



## **Q2 FY2018 Earnings Call Transcript – Nov 6, 2017**

### **CORPORATE PARTICIPANTS**

- Amit Jatia – Vice Chairman
- Smita Jatia – Director
- Suresh Lakshminarayanan – Chief Financial Officer
- Ankit Arora – Senior Manager, Investor Relations

**Moderator**

Good day ladies and gentlemen, good day and welcome to the Westlife Development Limited Q2 FY18 Earnings Conference Call. 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 this conference call, please signal for an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Ankit Arora – Senior Manager, Investor Relations. Thank you and over to you, sir.

**Ankit Arora**

Thanks, Karuna. Welcome everyone, and thank you for joining us on Westlife Development Limited earnings conference call for the second quarter and half year ended September 30<sup>th</sup>, 2017. We are joined here today by Amit Jatia – Vice Chairman, Smita Jatia – Director and Suresh Lakshminarayanan – Chief Financial Officer of Westlife Development Limited.

Please note that results, press release and investor presentation had been mailed across to you earlier, and these are also available on our website [www.westlife.co.in](http://www.westlife.co.in). I hope you had the opportunity to browse through the highlights of the performance. We shall commence today's call with key thoughts from Amit, who will provide the strategic overview, which shall be followed by Smita to take you through the key business initiatives, and Suresh will cover analysis of the financial performance and highlights during the review period. At the end of the Management discussion, we will have Q&A session.

Before we start, I would like to remind you that some of the statements made or discussed on this call today maybe forward-looking in nature and must be viewed in conjunction with risks and uncertainties we face. A detailed statement and explanation of these risks is available in this quarter's press release and investor presentation and in our annual report

which is available on our website. The company does not undertake to update these forward-looking statements publicly.

With that said, I would now turn the call over to Amit to share his views. Thank you.

**Amit Jatia**

Thank you, Ankit. Good Evening to everybody and thank you for joining us on the call today.

We are delighted to report strong results for quarter two FY 2018 and positive momentum across our business. Earnings, sales, and margin are all showing significant uptick. Our cash profits are at a five-year high and we have been PAT positive in the first-half of FY 2018.

This is our ninth consecutive quarter of positive same store sales growth. These numbers are a testimony to the fact that all the strategic initiatives that we have put into place are yielding results and thereby building our baseline sales.

We across the company have made customer obsession, the corner stone of all our initiatives and our strategies and plans are derived from the objective of making the customer experience the best in the industry.

We started the quarter with seamless implementation of GST and took the bold move to make our menu prices inclusive of tax. We are the only brand in the QSR space to initiate what you see is what you pay, and this has been widely appreciated by our customers as well as the industry. What has always worked for us is our ability to bring value to our customers everyday across price points and product categories. We have used this strength to innovate and build a strong portfolio of value for money products that helped in drawing more patrons for repeated visits.

The new Happy Price Combo platform is a feather in our cap and continues to be a star performer in driving sales and footfalls as our

newly launched Chatpata Naan that has been a huge hit. Over the last few years we invested significantly in building brand extensions like McCafé, McDonald's Delivery service and Breakfast.

Today, I am happy to announce that all these brand extensions are driving growth essentially because they are giving the customer a unique value proposition. We have been at the cutting edge of innovation on both sides – our menu and experience.

For the first time, in the history of McDonald's in India, we have developed and launched 12 new products for the festive season under the campaign “Flavors without Borders”. These new products have been an instant hit with our patrons and have helped us expand our customer base.

Our experience of the future restaurants have been successful in bringing a world class restaurant experience to our customers and have been generating excellent reviews from our customers in Mumbai.

I am happy to announce that we have now taken our EOTF platform to Bengaluru and launched this modern and innovative format in the IT City.

We have also been doggedly focused on improving our operational efficiencies, ROP 2.0 was launched with this aim of making our restaurants profitable faster and this platform is now showing results.

As we open more and more new restaurants under ROP 2.0 which is the new Restaurant Operating Platform, our overall profitability and cash flows continue to improve. We continue to be encouraged by the strong pipeline of products that we have for the next year, the solid platforms that we have been able to create across day-parts and the cost optimization that we have been able to achieve. We are confident that we

have now re-defined our foundation and are set to take the next big leap.

