



## **Barbeque-Nation Hospitality Limited**

### **Earnings Conference Call**

**Q2 FY2022**

**October 29, 2021**

**Management:**

**Kayum Dhanani - Managing Director**

**Rahul Agrawal - Chief Executive Officer**

**Amit Betala - Chief Financial Officer**

**Kushal Budhia - Head of Strategy, IR, Business Development**

**Moderator:**

**Ashish Kanodia – Ambit Capital**

**Moderator:** Ladies and Gentlemen, good day and welcome to the Barbeque Nation 2QFY22 post result analyst conference all hosted by Ambit Capital. As a reminder, all participants' 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 the conference call, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Kanodia from Ambit Capital. Thank you and over to you, Sir.

**Ashish Kanodia:** Thank you, Bilal. Hello everyone, welcome to 2QFY22 earnings call of Barbeque Nation. Today from the Management, we have Mr. Kayum Dhanani, Managing Director; Mr. Rahul Agrawal, CEO and Whole-Time Director; Mr. Amit Betala, Chief Financial Officer; and Mr. Kushal Budhia, Head of Strategy, IR, and Business Development. I would now like to hand over the call to the Management for opening remarks post which we will open the floor for question and answers. Thank you and over to you, Sir.

**Kayum Dhanani:** Hello everyone, this is Kayum Dhanani, a very good evening, ladies and gentlemen. I hope you all are keeping well and staying safe. I take the pleasure in welcoming you all to 2QFY22 conference of Barbeque Nation. As you all know the economy continues to open up and stringent restrictions are being gradually lifted, providing a relief in the near to medium term for dine-in establishments. In spite of partial opening of our outlets, we have seen considerable recovery in our dine-in business. Quarter-2 restrictions on seating capacity and weekend curfews had some impact on the operating performance, however, our diversification strategy of initiating the delivery services continues to reap benefits. Our delivery business continues to be strong contributor to our overall growth. During the first half of this financial year, our delivery business has grown at an annualized rate of 2.8x versus last year. We are experiencing a strong month-on-month growth in our core dine-in business. I am happy to share that in the month of September 2021 overall revenues were at 116% of pre-COVID September 2019 revenues. The network expansion plan is on track. We have added two new restaurants in Quarter-2 and another two new restaurants in October '20-'21. We also have a strong under construction pipeline of almost 10 restaurants. Our strategy to build extension kitchens to aid in the delivery business has performed well. We have now opened eight extension kitchens, further strengthening our new vertical. In the incoming quarters as the impact of COVID further subsides, we endeavor to remain focused on our dine-in and delivery business growth with continued focus on network expansion. With this, I would like to hand it over to Mr. Rahul who will take you through the performance of the company during this quarter. Thank you everyone.

**Rahul Agrawal:** Thank you Kayum. Good evening everyone, I hope you and your loved ones are safe and healthy. With COVID cases receding and an increasing number of vaccinations in the

country, the mobility has been gradually improving. There has also been a gradual easing of COVID-related restrictions, which augurs well for the growth of our dine-in business and this has led to a strong recovery during the quarter. Our operating revenues were Rs. 2.2 billion in Quarter-2 FY '22 compared to Rs. 761 million in Quarter-2 FY '21, thereby registering a growth of close to 190% over the previous year. The operating revenues in Quarter-2 were 105% of the revenues in pre-COVID comparable period of Quarter-2 FY '20. The business has seen a month-on-month increase during the quarter and we have exited the month of September 2021 at 116% of comparable pre-COVID month of September 2019. Going into the segmental revenues, our dine-in business grew at 183% versus the previous year. In Quarter-2 FY '22, the dine-in revenues were 83% of the dine-in revenues in pre-COVID comparable period of Quarter-2 FY '20. Similarly, again if you look at the month of September, the dine-in business has almost recovered fully with revenues at around 98% of the comparable pre-COVID month of September '19.

In addition to the strong performance in our dine-in business, our delivery business has also grown at 219% versus the previous year. While the sequential quarter-on-quarter growth in dine-in business was strong, our delivery business marginally got impacted as against the previous quarter due to industry wide reopening of the dine-in segment. However, the delivery business continues to be significantly higher than the peak achieved in Quarter-4 of last Financial Year, which is just before the second wave. Also, during the quarter, 76 restaurants which is around 45% of our restaurant at work, had both dine-in and delivery operational for the full quarter. In these restaurants, we have achieved average quarterly sales of Rs. 1.60 crores per restaurant and delivered a strong restaurant operating margin of 21.1%. The remaining 55% restaurant at work were partially operational for dine-in during the quarter, thereby impacting their average quarterly sales and margins. These restaurants have also achieved average quarterly sales of close to 1.05 crores per restaurant and delivered restaurant operating margin of close to 13% now and the blended restaurant operating margin in Quarter-2 was 17.5%. This restaurant operating margin that I am mentioning is without the impact of Ind-AS 116 by that I mean that the rental is booked as part of expenditure. Adding the impact of Ind-AS 116, the restaurant operating margin could be close to around 26%-27%. As of today, we have 98% of the restaurants where both dine and delivery are operational, and this is expected to guide strong recovery going forward.

