

Case Study SATKAR Restaurant: At Crossroads

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Satkar Restaurant was located at a prime location in Nirman Nagar, Jaipur. His owner, Mr. Abhay Mathur, a Hotel Management graduate from Jaipur, started this restaurant in October, 2008. The project faced enormous cost overrun and time delay during the pre-start phase. It suffered a substantial setback when liquor license got denied by the government due to the sudden change in policy. Apart from the declination of liquor permit, restaurant faced many other challenges that included liquidity crunch, debt servicing and a high proportion of fixed costs. After running the restaurant for more than 3 years with ever increasing losses, Mr. Mathur was evaluating various alternatives to come out of the dismal situation.

Background

Mr. Abhay Mathur, a Hotel Management graduate, had worked in various industries, which included, Hotel, Retail and Insurance. At the peak of his career in the retail sector, he quit his job due to location issues with the hope of finding a new one. Unfortunately, retail sector got into a difficult phase due to cost pressures and inadequate sales. He failed to get a suitable job as per his profile and remained unemployed for more than a year. He started getting frustrated and let down. He decided to drop his plans to search for a job and instead decided to start his own venture. He searched and evaluated various business ideas and starting a Restaurant got the highest points in its favour due to Abhay's hotel Management background. Interestingly, his father also had a rich experience of 30 years in the hotel and restaurant industry.

Conceptualization Phase

Abhay started working on his business idea. He had a lot of his friends working in the restaurant and hotel industry. He conducted the preliminary study to decide about the location and scale at which the restaurant can be started. He decided to set up his

restaurant at a prime location in a commercial complex at Nirman Nagar. He wanted to start a restaurant which should be best in his class from all aspects. He wanted to prove himself, and to others that he can make it big in life. On the other side, his father wanted him to start something at a small scale by keeping their financial background in mind.

Implementation Phase

Abhay took the top floor and the rooftop of the complex for setting up his restaurant. The total area was 3000 square feet. The total project cost was estimated at Rs. 4 million and the time required to setup the restaurant as 6 months. His close friend, Mr. Amit helped him in obtaining a business loan to the tune of Rs.3.5 million From a nationalized bank. A working capital limit, of Rs. 1 million, was also sanctioned. Abhay outsourced the entire work of setting up the restaurant to Ms. Anjali, an interior designer, on turnkey basis. Abhay's another friend, Mr. Sanjay Shekhawat, also joined him on a full time basis to help him setting and running the restaurant. Abhay and Sanjay came together without any formal and written agreement. Sanjay also wanted to start his own venture. He took this as an opportunity to learn with the informal understanding with Abhay that in the future, he may join the business as an associate by infusing capital during the expansion phase.

Till 3 months from the word go, nothing concrete was done by the interior designer. This led to termination of the contract with Ms. Anjali. Abhay appointed Mr. Sudhir as a new contractor, on a consultancy basis. He decided to get the work done from different vendors on his own. The work got delayed by 4 months. Delay and other factors during the pre start phase resulted in an increase in the cost of setting up the project to 7million. Abhay was forced to arrange for the extra funds from his family, relatives, friends and private lenders.

With all his efforts, he was able to start the restaurant with a seating capacity of 50 persons in fine-dine. A coffee lounge with a capacity of 20 persons at the rooftop. An open dining option at the rooftop for 50 persons. Rooftop offered an eye

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catching view of the city and would prove to be an opportune option for dining along with liquor, awaiting liquor license. The rooftop could also be used for parties and other functions sufficient for a gathering of 150-200 persons at a time. Overall, the restaurant was no doubt one the best in the locality.

Restaurant started

The restaurant was launched on 1st October, 2008 with full fanfare. It was a slow start as far as footfall was concerned. Abhay used small hoardings and leaflets in the vicinity to begin with. He also offered free home delivery in the nearby locality. He needed a liquor license fee of Rs. 0.5 million to apply. He faced a liquidity crunch because on one side, he had fixed obligations in the form of rent, salary, electricity, interest on loan repayments and on another side, sales were not picking up. He took Rs. 0.5 million from his friend for a liquor license fee. He did not apply for the same because if the license was granted, the fee will be valid only till March end next year. But, he did not return the money to his friend. The same was utilized to manage the liquidity crunch.

The liquor license policy got changed, and new policy required a minimum period of 5 years of

running the restaurant after which one can apply. It was a massive shock. Abhay tried all his sources to get the license but in vain. He started offering Hookah facility, which also later discounted due to ban by the government. He launched a discount coupon booklet offer in the Month of April 2009 through a marketing company named Konzept. The booklet consists of few free offers and discount coupons valid till June 2009. The booklet was worth Rs. 3000 and sold at a price of Rs.500 by the company. Rs. 500 collected for each booklet went to the marketing company as its fee. In return, Abhay expected higher footfall and higher sales. The scheme was discounted.

