Q2 FY2017 Earnings Call Transcript – Oct 28, 2016

CORPORATE PARTICIPANTS

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

Moderator Ladies and gentlemen, good day and welcome to the Westlife Development Limited Q2 FY17 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 30th, 2016. 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 and a very good afternoon to all of you. Thank you for taking the time to join us on the call today. Let me start providing you by an overview of the progress against our strategic levers.

Over the last 18 months, we have worked tirelessly to execute a plan design to capture efficiencies in our restaurant operations, streamline our cost structure, menu innovations, increased productivity and more importantly be customer focused that will help us drive long-term brand loyalty and re-enforce our leadership in the QSR segment. Irrespective of economic uncertainties and sporadic slowdowns in the market, our operating business is healthy as the fundamental factors upon which our business is based remain in place, that is urbanization, a young population, a growing middle class, the vast opportunity for growth in the QSR segment and a growing preference for convenience.

Our superior brand positioning, product platforms and innovation along with our execution capabilities have kept us well ahead of competition in Q2 FY 2017. I am proud to report continued solid growth in our business through Q2 FY 2017 against the key components of our plan.

Our fifth consecutive quarter of positive comparable sales growth of 6.5% as well as double-digit revenue growth of 15.6% is a testament of the progress we have made in building brand McDonald's in India.

These results reflect our efforts on building branded platforms over the last three years as oppose to growth lead by short-term promotions. These branded platforms resonate with our customers' needs and have put us on a solid put in for continued momentum in our business.

As discussed in my earlier calls, one of our key focus areas has been to broaden the accessibility of brand McDonald's. We continue to strategically expand our foot print and are on track to execute our full year restaurant opening plan. Our expansion strategy is crucial to cementing our leadership position in India and capitalizing on the low penetration of the QSR format. Therefore, focus on unit economics per restaurant is critical in a high growth market.

Our new restaurant openings have been built on the foundation of restaurant operating platform 2.0 which is proving to be a sustainable model contributing positively to cash flows in year one itself. This will be invaluable as we continue to grow our restaurant base.

In the current quarter, even with 30 additional new restaurants over last year we have grown cash flow by 60%. Additionally, we have been able to grow our rupee restaurant operating margins in line with our sales growth keeping our margins intact while opening new restaurants.

McDonald's has significant presence in West India and South India with over 245 restaurants giving us tremendous opportunity and leverage to serve our consumers. The launch of McCafé, building on branded menu platforms like the McAloo Tikki through product extension and constantly expanding the McDelivery platform are driving more consumer occasions to visit and use brand McDonald's, in turn driving strong comparable sales growth. Each of these platforms have added a phenomenal dimension to McDonald's with strong consumer connect, evolving the McDonald's experience and adding more occasions to visit the restaurants.

I now hand over to Smita to take you through the quarter results.

Smita Jatia: Thank you, Amit. Good afternoon, everybody. The business continues to grow strongly under the four strategic levers of broadening accessibility, growing base line sales, margin expansion and growth through people.

We are pleased to announce the fifth consecutive quarter of positive SSSG ending the quarter at a healthy 6.5% SSSG, total sales growth of 15.6%, and restaurant count at 245. With this uplift in sales, our cash profit increased by 60%.

For the quarter, we further built McDelivery, McCafé as well as build everyday affordability with our Aloo Tikki Brand.

Starting with our first lever to increase customer accessibility, we continue to open new restaurants with modern and contemporary designs to enhance customer experience.

In the last 12 months, we have opened 30 restaurants and in the quarter a new city Vijayawada taking our city count to 33 cities, building supply chain and operational efficiencies. This also leaves us with a huge untapped potential to grow in many more cities in our geography.

With the 245 restaurants, our major presence continues to be in Maharashtra followed by Karnataka. Our new restaurants built on the ROP 2.0 platform are delivering strong results and hence reducing the drag and contributing to cash flow growth.