Our reported EBITDA was close to 500 million in Quarter-2 FY '22 versus 75 million in Quarter-2 FY '21. The reported EBITDA margins were 22.6% in Quarter-2 FY '22 versus 9.8% in Quarter-2 FY '21. We continue to remain focused on investing in our digital platform covering reservations, loyalty & delivery and the impact of this we are seeing through the share of business coming from our own digital platform have increased from 21.2% in Quarter-1 this year to around 27.3% as on Quarter-2 FY '22. On our expansion strategy, we have opened six new restaurants till date and have another 10

restaurants under construction, and we have also launched eight extension kitchens across five cities. With this, we will open the floor for interactive Q&A session. Thank you.

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Susmit Patodia from Motilal Oswal. Please go ahead.

**Susmit Patodia:** Good Evening Rahul and team, hope everyone is safe. My first question is on the slide that you have given, that's quite interesting and thanks for the slide on full ops, partial ops, so just to understand, you said that now in September all the restaurants are fully operational, is that understanding, correct?

**Rahul Agrawal:** Not September, at the end of September few restaurants in Kerala and few in Maharashtra were not operational, especially malls. When I say 98% of rest of the India operations, this is as of say October 25<sup>th</sup>.

**Susmit Patodia:** Second aspect Rahul is if you can give us some more color and texture around the extension kitchens, what are the difference in CAPEX and which cities and how are they progressing?

**Rahul Agrawal:** We have opened eight till now, out of this Metro markets would have six and two of them are in Tier-1 market. We are spending approximately Rs. 25 lakh per extension kitchen and currently we are doing average monthly sale of approximately Rs. 9 to 10 lakhs, this is during the first few months that we have been operating it. At these numbers, we are broadly breakeven, so I think the way that extension kitchens will work is, we need to increase our distribution presence so that the delivery product is available to the consumer at a close proximity and as these revenues go up, we will also see good margins. I think we are happy with the initial response that we got on these outlets.

**Susmit Patodia:** These are all dark kitchens, nobody knows that it is Barbeque?

**Rahul Agrawal:** Yes, you can say that, but all of these actually are linked to one core Barbeque Nation outlet, so that is why we call it extension kitchen rather than dark kitchen because the way the operating structure is defined in the system, be it from the employee side or be it from the production side they are dependent on one existing operating Barbeque Nation restaurant.

**Susmit Patodia:** Okay, got it, they are not on the same premise, but they operate as extension?

**Rahul Agrawal:** Yes.

**Susmit Patodia:** My third question is, you put an interesting line, which says diversified menu options to provide multiple cuisines, so if you can just elaborate on that, are you venturing into any other cuisines now?

**Rahul Agrawal:** No, I think the Barbeque Nation just one year before COVID was only North Indian cuisine. Today, we are serving Toscano which is Italian cuisine and Indian cuisine and also operating in two segments which is dine-in and delivery, earlier we were not doing that. As of now, while there are lot of R&D that keeps happening on other stuff, but I do not think we are planning to launch any particular diversified menu or different cuisine at least in the short term.

**Susmit Patodia:** Got it, just lastly you have also mentioned that 98% dine-in revenue in September '21, this is just for the month of September, right?

**Rahul Agrawal:** Yes.

**Moderator:** Thank you very much. The next question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

**Ashwin Agarwal:** First of all congratulations for the great set of numbers, so first question of mine is what will be the table turnover ratio on a dine-in side, can you just give us a nearby number or a range number?

**Rahul Agrawal:** Currently it would be between 1.6 to 1.8. We do not report that number, but ballpark number would be like that.

**Ashwin Agarwal:** Ok. My second question is as the raw material prices are increasing on a higher scale and you do not have an inventory basis like you are not holding the inventory side, so do you think that will impact the margins on a gross basis or you can say how would you hedge the things on a cost side?

**Rahul Agrawal:** This is a challenging environment in terms of input cost. We are also experiencing some increase in our input cost and we believe that the way the season is coming and the way as your dine-in business keeps going up, there maybe some short term impact on our gross margins, but we have not seen that in Quarter-2 because we also have some flexibility to play around with some menu option during our entire buffet layout, so that we try and achieve around 65% to 66% gross margin like we have done in Quarter-2, but I will not deny that there is definitely a small inflationary pressure on input cost side.

