

March-April 2022

CASE STUDY

Total marks: 100

Time allowed: 4:30 hours

Instructions:

1. Check that your question paper contains all the exhibits as mentioned in page 3. The consecutive page numbering may be found under the base line at the foot of each page.
2. Use the answer script provided by the Institute. Write your name, roll no., registration no. and name of the subject on the upper portion of the cover page of the answer script.
3. Candidates are asked not to write any particulars of identification in any other place of the answer script and additional pages if taken.
4. Questions must be answered in English.
5. The answer should be referenced to the relevant workings.
6. Answer script and additional page(s) taken to write answer, used or unused, must not be removed or taken away from the Examination Hall.

Requirements & Marks Allocation:

You are Touhidul Islam, Manager at Shovon Razi & Co., Chartered Accountants (SRC). You directly report to Partner of the firm, Mr. Mehedi Al Razi FCA. Your firm SRC has been appointed as a consultant of the Regal Foods & Restaurants Ltd. (Regal) and Mr. Razi has received an assignment e-mail from Mr. Yousuf Ali, Managing Director (Exhibit-1) of the Regal. Mr. Razi has asked you to prepare a report covering all the requirements stated in the e-mail of Mr. Yousuf Ali.

Requirements:

You are required to prepare a draft report to Mr. Mehedi Al Razi FCA. Your report should comprise the following elements:

- ❖ An executive summary
- ❖ Your responses to the detailed requirements (a), (b) and (c) set out in Exhibit-1.
- ❖ State clearly any assumptions that you make.

Of the total marks allocated, 10% are included for the relevant discussions of ethical issues within your answer to the requirements.

Marks Allocation:

All of the marks in the Case Study are awarded for the demonstration of professional skills, allocated broadly as follows:

Requirements	Professional Skills					Total
	Assimilating and using information	Structuring Problems and solutions	Applying Judgment	Conclusions and making recommendations	Integrative & multidisciplinary skills	
Executive Summary	3	3	2	3	2	13
Requirement (a)	4	8	7	4	2	25
Requirement (b) (i) (ii)	5	6	7	5	2	25
	6	6	6	5	2	25
Requirement (c)	2	2	3	3	2	12
Total	20	25	25	20	10	100

In planning your report, you should be aware that not attempting one of the requirements, including an executive summary, will have a significantly detrimental effect on your chances of success. In addition, as indicated above, all skills areas will be assessed under each element of your report.

You should be clear that marks are awarded for demonstrating your professional skills, not for reproducing facts from the case. To be successful, you will need to:

- Demonstrate your knowledge of the case material and make use of your analysis.
- Carryout relevant analysis of the problems and structure your proposed solutions.
- Apply your judgment based on the analysis that you have carried out
- Draw conclusions from your analysis and judgment and develop them into practical commercial recommendations.
- Ethical issues may cover the following topic-
 - Lack of professional independence or objectivity
 - Conflict of interest among stakeholders
 - Doubtful accounting or commercial practice or market competition or Market proximity
 - Inappropriate pressure to achieve a reported result.
 - Compliance of local laws and regulations
- Integrative & multidisciplinary skills may cover the following areas-
 - Depletion and wastage of natural resources and its impact on environment and climate change.
 - Impact on the public health and productivity and on the national health budget.
 - Social impacts, e.g. social unrest for allowing use of alcohol, bar, etc.
 - Economic impacts, e.g. on employment generation and improvement in connectivity using ICT.

LIST OF EXHIBITS

Exhibit	Description	Page reference
1	E-mail from Mr. Yousuf Ali, MD of Regal. to Mr. Mehedi Al Razi FCA, Partner of SRC.	4
2	A brief note on Regal and its operation.	5 - 9
3	Summary and Extracts of Financial Statements of the Regal.	10 – 11
4	A brief note on Food & Restaurant Industry in Bangladesh.	11 – 13
5	E-mail from Mr. Zobair Khan regarding Accounting, Legal, Tax and IT issues.	14
6	E-mail from Mr. Samiul Islam regarding options between expanding in a new or in existing location.	15 – 16
7	Environmental, health and ethical issues.	17
8	News Clips regarding Food industry in Bangladesh.	18

List of persons in the Case and their Roles

SL.	Names	Roles
1	Touhidul Islam (You)	Manager at SRC
2	Mehedi Al Razi FCA	Partner of SRC
3	Yousuf Ali	Managing Director at Regal.
4	Samiul Islam	Operations Director
5	Zobair Khan	Finance Director

E-MAIL

From : Mr. Yousuf Ali, Managing Director at Regal
To : Mr. Mehedi Al Razi FCA, Partner, SRC
Subject : Consulting engagement regarding Analysis of business operation, formulating business strategies, evaluation of strategic options and viability of financing and investment opportunities considering past performances & future prospects of the company and related business issues.
Date : 22 March 2022

Dear Mr. Razi,

I am pleased to inform you that the Board of Regal Foods & Restaurants Ltd. (Regal) has appointed your firm Shovon Razi & Co., Chartered Accountants (SRC) as its business consultant. Your areas of works will be: Analysis of business operation, formulating business strategies, evaluation of strategic options and viability of financing and investment opportunities considering past performances & future prospects of the company and related business issues. Depending on the situation you may be asked to assist in issuance of Bond, evaluating investment options etc. You might be required to advise and review of Accounting, tax, financial and internal control related issue arises within the company.