Moving into the second lever, a 6.5% SSSG is attributed on the three levers of value, menu and brand extension. We strengthen our everyday affordability platform by launching a LTO on the Aloo Tikki brand in two international flavors Lebanese and Mexican. This was introduced not only at a sweet price of Rs. 39 but also helped in building gross margins. The Mexican Fries added to offering giving new news and variety.

Our McCafé offering continues to attract a new consumer base building the breakfast and snack day part as well as building gross margins. We have now have 93 McCafés and will end the year between 110 to 130.

The delivery platform through online and web is also consistently delivering positive business results.

Hence, to recap, our SSSG is built strongly through our various branded platform rather than short-term promotions deals and discounting, hence building brand loyalty. To add to this, we have also improved our gross margins by 90 basis points with the help of intelligent product mix management.

Finally, on the margins, as mentioned, gross margin improvement, work on opex cost especially on the utility design and reduction of new restaurant drag based on the ROP 2.0 platform has helped maintain EBITDA margins.

Lastly, on the lever of growth through people, we are proud to get industry recognition in various forums quarter-on-quarter.

I will now hand over to Suresh who will take us through the financial performance.

Suresh L: Thank you, Smita. I will now take you through the business performance for the second quarter and half-year ended 30th September, 2016.

Q2 of FY 2017 has seen a comparable sales increase of 6.5% compared to 1.7% in Q2 FY 2016 and this has contributed to the significant top-line growth this quarter. We clearly see consumers responding to our strategic initiatives and it is demonstrated by five consecutive quarters of positive comparable sales.

As regards the top-line growth various differentiated brand building strategies coupled with the introduction of new interest flavors of Aloo Tikki and addition of new restaurants helped us deliver almost 16% growth in our total in Q2. The sales growth was around 13% during the H1 of FY 2017.

Now, moving on to gross margins, it has been another quarter with strong gross margins improvement which expanded by approximately 90 basis points to 60.5% during Q2. This has been clearly aided by our product mix improvements along with the other levers of supply chain efficiencies and menu pricing, etc.

On the operating expenses and restaurant operating margins, the restaurant operating margin has seen a marginal decline of 30 basis points on account of increase in payroll and employee cost due to the addition of new restaurants, augmentation for planned business growth and festival season. This was completely offset through stable operating costs as well as gross margin expansion as explained earlier.

The aforesaid reasons along with G&A leverage during the quarter led to platform operating EBITDA margins on a Y-o-Y basis.

Lastly, we shall continue to build on our strategic initiatives across the system and as consumer sentiments are steadily improving and become favorable, we believe we have strengthened our foundation and customer proposition to take strong advantage to deliver enhanced profitable growth in future.

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

Amit Jatia: Thank you, Suresh. From a broader perspective, we see the overall consumer sentiment advance steadily as we have described over this call, we will continue to stay at the forefront of what is important to our customers by delivering the best food in the most inviting environment.

We remain committed to being the most accessible brand to consumers and we will focus on bringing more consumers to our existing base while opening new restaurants to serve future demand. We are focused on acquiring good quality real estate to stay on track to take our restaurant foot print to 450 to 500 by 2022, this will be aided by efficient unit economics or new restaurant opening, yielding solid results in the future.

Consumers today are more informed and demand greater choices and variety when they dine out or when they order in. Our focus will be on building a differentiated brand through menu innovation, brand extensions like McCafé and brand advertising. We will continue our reimaging efforts along with aggressively expanding our portfolio of McCafé restaurants to 110 to 130 by the end of this financial year.

We will increase our restaurant sales which will help us grow our margins as the average restaurant volumes grow. We will advance our efforts to continuously enhance our digital engagement with consumers as McDelivery continues to add to comparable sales.

We are determined to keep our focus on strengthening our brand by catering to local preferences and providing our guests with a relevant McDonald's experience driving sales and tightening up our cost structure. We believe our consistent and long-term approach will help us accelerate momentum and position us to deliver significant profitable growth in the future for our shareholders.

I now open it up for Q&A. So, please go ahead and ask any questions you may have.

