Q3 FY2018 Earnings Call Transcript – Feb 5, 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 Q3 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 third quarter and nine months ended December 31st, 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. 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 everyone and thank you for making the time to join this call. I'm proud to announce that this is our 10th consecutive quarter of positive comparable sales growth, our strongest performance in recent years. All our platforms are yielding strong results and we are firing on all cylinders as we serve more customers, more often across the business. We are pleased with the consistency and quality of our results indicating strong consumer confidence in the brand. This has also helped us in successfully navigating difficult times like demonetization and implementation of a new tax structure of GST. This quarter had been exemplary in all aspects and I am pleased to report strong double-digit top line growth and same store sales growth as a result of higher footfalls in the restaurants and volumes aided by menu innovation. We have also managed to optimize our crew and utility costs, and that has provided significant operating leverage to the P&L.

Our focus on steadily and consistently opening new restaurants in marquee locations across key cities is yielding good results. Restaurant operating platform 2.0 is enabling new restaurants to contribute to positive cash flow in the first year of operation helping us with reduction of drag on account of new restaurants. We have been able to apply our learnings of ROP 2.0 to older restaurants and that has helped us improve the cost structure substantially. We have significantly improved customer experience at our restaurants with modern designs in over 70% of our stores. We have further differentiated consumer experience with the launch of experience of the future restaurants that is providing significant competitive advantage to the company. Our brand extensions continue to be key levers for us. McDelivery and McCafé's have delivered exceptional results in this quarter. Delivery is helping McDonald's gain market share in the fast-growing home delivery business. While McCafé's continues to drive leadership in the beverage category by increasing consumer occasions to use the brand. We believe that the company's strategy to make big bold moves and build platforms will continue to give long term gains both in volumes and value and help us deliver long-term sustainable value to all shareholders and stakeholders.

With this I hand over to Smita to take you through the specific results of the quarter.

Smita Jatia Thank you Amit. Good evening everyone, we are happy to announce our results for Q3 built on our 4 strategic levers of broadening accessibility, growing baseline sales, margin expansion and growth through people. These strong results have been achieved by focus on our brand extensions, our everyday value platform, menu innovation along with driving operations and profitability.

For the quarter, we have clocked a total sales growth of 26% at 305 crores, record high SSG of 20.7%, outperforming the industry. This has been over a base of 5% SSG of the same quarter last year and 10th consecutive quarter of same store growth. Cash flow has increased by 82% over the last year same quarter and delivering a positive PAT margin of 2.5%. This has been achieved through an improvement of gross margins by 265 basis points led by a healthy product mix and operating EBITDA expansion of 280 basis points led by operating leverage.

The consistent 10 quarters of positive SSG has resulted in growing the baseline significantly quarter-on-quarter, thereby giving us operating leverage on higher average sales per restaurants. Taking the same quarter for the last 3 years, we have clocked an overall sales growth of 56%. Moving into the levers for growth, we launched a food festival 'Flavors without Borders' giving variety, choice and value to the customer, thereby driving higher footfalls. Within the 12 choices in the festival, we introduced a familiar food form Naan in a uniquely McDonald's way called the Chatpata Naan at a great value of Rs. 49. This initiative not only contributed to strong SSG but also helped drive better gross margins. McCafé continues to add both top line and gross margin by increasing awareness through advertising. We have achieved our guidance targets for the year by adding 5 McCafé's in the quarter, taking our count to 141. MDS also continues to give strong double-digit growth through our own digital assets, as well as through third party food aggregators like Swiggy and Zomato. Lastly, we opened 9 restaurants in marquee locations, for example in the city of Mumbai like Sion as well as new city of Manipal taking our restaurant counts to 271. All the new stores have opened on the ROP 2.0 platform again helping improve operating EBITDA.

I now hand over to Suresh, who will take us more in details into the financial performance.