Board of Regal Limited has approved BDT 200,000 per month as retainer fee for next two years. Board has also approved a Fee of BDT 2,500,000 for the service your firm is going to provide during the year. We are currently reviewing our current business status and analyzing available strategic options where we need input from your firm.

As discussed with your, I am sharing a brief note on Regal Foods & Restaurants Ltd., its operation and its plans (**Exhibit 2**). I am also sharing the extracts of financial statements of the Regal for the year ended 31 December 2021 (**Exhibit 3**). For your easy reference I have attached a brief note about Foods & Restaurant industry of Bangladesh (**Exhibit 4**) and copy of emails from our Finance Director (**Exhibit 5**) and Operations Director (**Exhibit 6**). Apart from these, please take into consideration the relevant information provided in **Exhibits 7 to 8** for your analysis and to draw your conclusion and recommendations for the requirements stated below.

As consultant you are required to prepare a draft report which should include an executive summary and cover:

- (a) Evaluation of financial and non-financial performances of Regal Foods & Restaurants Ltd. and its current financial position considering the adjustments required for accounting and taxation issues.
- (b) (i) Critically analyse the benefits and challenges of the strategic options between Expansion of outlets after spinning off Regal Coffee and Acquiring Roadster. Also perform an evaluation of the strengths, weaknesses, opportunities, and threats (SWOT) of Regal Foods & Restaurants Ltd. Based on your analysis and evaluation, recommend to the Board, with justification, the best strategic option to implement.
(ii) Advise to the Board of Regal on estimated acquisition price for Roadster. Also, advise on the options available for financing the acquisition and recommend to board whether roadster acquisition is feasible. In your advise, also apprise the board regarding NAV per share, and EPS (basic & diluted) of Regal at the end of 2026.
- (c) Assessment of the environmental, economic, and social impact of Regal restaurants and evaluation of the ethical issues arising from the business operations.

I look forward to receiving your draft report on or before 01 April 2022.

Yours sincerely,

Yousuf Ali

Managing Director at Regal

Brief note on Regal Foods & Restaurants Ltd and its operation**Company Background**

Regal Coffee was founded in 2012 by four friends, Murad Hassan, Samiul Islam, Yousuf Ali and Zobair Khan. After completion of graduation, all of them joined in various jobs. However, they were not satisfied with their jobs and decided to open a Coffee shop as side business. This will provide additional income for them and a place for them to hang out. Each of them contributed their own money to set up the business. After checking out several locations, Coffee Shop was opened at Banani, Dhaka with Brand name “Regal Coffee”. Its target market was students at nearby universities and employees of nearby offices. Regal coffee offered its customers various types of hot and cold coffee. It also served various bakery items like Bagels, Donuts, Croissant and Breakfast Sandwich.

Regal coffee became very popular with nearby university students. It also became regular place for business executives and casual place for business meetings. In few months owners of Regal coffee noticed that the university students, which is one of the key target markets, have demand for fast food items whereas business executives, another important business segment, demands for quiet place to drink their coffee and have business meetings. This gave owners of Regal an idea to open a fast-food restaurant under the name “Regal Express” next to its existing business place of Regal Coffee. Regal Express also experienced quick popularity among university students as students could hang out here and enjoy the ambiance while having burgers, fried chicken, French fries, onion rings, chicken nuggets, tacos, pizza, hot dogs, and ice cream.

With massive amount of positive social media reviews, the name of Regal Coffee and Regal Express became very popular across the town. This created enormous amount of customer footprint in both Regal Coffee and Regal Express. This warrant for expansion of the business and more attention from the business owners. Watching potential business growth and existing huge demand, owners of the Regal Coffee and Regal Express left their existing job and formalized the business by incorporating Regal Foods & Restaurants Ltd. (Regal) in 2016.

After forming the company, ownership of both ‘Regal Coffee’ and ‘Regal Express’ was transferred to the company. After setting up the company, Regal Coffee and Regal Express was relocated to a new place in same area. However, unlike earlier, two brands are now set up in different places as distinct business. This way Regal could meet the demand of both key customer group separately.

With restructured business, Regal management soon understood that Coffee Shop and Fast-Food Restaurant belongs to separate business segments and requires separate attention. Accordingly, Regal segregated its operation into two different business divisions each having own manager and set of employees. With the increase in demand and reputation, Regal management expanded their business in multiple locations in Dhaka. At present Regal owns 5 Regal Coffee and 4 Regal Express outlets.

Business Model

Regal Food and Restaurant Ltd. has two operating divisions: Regal Coffee and Regal Express. Each of the business division has their own operation model.

Regal Coffee:

The coffee shop follows a retail business model where the stores is competing locally. The coffee shop has direct access to customers, who are usually people from the neighborhood. At present Regal has 5 outlets of Regal Coffee Banani, Gulshan-2, Gulshan-1, Dhanmondi and Mirpur.

Regal offers a premium quality coffee to its customers and follows premium pricing mode. Primary target market of the business are the executives of nearby business places. It also has special focus on young adult entrepreneurs and the well-off families from the nearby residences. Regal coffee offers brewed coffee and tea; espresso drinks (cappuccinos, cafe lattes); cold blended beverages; bottled water; soft drinks; and juices. It also offers food products including pastries, bakery items, desserts, sandwiches, and candy.

