executive Officer

Anurag Mittal – Chief Financial Officer

Bijay Sharma – Head of Investor Relations

Moderator:

Amandeep Grover – Ambit Capital

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY23 Earnings Conference Call of Barbeque Nation Hospitality Limited, hosted by Ambit Capital. As a reminder, all participant lines will be in 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 and operator by pressing star then zero touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amandeep Grover from Ambit Capital. Thank you, and over to you.

Amandeep Grover: Thank you. Good evening, everyone. Welcome to Q2 FY23 Earnings Call of Barbeque Nation Hospitality Limited. From the management, we have with us; Mr. Kayum Dhanani, Managing Director; Mr. Rahul Agrawal, CEO and Whole Time Director; Mr. Anurag Mittal, Chief Financial Officer and Mr. Bijay Sharma, Head of Investor Relations.

Before we begin the presentation, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to the earnings presentation for a detailed disclaimer. I now hand over the conference over to Mr. Kayum Dhanani. Thank you, and over to you, sir.

Kayum Dhanani: Thank you. A very good evening, ladies and gentlemen. I take the pleasure in welcoming you to Q2 FY23 conference call of Barbeque Nation. This was a milestone quarter in terms of store additions as we crossed 200 marks during the quarter. We celebrated this milestone by participating in 'Daan Utsav' festival, serving meals to 200 underprivileged kids across each of our 200 restaurants, serving a total of 40,000 meals.

We added 10 new stores during the quarter taking our total store count to 205 stores and remain confident of achieving our guidance of 40 stores for FY23. Of the existing 205 restaurants, Barbeque Nation India network has 186 restaurants, Toscano has 13 restaurants and international portfolio includes 6 restaurants.

We continued our growth momentum in Q2 FY23 with year-on-year revenue growth of 41%. This was driven by 23.4% same-store sales growth and new store additions. Our dine-in business has grown by 61% on a year-on-year basis, again driven by volume increase and increase in average realization. Our dine-in business growth was partially offset by 23% year-on-year decline in delivery revenues. While our delivery business volumes have increased on a year-on-year basis, average order values (AOV) have come down due to the change in product mix.

Our delivery business has stabilized during the quarter and we are starting to see marginal uptick in monthly delivery revenues. As discussed during the last quarter with the objective of further enhancing our delivery portfolio, we launched a Biryani brand called 'Dum Safar'. Dum Safar was launched during the second half of the quarter across 25 locations. The initial response to this product has been very encouraging and we plan to launch Dum Safar across all our restaurants in a phased manner by the end of FY23.

Our gross margins improved by over 40 basis points during the quarter as compared to the previous year and dropped by 70 basis points as compared to the previous quarter. This was primarily led by input cost inflation. We are seeing a moderation in some of our input costs and believe that the gross margins should marginally expand during the second half of the year.

Our reported EBITDA margin was 19.3% as compared to reported EBITDA margins of 22.6% in same quarter of the previous year. However, last year, we had the benefit of some one-off rent waivers. Adjusting for these waivers, our core EBITDA margins remained flat compared to the same period last year. This translates to a core EBITDA growth of 39.1% versus the previous year. Our margins are also impacted by the higher mix of new and yet to mature restaurants.

Our restaurant level EBITDA margins for the matured restaurants continues to be strong and healthy. We continue to remain focused on our core strategy of expanding the Barbeque Nation India network, building a strong delivery business, growing the Toscano brand and calibrated expansion of our international business. We are extremely focused on growing each of these four verticals to build one of the largest food service companies owning its restaurant brands.

With this, now I hand over to Rahul to take you through the quarterly performance. Thank you very much.

Rahul Agrawal:

Thank you, Kayum. Good evening. In Q2 FY23, consolidated revenue from operations were INR 310.5 crores, delivering a year-on-year growth of 40.6%. This was driven by same-store sales growth of 23.4% and network expansion of 40 new stores during the last 12 months. On sequential basis, overall revenue is relatively flat, despite the fact that Q2 is a seasonally weak quarter for the business.

Dining business grew by 61% over last year, driven by both volume growth and increase in average price realization. In the delivery segment, delivery transactions have increased on a year-on-year basis. However, average order value has declined due to the change in product mix. This led to overall delivery revenue declining by 23% versus the previous year and around 6.5% versus the previous quarter.

The share of our box business has declined and share of a-la-carte orders have increased, based on our menu re-engineering exercise, we also launched a few combo meals, which received very encouraging response. Launch of Dum Safar also added to our delivery revenue, though marginally. Dum Safar was operating in 12% of our network and that too broadly for only a month.