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 Latika Chopra from J. P. Morgan. Please go ahead.

Latika Chopra: My first quarter is on SSSG – what would be the contribution of pricing to this growth rate? And if you could also share, give us any sense on the mix contribution here?

Amit Jatia: So, basically we have not taken any price increase in this quarter and in fact, pretty much from January onwards. This is sort of all driven by our platforms that we build particularly, the three things that are working for us. One is branded products like Aloo Tikki and doing line extensions for that that has worked well for us. Additionally, McDelivery and McCafé these are the three main components of growth for our SSSG.

Latika Chopra: Have not you taken up price increase in October last year was that the last price hike that you undertook.

Amit Jatia: No, January was the last price hike.

Latika Chopra: And what was the quantum?

Amit Jatia: Normal 2%.

Latika Chopra: So, January this year basically?

Amit Jatia: January 2016.

Latika Chopra: All right. And the second question was around your employee cost inflation on a sequential basis what is the underlying like-to-like cost here inflation?

Amit Jatia: Yeah, Suresh can address that.

Suresh L: Yeah. So, basically, if you look at the payroll increase as I mentioned earlier in my commentary it is on account of addition due to new restaurants as well as augmentation for the business growth, etc. So, in terms of the number of employees per restaurant on an average we have about it is about 30 odd employees per restaurant.

Latika Chopra: Yeah, but we did see your increase on sequential basis as well

Suresh L: It is on account of the addition of new restaurants as well as you have the normal increases that happen on a yearly basis it is a combination of both of them.

Amit Jatia: So basically Latika we have intended to prepare for the festive season as we feel that sales are a bit on the upper trend so, normally you need to get your crew and staff trained a bit earlier before you actually need this and this was part of our hospitality and prep for ensuring that the quarter which is a festive quarter of October-November-December goes quite well. So, it is a combination of addition new stores which has a small impact. But additionally, we have also added employees in order to prepare for the festive season so, it is a bit of both.

Latika Chopra: And this, you mentioned about the consumer's sentiment and of course, the growth rates advancing, how confident are you now about that recovery is in place and this should improve going forward?

Amit Jatia: I mentioned earlier that I feel small-small-small changes it is not like that there is a big shift in the consumer sentiment what is working for us in my view is the platforms that we built so, our investment in McCafé two years ago is continuing to yield results as McCafé is gaining traction, remember it is now 93. Similarly, the delivery continues to give us tremendous traction and we feel that our value platform where we have used menu along with a brand Aloo Tikki these are the three things that have actually given us result. And the question is how do you add more occasions for use for the consumer even if footfalls remains sort of slightly either the same or slightly moving up. So, I have given the example of how consumer now think of McDonald's as a beverage option as well in the afternoon while previously, McDonald's would not have been an option for them. So, to answer your question consumer sentiment has not dramatically changed but I feel in the next three months to six months as I mentioned in my last call as well I feel I can see small changes happen and I think as these small changes accumulate over the next three months to six months I feel pretty confident that things should look up a little more than where they are today.

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

Arnab Mitra: Just wanted to understand that your restaurant margins are slightly down despite a very good SSSG number, so I understand the staff inflation part but is not 6.5% SSSG good enough to give you operating leverage on a lot of cost so that margin start expanding healthily at these levels of SSSG or do you require the SSSG to be much higher like high single-digit or something like that for margins to start expanding significantly.

Amit Jatia: So, it is a good question, but you got to recognize that normally in the past when we would add a restaurant base of 30 new restaurants we would normally see a drop-in margin because these new restaurants take time to mature because of the new ROP obviously, they have started contributing positively to cash flows but from a percentage point of view they are still much lower than our existing base. So, we feel pretty good the fact that we have had strong single-digit same store sales growth, they have been at least able to help us maintain margins and I have always maintained for that for me quarterly look at margins is not the right way because we are in the growth business. And for example, just in this case we wanted to ramp up labor or we wanted to get our crew up and ready for the festive season so, we started ramping that up and that has had an impact from a quarter point of view. But when you look at it from a year point of view, you will find that we are quite hopeful that we will sort of make up for that through incremental sales. So, that is the way I look at it Arnab, I feel that one quarter is too short in a business where growth percentage of new restaurants is quite high as a percentage of the total. Last point is that if I look at my total new restaurant base, just in the last two years to three years we have added almost 100 restaurants. So, the point is that those restaurants really would normally impact us. Also, if I were to take new restaurants out of the equation, while we do not share the details, but 6% would give us a decent growth in our operating margins.