One study showed that a coffee shop's product only accounts for 48% of a customer's emotional connection to the business. That leaves the remaining 52% up to other factors, such as the cafe's environment. That's why Regal Coffee has created a calm and quiet environment with spacious area for customer sitting and smooth soft music in the background. Regal ensures its staffs working in the coffee shops are dressed formally and behaves professionally. One of the key features of the features of each outlet is that it has nice views and open areas surrounding the outlet. One can seat at Regal Coffee and spend a long-time having coffee and working on their laptops. People can have their business meetings while enjoying the view.

Although beverage items are produced right at the outlets, food and bakery items are sourced from Alpha Bakery Limited, a third-party vendor. Alpha bakery produces items as per Regal requirement and specification. Food quality are maintained cautiously are always monitored by Regal quality assurance team. Each item produced by Alpha has shelf life of two days and after two days unsold inventories are tossed off.

Regal Express:

The fast-food business model involved customers arriving, selecting from a focused menu, and eating within a minute or so. The concept was reasonably priced food, from a pre-fixed focused menu, served and consumed quickly. The business model was one of throughput and efficiency.

Primary target market of the fast-food restaurant are the university students, young adults, and couples. It services different types of burgers, fried chicken, French fries, onion rings, chicken nuggets, tacos, pizza, hot dogs, and ice cream. Although the restaurant encourages a friendly ambiance with music and colors, typical duration of the customer stay is around 30 to 40 minutes. At present Regal has total 4 Express outlets in Gulshan, Banani, Dhanmondi and Mirpur.

All the food items at Regal Express are prepared live at the outlet after getting a customer order. However, materials are pre-processed and kept ready for instant preparation of foods. Most of the pre-processed foods and items are outsourced from various vendors. For example, burger and sandwich buns and breads are sourced from Alpha Bakery, the same vendor used by Regal Coffee. However, processed chickens, burger patty uncooked sliced potatoes, vegetables, cooking oil and other items are sourced from various vendors. Each outlet has an inventory area which holds necessary inventories. New order is placed by outlet manager to central warehouse when inventories are at low level. Central warehouse then places order to pre-approved designated vendors.

Key Management

Board of Regal Food and Restaurant Ltd. is headed by Mr. Yousuf Ali who is the Chairman of the Company and majority shareholder. Other co-founders of the company also sit on the board as shareholding director. In addition to the shareholding board members, there are two other non-shareholding members at the board.

Company has authorized share capital of BDT 150,000,000 and per share value is BDT 10 Taka. At present company has paid-up capital of BDT 75,000,000. Current Shareholding position and members of the board are as follow:

Name of the Shareholders	Ownership Percentage	Position at the board
Murad Hassan	35%	Chairman of the board
Yousuf Ali	30%	Managing Director & CEO
Samiul Islam	20%	Operations Director
Zobair Khan	15%	Finance Director
Tanzila Rahman	0%	Head of Risk & Compliance
Abu Subahan	0%	Head of HR & Company Secretary

The Board as a whole is collectively responsible for the success of the Company. Board's role is to provide entrepreneurial leadership of the Company, set strategic aims for the company, ensure that the necessary financial and human resources are in place, review management performance, set the Company's values and standards and ensure that its obligations to its stakeholders are understood and met.

External Auditors

Ahmed Munim & Co. Chartered Accountants (AMC) has been appointed as statutory auditor of the company in the board meeting held in August 2021. Mr. Munim Ahmed FCA, the sole proprietor of AMC is a relative of Finance Director. AMC has been assisting the founders of Regal in preparing and filling the tax returns since they started their business in 2012. Once Regal was incorporated, AMC has been appointed as auditor of the company and since then they remained as company auditors. Regal Management is very happy with the service of AMC as it provides advice time to time on complex accounting issues which helps Regal Management to report the financial positions and performance complying International Financial Reporting Standards (IFRSs). AMC also issues letters to management regarding improvement opportunities of internal controls in the business. Regal management has prepared a draft financial statement for the year ended 31 December 2021 [**EXHIBIT** – 3] which has been shared with the auditors and auditors has commenced their audit.

Operation issue

Regal takes business operation very seriously. Business operation are overseen directly by Operation director Mr. Samiul Islam who supervises the business heads of both Regal Coffee and Regal Express. Despite having various initiatives Regal faces several operational issues.

Staff Training and Recruitment

A restaurant is primarily known for its food and services. It needs expert chefs whose cooking would lure customers to the restaurant. Restaurants also needs a well-trained staff whose efficiency and hospitality charms the customers even more. However, the staff turnover rate, especially among the junior staffs, is quite high due to very high competition in food industry. Acquiring and retaining good staff is a top concern and one of the biggest challenges for regal.

Internal Thefts

From inventory thefts to on-counter thefts, thefts at the outlets take many forms and is quite challenging. Internal thefts are normally high at the first year of opening an outlet. No matter how many strict rules implement & security measures are taken, it is challenging to prevent counter thefts. Regal deals with huge amount of cash transactions and cash boxes at each outlet holds significant amount of cash. Regal very often faces thefts from the cashboxes.

Replicating the Success

One of the most common challenge in restaurant business is replicating the success during expanding. One outlet may be earning much polarity but, with the same menu and service, new outlets may not get similar level of acceptance. Sometimes it become difficult to the business to identify the key factors for achieving branch success which may be replicated to other branches.

