

The New Food and the new Cook

Good day shareholders of RBAL, my fellow board members and executives of the company. Welcome to this AGM.

I am happy to report that the company has progressed across all areas. I want to list some of the RBAL achievements of last year.

The Company added 50 (net) new restaurants during the year. The Company generated total revenue of Rs. 9,642 million on a standalone basis and Rs. 15,127 million on a consolidated basis, an increase of 84.39% and 45.73% respectively over the previous year. The Company's relentless focus on gross margins resulted in an improvement of 1.28% on standalone basis. The Company substantially reduced loss before tax from Rs. 1,739 million for FY 2020-21 to Rs. 929 million for FY 2021-22. The company tried the 'café' concept successfully in many outlets. It built on the stunner range and invested in digital experiences for consumers.

This is excellent work by the executive team led by Raj Varman, and I wish the team more success in the coming year.

The pandemic impacted many businesses, some positively and some differently. The food business was impacted when it was purely physical and has benefitted where companies have embraced new business models. In this AGM address, I want to cover 5 themes relating to food. But first, some context:

The QSR Context:

1. Burger King started in 1954 and is the second largest chain of restaurants with 19,247 restaurants in more than 100 countries and U.S. Territories as at December 31, 2021. Global QSR Food brands have been around for more than 50 years, it takes time to build a reliable QSR brand. Consumers crave for 'change' in

food but many stay with a tried and tested menu. Getting the balance between habit and innovation is important in the QSR business.

2. Burger King India started in 2014 and has built a strong branded business across 315 restaurants as of March 31, 2022. In its short time in India, it has built a strong brand, good local Indian ecosystem, consistent margins, and excellent execution capabilities.
3. The India QSR market is expected to be about Rs 82,000 crores by 2025, this market grew at more than 17 % in the 2016-2020 period. The top 8 cities account for more than 40 % of the QSR business, hence, by sheer numbers, there is immense opportunity beyond the big cities.
4. The QSR industry serves the young consumer, aged between 15 and 24 and 24 to 35. This consumer is more experience led than any other age band in the country. Young people choose between a variety of options to spend the money in their wallet, so QSR brands do not compete as much with each other directly as they compete for a share of the consumer wallet across many products, services, and experiences. In the past, QSR visits were occasion led, today, there is a ‘no reason or season’ visit. The need we serve is the need for young people to hang out with their friends in an ambience that’s stimulating. We believe that Burger King is the place young people would want to hang out with their friends after home, the college canteen, and the workplace.
5. The QSR success factors both in a physical and digital delivery model tend to be similar – speed of service, the consumer experience, affordability, convenience, and consistency. For a QSR brand to get this consistently right, the key is in investing in people in the dine in or people delivering the food. In a social media world, service can make or break the QSR brand daily.

The five themes I want to discuss today are:

1. Is normalcy back?

The Economist runs a global normalcy index where they look at 8 factors in 50 countries. These 50 countries account for 50 % of the world population and 90 % of the world's GDP. It is humbling to realize that the balance 150 countries in the world contribute to 10 % of global GDP. What does the India data from the Economist Normalcy Index of June 2022 reveal?

- India, Egypt, Colombia, and Nigeria are four countries where economic activity is back or higher than pre- pandemic levels. India is at a 116. 3 % level in June 2022 indexed to pre pandemic of 100.
- Flights in India were at 75 % of pre pandemic levels in June 2022
- Public transport was at 102 % of pre pandemic levels in June 2022.
- Office Use was 90 % of pre pandemic levels in June 2022.
- Retail sales were 105 % of pre pandemic levels in June 2022.

I think consumers are back to their previous types of activity, however the place where the activity is happening is different from the pre pandemic situation and how they are experiencing it is different. This automatically means that all businesses must think of new business models if they want to be in tune with the consumer habit. The QSR market in India will be a combination of a physical and a delivery model.