With this, let me pass on to Smita and then Suresh who will take you through the results for the quarter.

**Smita Jatia**

Thank You, Amit and good evening everyone. We continue to build the business momentum across our four strategic levers: broadening accessibility, growing baseline sales, margin expansion, and growth through people.

In line with that our key messages for FY 2018 are:

Growth remains a key priority. Continued focus on brand extensions, and everyday value. Menu innovations and platform approach to build base line. And finally, drive operational and sustainable profitability.

We are proud to announce our results for quarter two based on these key messages. System sales grew at 12.8% with 9 consecutive quarters of positive same store sales at 8.4% for the quarter on a base of 6.5% same quarter last year.

Gross margin improvement of 220 basis points and operating EBITDA improvement at 210 basis points. PAT positive at Rs. 20.7 million and cash profit improvement of 44.3% over quarter last year.

Despite short-term impact on spending due to demonetization and GST, we have been able to deliver nine continuous quarters of positive comp sales, with the last two quarters touching high single-digits.

This has been due to investments in brand building, everyday value platform, menu innovation and brand extensions rather than deep discounting. Compounded growth in same store sales has clearly helped build baseline resulting in higher average store sales per restaurant

thereby, giving us the operating leverage which is reflecting in our performance.

In addition to this, we have grown total sales by 40% over the last three years in spite of marginal growth in the category as reported by Euromonitor.

We stand at 265 restaurants, with 4 additions in the quarter, with a healthy mix between West and South India.

McCafé footprints stand at 136 with 15 additions in the quarter. We have embarked on building brand awareness through radio and outdoors for the McCafé platform. This has helped, build the brand proposition resulting in McCafé being a strong contributor to same store sales as well as helping augment our gross margin through better product mix.

MDS adds another occasion for our customers to have their favorite food at their homes. And it continuously drives strong double-digit growth through leverage of digital platform and partnership with food aggregator.

And finally, our re-engineered everyday value platform based on choice, flexibility and value for money for the customer is driving sales and guest counts as well as driving gross margins through increased beverage sales.

With that, I will hand over to Suresh.

**Suresh L**

Thank you, Smita and good evening, everyone. I will now take you through the financial performance for the second quarter and half year ended 30th September 2017.

At the start of FY 2018, we have embarked upon a plan to drive sustainable and operational profitability across the organization driven by better same store sales growth during the year, leading to a higher

sales growth compared to overall industry growth rate as predicted by Euromonitor.

We are extremely proud of the financial performance delivered during Q2 and H1 FY 2018, which puts us on a strong footing and gives us confidence of delivering our targets for FY 2018.

Covering specifics for the quarter, on slide #15, we reported our second consecutive strong comparable sales quarter of 8.4% in Q2 compared to 6.5% in Q2 FY 2017, marking this as our ninth continuous positive comparable sales quarter. We grew the total sales by ~13% in the quarter and first-half of the fiscal. The increase in sales has been largely led by higher footfalls across our restaurants on account of everyday value platform which we launched in Q1 earlier this year and aided by expansion of McCafé's and robust growth of MDS along with addition of new restaurants.

This quarter also marked the price rationalization strategy carried out by us on account of implementation of GST and we adopted GST inclusive menu boards under the umbrella of "what you see is what you pay" which has also received an encouraging feedback from consumers.

Overall, we are very upbeat with the sales momentum demonstrated during the first-half and with all the strategies in place we are confident of delivering strong sales performance in FY 2018 compared to last year.

Now moving on to gross margins, there has been a product mix improvement led by our new "above-the-line" campaign launched for the first time around McCafé also coupled with GST led distribution network synergies on account of efficient transportation of goods which has led to gross margin expansion of 220 basis points to 62.3% in Q2 FY 2018 compared to 60.1% in the same quarter last year.

The restaurant operating margin saw an improvement of 240 basis points largely on account of positive leverage driven by higher same stores sales growth and efficient management of cost structure aided by ROP 2.0 efficiencies across utility expenses. This was slightly offset by higher payroll and employee expenses during the quarter.