Performance Consistency in Restaurant

It is difficult to maintain consistency in restaurant services. When the outlets are opened, the foods and customer are always excellent. However, as the outlet become older, food and service standard declines. This eventually driving the customers away. Regal tries to ensure consistent performance in all of its outlets but due to lack of standardization and frequent changes in staffs and chefs, quality often varies and results in customer dissatisfaction and complaint. Regal plans to maintain consistency by standardizing everything from restaurant's Vendor Management to the Recipe Management.

Frequent expiry of inventories

It is really difficult to forecast to sales which is directly linked with the level of inventories maintained by each outlet. If the inventories are insufficient, restaurants will not be able to serve the customers. Running out of inventories frequently will have heavy impact on customer satisfaction and decrease the number of repeat customers. Therefore, each outlet maintains a higher amount inventory then daily average requirement. This sometimes leads to excess inventories in each outlet. The inventories used by the Regal restaurants, especially the Regal Express, have very short shelf life as most of the items are non-durable. Because of excess storage of non-durable inventories, regal often experiences expiry of inventory at their storage. If not careful, restaurant staffs often use expired inventories to produce foods for the customers.

Business growth planning

Management of Regal always aims to achieve growth. It always tries to find new ways of obtaining business growth. At present Regal has following plans to grow its business.

- **Increasing number of outlets:**

At present it has 5 Regal Coffee and 4 Regal Express outlets across Dhaka City. These are mostly located in most common commercial and residential areas of the city. Regal intends to increase the number of outlets within Dhaka city and few more in Chittagong, Khulna and Sylhet. Increase in outlets will increase the customer reach and will increase the sales revenue.

- **Re-branding existing and introducing new food items:**

Customers always seek new item at regal restaurants. That's why regal always revamps its menu on regular short interval. It always re-brands its existing items and introduces new items. These new and re-branded items, which generates high mark-up, gets featured in the food menu with large fonts, colors and mouthwatering pictures. Fresh items in the menu attracts customers and customers feel happy to try out something new.

- **Introducing more items in beverage lines:**

Beverage lines of regal restaurants like coffee, soft drinks, water and fresh juice generates very high mark up for Regal. Regal plans to introduce more items in the beverage line. This will generate additional profit for the restaurants.

- **Serving over-the-phone and online orders:**

Because of the growth of internet uses across the country and restrictions in movement during covid-19 pandemic, there has been a surge of customers who prefers to order though phone or online instead of coming to the restaurants physically. They like to get the foods delivered to their home. Even though pandemic condition improved significantly, there are still demand for over the phone and online orders. Regal has opened a app for Regal Express which enables customers to order directly from the app or the Regal Express Website. This segment of the customers are expected to raise in upcoming years. This creates opportunity for the Regal to serve both online and offline customers increasing customer reach and revenue for the company.

- **Partnering with food delivery companies:**

As demand for off-the-phone and online orders increased, Regal started to deliver to customer location. At present Regal delivers to customers using its own customers. This requires large number of staffs working outside delivering products. This raises payroll cost for the company. As the number of delivery company increased over the year, there is opportunity to partner with delivery companies which will outsource the delivery to customers at significantly lower cost.

- **Shared kitchen facilities with other restaurants:**

Regal is currently thinking of sharing the kitchen facilities with other restaurants. This is expected to reduce the fixed cost like facilities rent and payroll. Shared facilities will serve the online and off-the-phone customers which will free up the workload of outlet chefs. Outlet chefs in that case focus exclusively on the customer present at the outlet increasing customer satisfaction.

Environmental and safety policy

Regal founders are committed on environment and safety issues. Since the start of the business, it ensured food safety compliance policies which included sourcing of safe & fresh inventories, Cleaning of storage and cooking area, maintaining temperature, regular monitoring of Raw meats, poultry, seafood, and eggs. Regal implemented policies for waste management. It aims to reduce waste by keeping the per food servings small and adequate for an individual. Its staffs encourage the customers to buy only what they need. It also tries to use most out of its inventories and uses 'Soon-to-Expire' inventories first. It also tries to match the purchases pattern with inventory consumption pattern to avoid waste and spoilage.

The company also have focus on employee safety. Employees were always given training on regular basis. It also designed the cooking area which reduced the risk of fire and other hazards. It also ensured first aid kits and fire extinguishers in all the outlets and corporate office of Regal. During Covid pandemic, Regal ensured all of its employees, staffs and customers were masks and uses sanitizers when they are at the business premises. It also ensured that its employee used PPE when they deliver to the customer place. It also ensured all of its employees are register and receive vaccination.

One of the priorities of Regal is to be environmentally friendly in its operation. It currently uses plastic materials to package its foods and plastic cups and straws. However, it plans to switch to paper based packaging material and paper cups over times. It however still plans to use single use plastic straws in absence of viable alternatives. Further to part of environment initiative, regal has set up solar panels couple of outlets which helps to generate electricity that lights outer parts of those outlet premises.

Corporate Social responsibility

Regal understand that it has responsibilities to the society in which it operates its business. As part of corporate social responsibility, Regal has undertaken following activities:

- Going green on food. Company aims to use products for cooking which are not genetically modified.
- Company ensures regular staff training and minimal wastage.
- Company Focus on reduce wastage and use packages from recycled material.
- Regal makes donates free foods to a nearby school for underprivileged children on special occasions like Eid and public holidays.

