Q4 FY2018 Earnings Call Transcript – May 11, 2018

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 Q4 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, Ali. Welcome everyone, and thank you for joining us on Westlife Development Limited earnings conference call for the fourth quarter and fiscal year ended March 31st, 2018. 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. 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 Good Evening everybody and thank you for joining this call today.

I would request you to please turn to slide #4 of the earnings presentation. 2017-18 has been a year of very strong performance for the company. Our results demonstrate that we have successfully continued to build momentum and grow consumer visits with delicious food, compelling value and enhanced convenience. The foundation that we have built over the last four years is gaining strong momentum on the back of our big bold consumer facing moves. This along with the improving consumer sentiment has helped the company post its 11th consecutive quarter of positive same-store sales growth. Led by the ROP 2.0 platform launched in 2016, our non-comparable store sales have also shown significant growth in sales and margin. This has resulted in a top-line growth of over 35% for the quarter. This has also generated better cash flow and helped in turning the business profitable for FY18. You will be happy to note that our cash on cash returns on the investments on the entire portfolio has risen to 16% in FY18 versus 11% in the previous year, marking an improvement of approximately 500 bps.

We are keeping the consumer at the center of everything we do as we continue to enhance the customer experience at brand McDonald's by reimaging our restaurants and adding experience of the future (called EOTF) elements to our restaurants. We continue to stretch the boundaries of menu innovations with products like ‘Chatpata Naan’ under the platform of Flavors without Borders thereby giving our consumer global flavors at affordable price. In another bold move, Westlife made a major announcement taking leadership in the good food movement by sharing the meaningful changes made to the menu to make it more wholesome and nutritious. All these strategic moves have helped us significantly increase the average volume at each restaurant bringing about a sizeable change in financial metrics and thereby creating substantial growth in shareholder value.

Let me pass the conference to Smita and she will take you through the operating results for the year.

Smita Jatia Thank you Amit. Good evening everybody. I will continue from slide #5. Starting with Quarter 4 highlights, I'm happy to state that we have recorded total sales growth at multi-quarter high of 34.6% and SSG at 25.1%. This leading to a gross margin improvement of 220 basis points and operating EBITDA margin expansion of more than 230 basis points which is a 97% growth in rupee terms, thereby giving us a PAT of 66 million and more than doubling of the cash profit for the quarter. Consolidating the year we crossed the 1000 crores sales milestone at 1,135 crores with strongest growth in over five years of 21.9% and continued leadership in the industry with same-store sales growth at 15.8%. Cash profit stood at 889 million and PAT at 129 million versus loss of 121 million last year.

Over the last five years we have consistently opened 25 to 30 restaurants providing accessibility and convenience to our customer. We opened 9 stores in the quarter and 25 in the year taking our restaurant count to 277. We continue to have dominance in Maharashtra and Karnataka and we have focused our openings in marquee locations in key cities with solid long-term contracts. Our record-high 25.1% SSG has been driven by footfalls led by our value platform, menu innovation and brand extensions. We have achieved this on top of positive comps of 1% and 8.4% in the same quarter in the preceding years and showing consistent performance year-on-year. This is also evident in our growth of average store sales year-on-year every quarter building baseline and in Q4 by

37% over three years leading to better profitability. We are also happy to clock almost a 50% growth in total sales over the last 3 years.

Moving into factors contributing to this growth, we opened 38 new McCafé's doubling our base to 149 in 2 years. Not only have we grown total McCafé sales by more than four times in two years, we have almost doubled average McCafé's volume per restaurant. Our delivery business continues to be our accelerator by doubling total delivery sales in 2 years. This growth has come from our digital channels and tie up with third-party aggregators. We launched our value platform in April 2018, which is resonating very well with consumers leading to higher footfalls at the restaurants. We continue to focus on everyday value rather than discounting along with menu variety stretching the boundaries with the menu innovation. This has helped in increasing both consumer trials and frequency of visits at the restaurant.

