**Barbecue Nation Q4FY23 and Q1FY24 Concall highlights:**

* Outlook and Recent updates:
  + Prevailing subdued demand scenario and higher base impact in the first quarter last year.
  + Aggressive expansion over the last 2 years has impacted Co.’s operating margins owing to sluggish demand
  + Historically, over last 5 years pre-covid our Q4 business is 4-5% down compared to Q3, but during FY23 our Q4 was down by 15-16% which is abnormal and signals at slowdown in spending.
  + QoQ volume growth of 20%. Historically between Q4 and Q1 (QoQ) the volume growth has been around 5%
    - The growth was driven by improvement in weekdays sales by 28%.
  + Lower average realization in the dine-in business because of various offers and promotions across select markets
    - Since Q1 the prices have gone up by Rs. 150 in key markets
    - Weekends were better and on weekdays we wanted to capture value conscious customers
  + Key focus over last couple of quarter was to drive volume growth
  + Strategy going ahead
    - Focus will be on driving SSSG and profitability for the India dine-in business. Growth in barbecue nation to be driven by SSSG
    - Scaling emerging verticals such as Toscano and International businesses
    - Drive penetration and avg sales value per order for UBQ and Dum Safar to increase delivery sales
    - Look at expanding our brand portfolio, including inorganic growth if there are opportunities.
    - Gross margin improvement and cost optimization across portfolio to improve profitability.
  + Median to long-term growth story of our company remains intact
* Dum Safar:
  + Co. launched dedicated Biryani cloud kitchen under Dum Safar last year.
  + Dum Safar are opened in the existing Barbecue nation with no incremental capex/
  + It has reached monthly runrate of 2 cr and did revenue of Rs. 6.5 cr in Q1Fy24
  + It has ADS of ~Rs. 5000
  + It has reached 80% of our restaurants over last 4 qtrs
  + Dum Safar opened in first phase i.e August last year has improved ADS from Rs. 7000 to 11,000 (annualized runrate of Rs. 0.4 cr)
* Toscano:
  + It is a Italian casual dining chain in Pune, Bangalore and Chennai with avg billing size of Rs. 600-800 pp
  + (Company had acquired his brand at valuation of Rs. 227 cr and has ~78% stake in it)
  + Toscano is very close to crossing annual revenue mark of INR 100 crores
  + This business should see 25% CAGR for next few years.
* SALT:
  + In October, the Barbeque Nation acquired 53% stake in Blue Planet Foods which runs chain of restaurants under the brand ‘SALT’
  + It was done at valuation of Rs. 44 cr (Rs. 23.1 cr for company’s stake)
  + SALT did revenue of Rs. 32 cr in FY23 from its 6 outlets in Bengaluru and Chennai.
* Store opening and closure:
  + Opened 4 restaurants- 2 India, 1 Toscano and 1 Int’l
  + Closed 12 restaurants in last 2 qtrs mainly from Tier 2 & 3 towns where demand was slower.
  + Positive impact from this will start from Q2
  + 5 more stores are expected to be closed over next 2 qtrs
  + Compared to aggressive store opening over last two years, in short term our store expansion will be cautious. Overall on net basis 10-12 stores to open in FY24.
  + In terms of long term opportunity our target is to roll out 500 restaurants across formats.
* Why have we closed these 8 stores?
  + These stores had qtrly EBITDA loss of Rs. 1.2 crores at store level
  + All these stores had matured vintage
  + 2 of the stores closed will be shifted in the nearby areas
* Operating metrics
  + Dine in 277 cr, delivery 47 cr
  + SSSG -7.7%
  + Gross margin down 280 bps YoY due to lower dine in realization by 5%
  + The gross margin trend is improving on a month-to-month basis and has recovered to historical levels in July 2023.
  + Pre-Ind AS EBITDA of 18.8 cr and margin of 5.8%
* Long term EBITDA Margin