Arnab Mitra: Sure, I understood. When the SSSG was pretty negative a year back, actually you had done a very good job of control cost so, is it that as the growth recovers some of those you might have done a lot of cost cutting which kind of needs to come back in the first year of recovery and hence the gains will come a little later.

Amit Jatia: I think actually the same program that we launched I remember from February 2015, continues to be strongly monitored month-on-month, day-on-day, and I am quite confident that cost is not my issue to be honest. Today, if you ask me I would really focus hard on driving same store sales growth and average volume of new restaurants. We have done some good work for which results you will continue to see in our operating cost structure. So, I feel that it is not about saving yourself to the bank, it is about growing sales to get there. The other important thing that you got to understand is that we have been able to grow our sales without discounting. We have actually been able to grow our gross margins while delivering this sales growth.

Arnab Mitra: And just lastly again, just coming back to the overall market sentiment and recovery, I think one thing I just wanted to know in the past you have said that the recovery has been very patchy there have been like good weeks followed by bad weeks and also different geographies have behaved differently, so, are you getting a sense that there is more stability now, the trends are pretty steady now or it is still quite volatile time to time or location to location.

Amit Jatia: All I can say is I am feeling slightly better than I was before. Again, I will repeat and I feel that it is our platform and that is what I have been trying to say that over the last two years to three years when we saw that volatility is the new reality, we said that it is not about me coming on television with something, you see everything, we are doing is connected. If I go back to last quarter and you see our promotions I can tell you how is connected with our strategy. So, while I am feeling good about it and I feel that at least in the next three months six months you will continue to see small-small-small improvement that make cumulatively lead through a pretty decent improvement. I feel monsoon has been good, so that is a sentiment factor. I feel GST what I am hearing, all the stuff I am reading in the newspaper it is all giving me a bit of positivity along with 7th pay Commission, and when I am looking at what is happening with footfalls in the retail locations, a little more stability and my ability to sort of predict where we could go. I hope that gives you some sense of our strategy.

Arnab Mitra: Sure. And just last question, any major minimum wage hikes which have hit any of the states where you operate in?

Amit Jatia: No.

Moderator: Thank you. We have next question from the line of Yash Jhaveri from Alder Capital. Please go ahead.

Yash Jhaveri: Just wanted a sense of how the bill size or ticket size has moved over the last few years? And the second thing is of the footfalls that you see in the stores that have McCafé, how many customers actually go out and buy something from McCafé?

Amit Jatia: So, you know we do not share the break-up but obviously, it you look at delivery, if you look at McCafé the ticket size for each of those brand extensions are pretty healthy so, over the last two years to three years as we have been gaining traction in these two areas we have been seeing a pretty nice jump in our average check and average spend at McDonald's so, that has worked out pretty well.

I am sorry, we do not share break-up, but all I can say is that I mean the good thing about a retail brand that is visible on the ground and if you visit a number of McCafés you will find that there is good traffic and as the awareness of McCafé is building on its own account we had share in our Analyst Presentation that in just four quarters or five quarters without doing any advertising, we were able to grow average volume by 40% so, that same trend is continuing that is the best I can share with you. But it has turned out to become a solid brand platform and brand extension for us.

Yash Jhaveri: Okay. Just one more thing on McCafé, do you see people walking into the store for McCafé? Or is it more of someone who already walks in to a McDonald's also buys something from McCafé?