On operational profitability, we are delighted to see operational leverage comes through to the P&L. As you can see we have made solid progress on the improvement in gross margin over the last few years. This is driven by efficient supply-chain management and product mix enhancement improving it by more than 200 basis points in FY18. Our new stores built on the ROP 2.0 is contributing to cash flow in year one itself. Our cash flow from new restaurants this year is up by 50% when compared to the new store basket in FY17. We are pleased to say that we have achieved this while modernizing the look and feel and experience for our customers.

I now hand over to Suresh to take you through the financial performance discussion.

Suresh L Thank you Smita. Good evening everybody. I will now take you through the financial performance for the fourth quarter and full year-ended 31st March, 2018. It gives me great pride to announce strongest set of earnings for the quarter in FY18 in nearly over 5 years where we have delivered industry-leading growth rates as well as same-store sales growth which led to significant improvement in the profitability profile of the company and delivered our goals set at the start of the year to demonstrate a remarkable change in the PAT level profitability.

I would like to discuss the specifics of Q4 and FY18 now; on top line growth moving to Slide #21, we reported yet another strongest comparable sales quarter at 25.1% which marks its 11th consultative positive comps period against 1% in Q4 FY17. The same-store sales growth for FY18 was at 15.1% which is again a multi-year growth as well. We saw strongest total sales growth of more than 34% in Q4 FY18 and around 22% in the full-year.

We witnessed strong trend of footfalls across our restaurant at the back of improvement in consumer sentiment backed by our consumer led strategies around menu innovation, providing everyday value and offering brand extensions like McCafé and MDS across an increased restaurant base coupled with modernizing the restaurants driving superior customer experience. The sales growth has also been contributed by the performance of our new restaurants which continue to perform as per plan.

Moving on to gross margins, there has been significant improvement in our gross margin profile over the last 5 to 7 years largely led by our smart work around menu innovation coupled with focused work on impacting the product mix positively as well as our strong supply-chain efficiencies. This has helped us with gross margin expansion of around 220 basis points to 63.6% in Q4 FY18 compared to 61.3% in the same quarter last year. Gross margin expanded by around 190 basis points at 62.6% in FY18. On the restaurant operating margins, we have seen a huge expansion of over 280 basis points lead by operating leverage across employee and payroll costs and also as a result of efficiencies across utilities led by ROP 2.0 base of restaurants which Smita already talked about earlier. The margin expansion growth has been slightly offset by the full quarter impact of increasing cost on account of the denial of input tax credits.

On the operating EBITDA, we have seen strong improvement in the margins led by the overall profitability at restaurant level which is partially offset by the increase in G&A expenses. Therefore operating EBITDA margins improved by around 240 bps in Q4 FY18 and stood at 7.4% compared to 5% in Q3 FY17. The improvement was around 220 bps in FY18 operating EBITDA margins. The graph on the next slide shows the operating EBITDA margin improvement in Q4 FY18 driven by the levers we just discussed.

Lastly, we have been able to drive a significant improvement in our bottom line profitability to register PAT margins of 2.2% for the quarter, reflecting PAT of Rs. 66.1 million in Q4 FY18. Full year PAT stood at Rs. 128.6 million compared to loss reported in FY17 amounting to Rs. 121.2 million. This is significant deliverable at the backdrop of our initial target at the start of the year to be PAT profitable.

Moving over to Slide #25, it is quite remarkable to demonstrate the steps taken to improve the cash flows at the back of various steps undertaken over the last 12 to 18 months including ROP 2.0 and to drive better same-store sales growth. As you can notice in that chart, we are very proud to report more than three times growth in the cash flow in Q4 FY18 over the last 2 years and a growth of more than two times as compared to FY16, this is quite commendable and gives us huge confidence to continue working hard to generate more profitability for our stakeholders.