After a few quarters of sequential decline in delivery, we are seeing uptick in our overall daily delivery sales and believe that going forward, delivery business would start

contributing to overall growth. On a segment basis, each of the three businesses have performed well. Barbeque India revenue grew year-on-year by 38%. Revenue from Toscano business doubled compared to same period last year. And our international business recorded a year-on-year revenue growth of 28%. Consolidated gross margin for the quarter was 66.1% compared to 65.6% in Q2 FY22. We were able to marginally improve the gross margin as compared to the last year, despite inflationary pressure on input cost.

Our calibrated price hikes in the past year and improved operating efficiencies enabled us to manage gross margins better. On a sequential basis, gross margin declined by 70 bps, largely led by input cost inflation. We have also not taken any structural price hikes during the quarter. We're already seeing some softening in core input costs and believe that gross margins should marginally improve in H2 of this fiscal year.

Reported EBITDA for the quarter was around INR 60 crores with margins of 19.3% as compared to EBITDA margin of 22.6% in the previous year same quarter. EBITDA for comparable quarter last year included some one-off rental waivers, as Kayum mentioned. Adjusting for these, the margins were flat and our core EBITDA also grew around 39% year-on-year.

Adjusted EBITDA margin, which is pre-Ind AS 116 was 10.5% during the quarter and grew by 28.2% versus last year. Again, adjusting for these one-off rental waivers that we got last year, the growth in core adjusted EBITDA without Ind AS 116 was around 75%.

EBITDA margins also has the impact of new stores added during the last one year and which are yet to mature. Out of total network of 205 restaurants, 47 restaurants are classified in the new restaurants and out of this 40 were added only in last one year. The core portfolio of mature store continues to do well. Despite Q2 being seasonally soft quarter, this matured portfolio delivered average annualized revenue of INR 6.67 crores per restaurant with average operating margins of 19.2%. These restaurant operating margins are pre Ind AS 116.

On H1 basis, this matured portfolio delivered annualized revenue of around INR 6.8 crores per restaurant with restaurant operating margins of around 20%. As we enter sequentially, a seasonally stronger second half of the business, we remain confident of delivering the average annualized revenue of INR 7 crores per restaurant with around 21% restaurant operating margin in our mature portfolio.

We also reported net cash flow from operating activities of INR 135 crores during first half of this fiscal year. And net of lease payments, the net cash flow from operating activities were INR 73 crores for H1 FY23.

Overall app downloads have also increased to around 5.1 million and the share of Barbeque Nation India revenue from own digital assets has gone to around 28.7% in Q2 FY23.

We also added 10 new restaurants during the quarter, taking the overall network to 205. Out of these 10 restaurants, 7 were added in metro and Tier 1 markets and 3 were added in Tier 2 cities. Metro Tier 1 and Tier 2 cities mix to remain at around 70/30 mix. We have around 16 restaurants under construction and an equally strong pipeline of sites under evaluation. As Kayum mentioned, we are confident of adding 40 restaurants during the year and broadly, this should include 33 to 35 Barbeque Nation restaurants in India, around 4 to 5 Toscano restaurants and 1 to 2 Barbeque Nation in the international business, again, primarily Middle East.

Also to reiterate, each of our business segments are independently generating operating cash flows and these operating cash flows are primarily used for expansion in the respective segments or geographies. We do not need to allocate any capital from our Barbeque Nation standalone balance sheet towards the Toscano business or international business for the planned expansion in these businesses.

We have been focused on our four-pillar strategy of accelerating Barbeque Nation India dine-in business, delivery, unlocking the growth potential of Toscano and again, calibrated international expansion to drive growth going forward. We can open the session for Q&A.

Moderator:

We have a first question from the line of Percy Panthaki from IIFL.

Percy Panthaki:

My first question is on capex. Would you be able to give some idea on what is the total capex you would do at a consolidated level for FY23 and FY24?

Rahul Agrawal:

For the 40 restaurants that we are opening up, capex for maintenance and some capex towards our Biryani project, we'll do approximately INR 135 crores of capex in this financial year. And based on the growth plan for next year and assuming that it remains at between say, 40 to 45 restaurants next year also, the capex would be anywhere between INR 135 to INR 150 crores.

Percy Panthaki:

Secondly, on your delivery sales, which is down about 20% Y-o-Y, any thoughts on that, why this is happening? I mean, on such a small base that too?

Rahul Agrawal:

Like I mentioned in the opening remarks, our share of business mix is changing. Our share from the box business is coming down. Currently, it's approximately 45% and our a-la-carte order business has gone up and that obviously is an individual consumption order and the AOVs are lower there.

So, what I'm actually most excited about is the fact that, between last year and this year, our transaction volumes have gone up. There's no doubt that our delivery business was going down sequentially over the last five, six quarters. So, the priority of the management

was to ensure that we come up with a product which fits the consumer need, given that the Barbeque in a Box business was coming down, which is more of a group eating sort of product.