The pressure started mounting, and Abhay's entire focus shifted to managing day to day expenses. He started avoiding lenders who did not get their interest and principal repayments on time. He borrowed Rs. 1 million from a local money lender at an exorbitant interest rate of 10% per month. The situation did not improve and went out of his hands.

In April 2011, Abhay started searching for solutions. He got into discussions with interested parties to join his business as a partner in order to improve his situation. He even approached his bankers for additional loan.

Annexure 1

INCOME STATEMENT (Amount in Rs.)				
	Description	FY 08-09	FY 09-10	FY 10-11
	Net Sales / Income from Operations	1,200,000.00	2,880,000.00	3,100,000.00
	Other Operating Income	0.00	0.00	0.00
A	Income from Operations	1,200,000.00	2,880,000.00	3,100,000.00
	Food & Beverages	150,000.00	360,000.00	390,000.00
	Other Consumables	150,000.00	360,000.00	390,000.00
	Rent	480,000.00	792,000.00	871,000.00
	Electricity	120,000.00	350,000.00	380,000.00
	Salaries and Wages	300,000.00	660,000.00	600,000.00
B	Expenditure	1,200,000.00	2,522,000.00	2,631,000.00
A-B=C	Profit from Operations before Other Income, Interest and Exceptional Items	0.00	358,000.00	469,000.00
D	Other Income	0.00	0.00	0.00
C+D=E	Profit before Interest and Exceptional Items	0.00	358,000.00	469,000.00
F	Interest Paid	360,000.00	800,000.00	1,800,000.00
E-F=G	Profit after Interest but before Exceptional Items	-360,000.00	-442,000.00	-1,331,000.00
H	Exceptional Items	0.00	0.00	0.00
G+/-H=I	Profit (+)/ Loss (-) from Ordinary Activities before Tax	-360,000.00	-442,000.00	-1,331,000.00
J	Tax	180,000.00	432,000.00	465,000.00
I-J=K	Net Profit (+)/ Loss (-) from Ordinary Activities after Tax	-540,000.00	-874,000.00	-1,796,000.00
L	Extraordinary Items	0	0	0.00
K+L=M	Net Profit	-540,000.00	-874,000.00	-1,796,000.00

STATEMENT OF ASSETS AND LIABILITIES (BALANCE SHEET) (Figures in Rs.)

Particulars		31.3.09	31.3.10	31.3.11
A	EQUITY AND LIABILITIES			
1	Shareholders' Funds			
	(a) Share Capital	500000	500000	500000
	(b) Reserves and Surplus	-540000	-874000	-1796000
	<i>Sub-Total (Shareholders' Funds)</i>	-40000	-374000	-1296000
2	Non Current Liabilities			
	(a) Long Term Borrowings (From Bank)	4500000	4500000	4500000
	(a) Long Term Borrowings (From Others)	2600000	3000000	4000000
	(c) Other Long Term Liabilities	0	0	0
	(d) Long Term Provisions	0	0	0
	<i>Sub-Total (Non Current Liabilities)</i>	7100000	7500000	8500000
3	Current Liabilities			
	(a) Short Term Borrowings	0	0	0
	(b) Trade Payables	70000	80000	76000
	(c) Other Current Liabilities	0	0	0
	(d) Short Term provisions	0	0	0
	<i>Sub Total - Current Liabilities</i>	70000	80000	76000
	TOTAL - EQUITY AND LIABILITIES (1+2+3)	7130000	7206000	7280000
B	ASSETS			
1	Non - Current Assets			
	(a) Fixed Assets	7000000	7000000	7000000
	(b) Non Current Investments	0	0	0
	(c) Long Term Loans and Advances	0	0	0
	(d) Other Non - Current Assets	0	0	0
	<i>Sub-Total - Non Current Assets</i>	7000000	7000000	7000000
2	Current Assets			
	(a) Current Investments	0	0	0
	(b) Inventories	55000	50000	45000
	(c) Trade Receivables	15000	40000	90000
	(d) Cash and Bank Balances	60000	116000	145000
	(e) Short Term Loans and Advances	0	0	0
	(f) Other Current Assets	0	0	0
	<i>Sub-Total - Current Assets</i>	130000	206000	280000
	TOTAL ASSETS (1+2)	7130000	7206000	7280000