Suresh L Thank you Smita. I will now take you through the financial performance for Q3 and nine months ended 31 December 2017. I just want to give you all a context before we get into the specifics for the quarter. At the start of the year we had put together a plan to drive higher same store sales growth, resulting in a healthy improvement in our operational profitability and the resultantly becoming profitable at the PAT level as well. Having the year-to-date performance at the back of us, it gives us huge confidence that we will be able to exceed our targets for the year and deliver a robust performance in FY18 compared to earlier years.

It gives me immense pleasure to discuss strong set of earnings for Q3 FY18 now. On slide # 15, we reported our strongest comparable sales quarter in over 5 years and 10th consecutive in a row of 20.7% in Q3 compared to 5.1% in Q3 FY 17. We witnessed strong total sales growth of more than 26% in Q3 FY18 and about 18% in the year-to-date period. We are seeing a trend of increased footfalls across our restaurants led by pillars of our growth strategy, aided by menu innovation, every day value platform and brand extensions, coupled with the addition of new restaurants. Re-imaging and EOTF initiative is providing consumers with enriched brand experience which helps us drive differentiation across the industry for our loyal consumers. Overall, we are very bullish with the sales momentum demonstrated during Q3 and 9 months of this fiscal year and with all growth strategies firing for us, we are confident of delivering strong sales performance in FY 18 compared to last year.

Talking about gross margins, there has been a product mix improvement led by McCafé's awareness campaign bearing strong fruits and our new brand campaign launch around 'Flavors without Borders' coupled with every day valued platform launched earlier this year and it has helped us with the gross margin expansion of 265 basis points to 63.1% in Q3 FY18 compared to 60.4% in the same quarter last year. Gross margin expanded by 180 basis points at 62.2% for the nine months ending December 17. On the restaurant operating margin, we have seen a huge margin expansion, over 300 basis points led by operating leverage and also as a result of our sharper focus on the cost structure over the last 18 to 24 months. ROP 2.0 restaurants have resulted in stronger efficiencies across utilities expenses, coupled with operating leverage across our employee and payroll costs. The margin growth has been partially impacted by the increase in costs during the quarter on account of denial of input tax credits. On operating EBITDA, we have seen a strong improvement led by the overall profitability at the restaurant level which was slightly offset by increase in the G&A

expenses. Therefore, operating EBITDA margins improved by 280 basis points in Q3 FY18 and stood at 8.6% compared to 5.8% in Q3 FY 17. The graph on the next slide shows the operating EBITDA margin improvement in Q3 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 a PAT margin of 2.5% for the quarter, reflecting PAT of Rs. 77.5 million in Q3 FY18. This performance gives a huge boost to our initial plan to be PAT profitable in FY18.

Coming over to slide #19, it is quite remarkable to see our commitment to deliver better cash flow quarter by quarter and year by year. As you can notice in that chart it is heartening to report that we have already gone past the total cash flows which we generated all of last year in the 9 month performance of this year alone. This is quite commendable and demonstrates our efforts which we had put in place at the start of the year and gives us encouragement to continue working hard to generate more profitability for all our stakeholders. Such growth in cash flows has been possible due to higher same store sales growth, resulting in operating leverage and our workaround ROP 2.0 restaurants which has reduced the drag of new restaurants at the system wide level. We registered a healthy increase of more than 80% in cash profits in Q3 FY 18 compared to the corresponding quarter last fiscal. Lastly just to re-emphasize that we will continue to execute our strategies laid out for FY18 and the financial performance in Q3 and year-to-date gives us even stronger confidence to deliver more sustainable and profitable growth this year and moving forward. With that said, I would now hand over back to Amit who will take you through strategy and outlook for FY18 and give the closing remarks.