Overall, we are very pleased to state that all our strategies planned for the year played out brilliantly to deliver the strong set of financials and we remain excited for FY19 to deliver consistent and sustainable performance at the back of a fantastic FY18. With that said, I would now hand over back to Amit, who would take you through the strategy and outlook for FY19 and give the closing remarks.

Amit Jatia Thank you Suresh. We will move to slide #26, sustainable growth continues to be our top priority. Westlife has been consistent in its approach of delivering sustainable and predictable results. Our key focus is to continue to break industry paradigms to take consumer experience to the next levels at our restaurants. We will focus on building new platforms while growing the current ones instead of activating short-term discount led promotion. We intend to continue to leverage our brand extensions like McDelivery and McCafé providing significant value to our customers and our differentiated QSR experience through the experience of the future restaurants. As we grow our average volume we expect to continue the margin growth momentum seen in FY18, we are on track to deliver on our vision 2022 (set in 2016) and will endeavor to expand our restaurant base, McCafé and delivery hubs in the coming years.

Let me now open this up for Q&A.

Moderator Thank you. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta Congratulations on great set of numbers. This quarter clearly has been ticks on all the right things. Just wanted to kind of take it further now, you have indicated a very positive demand outlook, you are pointing towards all your strategies playing on the ground. What would be guidance on SSG that you would be able to give for FY19? Is there a target that you would want to look at?

Amit Jatia Basically we see the consumer sentiment continuing to be quite robust and our foundation with delivery, McCafé, the new value platform which we sort of even enhanced in April further with some new menu product editions like the recent swirls that we've done with mango and strawberry and therefore we think that the double-digit same-store sales growth for FY19 is something that is definitely what we are striving for.

Avi Mehta In your earlier discussions, you had highlighted that we aim to have a profitable growth and you had given guidance for 2022. From a margin point of view, the gains in the margins you had indicated in the analyst meet 2 years back, are you now confident of those gains be more front ended or how would you look at the EBITDA margin given that you are indicating operating leverage, your new store roll-outs and the new formats are working great. So just wanted to have your thoughts on the same.

Amit Jatia I think we are quite pleased that we grew our cash flow by 100% including our operating EBITDA by 100% in the last quarter and particularly the growth for the full year even in terms of profitability. So we feel that we are quite on track with the vision 2022 and the important thing about our business is we try to keep it consistent. I think for brand McDonald's, you have to look at our results for the last four years and you will notice that the key focus for us is delta year-on-year. We try our best to not have sort of big ups and downs and therefore we are quite hopeful that we will deliver our vision 2022 as set out earlier.

Moderator The next question is from the line of Vicky Punjabi from JM Financial. Please go ahead.

Vicky Punjabi Congratulations on good set of numbers. Just wanted to understand the consumer traction actually out here. I believe that SSG numbers actually are somewhat getting impacted by the change in taxes that happened after November under new GST. So intrinsically if we have to look at this SSG, has this traction actually improve sequentially and how are you seeing it going forward?

Amit Jatia I think these kinds of numbers cannot be delivered due to GST changes. The important thing is even before the GST changes the traction had already come in and we were at almost 8%-9% of same-store sales growth. And then as the consumer sentiment started moving up, as our value strategy started resonating and particularly the Flavor without Borders worked out quite well. So basically we feel as I mentioned to you that all of this put together and strong double-digit same-store sales growth irrespective of the GST was a reality for last quarter.

Vicky Punjabi The base also now gets tougher and we've had a year where there was lot of innovation and probably we got the consumer sentiment, the confidence on SSG being in double-digit still remains high?