On the operating EBITDA, we have seen a strong improvement in the EBITDA margins led by the overall profitability at the restaurant level which was slightly impacted by growth in G&A expenses to invest for future growth.

Operating EBITDA margins improved by 210 basis points in Q2 FY 2018 and stood at 7.3% for the quarter compared to 5.2% in Q2 FY 2017. The graph on the next slide shows the operating EBITDA margins improvement in Q2 FY 2018 driven by the levers which we just discussed.

Lastly, we have been able to drive a significant improvement in our bottom-line profitability to register a profit of INR 20.7 million in Q2 FY 2018 and a PAT margin at 0.8%. This demonstrates a huge step in the right direction towards our plan to be PAT profitable in FY 2018.

Coming over to slide #19, it is quite remarkable showcase our progress and commitments in line with our strategy to deliver better cash flows quarter-by-quarter and significant improvement over the last 24 months period where we have more than doubled our cash profits in Q2 and H1 FY 2018 respectively. This has been led by operating leverage due to higher same store sales growth resulting in better operational profitability and our work around ROP 2.0 restaurant which has reduced the drag of new restaurants on the system wide level.

Further, we registered a healthy increase of 44.3% increase in cash profits in Q2 FY 2018 compared to the same quarter previous year.

Lastly, we will continue to work around the strategies laid out for FY 2018 and financial performance in H1 gives a stronger confidence to deliver sustainable and profitable growth this year and moving forward.

With that said, I would now hand over back to Amit who would take you to the strategy and outlook for FY 2018 and give the closing remarks.

**Amit Jatia**

Thank you, Suresh. On the back of a strong performance in H1 we are confident of being on track to add 25 restaurants to 30 restaurants in the current fiscal. From a overall macro perspective, we believe consumer sentiment is steadily improving which will helps us strengthen the brand affinity, menu innovation, and brand extensions will continue to be the corner stone of our growth strategy, we are confident that both these levers along with other strategies will help us in delivering high single-digit same store sales growth for the entire year.

We have sharpened our focus on profitable growth and believe new restaurant openings under ROP 2.0 will aid margins further going ahead.

To conclude, we are embracing new technologies and other innovative platforms to remain connected and relevant to the fast-evolving consumer. We firmly believe our consistent and long-term approach will create significant shareholder value.

With this, I pass it back on and open it up for question and answers.

**Moderator**

Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy**

Congrats on great set of numbers. My first question is, eight consecutive quarters your SSG is ahead of Domino's. My question was out of the three differences which have happened for the sector or for the

company, for example, McDelivery, everyday value which you are also doing and even the Pizza company is now seems to be doing and McCafé. In these three factors, if you could give us which is the number one, two and three? I know you do not give numbers, that is why I am asking in terms of the biggest impact, is it McDelivery, is it every day value offer or is it McCafé?

**Amit Jatia**

Okay. I can of course, only speak for our business and Westlife and McDonald's. Basically, as I have always maintained that when everything comes together the result is greater than the individual part. So what I always say is,  $1+1+1 = 5$ . So when you have restaurant, you reimage that and add a McCafé. When a customer comes for McCafé, they do not only buy McCafé, they buy other products from the front counter as well. Similarly, with almost zero cost we can add the entire McDelivery business to it. So the entire sales out of that accretive to the business. And particularly, the new value platform has helped us recruit new users into the category. So when we look at the growth that we have had firstly, we are proud of the fact that for nine quarters when you consistently do that, that is called building the base line. And what it means is, that our initiatives are foundationally solid, which is why say for example, if we were 24 months ago Rs. 100 in sales. Last quarter we came to Rs. 106.5. Now on that Rs. 106.5, we have added 8.4%. So that compounding effect is definitely a result of all of this coming together. So while I am not going to be able to share individual break-up. But I feel, these three things along with menu is the one that has really helped us. Most recently the Chatpata Naan, I mean the consumer feedback we are getting on that is fantastic and you will notice that our innovation is quite consistent around who be our as a brand, whether it is a burger made out of Naan or a Dosa Masala Burger. That is sort of what I can share with you.