Amit Jatia: So, it is a bit of both. I mean slowly, as the news of McCafé is spreading and as people are experiencing it, I have always maintained that my first customer base is the 185 million customers who are already coming to me and this is the power of the brand because every time we do something, this same base of customers will be my first customers to try this and that is how word of mouth spreads. The second is there are obviously lapsers to any brand and what happens is as the word of mouth spreads and let us say somebody who is not choosing McDonald's for some of the reason; now, finds either breakfast or delivery or may be McCafé is something that resonates with them. Now let us say, this customer starts coming in for McCafé soon they will buy some food product and then because they are in McDonald's they may be order delivery as well. So, that is the power of what I call one plus one plus one plus is equals to five. So, each brand platform when it starts working together the power of it all together really adds up for McDonald's. So, currently it a bit of both there is significant trial of consumers who are already coming to us. But we are increasingly seeing a number of customers coming in just for McCafé.

Hemant Patel: Hi Amit, Hemant, here. Just one quick question on you know base line sales for per store when I look at it on an annual basis incrementally over the last three years has been actually coming off. So, just was trying to understand this that when we put in a new store in every city that we are going to, are we doing it at a diluted base, is there a little bit more of cannibalization that we are seeing? And are we able to get the right location to get that $1 million kind of revenue per store that we had so called aspire to?

Amit Jatia: So basically Hemant, we have always maintained that 60% to 70% of our restaurants are going to be in key cities and that is precisely what is kind of working for us. So, if you look at just Mumbai alone, I mean if you look at the kind of marquee locations we have opened in it is BKC, it is Bandra Hill Road and we have some really good locations coming up in the future as well. And there are many others that we have opened in suburbs as well. So, my point is that when you do a simple math it never works out because you do not get the full sales of all stores in the whole year and you will notice that most of our openings happen in the last two quarters of the year. So, the impact of that only comes in the next year. In fact, two years ago we were finding what you are saying more correct where sales for new restaurant was actually dropping but after we have sort of corrected certain strategies, we are now back to where we are seeing average new store volume going up. So, the two big differences – one huge focus back in the six key cities and the second is just better planning and better mapping of where we want to be in terms of locations. So, you will see much better volume growth with our newer restaurants as well. My last point is, you do not need only comparable sales to grow your average store volume, I have been saying this every time. Basically you can start a new store so well that to some extent for that store to do well, comparable sales become irrelevant that is the direction we are taking Hemant right now. And may be this answer your question that in the last 12 months we are seeing decent movements in that direction.

Moderator: Thank you. We have the next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Sir, just touching on three - four points, one was as you mentioned that the average new store volumes are going up, if you can discuss qualitatively if we consider over the last six to nine months, have the number of counts or the number of checks being more increasing which means a more number of people turning into McDonald's or is it the absolute size of the checks which is increasing? So, if we can just discuss qualitatively.

Amit Jatia: Yeah, basically we do not share the break-up of that. See, I will give you a great example and I think that itself might give you the answer. Suppose we did not have deliveries then there was no way the customer would use McDonald's for delivery. Similarly, if we did not have McCafé, if the mall footfalls I assume the same or a retail location footfalls are the same, the footfalls have not changed. But now a customer who comes in the afternoon and does not look for a meal but is looking for say coffee and a muffin, coffee and a light snack, previously McDonald's was not in their consideration set because we were not known for beverages and coffee, at least standing out clearly. Today with the launch of McCafé, that's a new occasion that the consumer can use and that is what we get as a visit to

McDonald's and when they come in, they not only buy McCafé but they also buy some food product as well. So, the important word here is 'New Occasions for Use' and the more occasions we give our same customers to use, it may not be a uniquely new customer because first instance the new thing will be tried by the same customer who uses McDonald's but it gives more sales out of that same customer.

Nikhil Upadhyay: Sir, one broader strategy question, in terms of when we look at a lot of comparable companies or companies within this business, one of the important feature that we have seen is that you know there have been significantly high ROE businesses and there have been phases where the ROEs have been significantly higher. So, in our context given that the last three years - four years there has been a significant slowdown and there has been a significant investment on our P&L in terms of cost structure. Where and how do you think a company can achieve a 20%-25% kind of ROE number and what really needs to be done to get there and how are we as a company focusing on return on investment as a metric?