Now as I said, in the current exit month of say, September and also continuing that in the month of October and November, we are seeing that the numbers on a monthly basis are actually at 5 months high. So, we have broken that sequential decline trend now and given that we also launched new combo offers and the transaction volumes are up, I expect this business to now start contributing to the growth. So Q3, for example, is already looking up from what we were in the previous quarters, so this is short term. Long term, I think we will be at an average AOV of between INR 500 to 550 and then focus on growing the transaction volumes in this business.

Percy Panthaki: So how long you think before we go back to our original INR 50 crores to INR 55 crores per quarter run rate on delivery?

Rahul Agrawal: So look, based on the current numbers, maybe Q1 of next year. If I look at annual run rate of INR 200 – 250 crores it should be achievable in FY24 because Q3 FY23 itself is looking up from where we were in Q2 FY23.

Percy Panthaki: But that would also be a normal seasonality, Q3 always being better than Q2, right?

Rahul Agrawal: So you're right. But like I said, our September numbers are also good. And September numbers also were seasonally weak given that there are a lot of vegetarian consumption days. And that trend also continued in the month of October, which also had festival like Diwali.

So I think based on what I'm seeing, both in the month of September and October, I'm excited about the uptick that we're noticing in this business. And obviously, Q3 should help, like you said, with better performance in the month of December. So to answer your question, INR 50 - 55 crores, which is annualized INR 200 crores, given that there will also be some new sites added, we will it should be really achievable in FY24.

Percy Panthaki: And on your guidance of INR 7 crores per restaurant and 15% margin on an annual basis, that's for the mature stores, right? But how would this look at the overall company level, including the new stores, these numbers would need to be adjusted to what extent?

Rahul Agrawal: So for this financial year, the new store portfolio is actually not even two year old, but only one year old. And if you look at the recent opening in last two quarters, we had opened up practically half of this and that too in a seasonally weaker first half of the business. So overall, the impact on margin decline because of this new portfolio, maybe 1% at max. But good thing is that even this new portfolio is actually more skewed towards metro markets, and metro markets are on premium side as compared to say Tier 2 / Tier 3. And the rental

on a per-square feet basis that you pay in these markets are more, so the initial losses in these businesses are actually higher, because it takes our business at least three to six months to even stabilize.

Percy Panthaki: FY23, obviously, because everything is so new, I understand the issue, and I'm not looking at FY23 at all, but more at FY24 level, at an overall company consolidated level, this 15% for mature stores would translate into, what, 13.5% for the overall company?

Rahul Agrawal: The drag should not be more than 1% point.

Percy Panthaki: And last question on Dum Safar can you give some idea on how many cities it is in or how many restaurants are servicing that? And also how do we see this ramping up over the next one to two years?

Rahul Agrawal: So as on September, we were in around 25 outlets. As on October, we are already in around 42 outlets. By end of December, we'll try and go to around 75 and hopefully try to be in all the outlets by end of this financial year. Month-on-month, we are seeing increase in average daily sales in the outlet that we launched. I think it's too early. The exciting thing is the response, the ratings that we have on this business. Obviously, based on product trial, there are some initial changes that we need to do to the menu, but the initial response on this has been very good.

Now in terms of longer-term picture, if I look at my UBQ business and see how that performed pre-COVID versus post-COVID. We used to do an ADS of around INR 3,000 - 4,000 pre-COVID, that ADS in UBQ business has gone to around INR 20,000. Now even if we do say INR 5,000 ADS at 200 sort of outlet base for Dum Safar, it will give us more than INR 1 crore every month, which is around 1% adding to the top line. So like I said, we own the infrastructure, we own the capability to serve multiple different SKUs. And then can we create more brands out of these and then add to the overall revenue potential of these outlets. So that's a broad number that we have right now. Again, we'll come back to you once we have some history of at least three, four quarters. Otherwise, it's too early to sort of comment.

Moderator: We have a next question from the line of Pritesh Chheda from Lucky Investment Managers Private Limited.

Pritesh Chheda: Sir, with this new stores being added in the system now on a regular basis. So we have 40 this year, and then we have this whole ramp up from 180 to 300 over the next three years. Will it continue to impact the margin and not bring in the overall operating leverage in the system and impact the mature store overall performance as well? And past calls, we had always discussed this, and you mentioned new store will not impact, but what we are seeing in the numbers is new store impacting. So your comments there would be very helpful?