**Ashwin Agarwal:** So still are you planning to have inventory on a safer side or you are just working on supply side?

- Rahul Agrawal:** It is obviously tactical. We deal with a lot of SKUs and in some cases, we have built our inventories. In some cases it does not make sense to build inventory at such elevated prices, so it is a mixed tactical approach that we take.
- Ashwin Agarwal:** One more question I want to ask you about the CAPEX guidelines, so as per your CAPEX guidelines, on the cash balance side you are burning cash of 35 crore as you have said on your last con call, so can you just give me the ballpark figure of what you have spent right now and what will be your spending in the next six months?
- Rahul Agrawal:** The cash burn was in Quarter-1 when we were deeply impacted by the second wave. In the current quarter, our adjusted EBITDA is approximately 25 odd crores, which is post the impact of Ind-AS 116 (before that it was around 50 crores), so there is absolutely no cash burn. In terms of CAPEX, we were looking at adding 20 outlets this year, which would mean CAPEX of approximately 55 crores and then there is another may be 10 crores on maintenance CAPEX plus CAPEX on digital spend plus corporate backend CAPEX which totals to 65 odd crores in the current year, and going forward as we scale up our store network expansion, the CAPEX will increase. Our average CAPEX is approximately 2.7 odd crores.
- Ashwin Agarwal:** My last question would be can you just give us a split between the Tier-1 and Tier-2 cities, can you just breakup the sales if it is possible for us?
- Rahul Agrawal:** You should reach out to us and we can give you some broad ballpark, but mostly Tier-1 and Metro markets would be around 75 odd percentage and the balance 25 will come from Tier-2 and Tier-3 cities.
- Moderator:** Thank you very much. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Good evening to the Management and congratulation on the strong performance. A couple of questions from my side, Rahul if I see obviously despite the opening of dine-in and that side coming back to 85% we still have sustained our run rate of delivery at around 50 crores plus, so the first question is in the past we have guided that maybe long-term delivery could be 20% of top line? After what you have seen over the last two quarters, do you believe that there is a potential to take this higher?
- Rahul Agrawal:** We have always restrained from giving a percentage number of overall business. We see opportunity in both dine-in and delivery, and I think delivery based on the last two-years performance and also on a low base has been doing extremely well for us. Yes, we are currently catering to almost 50 crores plus every quarter and the way our extension kitchen is expanding and the way our delivery is also happening from the existing Barbeque Nation restaurants, I think our plan would be to take it up higher, but we cannot

give you a guidance on number of extension kitchens today. We have expanded eight extension kitchens across multiple cities and are understanding the operational challenges. We are happy with the performance of delivery and based on how the business is making sense and how the economics are evolving, we will change the pace of growth accordingly. I will not be able to give you a firm guidance on some delivery growth numbers as of now.

**Nihal Jham:** Is that the reason why it said in your CAPEX outlook also, you are not counting the delivery kitchens in your guidance when you are giving this 55 crores because that is 25 lakhs and if you have a plan of say adding the next number that would also add up to that, so is that the reason that you are still firming up a plan that is why you do not want to give a CAPEX number including the delivery kitchens?

**Rahul Agrawal:** You can say that, but at 20 outlets of extension kitchens, 5 crore CAPEX it will not move the needle much, the 65 that I mentioned just before that has some buffers also in terms of what we spend.

**Nihal Jham:** Just one last question of this delivery would majority be BBQ in a box, possible to share the proportion?

**Rahul Agrawal:** Almost two-thirds is BBQ in a box.

**Nihal Jham:** My second question was that while we are giving the guidance in terms of store expansion say for the core Barbeque Nation, in terms of Toscano is there a thought of scaling that concept up also because it is mainly based out of Bangalore at this point of time, thoughts of taking it to other cities or it will still be in a wait and watch mode for the coming time?

**Rahul Agrawal:** When we give our store expansion guidance, it is consolidated numbers that we talk about. This year we have almost finalized two out of which one is already in the construction and another is almost finalized. We might have one more that we can look at, so this year itself we can add three more Toscanos over and above 10 right now. We are already present in three cities now, Bangalore, Pune, and Chennai, and depending on how the entire business shapes, we might think of adding one more city.