Amit Jatia Thank you Suresh. We are confident that the strong foundation of our product and experience platforms will continue to deliver positive same store sales growth. We do expect positive tailwinds as consumer sentiment and outlook improves quarter-on-quarter. Our new restaurant development plans will focus on a consistent growth of 25 to 30 new restaurants with modern and relevant designs. We will continue to re-image our existing stores and increase the penetration of experience of the future restaurants in our portfolio. McCafé's, Delivery, menu innovation and value continue to be the cornerstone to bring in more customers, more often to our restaurants. Westlife is on track to deliver vision 2022 on the back of its strategic levers of broadening accessibility, growing baseline sales through everyday value and expanding margins. I am confident that we have been able to build a business model that is equipped to maneuver a tough environment and excel in good market scenarios giving excellent value to all our shareholders. Thank you and with this I open up the floor for questions.

Moderator Thank you very much sir. Ladies and gentlemen, 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, great set of numbers. I just wanted to understand your commentary and please correct me if I'm wrong, your commentary is lot more bullish in terms of demand expectations. Would it kind of suggest that now we are on a steady trajectory towards a double-digit SSSG for FY19 and probably beyond?

Amit Jatia See basically, firstly, I think our foundation that we have built with our platforms of working like platforms and therefore for example, take McCafé's, take Delivery, take the menu like Chatpata Naan, these are all platforms that will continue to give results and have given us results in difficult times. What we are seeing is that the tailwinds are getting positive and we are seeing a slight push forward with the tailwinds which is sort of pushing us into the slightly higher same store sales growth trajectory. So, I do believe that high single digit to low double-digit is where we feel reasonably confident at this time.

Avi Mehta Fair enough. And on the margin front I understand, even in the slide also you have very clearly mentioned that there is some impact because of the loss of input credit so that happened for half of the quarter. So how should we look at what could be the way to go about this? Could you help us guide through this? Would you look at absolute margin, absolute EBITDA what would be the percentage margin, this quarter is a little higher SSSG which is helping you, but you have an impact because of input costs so going forward would margin be under pressure because of the input cost being lost? How should I see that?

Amit Jatia No, I don't see the margin being under pressure due to input tax credit. I think basically if you notice quarter-on-quarter we have got 100-200 basis points improvement in this year particularly and we have remained PAT positive through the whole period. So there are two factors, Q3 is generally in any case a very strong quarter for us. So, absolute rupee amount of sales also matters. But primarily we feel that, for example, whatever gains we made on the gross margin side that is also quite sustainable. So I think that you will see the positive trajectory in margins continue. That's what we feel at this point of time. So like even last quarter, we had operating margin of 7.7%. So basically from the 7.7% we have been able to move to about 8.6% for this quarter and that had the impact of the ITC as well. So I'm quite confident that we will stay in this kind of trajectory moving forward as well.

Avi Mehta And lastly, if I may you have retained the 25 to 30 store addition guidance. Now, this quarter net addition was obviously a little lower because of some closures. Is this closure a one off activity, how should I see this, what has driven it?

Amit Jatia Overall as I have always maintained 2 to 3 closures a year is kind of what is deliverable. Last year we took 0 closures. So I'm just saying on an average, some years could be 5, some years will be 2 but what happens is malls are shifting, new malls open and given that this is our 22nd year of operations, there are contracts that end as well. So it is a combination of all of this. So, I think you should factor 3-5 closures in a year.

Avi Mehta Fair enough. In 25 – 30 additions that is how I should see it.

Amit Jatia Correct.

Moderator Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra Congratulations to the team on great set of numbers. Just carrying off from where Avi left basically you had this very consistent strategy of McCafé's, Delivery, value innovations but there seems to have been a clear-cut inflection in this quarter in a very big way. So just trying to understand what has changed. Is it completely the environment where you think suddenly you are seeing significantly more tailwinds now. Just trying to understand this very sharp change in the SSG trajectory this quarter.