Summary and Extracts of Financial Statements of the Regal

Regal Foods and Restaurants Limited
Summary of 5 Year Financial Information

Figures in Thousand BDT

Significant Line Items	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18	31-Dec-17
Revenue	246,134	196,689	63,448	219,308	201,983
Gross profit	50,568	37,306	14,348	50,027	46,925
Net profit	4,871	1,424	412	9,548	7,860
Share Holders' Equity	159,018	161,095	160,512	91,996	82,448
Dividend Paid	6,948	841	-	-	-
Current Assets	130,634	126,886	131,463	104,841	88,883
Current Liabilities	43,146	48,524	61,006	51,016	40,714
Non-Current Asset	90,463	92,171	93,140	46,517	38,800

Regal Foods and Restaurants Limited
Statement of Financial Position
As of 31 December 2021

Figures in Thousand BDT

	31-Dec-21	31-Dec-20
Assets		
Non-current Assets		
Property, Plant & Equipment	90,463	92,171
	90,463	92,171
Current Assets		
Inventories	20,583	20,452
Advance, Deposits & Pre-payments	85,708	82,382
Cash & Cash Equivalents	24,343	24,052
	130,634	126,886
	221,097	219,057
Equity & Liabilities		
Shareholders' Equity		
Share Capital	75,000	75,000
Revaluation Reserve	68,104	68,104
Retained Earnings	15,914	17,991
	159,018	161,095
Non-Current Liabilities		
Long term borrowings	15,100	5,195
Deferred tax liabilities	2,449	2,855
Gratuity obligation	1,384	1,388
	18,933	9,438
Current Liabilities		
Short Term Borrowings	9,195	12,006
Trade and other Payables	3,939	7,670
Provisions and other liabilities	20,017	18,751
Income tax payables	9,995	10,097
	43,146	48,524
	221,097	219,057

Regal Foods and Restaurants Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	<i>Figures in Thousand BDT</i>	
	31-Dec-21	31-Dec-20
Sales	246,134	196,689
Less: Cost of Sales	(195,566)	(159,383)
Gross Profit	50,568	37,306
Less: Operative expenses	(41,447)	(32,664)
Net operating profit	9,121	4,642
Less: Finance Charges	(2,853)	(2,048)
Profit before WPPF & Tax	6,268	2,594
Less: Provision for WPPF	(313)	(130)
Profit before Tax	5,955	2,464
Less: Current Tax Expenses	(1,490)	(1,164)
Deferred Tax income	406	124
Profit for the year	4,871	1,424
Other Comprehensive Income	-	-
	4,871	1,424

Regal Foods and Restaurants Limited

Statement of Changes in Equity

As of 31 December 2021

	<i>Figures in Thousand BDT</i>			
Particulars	Share Capital	Revaluation Surplus	Retained Earnings	Total
Balance as on 01 January 2020	75,000	68,104	17,408	160,512
Dividend Paid	-	-	(841)	(841)
Profit for the year	-	-	1,424	1,424
Balance as on 31 December 2020	75,000	68,104	17,991	161,095
Dividend Paid	-	-	(6,948)	(6,948)
Profit for the year	-	-	4,871	4,871
Balance as on 31 December 2021	75,000	68,104	15,914	159,018

Notes to the financial statements

Note-01 Revenue

	2021	2020
Coffee	103,376	75,725
Express	142,758	120,964
	246,134	196,689

Note-02 Cost of Revenue

	2021	2020
Coffee	85,072	66,463
Express	110,494	92,920
	195,566	159,383

A brief note on Restaurant and Fast-food Industry in Bangladesh.

Fast-food and restaurant industry is one of the growing sectors in Bangladesh. There is a raising demand for freshly cooked and ready-to-go foods. With large number of populations, fast-food and restaurant industry has huge potential in Bangladesh market.

A research done by Bangladesh Bureau of Statistics shows a strong and remarkable growth of the industry in terms of contribution to national GDP and number of people employed. The survey shows that the number of restaurants rose to 4.36 lakh in 2019-20, reflecting a 59 per cent increase from a decade ago. Among the number of employments created by this sector, significant portion are filled by the women. With that, the sector is now just behind the garment industry in terms of female workers employed. Following table shows the growth of fast-food and restaurant business in Bangladesh since 90's when the industry started to boom.

Fiscal Year	Contribution to National GDP	Number of people employed
1992-1993	827 Crore	3.4 Lakh
2002-2003	6,647 Crore	4.7 Lakh
2009-2010	11,986 Crore	9 Lakh
2019-2020	87,926 Crore	22.8 lakh

With globalization and easy access to internet, customers now can see the food menu across the world. Restaurants trends to adopt menus that become viral in social media. Because of the easy access of internet, the industry has witnessed emergence of significant number social media influencers and food bloggers who creates content on food review and restaurants review. These influencers and food bloggers reveal many hidden gems to their viewer which sheds spotlight on those good but not recognized restaurants. This creates a free marketing for those business and helps to grow. However, there were cases where bad review of those social media influencers and food bloggers ruined reputation of large business. As a result, many restaurants now prefer to have paid review in social media which often is biased for the restaurants.