**Nihal Jham:** If I may ask ballpark, what is the revenue per store and CAPEX per store that Toscano does?

**Rahul Agrawal:** CAPEX is approximately 2.2 crores and revenue per store would be approximately 5 crores per year.

- Moderator:** Thank you very much. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.
- Susmit Patodia:** Rahul, there is a loan given to subsidiary of 44 crores, what is that?
- Rahul Agrawal:** This is loan given to the international business of Barbeque Nation.
- Susmit Patodia:** Okay and I thought that it was in a scale down mode?
- Rahul Agrawal:** In the international business, we have debt from the India entity. The money that we raised from our IPO to repay the external debt, has been invested in international business in the form of debt (by India entity) and not in the form of equity, that business is owned by us, so I do not think that makes a big difference.
- Susmit Patodia:** So the loan given to the subsidiary is the money that the subsidiary will use to pay down its debt?
- Rahul Agrawal:** They have already used to pay out the debt, there is no external debt now in the international subsidiary, so we have not invested in the international market to expand, that was not the plan, but I am very happy to say that the international business has been in fact doing better than the India business today in terms of margin profile.
- Susmit Patodia:** So this is not rethink of the international brand?
- Rahul Agrawal:** No. The strategy on international side is that we have always maintained that first the business has to stabilize and then we will expand. I think the business has now stabilized. We have seen a consistent quarter-on-quarter performance over last four to five quarters and now we are in a position that whatever profits we are generating in that market, we can grow with the same profit in that market itself. We are not keen to further deploy capital from India to the International market as we are seeing a lot of opportunities in India itself today.
- Susmit Patodia:** The second question Rahul, is the payment of lease of 31 crores in the cash flow, is that the full rental or is there still some concession that the company is getting?
- Rahul Agrawal:** We have got some concessions even this quarter that is in our other income in the reported financials, so whatever we have got and balance has been paid.
- Susmit Patodia:** In the cash flow statement, Rahul, because of the Ind-AS it gets very confusing right, so we will have to refer to the cash flow statement to understand the lease rental, so that number is 31.2 crore or 312 million, so just wanted to understand how much is concession that we have used in the first half?



- Rahul Agrawal:** So overall concession in the first half would be around 10 to 12 odd crores for the entire six months.
- Susmit Patodia:** The other question was are you seeing any consumer behavior difference pre-COVID and post-COVID in dine-in, are people eating lesser, healthier, just wanted to understand that?
- Rahul Agrawal:** Not remarkably different, our consumers come to us to enjoy the elaborate menu that we have both on the starter, main course and others, and on that front we have not seen anything that has changed.
- Susmit Patodia:** My last question is in your Q1 commentary you had said that some of the reasons for lower gross margin was that the delivery there is lower gross margin and it is also in the ramp up phase for you, how are the gross margins now in delivery, are they coming to the dine-in?
- Rahul Agrawal:** It is still higher than dine-in, but it has improved as against the previous quarter, but one of the other comments that we also made last quarter was that the dine-in is not fully optimized, and this leads to lower efficiency of buffet . This quarter as the dine-in business came back and the efficiency of buffet has improved significantly, the gross margins also had improved significantly.
- Moderator:** Thank you very much. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** Thank you for the opportunity. My question is first regarding how you know the recovery has been planning for you, plus I understand lot of contribution for you approximately 45%-50% odd was coming through this offices kind of a network and with them not fully functional as of now and still you are able to do 100% of your sales pre-COVID, so with that opening up how do you look the overall sales ramping ahead?
- Rahul Agrawal:** Yes, the corporates are still not back. We are still seeing some mid-corporates coming but large corporates are still not back. We also getting fillers that some of the IT companies are now starting to come back to restaurant and with that coming fully, I think there is potential further upside coming on the covers and the number of transactions that we do in our restaurants, so yes that is still something which has still not come back to normal.
- Gaurav Jogani:** My question was again with that coming up, how do you see the overall sales trending then because that's also a good part of the contribution and now delivery as a incremental contributor, how do you see sales per store then changing on an overall basis there?

- Rahul Agrawal:** Like I said that is an additional upside that hopefully should come soon, but it is very difficult for me to quantify numbers that this much percentage of demand will come from corporates. Like I said, some part of mid-corporates are anyway coming back to the offices and some business of that is anyway coming to our restaurants now. The only one that is not coming is largely the IT crowd and the back-office crowd in these places, so if I have to guess a number, this would be around maybe 15 odd percentage that should probably be upside. These crowds also used to give us large group bookings, which are still definitely missing in our business today.
- Gaurav Jogani:** In terms of the other question, while there is rampant inflation that we have seen across commodities and others things, have we initiated any price hike as of now in the first half?
- Rahul Agrawal:** Yes. On blended basis we have taken around 3% price hike in this financial year versus last year, but as you know our pricing decision is very, very localized. We have different prices in the same city, we have in different restaurants and we have different prices for different parts of the day and different prices for different parts for the week, so on a blended basis you will see that the average per cheque is up by around 3 odd percentage this year.
- Gaurav Jogani:** My third question is with regard with the overall dine-in opening with the pandemic now receding and everyone trying to gauge in more of the consumers wallet share, so have you seen the competitive activity increasing in any way?
- Rahul Agrawal:** Not much. We are a casual dine-in player. An average consumer spends almost 80 to 90 minutes in our restaurants. In that segment, we typically compete with standalone stores in the trade area that we operate in and unfortunately during COVID lot of these single or a couple of restaurant players have not able to survive the pandemic. To that extent, I think the competitive intensity in this market has only come down. We have not seen that the competition has drastically gone up. In fact, like we have also said earlier, we are in a position wherein during the short term (which can last for four to six quarters), we are seeing lesser industry supply and more demand because of how the vaccination numbers are and more & more people getting the comfort of going out to dine-in. So to that extent at least the industry structure for us should be in our favor. Post four to six quarters, lots of many single store players will start coming back in the business. Restaurant is a very fragmented business as you know, just that scaling it up is the tricky business.
- Gaurav Jogani:** My last question is with regard to you have been now targeting to open around 20 odd stores, so these 20 odd stores would be for the entire year right, that will be after reducing the one that you have opened six so far in this year or is it like 20?
- Rahul Agrawal:** 20 for the entire year.