Amit Jatia So one is of course last two quarters we were on average of at 8.5%, so we have done quite alright. Obviously, this is a significant shift and that is why I keep saying as I said in the last quarter earnings call as well that we are beginning to see the tailwinds turn slightly as well. Now I just remain cautious given that the economic environment remains volatile. But our menu innovations also played a significant role in this whole change. So for example, this is the first time we have put 12 new products out there. There were 3 products in McCafé's and that has really done well but the Chatpata Naan at Rs. 49 has really caught the fancy of our consumers and more and more stores are getting re-imaged. So as the tailwinds have turned the inflections got on even higher because of the platform that has been there as well. So I hope you are able to see my point that the platform was there, we enhanced that further with superb menu innovation that has worked very well because these were all consumer tested, focus groups had been very positive on this product. And therefore, the average volume per store has moved up, also non-comp stores, stores that are not comparable are doing well which is why the top line total growth of 26.2%. So what that has done is it has moved up our average store volume to a pretty substantial level.

Arnab Mitra The second question is on margins, while the overall I think margin improvement is very strong, I am still a little surprised that the leverage of 21% SSG on things like payroll is only 0.5% or let us say even adjusted for the input credits occupancy costs there is not that much of an impact of 21% SSG. Just trying to understand is there something else there because of which the full leverage is not kind of playing out?

Amit Jatia No, see firstly on rent it is 18% the impact of ITC. 18% on rent is quite a substantial number. So even if you take rent at 10% of sales for argument's sake, that is a 1.8% impact right there. The other thing is there is a previous period charge in there as well in the G&A so that is about 100 basis points. Now if you take that out the real flow through it is about 400 basis points. So I feel if the input tax credit impact was not there it would have been much better, but I think 400 basis points, we feel pretty good about that. Also please understand, on labor, the minimum wages are rising all the time, and in fact in utilities we have operating leverage flow through, because utility does not have any input tax credit impact. So that's where it is. So roughly you can assume that on a 21% Comp we had a 400 basis points margin improvement.

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

Bhavesh Shah So just trying to understand your 20.7% same store sales growth. Can you just give some thoughts on how much of this is being contributed by the price hike at the menu level?

Amit Jatia Price hike at the menu level Smita, I don't think we have taken any.

Smita Jatia This quarter, there has been no price hike. In fact, we have reduced the prices of few products after the new GST and input tax credit was taken away. We took some of our key products and we gave at 25% price reduction on those products.

Bhavesh Shah No, I'm trying to understand that after input tax credit was taken away there was an overall increase in menu price, though at the customer level there were price cuts. But at the menu level you had taken some price hike. So will that be reflective in this 20.7%?

Amit Jatia Okay I got your question because when you said price hike, I don't remember taking any price hikes. So obviously, there was some impact because the GST dropped and input tax credit was taken away, and our prices were inclusive of GST so there was a marginal 200-300 basis points that you could attribute to GST as well.

Bhavesh Shah 200-300 bps?

Amit Jatia Yes.

Bhavesh Shah Secondly your ROP 2.0, you indicated that you have started expanding to some of the existing stores now. So what is the run rate right now, how many stores are still pending in ROP 2.0? I'm just trying to understand that where could cost levers can come through for the coming few years.

Amit Jatia No, so basically all the new restaurants are on the ROP 2.0 platform. So all the restaurants that have opened from 2016 are on that platform. In the past restaurants, we don't give out break-ups as yet, but I feel there is a reasonable balance base left because we have to go back and fix the utility design which takes a little bit of time. Give us until the next quarter we will give you a little more color on that.

Bhavesh Shah So quickly on your store expansion guideline I'm looking at FY19 now. Really your cash generation has been extremely strong, so any thoughts on accelerating some of your store expansion programs, you have been accelerating the roll-out for McCafé's, any specific thoughts that you have firmed up?