During Covid pandemic, many existing restaurants were forced to shut down the business because of the high fixed costs arising from rentals and payroll. This also created an opportunity to raise of Cloud Kitchen/ Ghost kitchens. A cloud kitchen/ ghost kitchen is a restaurant that only operates out of a kitchen with no dining space. For restaurant owners, this structure means delivery-only ordering, much lower overhead costs, no service staff, collection of cash through online POS or mobile financial services. Because this doesn't require physical shops, many people started to take customer order through social media, own website, orders from customers from food delivery company and cooking foods from home kitchen.

For a long time, food delivery was done inhouse. But during covid pandemic situation changed as there were shortage of staffs to deliver. It created positive opportunity for food delivery companies. These companies partnered with restaurants and took on the responsibilities of delivering food on behalf of those restaurants. These created additional revenue from the restaurants.

The sector has been affected hugely by Covid-19. Entire country witnessed closures or downsizing of many established and large brands from fast-food and restaurant business. Supply chain of the restaurants has been disrupted and items of the menu has been reduced to basic items. Owners of the business were barely broke even operating the business. There were pleas to government to support the industry by providing financial incentives given to other industries. However, no government assistance scheme was announced for the fast-food and restaurant industry.

As country faced lockdown during covid period, many restaurants shifted to online business to survive the business. Soon it became common to order online and have the foods delivered at customer place. However, as the covid situation increases, restaurants now serving both online and offline customers.

The restaurant industry is notorious for high attrition rates. It isn't very easy to hire and retain skilled restaurant staff in today's competitive restaurant market. This however can be addressed by conducting regular performance reviews and reward and recognition strategy.

Inventory management is an enormous area of concern for restaurant owners. If inventory is not handled properly, it adds to the total food costs and ultimately hits revenue. Moreover, internal thefts, spillage, and pilferages are practices that lead to unaccounted loss of inventory, negatively impacting the restaurant's bottom line.

A major concern that gives sleepless nights to restaurant owners is low customer footfall even during busy days. It takes many elements like the quality of food, service, or simply the restaurant's atmosphere etc. to have a direct impact on customer experience and customer footfall. However, all it takes is a single bad experience or negative online review to negate the customer experience and repel them from your brand. Moreover, with seasonality, inflation, economic factors, changing customer preferences, and countless other factors, restaurant sales hardly remain constant.

Most of the fast-food items are making its customers obese and putting them in various health risks.

The main opportunity of the industry of Bangladesh is the huge population of the country which is a very large market and offers opportunity to grow. Other opportunities from this industry are:

- Technological upgrades in prepared food supplies which would reduce cost.
- Introduce food items from different cultures which will increase demand for foods.
- Automation of the inventory management and business process.
- Having direct relationship with customer through apps that enables capturing more customer data.
- Fast-food and restaurants will always remain in demand as long as people need feeding.
- As pandemic situations improved, people started to get back to offices and universities. This will lead to demand for fast-foods and restaurants.
- Demand for vegan and GMO-free foods are on the rise.
- Introduction of loyalty program to ensure increased footfall and repeat purchase by the customers.

As there is huge demand and being the ever-increasing market segment, Fast-food and restaurant industry holds potential for creating large number of jobs for the society. Fast-food and restaurant industry provided quick bites for many customers giving convenience to them. This in turn impacts their productivity and gross domestic products. This industry also generates significant sum of tax revenue to the government.

Like many things, the future of this industry will be shaped by changes brought to the consumer mindset by COVID-19. Health-consciousness will be a big part of that. What may be more surprising, though, is that while online delivery will likely grow, consumers still display a preference for in-person ordering. Even as the industry embraces more of an omnichannel setup, with multiple ways for customers to order, there's clearly something about in-person customer service they value, and it shouldn't be lost in the rush to digital. Having said that, use of technology will increase in food industry starting from customer order processing, food processing, inventory management and online transactions.

E-mail from Regal Finance Director

From : Mr. Zobair Khan, Finance Director at Regal
To : Mr. Mehedi Al Razi FCA, Partner of SRC
Subject : Accounting, Legal, tax & IT issues.
Date : 22 March 2022

Dear Mr. Razi,

Congratulations on your winning the advisory engagement. I am writing today for your advice on some issues we have been facing. Our current year audit is on-going, and we have shared draft financial statements with our auditor. Auditor have raised some issues and requested for corrected draft financial statements. We need your assistance to make corrections in our draft financial statements.

Accounting issues:

Loss on Fire & Insurance Claim: During March 2021, our Regal Express outlet at Gulshan were caught on fire. Fire caused damage of company assets of BDT 5,500,000. It took BDT 8,200,000 to replace the damaged assets and renovate the outlet. The outlet was covered by fire insurance and the company raised claim to the insurance company for the damaged assets. Insurance company is now assessing whether the fire was intentional or due to negligence of company staffs. If the fire was cause due to negligence or it were intentional, insurance claim will be denied. We believe that we will be able to recover entire claim amount from insurance company. Hence, we have not recognized the loss of caused by fire. We however have capitalized the cost of replacement cost and renovation cost.

Fair valuation of land & building: Regal owns a land on which its warehouse is build. Regal acquired the land for BDT 20,000,000 and the building for at 25,000,000 in December 2018. In January 2019, Land was revalued at 62,000,000 and the building were revalued at 53,104,000. Building was estimated to have remaining useful life of 25 years. On the reporting date, building was valued at 45,000,000. Fair value of the land remained unchanged.