**Abneesh Roy**

Sir, in opening remarks you said, Euromonitor data continues to show challenging growth for the sector and you have gained market share. But if you see, this quarter you have done well, Domino's has done well, even Yum!'s number were decent. So do you still feel industry has not recovered, you are gaining share I am sure. But is the industry also showing initiative signs of recovery?

**Amit Jatia**

Firstly, there are not only three players in the industry, the industry is far greater than that. I mean, all we see are the listed players in the space. Essentially quarter-on-quarter there are slight improvements and fact of the matter is particularly for the last couple of quarters everybody's results are moving in the right trajectory. So clearly, QSR is kind of turning around that is the message I take back from that as well. Obviously, what Smita meant when she talked about Euromonitor, is the data over the eight or nine quarters. And if you look at the data over the eight or nine quarters together then clearly, the growth in eating out frequency has been very low and on that, we feel very proud of the fact that particularly brand McDonald's has been able to give very strong same store sales growth and top-line growth at least for the last 8 quarters of that. So, it is getting better. But of course, what she meant that last eight or nine quarters have been very challenging.

**Abneesh Roy**

Sir, my second question on the tax being included in terms of pricing, you said, you are only player may be who is including that. Why it was not done earlier? Was it because pan India there was no one rate? Second one is, initially is there a push back because customer might feel that your product has become more expensive. So was there some risk or may be even some actual negative impact initially?

**Amit Jatia**

So, we started McDonald's with all-inclusive pricing and we kept that until Service Tax came in. Now with service tax there was a complication, there was a technical complication thereby, we could not take Service

Tax in. So, we always had the experience of having an all-inclusive price. Previously there were different tax rates, there was octroi etc., it was very complex. Today, obviously, a single GST across the board and our confidence in the Government that this rate is going to stay for a while, these are the two reasons why we decided to go inclusive. And customer feedback on that has been absolutely outstanding. And our thinking was very simple that when you go to other outlets or other places like buying apparel or anything, the prices are all normally inclusive. Like, if you go to the UK, it is inclusive. It is primarily in the US, where the prices are exclusive. So we felt if customers are used to this and our old system was working, we should make the bold move even though customers may initially feel it is expensive. But finally, customers are smarter than all of us put together when they see the final bill they get it and at least that's the feedback we have got. So we feel that we have factored the risk because we already knew how they are going to think.

**Moderator**

Thank you. Next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

**Latika Chopra**

My question was on GST, you had talked about benefits on logistic cost, etc., accruing over a period of next few months. Have some of that already being seen in your results? And also, any comments on for the warehouse optimization consolidation that you had referred to in the past?

**Amit Jatia**

Currently, yes, some of the benefit is included because we could eliminate one or two low-hanging fruits that we have already taken. I do not see much at this point in time incremental to this. And this was primarily to states close to Maharashtra. So it is factored in and I do not see any more at least in the medium-term.

**Latika Chopra**

You mean, were there any savings that is sitting in the other expenses line?

**Amit Jatia**

No, there was utility as we said, that was primarily around utilities we continue to roll out the net platform that we build along with ROP 2.0. And obviously, as we were implementing last year, let us say the average last year was say 50 stores and when we started April, let us say, it was already 75 stores. So the cumulative benefit of all that is beginning to show in our numbers as well.

**Latika Chopra**

All right. And secondly, on the GST rate there is talks about this being brought down to 12% without input tax credits, any thoughts there?

**Amit Jatia**

No, I mean it is speculation, so it is not worth it. I feel that primarily we will do things smartly, if input tax credit is taken away then there is a large impact on menu prices. Our prices are already tax inclusive in any case and if there is input tax credit just like we rationalized our prices when GST came in, that is pretty much what we are going to do because customers do reward you with incremental results when their actual cost go down. So I feel we are winner in both cases, it should be okay from our point of view.

**Latika Chopra**

Sure. And lastly, what kind of raw material inflation are you witnessing?