- Rahul Agrawal:** Look, it will impact. It has obviously impacted our numbers in this quarter. And in the past calls also, we have always said that we are looking at around INR 7 crores average revenue from our mature portfolio with 21% margin. And there will be some drag from the new store because it typically takes between two to three years for stores to mature. So that will be there, but obviously, if you look at this quarter numbers, almost 25% of our portfolio is less than one year old. That too in a seasonally weaker quarter and also the portfolio is more skewed towards metro markets, where the initial losses are slightly more than what you will expect in Tier 2 / Tier 3 sites. I believe since the portfolio is also skewed towards metro market, the revenue per outlet potentially in these metro markets is higher as compared to Tier 2 / Tier 3 markets. And that's why once this portfolio of 40 restaurants sort of goes through their initial cycle of two years, this will start delivering the same return as the mature portfolio.
- Pritesh Chheda:** Usually, what is the ramp-up of a new store, if you could get from 0 to 6 months and 6 to 12 months in terms of revenue and in terms of operating profitability?
- Rahul Agrawal:** So 0 to 6 months typically flattish or very low single-digit margins. For the entire first year, we would look at around 7% to 8% margins. Second year, we look at store margins of around 14%-15% and third year it will come to around 21%.
- Pritesh Chheda:** So sir, when we add -- we are going to add 20% to our outlet this year. We are going to add about another 15% to 18% of our total outlet next year. So is it fair to assume that some amount of drag on the overall company margin will exist? And if it exists by what percentage should it exist?
- Rahul Agrawal:** So as this entire portfolio matures and obviously, there is some same-store growth should also come from the mature portfolio. So a drag, which is higher now should come down over a period of time.
- Pritesh Chheda:** You mentioned zero to six months is zero profitability. six to 12 months is single digit?
- Rahul Agrawal:** Yes, for the entire full year, we will do around 7% to 8% margin.
- Pritesh Chheda:** On a new portfolio?
- Rahul Agrawal:** On the new portfolio, yes.
- Pritesh Chheda:** So the trajectory zero to six is zero. Six to 12 months is the single digit and it takes 24 months to reach the restaurant operating margin number, right?
- Rahul Agrawal:** No. I said second year would be around 15% and third year would be around 21%.
- Moderator:** We have our next question from the line of Varun Singh from IDBI Capital.

- Varun Singh:** So my first question is on the delivery part of business. So as you mentioned that the mix has changed and primarily revenue contributions from the box business has come down to 45%. If you can give more detail regarding your understanding about what is the primary reasoning for the box business contribution coming down? And where do you see this number to stabilize?
- Rahul Agrawal:** It has been coming down. Very difficult to give you a forecast on where this will stabilize. But broadly, what you're seeing is our AOVs have been pretty much holding up over last two, three quarters at around INR 500 - 550 levels, right. So even in our box business, there are some products at around INR 900, and there are some products around INR 600 / 700. And during the current quarter, we have also come up with new combo offers whose proportion has increased on an overall basis.
- Varun Singh:** I mean, do you think that this shift in the revenue mix from box towards a-la-carte is timely because of the impact of inflationary thing and because customers downgrading I mean any analysis over there?
- Rahul Agrawal:** So this is also a group eating product and this did well during COVID times. As things opened up gradually this as a portion came down, but overall, a-la-carte orders have gone up, which is more skewed towards individual consumption. So that is there. I don't think it is customer downgrading from just box to a-la-carte. Also, as we have increased our menus with many options on combo offers, maybe there is some shift from box business to a-la-carte, because in value terms one box business is equal to 1.5 a-la-carte order, right.
- Varun Singh:** And Rahul, sir, if we say that if you can also help us understand what kind of strengths that we are building around delivery business other than the menu innovations that we could optically see?
- Rahul Agrawal:** Look, obviously, menu re-engineering is one part, delivery rating is another. We have seen now consistent ratings over quite some time. Overall, it's around 3.9 on the entire portfolio of some 200 restaurants. Two years back, it was around 3.2. The infrastructure in the outlets is now more smooth in terms of operations. Other strengths include managing delivery from our own restaurants, managing space for that delivery packaging materials which are very bulky. So operationally overall managing delivery from the same restaurant in an efficient manner. All these have now become part of our daily operating protocol at Barbeque Nation.
- Moderator:** We have a next question from the line of Harit Kapoor from Investec Capital Services.
- Harit Kapoor:** So what I was saying was the Q2 seasonality. So 19% restaurant operating margin for the mature store, is this normal for Q2, is that the way the restaurant operating margin happens in this quarter? I'm asking in the context that we really don't have a normalized Q2 since listing. So I just wanted to get your sense?