Amit Jatia: Sure. For me even in the last three years it was very easy to maintain my ROE of 2011-2012, when we had done really well, we had grown our margins quite significantly and the trajectory was only up. But remember, we have two jobs in India, it is not just about same store sales growth, there is a huge under penetrated market that we need to penetrate and open restaurants well and therefore, we are a high growth business. So, for example, take our G&A our corporate overhead while I think, we maintain that really well, if you go back and look at our Investor Presentation and see the chart it was around 2008-09, it was 9% of sales and today it's 5.5% of sales, right, and in the last three years or four years, we maintain that around that number and we feel that this G&A is not build to open 30 restaurants or to run 245 restaurants, it is there to take McCafé 3x from where it is, it is to take delivery to 4x of where it is. It is to double the restaurant base, it is to grow other brand extensions that we are sort of seeding, it is to do menu development because the menu in India even from a McDonald's point of view has a lot of room to grow and to develop. So, I personally feel that we are a high operating leverage business and we find that a little bit wins that comes with us, if we are lean that is the way I picture ourselves that if we set the cost structure tight as sales grow, as our volume and scale grows, the flow through to the bottom-line is fantastic and all you need to do is look at our history. So, if you looked at our P&L in 2009, nobody would have believed that we are going to go to 12% in two years, correct. Now, I could have easily maintained my P&L if I was a mature business where it was important to retain value in the business. But we continue to open even these through this difficult time because I know that when the tailwind start changing if I have instead of 100 stores, 250 stores and the numbers and the change that you will see will be similar to what you saw with us in 2010-2012. So, basically we have been around for 20 years we are not a new company, we have seen all kinds of ups and downs and we have seen that our EBITDA from highly negative number to wherever we are today. So, it is best to understand our business and you will find that the opportunity to grow ROE is pretty hard. Simplistically, it is about unit economics, a last point on this, we are saying as long as we can get by the third year 20%-25% cash on cash return at the restaurant level and as scale grows the only cost after that is G&A that is corporate overhead and as corporate overhead drops, I mean you yourself can do the math that with 1:1 leverage the ROE is going to go up dramatically and important thing is we have done it and we have seen other markets.

Nikhil Upadhyay: Correct. That is very useful in terms of your perspective. Just one additional question to that is, will royalty payment to McDonald's parent be an impediment to the improvement in margin and do they kind of in some way cap the margins that we can earn, even if I had a gross margins expand to let us say closer to 70%. Will a significant portion of the gross margin could kind of bifurcate with McDonald's parent organization and the listed company and what will keep cap the margins and the ROE that we can make?

Amit Jatia: See, you got to understand, one, there is a global business model and of course, the royalty is not for me alone. This is a standard royalty across the board, number one. Number two, for McDonald's a 200 restaurants base is not the base they are looking for from India, they can see this as a 500 restaurant and 1,000 restaurant base and if that is the base it makes no sense to restrict margin because you need cash flows to grow a business whoever may own it even if it is McDonald's Corporation that owns the business. So, my point is that we have seen enough markets, we have enough knowledge about this same royalty payment that is there across all the licensees, and we have seen what margins they have and what scale and size they have. So, we are pretty confident because finally, you know if you look at we as an entrepreneur, I have got my own money into the business and every penny is going back to build restaurants. So, we kind of know where we are going and when we are putting our own money at risk we have a pretty good sense as to where the margins will come from.

Moderator: Thank you. We have the next question from the line of Manjeet Buaria from Solidarity Investment. Please go ahead.

Manjeet Buaria: I had one question if you could give some sense on what the gross margins are on the McCafé business, like what we understand is normally coffee business is like 80% to 85% kind of gross margin business so, is that true in case of McCafé as well?

Amit Jatia: So, we do not share the break-up but we can tell you they are attractive

Manjeet Buaria: Would they be industry levels, if I have to put it that way?