Amit Jatia It still does, yes. Because if we look at us, particularly with the brand McDonald's in Westlife, it's now our 11th quarter off consecutive same-store sales growth and let me give this case in point, in FY16 in the Quarter 4 we were at 8.4% which at that time seems like a 25% comps and yet in the post demonetization quarter where the entire industry for that matter moved strong into negative territory, we managed to still keep the sale and kept it at 1% and you got to factor the extra-day of February in the previous period. So if you take that out, it was really 2% if you make it really comparable. So, I feel we have been able to maintain the building block and that's what material for a business in the retail is where the pipeline of tomorrow's innovation has to remain strong. So from our point of view we've already shared with the street some of the work that we are doing around EOTF which is experience of the future stores. We're completely redefining the experience of our consumer at a QSR and we feel it brings tremendous competitive advantage because as consumers start getting used to that kind of an experience, table service etc., I think that becomes their expectation in the industry. So as we continue to re-image, we have also got McCafé for example to now 149 stores. We yet have another 130 stores where we can add McCafé. So the point is that the current pipeline continues to yield results. On top of that we do believe that some of the initiatives we have on hand at least for the whole year should keep us into the double-digit territory. So we are reasonably confident but things change but at this point in time, we are quite confident that that's where it's going to remain.

Vicky Punjabi There has been very differential growth rates in these overheads when I compare with the first half to second half and I believe the input tax credit being taken away has a role to play in this but intrinsically has that changed a lot or the growth rates are still similar tracking the first half level?

Amit Jatia It is similar. You see our numbers are recalibrated due to input tax credit and therefore rather than percentages we got to keep our focus very hard on rupee value because finally that's what you sort deposit into the bank. To give you a great example to make my point if you look at royalty which is a fixed number of 4% which in the second half of the year after input tax credit gone away has become 4.6, now 0.6% impact is quite substantially if you think about it and that runs across a particularly if you look at occupancy which is rent. Again, on rent it's about 18% GST so the implications of ITC are pretty substantial and especially if you have a percentage of sale rent where your sales are also raising on top you see the impact compounds. So therefore percentages are not relevant I think personally this will settle down by next November. Meanwhile the important thing is that the rupee margin growth has been absolutely outstanding both at operating EBITDA level and at cash flow level. Of course, profit numbers were small therefore it's a remarkable change but the important thing is that we turned the whole year into a 25 crores difference which is quite nice.

Moderator The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.

Bhavesh Shah Your operating margins of 7.4% in 4Q exclude this extraordinary item of 4 crores relating to store closures. My question is how should we look at this particular line item and shouldn't this be part of the margins since it almost appears that its business as usual for us?

Amit Jatia No it's not because these are onetime sort of asset write-offs that are not usual. If you look at last year it was much lower, it was almost less than half and in the whole year it's not a significant amount if you think about it. Now some year it's nothing, some year its more but let me have Suresh respond to it.

Suresh L Also we need to understand that these write-offs that we are looking at there is a lot of renovation and modernization also that we are doing. Of course, some of them could be some closures or re-locations but there is also significant amount of reinvestments we are doing and therefore we need to look at it from that perspective and not to kind of net it off against the restaurant operating margin. These amounts would vary as per as the program that we have and in terms of the relocations that we do, so you really can't bring it to the restaurant operating margin and look at it as business as usual.

Bhavesh Shah My question was just that since these numbers are there and it's been there for the past few quarters now, so how should one look at it? If I want to see for example from the FY19 perspective, it's almost 4 crores in this year, so can we really forecast this kind of a number or it's absolutely one-off for you?

Amit Jatia No it's hard to forecast if you look at last year, it was like 2 crores for all of last year. So the numbers vary quite substantially. It all depends on our re-imaging program, etc., but we hear you, let's see if there is some consistency to give you more flavor on that in the future. But at this point in time we are quite confident that it's not like a major impact on what we are trying to do.

Bhavesh Shah Secondly, I do understand you don't give details on overall contribution of McCafé and breakup of that. But can you just share some thoughts on percentage gap between a McCafé and a non-McCafé comparable outlet in your network, for instance, if a non-McCafé store sales doing X revenues does a McCafé outlet do 1.2 or 1.5, any thoughts on that would be very useful?