- Rahul Agrawal:** Yes, it is pretty normalized, 19.2% margin. If you look at our revenue per outlet from mature portfolio between Q1 and Q2 is down by approximately 5%, which translated to around the 2% decline in our restaurant operating margin on the mature portfolio. And if you look at numbers, we also give numbers pre-COVID, so if you look at adjusted EBITDA between pre-COVID versus now, Q2 FY20 also were around 8.7% margin, which is around 10.5% currently. And similar trends were also seen in the last year's same quarter. So Q2 margins being stretched in our business is definitely there, plus the only shift that happens is that if days like Navaratra falls in somewhere between Q2 and Q3. This time, it was in Q2. Last year, it was in Q3. So to that extent, there's some impact also coming in. But by and large, Q2 always operate like this.
- Harit Kapoor:** The second question was on the revenue side. So, if you look at, you spoke about international, but on the international side, how is the profitability been there in terms of your margins, etcetera?
- Rahul Agrawal:** So in H1 basis, international businesses at a corporate level, we delivered 18% pre-Ind AS margin.
- Harit Kapoor:** And what's the level of price increase in India that we see now on a year-over-year basis, given what's happened on the cost side, you did pass on price hike. So weighted average based on a dynamic model, what's the number been that?
- Rahul Agrawal:** So between last year, second quarter and this second quarter, our pricing would have gone up by around 7- 8%. This quarter, we have not taken any price hike. So we did around 4.5% price hike in Q1.
- Harit Kapoor:** And given you're saying that the cost table is now lower a little bit compared to what it was probably early part of the year. You don't see any reason for incremental price increases, right now?
- Rahul Agrawal:** Yes. So we are not planning to do any incremental price hike in the second half. On the pricing side, I think meat prices are softening a bit. There's some inflation that we are seeing in our dairy pricing. But dairy is not a large consumption basket for entire portfolio, meat is larger. So net basis, I think we're seeing softening of input food cost. And that should help in the second half of the year. We are not contemplating any price hike in the second half.
- Harit Kapoor:** Last question was on Dum Safar, so while it's early days, you mentioned that the kind of model that you would like would be at least INR 1 crore kind of a revenue on an incremental revenue on a per store basis, if you're able to hit the certain daily sales number. But from a cost standpoint, below gross margin, what's the incremental cost that is required to run less operation in a store in terms of people because rent assuming is apportioned to the dine-in business. So what would that cost look like?

Rahul Agrawal: In the delivery business, the gross margins are lower because we have three variable costs, which is food cost, packaging and commission. And below that, on the fixed cost side, to run this delivery operation, which also runs UBU, we don't need incrementally more than one specialized maybe trained employee, who can run the machine that we have incorporated. And apart from that, there are some electricity costs coming. But cumulatively, between both of them, it's not a larger number.

Harit Kapoor: And last question was given that you launched this Biryani format now, I know you're rolling it out through dine-in stores currently, but does that now imply that extension kitchen expansion will also happen in the near term going forward or that's going to be a second leg really something to look forward to FY24.

Rahul Agrawal: So that's not our focus right now. Like I said earlier, we know that our delivery business was down sequentially for five - six quarters, right? So the focus first was to stabilize this part rather than adding more capability in terms of adding more infrastructure. Happy to note that this is now at least stabilizing, and we should see this in this quarter. I'm not jumping to add new capacity on extension kitchen. We are anyway obviously, also doing delivery from the new restaurant expansion that we're doing. So I'll just ride on that for some time. We'll definitely wait for two to three quarters to see how this performs, and based on the economics of the extension kitchens that we have already in place, we will then think about expanding it. But as of now, for next two to three quarters, I'm not looking at putting capital to that.

Moderator: We have a next question from the line of Amandeep Grover from Ambit Capital.

Amandeep Grover: So firstly, on the recovery. So we understand that last quarter, you had a gap at 10% covers in dine-in versus pre-COVID as corporate was yet to recover. Acknowledging that Q2 is seasonally weak. So any sense on how Dine-in now stacks up versus pre-COVID on a like-to-like basis and trend in the recent months?

Rahul Agrawal: It continues in the same fashion, Amandeep, also, like I said, the October month also had some festive days, right. And for our business, which is one primarily non-veg and also primarily group eating out, going out and dine in. It is not very amenable or the business don't get any kick during these festive days. For example, Diwali period for us is slightly leaner, right. And October month had that one week of the entire impact pretty much for the entire country. So early days, but based on what you're seeing currently, it's pretty much same trend in terms of cover. The real kicker comes in the month of December.

Amandeep Grover: Fair enough. And secondly, on the gross margin front, so last quarter, you had mentioned about getting better pricing, especially for meat, which is a large portion of your overall input cost portfolio. And apart from this, the delivery business being a bit lower on gross margin as it involves packaging cost and aggregator commission. So, since delivery business was again impacted this quarter or even on a sequential basis. Can you help us

with the sense of what was the exact rationale behind the impact of gross margin on sequential business?

Rahul Agrawal:

So on the meat front, there's one commodity, which is fish, which we largely import. That pricing was higher in Q2 as compared to Q1, so that is a big one. Also across other businesses, for example, International business, gross margin was down by around 1.5%. In our Middle East business, largely most of the items are imported, and there were some input cost hikes. Similarly, on Toscano business, we had some marginal increase on the cost.

