

McD stores see faster breakeven

Outlets opened in 2016 by Westlife Development achieved positive cash flow in one year

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Mumbai: Westlife Development, the master franchisee of McDonald's restaurants in West and South India, is expecting to save Rs 100 crore in capital expenditure for expansion over the coming years. The company, which reported 8.4% same-store sales growth (SSG) for September quarter of fiscal 2018, is looking to achieve this by way of local sourcing of kitchen equipment and other products and materials that are used in setting up a restaurant.

By doing so, the company is able to bring down the setup cost by almost 20% thereby achieving a faster breakeven for its restaurants.

Responding to **DNA Money** queries on this approach, Amit Jatia, vice-chairman, Westlife Development Ltd, said, this has been possible mainly due to their Restaurant Operating Platform (ROP) 2.0 that got implemented over a year ago.

"By reducing almost 20%



of capital expenditure per store, over my cycle of doubling the restaurants, I will be able to save Rs 100 crore (in capex). So with less capital, we are building the same number of stores. Secondly, in terms of margins, if we were breaking even in 18-24 months previously, we are now achieving that in 12-15 months. In fact, in the basket of restaurants opened in 2016, all of them were positive cash flow in one year. This was not the case before because earlier we were losing money in the first year of operations and now we are not," he said.

It will pursue productivity growth by shaving off costs every time as inflation in India runs at 3% to 5%.

Its management is thus working towards taking between 2% to 3% off the cost of setting up a restaurant that requires an investment of anything between Rs 2 crore and Rs 2.6 crore. "We launched the ROP 2.0 programme in January 2016, now we are in November 2017 and I have not changed the (cost of setting up a restaurant) numbers at all. They are still the same," said Jatia.

Despite adverse hiring scenario Westlife Development

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- It is on track to add 25-30 new restaurants in the current financial year
- It plans to add 40-50 McCafés annually over the next few years
- McD's has in total 265 restaurants and has 136 McCafés operational in the West, South of India

and wholly owned subsidiary Hardcastle Restaurants P Ltd (HRPL), according to Jatia, have been adding people and has added 2,000 people to the company's payroll.

"We currently have around 8,000 people in the company and the plan is to double this number over the next five years. New people will be hired for our newer McDonald's and McCafes that will also double over the next five years. The overall plan is to invest Rs 500 crore in the business through internal cash flows to achieve the growth targets," he said adding that over the last five years the

company has invested Rs 500 crore in the business to reach the current levels.

With the implementation of goods and services tax (GST), the company has also started working on rationalising its warehousing infrastructure. "As state borders are gone, we have been able to eliminate a couple of warehouses. What this has done to the business is that it has given us more efficiency and some of that is reflecting in our gross margins improvements as well," said Jatia without sharing additional details. While the company will continue building mother warehouses, there are various small warehouses in small towns that may get eliminated as business scales up.

For the July to September quarter of 2017, the company reported positive sales growth for the ninth consecutive quarter. Revenues grew by 12.8% to Rs 2,64.67 crore. Net profit rose 190.1% to Rs 2.07 crore, while cash profit swelled to a five-year-high of Rs 20.78 crore.