**Amit Jatia**

I think, we have been able to manage it reasonably well, it is hard for me to say because sometimes Onions goes up, something else goes up or down. Overall, I must say that our team has done a phenomenal job and we do very long-term sort of contracts, we do a lot of long-term thinking and because of the various initiative that we do we are able to manage inflation reasonably well. Overall, I must give credit to the Government for managing inflation on the food side very well.

**Moderator**

Thank you. Next question is from the line of Sameer Dalal from Natverlal & Sons Stock Brokers. Please go ahead.

**Sameer Dalal** The first question relates to the royalty that you have to pay McDonald's. So it was supposed to be increasing and I believe that was supposed to be 8% by the end of the end of the year but you are still at 4% because of negotiation. Can you tell us where the negotiations have finished and when? And how the step up of the royalty is going to happen going forward?

**Amit Jatia** So basically, as we had released that we have royalty relief until March 2018 which still stays. And after that, it is basically the old royalty schedule that we had released. So that is where we are today, we have no more information on that as of now.

**Sameer Dalal** So, you are saying by FY 2019 you will have to be at the 8%.

**Amit Jatia** No, FY 2020 is 8%.

**Sameer Dalal** And FY 2019?

**Amit Jatia** 7%.

**Sameer Dalal** Okay. Now the second question that revolves around this, you know a lot of product launches that you are doing in India, we are creating them here. Still you have to share the royalty there. I just want to understand I mean given that you is the production innovation and all.

**Amit Jatia:** I will make it very simple. For example, take our experience of the future restaurants, they were all developed in the rest of the world. So basically, in the McDonald's world everything is freely shared and so the developments we do are shared with other markets and the developments other markets do are shared by us. We are one country and for every country there are another 109 that are innovating. So it is better for us to have access to the 109 countries' innovation as well, rather than only stick to ours. So that is how it works in the McDonald's system.

**Sameer Dalal**

Okay. And second question has to do with the fact that I wanted to know for all the stores, I mean even the new ones what is the average maintenance cost that you all paid not renovation or the upgradation cost but the maintenance cost on average per year per store that you have?

**Amit Jatia**

We do not share that detail, it is very minor though in any case. It is not a major number.

**Moderator**

Thank you. Next question is from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta**

Could you just share, how does ROP 2.0 store margin compare with the company average? Could you give us any qualitative guidance on that one?

**Amit Jatia**

No, it is hard to do that because you see what happens is ROP 2.0 is a platform we are using to build new restaurant. And like we have mentioned before that, the crux is that ROP 2.0 stores are now breaking even within the first year, while particularly in 2014 and 2015 when we were building new stores, it was taking 18 months to 24 months for it to breakeven. So obviously, the margins are still lower because we are not running the business at breakeven. And particularly, the older stores are obviously at a much higher margin than ROP. But what ROP 2.0 does is that firstly, it reduced capital cost and secondly, more importantly it reduced the operating cost on the day it opens. The sales still take 18 months to 24 months to build. Even if we open in the city of Mumbai in a trading area because the day we open customer do not change their behavior on the same day. And they change it over a period of time and then they build the McDonald's in their travel path. So I think, they are not comparable but the important thing is that while we do not share the number, the drag on our margins from new stores is constantly reducing and that is what we feel pretty good about.

**Avi Mehta** Okay, fair enough. And the second question was East and North, can you share is there any update over there or whatever likely timeline?

**Amit Jatia** No updates, I mean obviously it is a partner's dispute between McDonald's Corporation and the North Indian partner, per se we have no role to pay in it. And our contract is for West and South which is what we are developing. We have kept our eye firmly on the ball in what is in our circle of influence. We feel that we can double our store base, the guidance we have given for our vision 2022 is all based on things that are in our circle of influence. So really, no news to share on that front but we are quite excited about the growth opportunity that we have for Westlife Development in our own territory.

**Avi Mehta** Okay. Has the McDonald's global shared any timelines over there on what are the likely steps?

**Amit Jatia** No. That matter is in court, it is very complex.

**Moderator** Thank you. Next question is from the line of Varij Bangad from Pico Capital. Please go ahead.

**Varij Bangad** Just one question from my side. I wanted to ask about the macro level kind of thing after the 6th Pay Commission hike in 2008, we have seen significant uptick in consumer sentiment from 2008 to 2010. So I mean, next year there will be again a 7th Pay Commission hikes in Maharashtra. So do you expect any significant uptick because of that in McDonald's?