2. Is a MNC QSR menu relevant in a vegetarian country like India?

There is a myth that India is a vegetarian country. The actual data is very different. According to a PEW survey, the number of vegetarian consumers varies between 24 % and 39 % in India. And, only 6 % of Indians eat meat daily and 40 % eat it at least once a week.

The data by states is surprising and runs contra to established belief.

The top 5 vegetarian states in India are:

Haryana 84% vegetarian, Rajasthan 75 %, Punjab 67%, Gujarat 61 %, and MP at 60 %.

The top 6 non vegetarian states are, and all these states have more than 80 % of the population as non-vegetarian. Four in this list are from the South!

Assam, West Bengal, Kerala, Andhra Pradesh and Telangana, Orissa, and Tamil Nādu.

The popular myth that the southern states are vegetarian is not true.

So, the QSR menu, adapted by region for India is very relevant for the Indian market.

So, the QSR market in India will be a vegetarian and non - vegetarian market.

3. The Inflation challenges

Inflation eased off for the last three months and is back at levels of 7 % now. Food is a category highly susceptible to inflation. In category after category, food brands that tend to hold the price line do better than brands that try and pass on inflation in pricing. Food is a category where pricing has value connotations even at the premium end.

In food brands, two things are sacrosanct in inflationary times – never cut quantity on offer and never cut quality. Consumers tend to notice both in a jiffy. The answer is to manage multiple price points

with different value at each price point. If you cut quantity, then you might not meet the hunger fill need and if you cut quality, you will not meet the brand standard need.

The stunner range from Burger King is a good example of managing a value point for consumer success.

The food business is different from other businesses since in food money is made or lost in the supply chain, the main food on the plate changes slowly over time, food winners tend to be brands that understand local needs, tastes, and value points. Managing supply chain efficiencies is crucial to managing costs and product freshness in this industry.

The QSR industry must manage price value points and improve supply chain efficiencies.

4. The technology impacts

Everything about food is impacted by technology.

Technology is omnipresent in sourcing, especially in judging quality. Technology is key in organizing inventory across the supply chain. Technology is key in point-of-sale ordering, it is key in payments today.

Consumers use technology to monitor the calorie intake and ingredient composition and consumers use technology to track their delivery. Consumers are more aware of their food allergies thanks to technology. Labeling in food has moved up to meet the new consumer information requirements. The industry is taking many strides to make food healthier. The full benefit will be seen in the coming years.

The QSR industry is an asset light business and technology in the pandemic gave birth to an even more asset light model – the Cloud Kitchen. Cloud Kitchens have slowed down as normalcy returned, however, the model is here to stay. The range and convenience of the cloud kitchen and the food aggregator delivery model has high appeal.

I know several consumers who order tea online every morning, and try different varieties of tea, thereby inducing a new sensory appeal and taking away the need to stock many different types of teas.

Technology offers the consumer cost, convenience, and a time advantage.

5. A new cook in the kitchen

Technology is reshaping the food industry in every way as I have outlined. However, the impact in learning cooking is very different. Indian men are sharing many more home activities with women. Cooking is not high on that list. Only 6 % of Indian men cook! In the last three years, we have seen a few young men take to cooking, learning from the web via videos. That's a new gender cook in the kitchen.

Cooking as a discipline or a craft was a hand me down craft, much like a gurukul, handed down from grandmother to mother to granddaughter. The young girl (certainly a working girl) today is not that involved in cooking as her mother was since the convenience on offer as an alternative is so high. The young Indian lady cook is far more technology dependent and much less mom's recipe dependent. This young Indian lady cook is not defined by her ability to cook. This young lady is the new target consumer for the QSR industry. This consumer wants a quick, healthy, sumptuous five-minute preparation meal.

Burger King has delivered good results. In the last year we acquired Burger King Indonesia, and we hope to build a strong business in both countries leveraging the synergies we understand best.

We have an excellent team in place executing a strategy that's sharp and differentiated.

Shiv Shivakumar
Non-Executive Chairman
Regional Brands Asia Ltd
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