Legal issues:

Overtime: We have a team of dedicated staffs who works on our restaurant outlets. Staffs generally work 65 hours a week. Staffs are given a holiday per week but rotated based on staff availability. During the year we have paid BDT 800,000 as overtime to the staffs at the rate of half of their current pay. Auditors have raised issue that, as per the Labor Act, 2006, employees need to be pay overtime at the date of twice from workers regular pay rate.

IT issues:

Loss of customer data: During May 2021, Regal launched a mobile app which allowed the customers to place order directly from their mobile phone. Customers, however, had to open a profile and share personal data like email, photo and address to use the app. The app was launched with hurry and it contained few bugs. Later an IT expert were hired, and the issue was solved. However, in the meantime an app server was hacked exploiting the bugs and personal data of all the customers were stolen. Information of data breach became public and soon Regal faced a lawsuit for 500,000 from a customer who was victim of credit card fraud due to data leaked form Regal app. Regal lawyers estimates that case verdict will go against Regal.

Tax issues:

Non-payment of VAT: During the month of December 2021, Regal expressed collected BDT 15,000,000 in cash revenue from customers which included 10% VAT. Outlet manager however didn't deposit the VAT amount to govt. exchequer. Unpaid vat has been recognized as company revenue. As per the Value Added Tax and Supplementary Duty Act, 2012, VAT officer may penalize the company by an equal amount of evaded amount and charge 2% interest semi-annually.

E-Mail from Operations Director of Regal Foods & Restaurants Ltd.

From : Mr. Samiul Islam, Operations Direction
To : Mr. Mehedi Al Razi FCA, Partner of SRC
Subject : Advice regarding strategic options available and finding suitable financing alternatives.
Date : 22 March 2022

Dear Mr. Razi,

Congratulations for being appointed as advisor of our company. We are expecting to work with you on various operational/ non-operational issues of our company.

1. Strategic Options at the hand of Regal Board.

Our board of directors are currently puzzled with two plans available at their hand. One of the plans is to sell off its Regal Coffee unit. You may be aware that our company is has already two business divisions. Our board believe managing two business division decreases efficiency. Selling off Regal Coffee will increase focused only on the fast-food business which generates more revenue and GP margin. At present Regal Express generates 58% of the company revenue and 63.8% of the profit. When Regal coffee will be sold off, board plans to expand open two more outlets of Regal Express in Chittagong and Sylhet. Opening new outlets will directly increase company revenue and contribute to company profitability. However, it will take new investments. Company also needs to identify a suitable place for the outlet. However, company is currently considering the consumption and spending patterns of the you adults and university students of those area. Regal management believes that behavioral pattern of prospective customers in Chittagong and Sylhet will be different form existing customers at Dhaka.

Another plan that is under considering of Regal board is to acquire a small local Food delivery company called Roadster. Roadster will support delivery of Regal express foods to online and over-the-phone customers. Roadster has an app which allows users to order food from enlisted restaurants. Roadster riders then collects the food from the restaurants and delivers to the company. This way Roadster will create additional revenue stream for the company. Roadster also will provide opportunity to start a cloud kitchen where all the restaurants will cook at the same place and the foods will be delivered by Roadster. Customers will have food of their favorite restaurant and the restaurant owns will not have to open new outlets for these incremental customers.

2. Determining the expected price range for of Roadster acquisition.

As explained above, board is considering acquisition of Roadster. Board is interested to know the expected price range that will have to be paid to acquire the company. Board plans to value Roadster in discounted cash flow method. During a high-level discussion with Roadster, its current management has provided following information:

Statement of Free Cash Flows

Item	<u>2022 E</u>	<u>2023 E</u>	<u>2024 E</u>	<u>2025 E</u>	<u>2026 E</u>
Earnings Before Interest & Tax	8,303	8,943	9,379	9,994	10,558
Net Interest Expense / (Income)	0	0	0	0	0
Earnings Before Interest	8,303	8,943	9,379	9,994	10,558
Marginal Tax Rate at 30%	2,491	2,683	2,814	2,998	3,167
Earnings After Tax	5,812	6,260	6,565	6,996	7,391
Depreciation	333	437	574	753	989
Amortization of Intangibles	808	933	1,078	1,245	1,438
Change in Net Working Capital	(641)	(841)	(1,104)	(1,448)	(1,901)
Capital Expenditures	(406)	(490)	(592)	(715)	(863)
Unlevered Free Cash Flow	5,906	6,299	6,521	6,831	7,054

Other relevant information:

Equity Finance	: 100%	Market Return	: 16.42% to 17.55%
Risk Free Rate	: 3.5%	Current Market beta	: .89
Perpetual growth rate	: 4% (after 2026)		

3. Determining the financing options.

Regal board is trying to find out the suitable option to finance the acquisition of Roadster. Initially company planned to raise the fund by issuing 10% equity through IPO in Dhaka and Chittagong Stock Exchange. However, one consultant explained to management that going public will lead to additional reporting requirement to DSE, CSE, BSEC and FRC. This incremental reporting requirements and legal compliances will take away management focus from operations and growth of the company. The consultant suggested Regal management to consider alternative means to raise fund. Board plans to acquire the company at 6 crores with expectation to earn 15% return on its investment. At present board is considering two financing options:

Option 1: Financing through bank loan

Finance director of the company consulted with current bankers and consultants to get bank loan for Tk. 6 crore at the interest rate of 9 percent per annum. However, repayment of bank loan has to be made in equal yearly instalment in 5 years. However, 3% delinquent charge over 9% will have to be paid on the overdue installments, if there is any.