Amit Jatia I feel our consistent approach has worked for us. I have seen in the 20 years that when you go really aggressive and then what happens is you have 3 years of aggressiveness and then you go to 0. I think our consistent policies of opening really good quality stores at a 25 to 30 run-rate works really well for us at this time. To give you an example, we recently opened in Sion right by the station. You have got to see the location to sort of believe it. Now the point is we have been working on it for 18 months to 2 years. But that location is now with us for over 20 years. So, my point is, our focus has been on key cities which take a lot of effort and time. If you look at Mumbai, look at the way we penetrated with CR2, Sion, a recent opening in Kalina and Vile Parle East, these are marquee locations which are very hard to come by. So I feel that yes the pace of store openings will go up but that will require some structural changes in the economy and that could be happening at this point in time but it's hard for me to predict that. So income levels are rising, if the frequency of eating out goes up much faster than it has in the recent years, if malls start coming up, if new highways are beginning to come up then all of this adds opportunity for us to go and open restaurants. I feel therefore a range of 25-35 is really what I feel comfortable talking about today. But it does not preclude us from getting to higher numbers in the next couple of years. I hope you see my point and understand it.

Bhavesh Shah And sir just final question on royalty. Any thoughts of any discussions anything that you would like to call out?

Amit Jatia No, basically we have said that in the press release that it is going to remain at 4% for FY19.

Bhavesh Shah And sir finally I have just missed your commentary on some 100 bps of impact in the base quarter for G&A expenses.

Suresh L Yes, so basically in light of the numbers that we seem to be delivering there is a target incentive plan for our employees. So what has happened is in this quarter we have taken the impact for all the three quarters. So you see the 100 basis points that Amit talked about impact in this quarter pertains to the first two quarters. So that is what it is.

Amit Jatia So if you were to normalize it that would not be there and therefore our actual margin expansion would be another 100 basis points.

Moderator Thank you. The next question is from the line of Sameer Dalal from Natwarlal & Sons Stock Brokers. Please go ahead.

Sameer Dalal Now a lot of the questions that I had were answered. One quick question, what is the kind of capex outlay that you have for the next financial year?

Suresh L So as Amit mentioned here in terms of the openings we are in the range of about that 25-30 restaurants, so our capex outlay would be in the range of about Rs. 100-120 crores.

Sameer Dalal This is just for the new restaurants?

Suresh L This for new restaurants, this is also for modernization and this is also for all the other corporative initiatives and on the brand extensions as well.

Amit Jatia This is the total capex for the company.

Sameer Dalal Now your cash generation is quite decent but even at Rs. 120 crores you would still require some amount of additional funding, so what kind of debt can we expect you to be raising next year? Is there some sort of equity dilution, you would look at or any other source of funding?

Amit Jatia No through our most difficult periods we have neither diluted equity nor went aggressive on debt levels. Even in this quarter we remain net cash and through this entire period while investing almost Rs. 90-100 crores every year, we have remained net cash. So when you're talking of FY19 firstly, this year we expect our cash flows to be pretty strong as you have seen that we have done Rs. 60 crores in 9 months. So if I go with the same trajectory there is a decent expectation of cash flow in the next quarter as well and we don't expect the following year to remain flat on cash flow. We expect growth in cash flow. So essentially, we feel that we will remain net cash or just about even and stay at that level.

Sameer Dalal And my last question, so the new stores that you are opening where have you seen the break-evens EBITDA level coming in for some of these stores that may be opened a year or a year and half ago. Is it taking longer?

Amit Jatia No its not. In fact, I have mentioned that because of the ROP 2.0 platform we have been generating cash from the first year in the portfolio of stores.

Sameer Dalal So all your new stores you are saying are now EBITDA positive.

Amit Jatia As a portfolio. That means if we have got 20 stores as a bunch of the 20 stores we have generated positive cash from these 20 stores. It is the basket that is positive there could be one or two stores that could be here and there but the basket is positive.

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

Latika Chopra Just two questions. Firstly, on the SSG number, would it be possible to give a sense of what was the kind of increase you saw in number of orders and what kind of upsizing you saw in ticket size on account of the menu innovation that you mentioned.