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Last 5 qtrs EBITDA Margin | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 |
| Reported EBITDA Margin (Ind AS 116) | 23.3% | 19.3% | 19.2% | 15.0% | 14.7% |
| Adj EBITDA excl Ind AS | 14.6% | 10.5% | 10.7% | 4.6% | 5.8% |

* + Co. targets to do around 16% EBITDA (excl Ind AS) in matured portfolio which gets pulled down by 1-2% by new stores, new stores with 1 year vintage do 8-9% adj EBITDA margins.
  + Long term range is Adjusted EBITDA margin (excl Ind AS) of ~13-14% which is like reported margin of 20-21% (after Ind AS impact)
* Promotional initiatives:
  + Co. rationalized prices across many stores on weekdays especially Mon and Tuesday we had kept pricing at 599 and 699
  + On Thursday and Friday we have Corporate customers which improves occupancy, but we did have discounts at selective circles based on demand in those areas.
  + We have improved on our service score- menu and ambience score has gone up, so the discounts were to drive people in and then convert them into repeat customers.
* Store vantage
  + Matured outlet revenue – Rs. 6.5 cr p.a. (-7.5% YoY)
  + Matured outlet- EBITDA Margin 14.3% (excl Ind AS 116)
  + New restaurant portfolio- revenue of 5.2 cr p.a. (+27% YoY)
  + New outlet EBITDA margin – 10-11% (excl Ind AS 116)
  + Q1 has 152 mature stores
* Decline in sales and margins of matured stores:
  + We had come down from almost Rs. 7 crores to Rs. 5.7 crores in Q4, and since then seeing QoQ improvement
  + The sole focus for last few qtrs. Where demand has been sluggish was to get more people in the store
  + First step was to engineer the inside of the store- menu upgradations, décor, etc which was done last year.
  + Next step was to get the footfalls which is happening now
  + Third step will to bring back the margins which will come with improvement in gross margin and cost optimization.
  + Margins have come down from 19% to 14.3%
    - 250 bps deterioration due to gross margins mainly because of lower realization
    - Balance 200-250 bps because of negative operating leverage and higher promotional spends
    - Promotional activities have peaked out in April 23
  + In our business, 5% SSSG growth on top line will lead to 50% flow into EBITDA margin, and revert us back to normalized level of 14% in matured stores.
* SSG guidance:
  + Long term, we target 5% to 7% (in line with historical trend)
  + SSSG will be driven mainly from volume in near term and not price.
* Store economics
  + Capex of Rs. 3-3.1 cr per store of ~4000 sq ft
  + It will need staffing of ~40 people.
  + Post covid efficiency has increased in the sense that incremental delivery sales came without any additional employee
* Delivery Sales:
  + Delivery sales for FY23 was Rs. 165 cr vs Rs. 197 cr in FY22. Volume were flat for the year, but avg order value declined.
  + Expecting delivery revenue to bounce back to Rs. 200 cr in FY24.
  + Growth in delivery business because of menu reengineering and new initiatives.
  + For delivery we have kept a-la carte meu where people can order smaller portions
  + Our avg order value had declined and it has stabilized now at Rs. 500 (net of GST)
  + Growth from driving volume of UBQ and increased penetration for our Biryani Brand ‘Dum Safar'
  + Cloud kitchen model is not profitable so company will operate only on extension kitchen model in existing outlets.
  + Q1FY24 was best for delivery in last 2 years, and hoping to do well.
* Emerging business portfolio:
  + 6 years back, Barbeque contributed to 97% of Co.’s sales and now delivery, Toscano, International and Dum Safar are doing ~25% of revenue
  + Focus on expansion led growth for Toscano
  + calibrated expansion in Barbeque Nation International business
* Outlook on demand:
  + Demand recovery looks encouraging.
  + In last 5 months we reached the bottom in Feb 23 and since then we have seen gradual recovery.
  + Q2 is seasonally weaker because of Sharavan which has many veg days, but YoY we have done well
  + H2 of the year should be really strong
* Footfalls from repeat customers:
  + 50:50 mix between existing and new customers.
  + But the data we have is not complete when a group of 4-5 people come, we have number of only 1