Amit Jatia: We do well. I mean fortunately for us the industry price their products quite well. So, we are lower than industry in terms of our price points. But yes, we maintain I would say extremely good margins.

Moderator: Thank you. We have the next question from the line of Nikhil Upadhyay which is a follow-up from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Just one question, you mentioned that there was some salary increase because of the three reasons or four reasons, so, if you can just give us some idea that the number of people which you said we have increased for the festive seasons so, are these generally time work contractual people?

Amit Jatia: No, we only take people on employment, we do not hire contract people. But we do have a lot of part time crew who work with us like they are either studying and they want a job for four hours in day, they want to work weekends etc. So, that is how we are able to hire people even at a short notice.

Nikhil Upadhyay: Okay. Because I just wanted to understand the increase in the salary which we have seen, if you can just help us what is the general absolute increase in the salary which you generally give to the organization people? So, would it be in 10%-11% in range with what is the industry?

Amit Jatia: No, I will suggest you that do not take a quarter and think about it, as I have always maintained we are a high growth business and any one line item per quarter is not really relevant. Please look at six months' results and please look at trend lines of five years on crew and labor and you will find that yes, two years ago we had a difficulty because minimum wages went up by 40% to 50% but after that all of last year we have improved productivity dramatically and you will find that we have got tremendous gain on labor. So, the point is we are a customer service business and basically crew is a variable cost. As business starts growing it is important to have people to service the incremental customers who are coming to us. So, I would like to leave it at that. Typically it is 7% - 8% salary rises and that is roughly where it stands.

Moderator: Thank you. Next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: My questions are answered. Just one more, would you like to details of say what is revenue from McCafé or McDelivery or McBreakfast at any stage or even today?

Amit Jatia: No, so basically, we did the Analyst Meet in March of 2016 and I think in that Presentation we have given a very good sense on both the business models that is McDelivery as well as McCafé and we standby that. And all I can say is both the businesses continue in a similar trajectory of what we have shared with you. When we do our next Analyst Meet we will do a deep dive again in these two businesses. We feel as I have maintained before, that we are growth business, we are investing in many of these things and sharing quarterly does not sort of work for us; but definitely over a horizon of one year to two years, we want to give you directionally where we are heading. So, I might not be able to give you a break-up today but definitely when we do the next Analyst Meet we will give you some more details.

Nikunj Doshi: And would you like to elaborate on McDelivery as to what percentage is through app and what is call center and what is through the third-party vendors?

Amit Jatia: Sure. So, basically what I can say is that you know primarily the app is doing extremely well and we are now online over 50% that is pretty much the best I can share. Third-party is still very small, and it is irrelevant for now. The good news is that our own business through our own app and online ordering is really growing very well.

Moderator: Thank you. Next question is from the line of Yash Jhaveri from Alder Capital. Please go ahead.

Yash jhaveri: Just a follow-up. Do you see room to grow say double restaurants in Bombay, Bangalore, and Pune or do you think these are pretty well-penetrated in markets for you?

Amit Jatia: I feel that when we did Pune many years ago, we thought, we could open six restaurants and today I have over 30. And while I would not say that I can double it tomorrow, but I think given a five years - seven years horizon if Pune continues to urbanize and grow which I think it will, we will continue to grow. I clearly see Mumbai for sure we can double, there I can do tomorrow so, that is what it is and Bangalore again has tremendous potential but again, it has got to be done at the right pace. If you over penetrate the market in India because this is the part I say the category itself yet nascent and growing so, therefore you got to manage the pace, right.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir!

Amit Jatia: Yeah, well, thank you very much for your time today and for joining us on the auspicious occasion of Dhanteras. I also take this opportunity to Wish You All a Very-Very Happy Diwali. In case you have any more comments or questions, please do reach out to Ankit, all his details are on the website, and he will be happy to respond and answer to any of the questions you might have. Thank you once again and Wish You All a Very Happy Diwali.

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.