- Gaurav Jogani:** The other thing that is related to this is that the rentals because you also alluded that many such restaurants have closed down during this pandemic, so is there availability of good real estate now to you and matter is otherwise which you would not have been able to open earlier, so how is the trend there and have you been able to also re-negotiate your rentals for a better rates or the normalcy that as well?
- Rahul Agrawal:** We might have short-term waivers when we had shutdowns, but not structural change in our rental negotiation. Our rental has always been among the best in the industry. Before COVID, our rent-to-revenue ratio was approximately 10%, which is among the best, so we did not need to do any significant change in our core existing rental structure. In the new ones, we are very, very prudent in the various deals and that is the reason why we have never shutdown any Barbeque Nation restaurant in the country today and that continues to happen. But yes given that the industry structure is likely changing and I would say it favorable in our case. We are seeing reasonable rentals in some of the very high rental markets, which has good potential (but the rentals are very high) and that is why we always stayed away from that. Today I think those markets are opening up for us.
- Moderator:** Thank you very much. The next question is from the line of Ashish Kanodia from Ambit Capital. Please go ahead.
- Ashish Kanodia:** Rahul, quick question on the delivery business, I think you talked about that at 9 to 10 lakh the business is breaking even, but maybe if you look at one or two of the earliest extension kitchen which you have opened, what is the kind of delivery margins they are doing and on the same line, what is the aspirations in terms of EBITDA margin for the delivery business?
- Rahul Agrawal:** We have recently started extension kitchens and in the first three months, we are happy with the performance. I think at a sale of around Rs. 15 lakh/month, we will start making between 15% to 16% store level EBITDA margins in that model and I think aspiration wise, we can target say Rs. 25 lakh per month also, but this will gradually happen. I think delivery business is new for us, we have only done it for last 18 months and we are also learning as we go ahead, so we are just being very cautious and careful in giving any guidance on delivery. The operating environment and the growth in the delivery segment is expected to be huge and we are also building ourselves to make it a core part of our business such that a decent amount of share of the business comes from delivery without compromising on our dine-in focus. I think we are trying to maintain right balance between both of them, so that structurally, say 5 years down the line, both will become a very strong business.
- Ashish Kanodia:** Then second question on a similar line is when I look at say the other expenses as a percentage of sales of 3Q and 4Q and compare it with the current quarter, it has gone up,

so is it also because of higher share of revenue from delivery during the current quarter versus 3Q and 4Q, is that the current way to think about the other expenses and if that is the case then as you know dine-in continues to recover and delivery as a percentage of sales goes down, your other expenses should also taper off on the current level?

**Rahul Agrawal:** As delivery goes up, there are two additional delivery line item which has not been part of our cost structures; number one is packaging cost and the other is aggregator commissions. As these two add up in our other operating expenditure, and if we compare our business this quarter versus say Quarter-4 of last year wherein we did pretty much similar revenues, our EBITDA is down by almost 6 crores. Since the contribution of the delivery business is almost higher by 25 crores, these two line items have led to higher other operating expenditure and slightly lower EBITDA.

**Ashish Kanodia:** Just last question is on the Toscano that there is a closure of Toscano restaurant during the quarter, so what led to that, is that again more of a rental led closure or is that any other reason for which the store was closed?

**Rahul Agrawal:** Unfortunately, that mall was going through some changes. That store for us was not bleeding money, but also not significantly adding money and there were some negotiations going on based on which we just decided to move out of that place. This does not impact our profitability on Toscano.

**Moderator:** Thank you very much. The next question is from the line of Manish Poddar from Nippon India. Please go ahead.

**Manish Poddar:** Hi Rahul and team, so congrats on a good result, so kindly three questions, first one is on the Smiles' program, how much is now the contribution of sales through this program?

**Rahul Agrawal:** Approximately 13 odd percentage of our transactions have got the Smiles redemption happening.

**Manish Poddar:** This is also the 10% which you were at the beginning of the year?

**Rahul Agrawal:** Yes

**Manish Poddar:** Would you also help me with data point let us say at EBITDA level during this quarter, how the number stack up for Toscano in the international business?

**Rahul Agrawal:** Toscano is broadly around 15% of EBITDA margin and international business is around 17% EBITDA margin.