Amit Jatia I will try my best but the first factor is that when we breakup the details of the 25% comps, the good news has been that it's quite evenly distributed which gives me a confidence that all our strategies are working quite well. That is point number one. Point number two, there is absolutely a difference as brand extension comes in restaurants and these restaurants definitely perform at a higher level than the ones that don't have the brand extension and we have an analyst meeting planned this year where we generally try to give once in two years a little more deep dive into our brand extensions and we will share more with you at that time. The good news that I can share with you is that two years ago whatever indicators we had given in terms of average volume for both McCafé and McDelivery and we had given some projections of where we want to go, we are trending extremely well and way ahead of what we thought we would get to. So we will cover that a little more in our analyst meet. Finally, what I want to tell you is that as I said before that once you make that investment in the restaurant as you keep adding brand extensions the one plus one plus one becomes five; so each one starts disproportionately contributing to the bottom line. So that's where I mentioned that we have only 149 McCafé. As that goes to 277 which is the entire network and as new stores coming in, we still feel there is tremendous room for having margin improvement and average volume growth because of the balance addition that is left in McCafé and in fact in McDelivery as well.

Bhavesh Shah Coming to your SSG number of 25.1%, how much of this number is probably led by pricing? One of the participants asked this question but would it be somewhere in the range of 7 to 8 percentage points given that you had taken price hike at menu level post-GST changes in rate and structure, any comments on that?

Amit Jatia We generally don't breakup the details of that. But yes because what happens is that we essentially passed on in almost 16 of our products a significant discount to the consumers as well. So I would say definitely around 6% impact you can definitely factor due to GST in the last quarter because we got all three months with the new pricing.

Bhavesh Shah What is the typical capex you incur for your EOTF outlets because this also comes as part of your ROP 2.0 and how many you intend to open in FY 19?

Amit Jatia To answer the first question the ROP 2.0 is baseline that means it does not include the brand extensions like McCafé, neither does it include the EOTF elements in it, so that is point number one. EOTF elements I mean roughly to give you a sense, 10% to 15% incremental cost over the base cost is where we have EOTF as of today, so we have done a lot of work in bringing that down to these levels because at these levels the ability to accelerate EOTF becomes very nice. In terms of projections on how many EOTF, we will come back to you in the more detailed way during the analyst meet or by the next quarter because that's something sort of work in progress at this point in time.

Moderator The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra My first question was on SSG, I understand you don't give a breakup but if you could give us some sense on how is the growth in number of orders and the ticket size expansion tracking. Which is basically contributing more or growing at a faster pace?

Amit Jatia Like I said we don't really give breakups but what I did mention earlier, the good news has been that when I break this out, it's quite an even growth between the brand extensions that is McCafé, McDelivery and in-store and we are quite pleased with that. But obviously these levels of grow does not come in without footfall growth. Such levels of growth do not come because of average check. I have already indicated roughly a 6% impact due to GST price change to deal with some parts of the input tax credit; some parts have obviously impacted our P&L that we talked about earlier. So, it is driven both by footfalls and due to McCafé and Delivery business growing quite well, obviously average checks also moved up quite well.

Latika Chopra On the food aggregator space, clearly we are seeing more action there considering the funding environment is again looking up and you've yourself been doing well on Delivery, any thoughts on how the competition is shaping up on that space and how it's influencing your growth rates?

Amit Jatia Actually the way I see aggregators is I see them like a mall. If you go to a food court is of a mall, you are competing with everybody but your presence is material. So we feel that aggregators are pushing their own platforms very hard and obviously because they have a far more number of restaurants, it's a very big advantage to be available on the aggregators as well. We take a very long-term view and we are building long-term partnerships with these aggregators like we have done even globally for that matter. I do believe that aggregators are tremendously accretive and add value to us while we add value to them because our brand is well known and there is demand from the consumer to come to McDonald's, at the same time our operational parameters are a huge advantage for them since we have been doing delivery from 2005. So it's working out to be quite a win-win, so we are trying to grow our own platforms, we are very conscious of that while keeping aggregator growth as well. All I can say is that at this point in time, it’s a good win-win. I see this as a positive development and I see that we want to engage more and more with them to partner as they grow into more cities and bring more consumers on to their platform. Last point is meanwhile we are as aggressive on our own platforms as well because we believe that a considerable amount of business is coming through that as well.