So the gross margin declined between, Q1 and Q2, across all the three verticals. The impact was lowest for Barbeque India and pretty much highest for international. But after adjusting for these relatively smaller businesses, which is both Toscano and International, overall margins were very strong.

So now also just to complete that thought on the fish item. Post that, the new shipment that we got in the month of September are at lower pricing. So that gives me some confidence on H2 margin and we also have some inventory build-up happening during the quarter.

Amandeep Grover:

So this is helpful. And just -- I mean, as a follow-up to this, as you are saying that sort of combo in the delivery business, as you mentioned earlier, with no pricing expected. Do you see this would impact some margins? Or it is not more of a discount, but a different offering?

Rahul Agrawal:

No. Combo offers actually are better in terms of food cost. I think the food cost is lower for the company in combo. The food cost is among the highest for the company for box product. So it won't impact the margins.

Amandeep Grover:

And lastly, on the expansion front. So you've already added 20 stores for Barbeque Nation in 1H versus the guidance to these 40 stores -- so could we see any revision over here? And if there is any change in guidance for expansion across Toscano, International with us versus what you have guided earlier?

Rahul Agrawal:

So I think we'll be at 40 outlets for this year. And Toscano's pace, I think we will try and increase. We've only done two this year. And we hope to do two more. One is under construction and one more will go in the construction in the next few days. International, like I said, you're only doing it from the profit that we are getting from that business. So this year, I don't see more than one happening and maybe two more in the subsequent year. Will 40 change next year to 50? I think like I always mentioned, it all depends upon the kind of site that we get and whether they are doable site or not, right? So I don't think we'll take pressure of opening up more sites. But if the business makes sense, if the trade area makes sense and it doesn't lead to significant cannibalization to our nearby store or if market dynamics on the rental is something that can sustain our business, we'll do it.

- Moderator:** We have a next question from the line of Vishal Gutka from Phillip capital.
- Vishal Gutka:** Congrats on a good set of number. I just wanted to know what percent of revenue generally comes from corporate group and now when IT companies are insisting a lot of employees to come at least once or twice a week. Do you see big revival coming through in the coming quarters as and when more and more people attending the office?
- Rahul Agrawal:** So this segment has increased. If I look at sequentially, last six quarters has gone up, definitely better than Q1 and Q2. Q3, again, very early days, also a lot of festivals, people went home. So that business slightly gets impacted every year around this time. But like you said, IT companies are asking people to come back you should see good sort of movement in the subsequent part of the year but difficult to tag a sector.
- The way you tag also is - what is the group portion of the business? How many transactions had more than, say, eight covers per transaction? And then how many transactions happened during weekday because these two are the main parameters in which IT crowd comes in, right? And both of these parameters, like I said, have been improving quarter-on-quarter.
- Moderator:** We have our next question from the line of Vicky Punjabi from UTI Mutual Fund.
- Vicky Punjabi:** Just one observation, which I wanted to clarify. Now if I look at your delivery sales, it seems that the contribution from your own app has been steady or slightly improved sequentially, your aggregator revenues have declined sharply. I mean is it something that we are missing in the aggregator platform? Or is the competition levels high that we are seeing this impact -- or is this just a general change in the customer behavior? I mean where are we seeing the real impact on delivery coming in?
- Rahul Agrawal:** No, Vicky don't correlate the two numbers because if you look at our own digital asset contribution, the large part of contribution is actually from a dine-in business. So our stated point is, in our dine-in business, we own our customers. Approximately 28-29% comes from our app and website, another 25-odd percentage comes from our call center and then there are some walk-ins, so our dependency on the third-party aggregator for dine-in business is actually extremely low, which is single digit. So that is on the dine-in part.
- On delivery part, on the other hand, large part of our business comes from these aggregators, so that mix has not changed. Delivery business coming from our app has always been, based on COVID quarters over last two years in the range of 10% to 15%. And also given that delivery is now around 13-odd percentage of the business, this delivery segment doesn't move significantly the own digital asset contribution business. So those two are not correlated, I don't think we are missing much on these aggregator platform in terms of marketing. Like I said earlier, the focus was to stabilize this business. Based on numbers that I'm seeing on monthly basis, I believe this is stabilized, hopefully, as you'll

see next quarter. And then we will take it up to go further. But on long-term perspective, I think all of us are believers in delivery segment and this is something that we will build over a period of time.

Vicky Punjabi:

So how do I look at this aspect, the last year that you were doing INR 55 crores a quarter, today we have more stores, but less quantum of delivery. Last year possibly helped by COVID, dine-in segment at lowest, and customer opting for Barbeque food delivery. So is it that last year, base was overstated, and this is what we are seeing is a normalization of base. And from here, we grow. I mean, how do I look at this business now incrementally going forward?