**Manish Poddar:** Just one last one, so this dark kitchen or extended kitchen starting which you were using, you are using it only for Barbeque Nation in India and not wanting to explore let us say Toscano or let us say Barbeque Nation international format?

**Rahul Agrawal:** Not international format, but we are looking at one for Toscano also.

**Manish Poddar:** Have you already let us say test launched it or is it still in discussion stage?

**Rahul Agrawal:** Still under discussion stage, but I think by end of the year we should definitely have one or two of them.

**Manish Poddar:** Just one last one sorry, let us say gross margin level when you are running a cloud kitchen are the gross margins better than the restaurant margin given probably wastages would be relatively lower?

**Rahul Agrawal:** Gross margin is slightly higher for us for dine in versus delivery. In dine-in, we have a large spread and that gets distributed. In delivery, we have to send a fixed quantity of food which has a regular cost whereas in dine-in different person who come consume different amount of food, so on average it helps us to reduce our food cost. Apart from gross margin, there are two other variable costs that come up in delivery which is packaging cost and aggregator commission, which is not part of our dine-in business, so contribution margin for delivery is lower than dine-in.

**Manish Poddar:** So what I am not able to understand is let us say if I compare it to you know couple of cloud kitchen companies which are large in size, they are largely at Rs. 10 lakh let us say 30,000 sales per day, they generally are having decent margins and let us say more similar to what you company average is taking into account both the channel commission and other overheads which are there in the line items, why are you saying that you need to move up your sales on a monthly basis from let us say 10 lakh to 15 lakh then only you make substantial money up here?

**Rahul Agrawal:** Manish, it is difficult to compare with other players but my guess is that these companies would have lower food cost and maybe packaging cost. Our product largely is Barbeque in box, which has got high packaging cost and also our product has got significantly high value for money for our customers, which means that our food cost is also currently higher. I think both these areas have potential to further improve, which we are also working on, but as of today the priority is not to jump on margins, but the priority is to ensure that you set a right benchmark for yourself in terms of the product offering to the customer and then scaling it to something that we have done in the past and I think we can do comfortably.

**Manish Poddar:** It is not because of scale?

- Rahul Agrawal:** It is not because of scale, it is because of higher food cost and the higher value product that we provide to our guest.
- Moderator:** Thank you very much. The next question is from the line of Sameer Gupta from IIFL. Please go ahead.
- Sameer Gupta:** Sir, just one clarification on the CAPEX, you have done 30 crores of CAPEX till now and put up only six stores, so for 20 stores in total 65 crores, how will that be enough?
- Amit Betala:** That will not be a 30 crore of CAPEX, if you are looking 30 crores in the cash flow item then that would be a clearance of the past dues as well.
- Sameer Gupta:** So 65 crores will cover 20 stores and how many extension kitchens for the full year?
- Rahul Agrawal:** As we said we have not considered that, our extension kitchen is approximately Rs. 25 lakh, 20 stores will do maybe around 55 crores of CAPEX and may be another 10 crores for some maintenance CAPEX plus some expenditure on the backend and international assets, and maybe 2 or 3 crores for extension kitchen, so this 65 crores is not considering right now extension kitchen.
- Sameer Gupta:** Secondly, this 100 crore preferential you did to keep some buffer because of COVID second wave, now COVID second wave has been short lived and you really have not had to use that buffer much, so could you just give some idea with this 100 crore or 90 crore or whatever is there with you extra, what do you plan to do with it, would you be accelerating your store openings or is there any other way that you would like to use that money?
- Rahul Agrawal:** No, right now that is lying in our balance sheet. We have approximately 150 crores of cash (including what we raised in the IPO for CAPEX) and debt would be approximately 40 odd crores, so yes 110 crores is net cash in the books today. And the pace at which we are also generating operating profit, (last quarter, for example, with EBITDA at 25 crores which is pretty much a cash profit for us), is good enough to open seven or eight outlets., So I think our acceleration of growth is not dependent on funds and I do not think funds is a constraint right now. Our expansion has largely been constrained by the kind of real estate or rental deals that we get. As of today, I think our pipeline is very strong and we are also looking for more sites. If we find considerable real estate deals which we can do, we will not shy away from adding more than 20 outlets even this year.
- Sameer Gupta:** Just wanted to understand this September you mentioned that you are at 98% of pre-COVID, but if I want to look at it on a per store basis for September because 98% is after adding new restaurants, so on restaurant basis, in September what percentage of same period two years ago you would be at?

