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# A plateful of problems

By Anjana Vaswani, Mumbai Mirror | Sep 29, 2019, 06.00 AM IST


*As another popular Mumbai restaurant is set to shut down, Mirror examines why the food and beverage industry is facing an existential churn.*

Tomorrow, Mumbai's hospitality landscape will see at least one major casualty — Café Zoe. The restaurant, which at one point was one of Lower Parel's most-loved haunts, will shut shop and now focus exclusively on deliveries. Zoe's eight-year run is undoubtedly a success story. Today, more than half of the F&B properties that open in India, even in bustling metros like Mumbai, don't muster past year two, according to Neeren Tewari of HCA Hospitality Consortium Advantage, a consultant who has seen the industry up close for over 20 years and worked with iconic establishments like Blue Frog and Hard Rock Café.

"In the last year, over 40 gastropubs and restaurants have shut shop in the Lower Parel area alone," another F&B consultant, who does not wish to be named, informs Mirror. Zorawar Kalra of Massive Restaurants, whose brands — Masala Library, Farzi Café, Pa Pa Ya and Kode — have a pan India presence, believes this is a conservative guesstimate. He feels that many would have shut down in Kamala Mills alone.

"Kamala Mills never quite recovered after the fire [in 2017]," says AD Singh, whose Olive Bar & Kitchen in Bandra has been pulling crowds in for almost 20 years. "Footfalls are nowhere near what they were before the tragedy," he says. Singh, who owns F&B outlets across India, says that in a large city like Mumbai, it's safe to assume that hundreds if not thousands of restaurants shut down every year.

While some problems, such as the steep rentals and a shortage of skilled labour, impact the profitability of restaurants in major metros all over the world, working in Indian cities poses a unique set of additional challenges. These include poor infrastructure, a curfew that forces businesses to wind down daily operations by 1.30 am, and arbitrary regulations, like the ruling of a Delhi court last month, asking restaurants to destroy all booze stocks that are older than eight days (the order aims to prevent pilfering and adulteration, though it isn't clear how pouring premium booze down the drain would help achieve this).

Paradoxical as it sounds, another major reason why so many restaurants shut down every year is that there are too many players entering the industry, say insiders.

Filmstar Dilip Kumar with Copper Chimney's first chef, Ustad Tari, in the 1970s

Tarini Mohindar, a co-founder of Zoe, recalls that when their bar-cum-brasserie was launched in 2011, "the hospitality landscape was very different". With no prior experience of the F&B industry, Mohindar, who worked in advertising previously, and her Belgian business partner Jeremy Horowitz, braced for dealing with issues mired in bureaucratic red tape like securing necessary licenses — but they didn't need to worry about pulling in a crowd. "We knew people would eventually come to check the place out," says Mohindar. "Today with five restaurants sprouting at every corner, almost every day, a lot of places end up closing down before people even get to hear about them."

"Every socialite with a pocketful of cash believes they can run a successful restaurant, only to learn that things are not as simple as they seem," says Tewari. "A couple of months ago, a young man came to meet me and said his father wants to buy him a Lamborghini [worth about Rs 5 crore] but he is thinking about investing that money in a restobar," he shares.

Rahul Akerkar, the chef and entrepreneur who was behind one of Mumbai's first fine-dining standalones, Indigo, in 1999, believes that there is still room for growth in the market. But, Akerkar, who launched Qualia in Lower Parel in May this year, says the danger is that inexperienced players don't understand how the business works, panic when it doesn't, and then make desperate moves that impact other players too. Agreeing to offer the deep discount schemes of food aggregators, Akerkar feels, is one such move. "It may seem appealing at first, when you see you've doubled your number of guests, but it makes no financial sense," he says. "We restaurateurs operate at an EBIDTA [earnings before interest, taxes, depreciation and amortisation] of between 10 and 20 per cent. If you then offer discounts of, say, 50 per cent, how does one make any money?"

"With the exception of a few pros, most restaurants aren't making money today," adds Kalra. The outliers include Singh's Olive, and Copper Chimney, the Indian restaurant at Worli, which has been doing brisk business since 1972. But not only did these have first mover advantage, they also got time to build brand loyalty.

Chef Rahul Akerkar at Qualia

Today most restaurants are coming up in "hubs", F&B clusters like Lower Parel, the Bandra Kurla Complex and Powai's Hiranandani Business Park in Mumbai; Park Street in Kolkata; CyberHub in Gurgaon; and Koregaon Park in Pune. Even though it makes the situation worse, as properties start eating into each other's business, it's not without reason. "Taking a space in a commercial property makes it easier to get licenses, so it makes sense to open restaurants in such complexes," says Kalra. "Besides, when some restaurants thrive in an area, others feel they would find success there, too."

But, there are risks attached to it, too. Take for instance, what happened at Kamala Mills. Though the fire started and spread due to irregularities at one pub, authorities continued to crack down on every establishment in the complex for months afterwards. Diners, too, started avoiding the complex, which turned into a ghost town for a while. These clusters also contribute to traffic congestion, deterring restaurant goers from venturing into the area — after all, diners are spoilt for choice anyway.

Still, these hubs command premium rents. Many landlords demand a fixed rent and a share in profits, though some agreements call for rent or a share in profits, whichever is higher. This amount, additionally, attracts a goods and services tax (GST). Restaurateurs were entitled to a rebate on GST, but in 2017, the authorities cancelled this 'input tax credit.'

"This was a significant setback," says Singh — even though the government simultaneously lowered GST from 18 per cent to five per cent for standalone properties. ITC accounted for three to four per cent of a restaurant's profits (when GST was at 18 per cent), according to the Federation of Hotels and Restaurants Association of India. Without it, the cost of operations increases significantly. And, as Akerkar points out, "It throws our calculations off."

Consumer mindset has to be carefully considered when restaurateurs work out their pricing — and so a change like this poses multiple challenges. Not to mention that menus can't be reprinted overnight with new prices.

The good news is, the outlook for the industry as a whole remains positive. In its May 2019 report Indian restaurant and food service industry — structure and prospects, Care Ratings, a firm that offers professional risk opinions, predicted that the industry will continue to grow — from a market size of Rs 3.7 trillion as of 2018, to reach Rs 5.5 trillion by 2022. This, Care claims, will be spurred by factors like higher disposable income and rising aspirations of the burgeoning middle class, increasing internet penetration, technological advancements and growing urbanisation.

No doubt many players will also be wiped out in this churn. Tewari has a theory about who will survive. "While an influencer may be able to draw a crowd for a while, ultimately, this is the business of 'food and beverage'," he says. "The quality of your product will eventually decide the fate of your venture."

Cafe Zoe, located in the restaurant hub of Lower Parel, has been around for eight years. It shuts down on Monday