Rahul Agrawal:

I think you should look at it in that manner because the decline in delivery has been pretty much inversely proportional to increase in our dine-in business. I think now is the time when we are seeing pretty much stabilization on delivery. So if you compare it against last year, obviously, the decline is largely because of the impact of COVID and one-off benefit that we would have received in the previous years. Obviously, we didn't want it that way, but -- this is where it is right now.

Vicky Punjabi:

And I just need one clarification from the dine-in segment. I understand one of your previous answers completely -- so now if I look at the dine-in revenue for this quarter versus the pre-COVID levels and we've taken price hikes out there as well. So is the dine-in revenue actually higher than pre-COVID levels? Or is it similar and the footfall that have declined have been offset by price hikes. I mean, is that the way to look at that business?

Rahul Agrawal:

Yes. So if I look at pre-COVID same quarter, on the same matured portfolio, just dine-in business, it is pretty much the same. It's flat.

Vicky Punjabi:

So price hikes have actually just offset some of the lower footfalls that could have happened is that the way to look at it?

Rahul Agrawal:

Yes.

Moderator:

We have our next question from the line of Manish Poddar from Motilal Oswal AMC.

Manish Poddar:

Hi, Rahul, just a couple of questions. First one is how much is the actual rent paid in the first half FY23?

Rahul Agrawal:

Yes, around INR 62 crores actual rental paid.

Manish Poddar:

INR 62 crores.

Rahul Agrawal:

Yes. So you're right. So it's around 10% of our top line

Manish Poddar: Just one more question, sir, let's say Rahul. Now you'll be seeing probably kind of more stable sales now Q3 onwards with, let's say, things opening up. Is there a possibility or have you seen that across any of your cohort of stores where, let's say, and now incrementally RM should also stabilize. So I'm just trying to understand, is there a possibility in some micro markets where you've been able to price our product significantly higher or let's say even because there's more demand and there is less supply and the couple of metrics, both in RM and, let's say, footfall favor you. I'm just trying to understand, is there any cohort in the entire 180-200 stores network, where you're seeing any sort of more demand and you've been able to charge, let's say, 10% more and still customers coming in again-and-again?

Rahul Agrawal: So look, like I said, our average pricing between last year and this year has gone up by around 7-8% already. And as a brand, we always want to be value driven. So overall at a company level, this pricing will sort of not change much in H2. But in terms of a few markets, our pricing has always been different. So our metro pricing, pricing in some of markets like Bombay Delhi, Bangalore, is different than what we charge in some of the other locations. Pricing can be different within the same city also. Our pricing strategy have always been what is relevant for that market? And what is the right pricing for that market, and we follow that.

Manish Poddar: Actually, what I'm trying to get is kind of two points. One is the pricing elasticity because in some micro markets like BKC or pricing north of INR 1,000 and still customers are flowing in. What I'm actually getting a broader sense is there will be days where you can price your products, let's say, 5-10% more given that the demand is more and due to COVID a lot of this big format chains have kind of closed down.

Rahul Agrawal: That we do Manish. We do that. So our pricing is different for weekends, our pricing is different for weekdays, lunch, dinner also is different.

Manish Poddar: Dynamic pricing is fine. What I'm trying to get a sense is, let's say, if you had charged INR 100 earlier, let's pre-COVID, now you can charge INR 110 on the same product because in the vicinity, there are far and few restaurants, of the same format or a larger sized food format. That is what I'm going to get?

Rahul Agrawal: So the fact is over the period of last three years, be it inflation, be it annual price hike, the pricing has gone up from pre-COVID level to now. It's already pretty much three years gone. So our pricing would have gone up by around 15-odd percentage over this period of time. And some of the new ones that we launched come at a lower price point and then over the period of, say, six months, we catch it up to the normal price of that city. So in terms of pricing engine, like I said, this is all kept keeping in mind the bandwidth of that trade area, weekend, weekday, lunch, dinner.

Moderator: We have a follow-up question from the line of Percy Panthaki from IIFL.