Amit Jatia So we don't share the breakup of our average check and the guest counts. All I can tell you is that in order to deliver a 21% you got to have both working quite well. First and foremost, Delivery is where the average check is much higher than the in-store that has been just doing an absolutely amazing growth very strong double-digit. Same thing with McCafé's so again very strong double-digit and when you look at the menu line up there were a number of premium products included along with the Rs. 49 Chatpata Naan also. So that all of those aided in getting an average check growth and we got footfalls in because of value, because of all the other things that I talked about. But unfortunately, Latika we don't give specific numbers on these two.

Latika Chopra Not specific numbers, but any sense is it evenly spread or tilted more towards number of orders picking up because you saw higher footfalls?

Amit Jatia Yes it has been quite balanced.

Smita Jatia It has been quite balanced on both fronts. As you said that we got more guest counts because of all the platforms and also the tailwinds and at the same time we were able to leverage them when they came in the restaurant with the variety of products which we offer them ranging right from Burgers, to beverages, to sides. So as a result of it, it was a combination of both.

Latika Chopra Secondly, can you give a sense of how many restaurants currently offer the Delivery platform?

Amit Jatia 161.

Latika Chopra You mentioned that the ticket sizes have expanded meaningfully. Would it be possible to get a sense of how much would the variation be, is it 20% to 30% more than the average ticket size in dining?

Amit Jatia It is double or more of the in-store.

Moderator Thank you. The next question is from the line of Mayur Gathani from OHM Groups. Please go ahead.

Mayur Gathani Sir when you say restaurant operating margin, it is approximately 15% this quarter and the last quarter I think 13%. So what would be the peak margin your best operating restaurant could make?

Amit Jatia It can make a lot of money but unfortunately, we don't share that data. Because while our average volume say is 4-5 crores, it is fortunately rising quite well. We have stores at the upper-end that could be doing 2x to 3x times of that volume. But we don't share the breakup of that unfortunately.

Mayur Gathani And royalty for FY19 is 4%, so will it be 8% in FY 20?

Amit Jatia No, I mean all we can give you guidance right now is for FY19 which is at 4% and we will come back with an update on that later.

Mayur Gathani And sir on the taxation part when do we see you coming under full tax. As of now you are not paying any tax because of the previous losses I guess.

Amit Jatia It is little complicated because we have past credits still available to us. But it all depends on our projection for profit, so it is a hard for me to answer a specific timeline about it. You can talk to Ankit offline and he can give you more color on that.

Mayur Gathani Great I will do that. And how many closures were there in this 9 months period?

Amit Jatia 3 closures.

Mayur Gathani So your net addition will be 25 stores approximately in FY18.

Amit Jatia Not necessarily. We talk of gross openings; sometimes they are relocations etc, so, I may not be able to confirm that 25-30 would be net of the closures as well. Basically, gross openings will be 25 to 30.

Mayur Gathani And on the refurbishment side how many stores were refurbished this quarter. Generally, on average how many have you been able to do so far?

Amit Jatia I think we are right now 70% of our portfolio is re-imaged. About 20-30, we are able to do a year.

Moderator Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.

Manish Poddar Just wanted to get your thought on this royalty renegotiation that if you're confident of growing comps and the demand and the margin outlook is also positive, what is holding the royalty rate at 4%? Why is McDonald's not revising it?

Amit Jatia So basically, as we have explained before it is a support that they are giving for growth and we've been doing that. So I think it's not possible to get into when and how. But I think it is investment for growth of the brand in the market.

Manish Poddar So should we assume this to be the new normal?

Amit Jatia No. All I can say is that for FY19, it is 4% and we will come back with more information later. Until then, what has been previously described holds.

Manish Poddar So if I get it right this will shift to directly 8% in FY 20.

Amit Jatia As per the plan.

Moderator The next question is from the line of Vishal Gutka from Philip Capital. Please go ahead.

Vishal Gutka I have three questions one on McCafé's. So McCafé's are doing very good. So, is there a possibility to set up a standalone McCafé's? Second thing is on EOTF stores, so you have made lot of new launches over there like rice and soups. So do you believe are they ready for pan India rollout? And third question is on online food aggregators, now there are couple of new aggregators to come in. So what does your thought processes whether they will aid the growth for us or what is the likely view?