- Rahul Agrawal:** So even in September there were around ten restaurants which were not operating largely in Kerala and Maharashtra and three that are still not operational. On a per store basis with numbers should definitely more than 90%.
- Sameer Gupta:** Okay and this is only for dine-in, delivery is 98%?
- Rahul Agrawal:** Yes, including delivery that is 116%.
- Moderator:** Thank you very much. The next question is from the line of Anurag Lodha from Ambit Capital. Please go ahead.
- Anurag Lodha:** Thank you for the opportunity, I just had one question so is it possible for you to share the exact run rate for delivery revenue because we did 20 crores in July and then in Q2, the total was at 51 odd crores right, so does that mean August and September together combined for about 31 crore and how does it shape for the rest of the year?
- Rahul Agrawal:** Yes, those numbers are there, so that is 31 for last two months and slowly we are seeing some upward trends also now.
- Anurag Lodha:** I was wondering what is the exit run rate of delivery?
- Rahul Agrawal:** October is still going on, so very difficult to give you a target now, but I think on a quarterly basis a 50 crore plus number. August and September also get impacted because of months like Shradh and Shravan. In few markets people do not consume non-veg in those months, so I would not read much. I think structurally 50 crore plus number should be reasonably achieved.
- Anurag Lodha:** Right, so 50 crore you mean for the quarter?
- Rahul Agrawal:** For the quarter, yes.
- Moderator:** Thank you. The next question is from the line of Abhimanyu from GrowthX Capital. Please go ahead.
- Abhimanyu:** Good evening, I have one question was that out of this 20 how many restaurants are in the Metro cities and how many are in the Tier-2, Tier-3?
- Rahul Agrawal:** We would have around 12 to 14 restaurants in Metro and Tier-1 and around five to six in Tier-2 and Tier-3.
- Abhimanyu:** Rahul, could you tell me do you have a number of how much incremental revenues do you get from Metro cities as compared to Tier-2, Tier-3?

- Rahul Agrawal:** When you say incremental, you mean?
- Abhimanyu:** Let us say you have a new restaurant opening in a Metro city, how much would you do as compared to Tier-2, Tier-3, is it more or is it less?
- Rahul Agrawal:** Metro, Tier-1 is typically more because in those markets by and large Barbeque Nation is already present. There is a set of clientele that we already have. In Tier-2, Tier-3 as of today when we are growing those markets, this is typically the first restaurant in that market, so there is a maturity cover that you have to go through in those markets, so it is lower than in Metro and Tier-1 market.
- Abhimanyu:** In terms of number?
- Rahul Agrawal:** Metro can start with maybe anywhere between Rs. 40 lakh to Rs. 60 lakh per month and a Tier-2, Tier-3 can start anywhere between say Rs. 30 lakh to Rs. 40 lakh per month.
- Moderator:** Thank you very much. The next question is from the line of Bharath from Money Control. Please go ahead.
- Bharath:** Sir, thank you for the opportunity, just two questions from my side, you have mentioned that there is some restrictions obviously in Quarter-2, but just wanted to understand, have the restrictions been fully eased, I mean because you said in dine-in there was the 50% capacity restraint that was there for the operation, so as we speak as on date is it been completely relaxed or 50% capacity thing is still applicable across the restaurants?
- Rahul Agrawal:** A lot of these rules are also given at State level and some also at district level. We operate in today approximately 80 cities, so the rules are different in different markets, but broadly what I can tell you is that these restrictions have been easing over a period of last one quarter be it in terms of family restrictions or in some of the States also there is lack of clarity whether it is 50% is still applicable or not applicable, so very difficult to give you a response in terms of that. Has it been completely relaxed, no, but yes it definitely has been easing over what we saw in the last quarter.
- Bharath:** Fair to say like just a ballpark number 70%-75% of the restaurants would be like operational with full capacity?
- Rahul Agrawal:** No, I will not try to give you a full number because it depends, the rules are really different at different places.
- Bharath:** Sir, my second question is that this extend kitchen concept that you alluded to, so basically there in this extended kitchens, we have only the delivery infrastructure right



and food it is sourced from the main restaurant that we have, is this the way the concept works?

**Rahul Agrawal:** Yes.

**Bharath:** Okay, so this has only the delivery guys?

**Rahul Agrawal:** When you say fully sourced from this, these all food come in the semi-cooked format and the last mile finishing also happens in the extension kitchen itself and that is how we build that infrastructure.

**Bharath:** So semi-cooked food comes from the existing Barbeque Nation restaurant?

**Rahul Agrawal:** Barbeque Nation restaurant, yes.

**Moderator:** Thank you very much. The next question is from the line of Ashish Kanodia from Ambit Capital. Please go ahead.

**Ashish Kanodia:** Rahul just on the store front and I think you know 20 is what we are looking at for FY '22, any sense on what kind of a store you are looking for FY '23?

**Rahul Agrawal:** I think we should be able to do around between 35 to 40 stores in '23, but on a long-term perspective I think by March of '25, we would target to take on network to around 300 outlets.

**Ashish Kanodia:** This will be your overall store count right including Toscano?

**Rahul Agrawal:** Yes, we only give consolidated numbers so this includes all three. Why we do that is because it all depends on again the kind of rental deals that you get right, so if you can get right kind of deal for Toscano, we will do that. If we get the right return on our capital in international market, we will do that. Now, if we get right return on Indian market then we will do that, so this is all inclusive consolidated at the company level.