Latika Chopra Would you say majority of your deliveries sales are coming to your own platform or is it more through the aggregators?

Amit Jatia No, it's quite balanced. Both are growing extremely well. We don't give breakout so what's the aggregator and what is our internal but they are growing quite well.

Latika Chopra If you could share the capex number for FY19, anything new stores plus reimaging the existing stores?

Amit Jatia Absolutely, between Rs. 1 to 1.2 billion is typically what we have been spending.

Moderator The next question is from the line of Manjeet Buaria from Solidarity Investment Advisors. Please go ahead.

Manjeet Buaria Congrats on good set of numbers. When we look at the G&A line item, generally in administrative expenses, how do we think about this? At what level does this start trending in line with inflation rather than high double-digit kind of growth rates? In some sense what store capacity would it support to get a sense on operating leverage there.

Amit Jatia I will give you a past example. If you look at our past data, in 2009 our G&A was about 9%-9.5% of sales and by 2012 or 2013 we were able to bring it down to about 5%-5.5% of sales, so we saw tremendous leverage. Then in the middle, obviously topline sales growth was not going through as well however remember we are building a long-term business here and we did not stop store growth, we reinvented McCafé. Recently we reinvented EOTF; we're building a lot of work around menu. So I feel that we are still at a point where investments will have to continue to be made. So first and foremost, if I kind of take vision 2022, we do expect that as sales grow as we said 2.4x to 3x we don't expect G&A to grow at the same level. We typically like G&A to grow at half that level and when that happens 100 to 200 to even 250 basis points long-term is something that one could expect coming out of the G&A. I hope that gives you a bit of a flavor on how this is going to pan out. Obviously our G&A is not going to grow at the same rate as sales.

Manjeet Buaria Sure. One housekeeping question, the write-offs which you took for those old stores where you are reimaging them, etc., they are non-cash write-offs, right?

Amit Jatia Yeah non-cash.

Manjeet Buaria It's just your P&L entry?

Amit Jatia Exactly.

Moderator The next question is from the line of Manish Beria, individual investor. Please go ahead.

Manish Beria If I look at your profit number per store, so it's only 10 lakh, if I just annualize your quarterly profit. So I understand you have not done with increasing your brand extension and also maybe many of your stores are not matured enough. But just want to understand in the medium to long-term where this profit per store number can go? The second question is on the ROE side, so I just want to understand what can be the long-term ROE of this business and also wanted to understand why the parent company chose to have a royalty on sales rather than profit sharing?