**Amit Jatia** It is hard to pin point consumer uptick to one event. So I would not be able to give you a correct answer on that. All I can tell you is that at least from a McDonald's and Westlife point of view, we have consistently been able to grow our baseline sales based on the foundational work we have done. And as we are seeing consumer sentiment improve, you can see

this is the second quarter where we have stayed in the 8%+ territory of same store sales growth on top of the previous quarter's being quite strong. So to be very honest, the specific answer I do not know. But we are quite bullish about slowly quarter-on-quarter how the consumer sentiment is turning positive.

**Moderator**

Thank you. Next question is from the line of Aditya Joshi from Anand Rathi Securities. Please go ahead.

**Aditya Joshi**

Sir, my question was pertaining to rental expenses. Sir, what has led to the savings in rental expenses, is it the long lease that we have, is it any re-negotiations?

**Amit Jatia**

I mean, we have not done re-negotiations. The thing is as I have always maintained that our deals 20 to 25 years, so they are long leases. Our rent increases on normally about five years and typically we give about 15% every five years. And basically, our deals are about built-in for long-term benefit and that plays out as you build comparable sales, since the growth in rent is once in 10 years because it is every 5 years, it plays down quite well from an operating leverage point of view. So that is precisely what is playing out. As you start seeing comps continuing to stay in the slightly higher single-digit numbers, you will continue to see operating leverage. We have seen it in the past, in 2008, 2009, 2010, 2011, we have seen that. That is how we went from 2% EBITDA to 12.3%. So the turnaround also comes as quickly. Our deal structures are built to benefit as same store sales grow.

**Aditya Joshi**

Got it, sir. Sir, next question is regarding the new festive season menu that has been added, is it a limited period offer, or it will be there in the menu permanent for this year?

**Amit Jatia** No, it is a limited time offer actually. Although certain things we take it as it comes. So cannot share any more details at this point but generally such things are limited time offers.

**Moderator** Thank you. Next question is from the line of Bhavesh Shah from CLSA. Please go ahead.

**Bhavesh Shah** My question is on staff cost, what is driving that sharp increase in staff cost during the quarter?

**Amit Jatia** This was there in the last quarter also primarily at least from our point of view it is to do with what happened in Karnataka where minimum wages went up by 25% and we have a pretty strong base of restaurants in Karnataka. As we have said that it takes us a little time to mitigate these costs. So we are well on track with what we need to do. But yes, there was an impact in the quarter and is there. Suresh, you want to add?

**Suresh L** You may also factor that the addition of new restaurants is also one of the factors contributing to the rupee value increase as well as the normal increments that happened during the course of the year. So it is combination of all the three things.

**Bhavesh Shah** Great. Sir and secondly, if I just look at your store expansion, it is only four during the quarter. I understand, you are little back ended in terms of expanding your stores but given that you are already seeing pick-up in consumer demand, you are seeing pretty sharp I would say SSG trends, do you think you are going a little slow on your store expansion. Any thought on trying to achieve the top end of the guidance of 30 stores during FY 2018?

**Amit Jatia** See, FY 2018, we maintain 25 stores to 30 stores. The thing is about real estate that many times when you are dealing with malls, they get delay straight by three-four months, sometimes you are dealing with new

property and new construction. But what we are very confident as we have done. It is between 25 stores and 30 stores. For us the quality of opening, the quality of the real estate is more important eventually than achieving a specific number. Yes, as the market turns around it helps us a little bit and in fact, if it really turns around, it makes a little complex too from a real estate point of view. So you will see us deliver the 25 - 30 restaurants in this financial year.

**Bhavesh Shah**

Sure. And sir, how should we look at FY 2019, any thoughts on that? Any comments would be very helpful.

**Amit Jatia**

Typically, I call it the marathon run and I believe that is how retail network should be built-in India intelligently as aggressively as you can but sustainable. And I think that has played out for us. I have seen in the industry many people have gone very aggressive and then they have to shut down 80-90 restaurants. However, with us we inch ahead consistently during good times and bad times. So I think, I would like to maintain my numbers of 25 restaurants to 30 restaurants and at least this point we feel that the target that we have given for 2022 between 400 to 500 remains. So we are quite confident of going in that direction.