**Ashish Kanodia:** Then just on the extension kitchen, Barbeque Nation has a lot of focus on the guest service index side, so with the launch of your extension kitchen how has the ratings changed, if you can throw some light on that, that would be very helpful?

**Rahul Agrawal:** That is a good thing because on rating for extension kitchen are generally better than the ratings that we are getting on our core Barbeque Nation business, the reason is this particular team is entirely focused only on delivery and are not have to do both dine and delivery so that is coming out there. In terms of our guest feedback, we also get decent

amount of business from our own app and the rigorous GSI system that we have for dine-in business is also followed in our delivery segment for these orders.

**Moderator:** Thank you very much. The next question is from the line of Sameer Gupta from IIFL. Please go ahead.

**Sameer Gupta:** I have seen your presentation that the average quarterly revenue per restaurant for the stores which were fully operational was 16.3 million, so if I multiply that by four, the annual run rate is 6.5 crores and while the store is fully operational in Q2, life had not returned to normal, so there could be room to sort of cater to higher number of guests in that restaurant once the demand comes back, so should we take solace from this number that once things are perfectly normal and people start going out and mobility index goes back to pre-COVID levels, we should have like a close to 7 crore sales per store kind of a number?

**Rahul Agrawal:** Yes, there are some more possible opportunities that we definitely have and like we have also discussed earlier, pre-COVID our average revenue was around 6 crores without any delivery business and we are already seeing close to 1 crore of delivery revenue being added on the existing network. so blended basis, yes I think these numbers should definitely look more than this.

**Sameer Gupta:** Assuming these 6.5 to 7 crore kinds of run rate for the full year next year, what kind of total margin should we look at after corporate cost and everything?

**Rahul Agrawal:** I think we should look around 15% EBITDA margin after corporate cost and everything, this is after the Ind-AS adjustment also.

**Sameer Gupta:** This is at consolidated level?

**Rahul Agrawal:** Consolidated level.

**Sameer Gupta:** Okay, so 15% is adjusted for Ind-AS, so pre Ind-AS accounting standard?

**Rahul Agrawal:** As per in iGAAP.

**Sameer Gupta:** As per the old accounting standard?

**Rahul Agrawal:** Yes.

**Sameer Gupta:** Other thing I just wanted to ask you is in terms of delivery while this year you are definitely tracking higher than your guidance of I think 155 crores, you will easily achieve and actually exceed that, how do we see ramp up of this delivery over the next

two-three years, so should we just after whatever number you achieve this year, let us say 180 crore-200 crore whatever that number will be, should we then just grow it in line with the number of store additions or is there something more that we have to do?

**Rahul Agrawal:**

Firstly on delivery, yes the growth rates have been very good over last two years and like we have always mentioned, our core is dine-in and we are working on building another vertical for ourselves which is delivery which we see as a strong potential segment and category, and we aspire to become one of the prominent players in the Indian cuisine delivery segment and that is what we are working for. I think the market there is huge and even though we are looking like tracking almost 200 crores per annum segment, the market is much, much larger. What we are only saying is that our focus on dine-in will continue as we have done in the past and it is easy to give you a prediction on that. On delivery, this business is very young. Our focus on that has been four to six quarters old and every passing quarter and months, we are improving on our delivery business and we are exploring new things there, so I would not give any guidance on that right now, but given the market potential and given that the focus and the bandwidth that we are spending on this segment, the delivery segment should grow more than our dine-in segment.

**Sameer Gupta:**

Secondly any concerns you have on the inflationary environment, and do you have the pricing power to sort of offset that and get to that 15% kind of EBITDA margin that we talked about despite the inflation?

**Rahul Agrawal:**

One is yes, there are concerns on inflations. It is across the board and we also have that. We have taken some tactical measures to ensure that we do not loose gross margins, but this is something which is hitting on us a daily basis currently and we are working towards that. While we have decent amount of pricing power, you know that slightly over last five years, our average price increase has not been more than 3% to 4% and we did not want to go beyond that. I think this brand has to remain value for money for guests and that is what we are very focused on. In terms of 15% EBITDA margin, I think the business is already at around 21% restaurant level margin and you will see that in the full ops also in Quarter-2 and our corporate expenditure will anyway on a larger base of revenue as a percentage coming down, so blended 15% I think should not be a challenge.

**Moderator:**

Thank you very much. That was the last question for today. I would now like to hand the conference over to the Management for closing comments.

**Ashish Kanodia:**

Thank you everyone for your participation and we wish you a very happy weekend. Thank you very much.

**Rahul Agrawal:**

Thank you and wish you all a very Happy Diwali too.

**Moderator:**

Thank you very much. Participants on behalf of Ambit Capital, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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