Amit Jatia The last question it's easy because this entire industry it is of the topline so that is well-established standards and that is of course a non-discussion item. Coming to point number two which is the ROE that's a great question and the answer is quite simple on that. Obviously in India we are at building block stages. Typically what we do let's talk of each restaurant, typically we like to get 20% to 30% cash on cash return at the restaurant level and after that if you take the corporate overhead which is the only other cost that is typically 500 basis points of that. Now currently of course we have no leverage at all because my philosophy has been that till you don't get to very stable cash flow where we have a base of almost 300-350 restaurants which we are slowly getting to and you have very strong cash flow that is when you need to move to debt if at all. So obviously the minute if you are getting cash on cash return of almost 20% to 25% post-G&A, typically if you add even a half of it as debt clearly the ROE shoots up quite substantially. That is typically how the model works in our business; obviously we are inching toward that quite well. In my opening comments, I made a very important statement that on the entire gross block last year, we were 11% cash on cash return at the restaurant level, we moved it to a solid 16% in this financial year and therefore we feel that as years like this where you get the topline growth and you are able to keep cost tight, that's when you make all the deltas. I also talked about how G&A as you double the sales gets better. Also particularly at McDonald's, we do a lot of fixed deals which are very positive for us as you grow sales, because our rent increases are every five years. When you put all of this together I think as you continue to do strong double-digit sales, the flow through starts coming down quite quickly. So that's why if you look at 2022 numbers that's the numbers on which you should work the model out. I hope that gives you a bit of a flavor on the ROE side. Lastly even on the other point you should look at the restaurant operating margin. Firstly, you have to take out restaurants that are built last year because they are not operating for the whole year which cuts 25 where restaurants out. Then you got to take even any restaurant that is about two years old, you got to cut that out as well and the restaurant that are older than that are the real basis on which cash flow per restaurant is looked at. So we look at that extremely carefully and I think the first number I gave you where the cash-on-cash return at the restaurant level has moved to 16% is already very respectable. So I hope if you put this entire together, it kind of gives you a sense of the questions you asked.

Manish Beria When I look at your per store sale, it comes to something like 4 crores but when I visit your store, it just looks like this number is pretty low because if you see the footfall and I did some analysis there, you should get something like 7.5 or more, so what is pulling it down? It's just the new stores that you're adding that is impacting the whole numbers or am I missing something?

Amit Jatia Firstly you cannot divide 277 by the topline, because the 25 stores that are opened last year, they don't operate for the whole year and that matters quite a bit. The other thing is that as I mentioned earlier the stores that are opened last year, that's another 25 restaurants; they don't open at the full sale that is its potential. They open at a much lower number because in the trading area. For example, in Mumbai even if a store starts at 2 lakhs a day that means we know that the store will settle at a much higher number because there is no real marketing and as consumers start understanding that store, the sales tend to sort of pick up. Therefore, these numbers are not really the right way to do it. Again then Mumbai has different average store sales and Ahmedabad would have different store sales and the economics of Ahmedabad will be very different from that. So we can take this more offline, you can reach out to Ankit and he can explain this a little better to you.

Manish Beria Can you just tell like what is the total footfall, what is the average footfall that you get in a store in a year?

Amit Jatia We don't share that breakup.

Moderator The next question is from the line of Manjeet Buaria from Solidarity Investment Advisor. Please go ahead.

Manjeet Buaria Just on the previous question you were answering I missed a bit, what you meant that when you reach a certain store level, it makes sense to start taking debt and substituting it with equity, am I right?

Amit Jatia No I am not saying that. What I'm saying to you, if I achieve cash flow targets and build my network through that, it's ideal. The point I am trying to make to you is that obviously today there is no debt effectively in the business because we are net cash. So the primary reason we have been able to do that is because we want to get to a base of at least 300-350 stores with quite steady predictable cash flow before we even considering going to debt. The point is if suppose tomorrow, as eating out frequency in India grows and we are able to take the 25-30 openings to 40-50 openings that is when we may take debt if we need to, to grow our store sales. So the minute you do that your return on equity obviously goes up.

I'm trying to explain to you that obviously the return on equity will go up because with zero debt versus 1:1 debt equity which is still very comfortable the numbers change quite dramatically. So I am telling that in case we need to get to 50 stores and the current cash flow is not enough, we will not stop growth, we will take a little bit of debt that time to grow and when we do that our ROE shoots up quite dramatically.

Manjeet Buaria I wasn't complaining, it's good you are open to that option.

Moderator Thank you. As there are no further questions I now hand the conference over to Mr. Amit Jatia for closing comments.

Amit Jatia Thank everybody for joining the call and appreciate your patient hearing of what we had to say. Thank you, have a great evening and a wonderful weekend and hopefully talk to you again next quarter.

Moderator Thank you. Ladies and gentleman, on behalf of Westlife Development Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.