**Bhavesh Shah**

Sure. And sir, finally, on your Breakfast portfolio, in your opening remarks you did mentioned that you have contributing to your overall growth. So any comments on that how do you see this evolving and is it still in terms of a little meaningful compared to McDelivery or it is still very small in terms of overall scheme of things?

**Amit Jatia**

So, the first good news is that is it resonating extremely well with the consumers, so from the 44 restaurants we have expanded this now beyond that. The good news is that without doing much, the same stores sales growth while we do not share it but it has been very encouraging for us in the Breakfast Day-Part. It is yet a small business but growing quite well and we feel as I have said before that like McCafé was small in

2013 - 2014 and is playing out today, we feel Breakfast is two years to three years horizon opportunity. Remember that the advantage with Breakfast is that the platform is there. We just do not need to do anything but open the restaurant a bit earlier. And the new menu has resonated well with the consumer. So we are excited about the opportunity but in the medium-term. So over a zero to three year period, you will see Breakfast play out like McCafé's.

**Bhavesh Shah** Sure. And sir, how many stores do you have Breakfast as a proposition?

**Amit Jatia** The new proposition might be in 60 - 70 restaurants but the overall Breakfast, we have 125 restaurants or so.

**Bhavesh Shah** Okay. Sir, and quickly on McDelivery, how many stores do you have McDelivery at the service front?

**Amit Jatia** 155 stores.

**Moderator** Thank you. Our next question is from the line of Rahul Jagwani from SKS Capital & Research. Please go ahead.

**Rahul Jagwani** Can you throw some light on how the South market is performing versus the West market? Earlier, you said that the focus was South because of some of those underperforming markets?

**Amit Jatia** No, basically we do not share break-up of our regions at this point. I think, the performance is quite consistent between West and South. So it is not these numbers are delivered out of the West because we have almost 100 stores in South. There is no way that South cannot be performing for us to deliver these numbers. But we will not be able to share individual break-up.

**Rahul Jagwani** Okay. And what is our target for McCafé FY 2019 end? I mean, how many stores? Right now we are at 136 stores.

**Amit Jatia** So this year we are looking at 140 stores to 150 stores and we are pretty much on track with that and typically we are adding 40 McCafé's to 50 McCafé's because McCafé's come with re-imaging, so it takes a little bit time but then the consumer experience is completely different. So typically you can assume 40 to 50 new McCafé a year, openings are 25 to 30, so the balance are going into old restaurants with re-imaging.

**Moderator** Thank you. We have follow-up question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy** Sir, in McDelivery, you do not share much data but in terms of transaction size, will it be fair to assume because customer see imagery etc., so transactions size is normally and logically should be large than non-Delivery?

**Amit Jatia** Absolutely, that is correct.

**Abneesh Roy** Any numbers there?

**Amit Jatia** No. But yes, because we were dealing with larger people ordering behind delivery, the average check is very health relative to in-store.

**Abneesh Roy** And sir, clearly, IT sector is a big employer and they have been seeing huge job cuts. But we do not see any impact whatsoever on your SSG in fact, it has accelerated while IT sector seems to be cutting. In the micro markets how are things in Bangalore, Pune and Hyderabad?

**Amit Jatia** So, I have mentioned this before, that we do not put restaurants where they are single generator focus. So for example, you will not see McDonald's generally in an IT Park where we are completely dependent on IT. We normally like to have two or three different generators to support a restaurant. So generally, as I mentioned earlier, given that we have around 100 restaurants in South India our SSG could not have

been 8.4% without South contributing solidly to this number including Pune, Hyderabad etc.

**Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the floor to Mr. Amit Jatia for his closing comments. Over to you, sir!

**Amit Jatia:** Thank you everybody for participating. And I really appreciate your patient listening and your questions as well. If there is anything additional you need, please contact Ankit Arora. Thank you once again and have a lovely evening.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Westlife Development Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.