Amit Jatia Sure, basically as we said, we don't intend to do any standalone McCafé's we think that our model of having in-store McCafé's is working extremely well both from a margin point of view as well as it drives each other. So we are going to continue to build McCafé's with in McDonald's. The second thing is EOTF of course; the rollout is continuing to grow quite well. I think in less than 12 months we have been able to build about 10 EOTF restaurants. We are still working on the details of what that would be and we will give more guidance later. But yes, rice and soup and salads and all the things that we are working on our all potential launches long-term. These are all tests that we run, and if the results are good then we launch it across the market. Last question on aggregators is that yes, they have been positively contributing to MDS and that the good news is, it has been complimentary for us and not only is our own platform growing, but the aggregators are also helping, bring in a lot of new customers, because there are so many people who are not on our platform but on their platform. So it has actually worked quite well for us.

Moderator The next question is from the line of Niraj M from Goldman Sachs Asset Management. Please go ahead.

Niraj M I wanted to understand if you break down your company's revenue in-dining, breakfast and McCafé's and Delivery, can you give some color on how the breakup of the revenues would be for the company?

Amit Jatia No we don't share the breakup of our brand extensions and in-store and day parts. The important thing is that these are brand extensions. So, at the end of the day our in-store business is pretty substantial. Meanwhile, of course, the brand extensions are also growing, but the endeavor is to also then grow the in-store business. I hope you understand what I'm trying to say we don't intend to become an only-delivery or an only-coffee business. We need to grow our in-store business through value, through menu innovation along with the growth in McCafé's and Delivery. But we don't break that data up and share that.

Niraj M Is it possible to put some color on how the growth has been in terms of, not in absolute data?

Amit Jatia No. I've said this before that McCafé's average volume for example, has grown by 70% to 80% in the last 3 years. Our Delivery business has also been quite similar actually. The in-store business obviously has not grown at the same pace because it is a much larger business. So obviously the percentage of McCafé's and Delivery has been rising because of the significant growth numbers. But they are pretty much in line with what I see globally as well, particularly for Delivery. I mean Delivery we have markets that do a decent same store sales percentage and we are pretty much in line with that. In McCafé's I think we have done a little bit extra because I feel that we are filling a void in the marketplace and because the unit economics work extremely well for doing it within McDonald's and our product has really connected with the consumer and the barista, the service, the new outlook of the restaurant has augured well and therefore McCafé's has been a bit of an outlier for us. So that is the best I think I can share with you.

Niraj M And the last one on breakfast.

Amit Jatia Our breakfast is growing. The good news is with after the new products have come in we are seeing pretty strong SSG in the breakfast business. We don't share the breakup again, but it is still in initial stages. This is like where McCafé's was in 2014-2015 so our whole strategy has been that in 2 to 3 years, can breakfast become what McCafé's and Delivery are today. The whole idea is to keep a pipeline of different initiatives all the time so that you can maintain consistent growth in same store sales.

Niraj M But is it possible to share one thought that if you have increased your store timings because of the McBreakfast, is it getting the incremental sales to cover at least the operating cost?

Amit Jatia No we are not losing because of the utility initiatives that we put in place we are all right, you know it's actually doing enough volume for us to sustain. In some markets, it could still be an investment where we could be losing money and in breakfast each market is in a different phase of development within our territory. So the good news is that the consumer response to our products has been quite good, so as we do interventions in breakfast, we believe that it will get desired results.

Moderator Thank you. As there are no further questions from the participants, I hand over the floor back to Mr. Amit Jatia for his closing comments, over to you sir.

Amit Jatia Thank you very much everybody for joining the call. We appreciate you all taking the time. If you have any further questions, please reach out to Ankit Arora. All the information is available in the material that he has sent out and on the website. Thank you 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.