- Percy Panthaki:** I was just looking at your same-store sales growth and calculating it on a three-year CAGR basis, so the three-year CAGR on same-store store sales growth is somewhere around 5%. Now if I further dissect it, so 5% CAGR is about, let's say, over a three-year period, 15%, 17% kind of point-to-point growth on a same-store basis. versus three years ago. Out of that 12-13% or at least 10% is coming only from delivery, which was not there or very-very miniscule three years ago. And another 7-8% is coming from pricing. So if I remove these two aspects, the same-store sales growth over a three-year period is almost zero, is this the right way to look at it?
- Rahul Agrawal:** Yes. So same-store sales growth of around 5-7% CAGR over three years, with almost two years of COVID, yes, that's there. Around 10% out of this came from delivery and balance came from pricing. And like I said, there is still some cover volume with respect to pre-COVID versus now the gap still exist. So yes, I think broadly, your numbers look okay to me.
- Percy Panthaki:** And that gap in the cover volume, now should we take that as a permanent loss? Or are you hoping that it will come back?
- Rahul Agrawal:** So post COVID, and how the corporates have moved, it's already been I mean, three years, right? My hope is that volumes will come back as IT further opens up and our corporate business moves up.
- Percy Panthaki:** Secondly, on Dum Safar, while you have launched the app, I mean, what are you doing to popularize how will customers come to know that there is a brand or there is a place called Dum Safar from which they can order Biryani?
- Rahul Agrawal:** So all the marketing spend on aggregator apps has already been happening. And if you look at month-on-month increase, there is growth in ADS from the same restaurants. In some few select market, we're also doing off-line marketing of deals. And also the digital marketing being done in these locations where we have launched Dum Safar brand. It's obviously only 2 - 2.5 months old. So it will have to go through its journey of educating the customers' mind. And then as the product, it have to speak for itself for the growth.
- Percy Panthaki:** So you mentioned that you're expecting around INR 1 crore per month sales from Dum Safar, at that scale, do you think it will absorb the marketing spend? And if not, at what scale do you think this will be sort of generating sort of a decent profit for you after allowing for the marketing spend, etcetera?
- Rahul Agrawal:** So Percy, we are not guys who will go out and spend completely on building this brand on offline sort of media, right, large part of the marketing spend happens on the same aggregator platforms, which is based on the data related to relevant customers. So in that extent, I think even if you spend maybe 6-7% of our Dum Safar revenue, I think slowly and steadily will build that business.

- Percy Panthaki:** Yes. I was just asking at the scale of INR 1 crore per month, will the brand be making similar EBITDA margins as compared to the overall company given that there is a lot of operating leverage, you have the same infrastructure, same delivery boy, etcetera. at least, will it be making that 15% kind of EBITDA margin at that INR 1 crore kind of scale?
- Rahul Agrawal:** Yes. That's our expectation. And that's how we have launched it. So if you look at UBQ brand, for example, when we launched it in late 2018, that business was contributing hardly INR 40 lakhs per month. And I think I'm excited about that business itself being approximately INR 200 crores, soon. We did that last year and hopefully, based on our quarterly run-rate will reach there soon. And Dum Safar also crosses that journey of three years to four years, repeat business, customer engagements, that's how the business should come for us.
- Percy Panthaki:** And lastly, on cloud kitchens. When we started this, we had a very sound logic that there are stores which are more than 5 kilometers away from the customer home and then it becomes difficult to service that customer. And if at all, it is serviced, the experience is bad because food is cold, etcetera, etcetera. Therefore, we need to open cloud kitchens. Now what has changed in that logic for you to have paused the cloud kitchen sort of expansion?
- Rahul Agrawal:** No. So the logic remains absolutely intact. There is no change in that. But the cloud kitchen model will work at a particular ADS levels. If the ADS comes down in a particular, say, sale point, be it cloud kitchen be it the Barbeque Nation store, you will start incurring losses. We already have 200 distribution points from where we have to do sales, and we can strengthen our operating performance on these.
- And so as the sales increases, the ADS increases in these distribution point rather than going and investing money in creating more distribution points. So like I said earlier also, it's not that the extension kitchen business is dead. First, we have to fix the ADS growth in our existing outlet, bring it to a point that it at least does not bleed money in extension kitchens. Once it's reached to that point, adding cloud kitchens is not a big problem for us. These are hardly 600 sq. feet outlet this can be done quickly. And that we will do once our delivery ADS sort of comes back. So that logic remains intact. It is just that today, it doesn't make sense to allocate capital to a segment which potentially will lose money at lower ADS numbers.
- Percy Panthaki:** Right. And one book-keeping question in a normal year, the Q3 ADS is what percentage higher compared to the Q2 ADS?
- Rahul Agrawal:** You mean at the total company level business?
- Percy Panthaki:** Yes.
- Rahul Agrawal:** So this would be around 12 - 15% higher between Q3 and Q2.

Percy Panthaki: Sorry, this is what I meant was on a per store basis. Are you talking about the total company sales or a per store basis, ADS?

Rahul Agrawal: So this is, I was talking about more total company sales, per store basis, this should be around maybe 10% higher

Moderator: As there are no further questions from participants. I now hand over the conference to Mr. Rahul Agrawal for closing comments. Over to you, sir.

Rahul Agrawal Thank you, for all the clarification part during the call. We look forward to similar interactions going forward. Thank you.

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

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