Option 2: Issuing redeemable participatory and convertible debenture

Company plans to raise fund by issuing 7% cumulative redeemable participatory and convertible debenture for an amount of Tk. 6 crore with face value of 100 taka. In addition, the debenture holder will receive additional 3% as participation in dividend when dividend rate is higher than 10%. Interest is payable annually and eligible for tax relief. Dividend payable to the debenture-holders will be recognized as together with finance expenses of the year. 75% of the debenture will be redeemed equally at face value within next 5 years from the end of first year of issuance of debenture. Remaining 25% shall be converted to share capital at the end of 5th year of issuance (i.e. 2026) at an average of NAV per share for previous 4 years (2022-2025).

4. Basis of revenue and expense forecast and repayment of existing loans

Regal board of directors have taken a 5-year term strategy where it expects to achieve 6% revenue growth in next two years and 8% in remaining 3 years. Management forecast that cost of revenue will increase 8% and operating cost will increase 7% for first two years. Thereafter, both cost of revenue and operating cost will increase at a rate of 5% on previous year. Tax rate is 30% and WPPF rate is 5% which are expected to remain constant. No minimum tax is applicable if there is business loss. For forecast purpose, deferred tax is disregarded. Existing short term loans bear 10% interest which will be paid off in 2022 and long-term loans which bear 8% interest will be repaid in 2023. Management plans to maintain 30% dividend payout ratio.

Table for Present Value Interest Factor Schedule

Year / Rate	1	2	3	4	5	6	7	8	9	10
5%	0.9524	0.9070	0.8638	0.8227	0.7835	0.7462	0.7107	0.6768	0.6446	0.6139
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584
7%	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632
9%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224
10%	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855
11%	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522
12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220
13%	0.8850	0.7831	0.6931	0.6133	0.5428	0.4803	0.4251	0.3762	0.3329	0.2946
14%	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556	0.3996	0.3506	0.3075	0.2697
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472
16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538	0.3050	0.2630	0.2267
17%	0.8547	0.7305	0.6244	0.5337	0.4561	0.3898	0.3332	0.2848	0.2434	0.2080
18%	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704	0.3139	0.2660	0.2255	0.1911

Environmental, Health and Ethical Issues at Regal Foods & Restaurants Ltd.

Regal Foods & Restaurants Ltd. is concerned about the environment. However, it is facing several environmental issues. One of the key environmental issue is mass use of single-use plastic like plastic cups, straws and wrappers. As the business grows, use of single-use products also increased significantly. Despite Regal efforts Regal was not able to get suitable alternative. Although it has switched to paper-based cups for its soft drinks and fresh juices, it is not completely recyclable. Furthermore, it is still using plastic cups while serving fresh juice to its customers.

Most of these plastic and unrecycled cups then end up in the landfills. As the fast food is packaged, the food is placed into foamed polystyrene foam based plastic containers. These containers are not biodegradable and are prone to being picked up by the wind and thus generating litter. The case for plastic straws is even worse. These plastics straws are very thin and are not recyclable. Hence, they are also thrown away to landfills, lakes and ponds. This causes water, soil and wind pollutions and directly contributes to increase greenhouse gases. Regal has also started using plastic spoons and forks at their restaurants. All these single use plastics are very cheap compared to best available alternatives. Therefore, using single-use products are most cost effective for Regal restaurants and directly contributes to profitability.

Regal restaurants are heavily dependent on its beef and chickens to prepare foods for its customers. These beef and chicken meats need to be tasty, soft and high in proportion. To meet these criteria, its supplier of beef and chicken feeds genetically modified foods which contains steroids that helps to beef-up the animals. The supplier also injects quick-growth drugs that makes the chicken ready to condition just in a month from hatching. These chickens can barely support their own body weight and are crowded into coops to the point that they cannot move.

Processed foods used by regal restaurants as raw materials contains various chemicals. Regals itself uses several chemical products which enhances product taste. This puts the consumers in extremely at risks as the drugs and steroids in those animals are transferred to human body when meats are consumed. Fast-food is the leading cause of obesity and is directly linked to hypertension, depression and other mental disorders. Regal is aware of this issue, but they believe it is normal for the industry.

Recently one of the Regal Express outlets at Gulshan area caught on fire. Although no one was injured but the outlet properties were damaged significantly. Investigation by Fire Service and Civil Defense officials shows that fire was started from kitchen when an untrained junior chef was asked to cook a food. This incident brought several issues to company management. One of the issues is staffs has not been trained in years. Most of the staffs and chefs Regal hired are either learned on the job or has past experience. Management understands the health and safety risk arising from untrained chefs but neglected to care.

Staffs at regal restaurants are required to work extra hours, sometimes to late night, for an insignificant overtime payment. There are not adequate breaks during the worktime. These leaves the staffs exhausted. As a result, employee morale is very low, and staff turnover number is very high.

As the inventories used by Regal restaurants are non-durable, very often it happens that inventories get expired. There were many cases where staffs served foods prepared from expired products. Also, Regal used expired inventories to prepare foods which are then donated to a school of underprivileged children. Recently an inspector for Bangladesh Food Safety Authority (BFSA) has come for an inspection but regal outlet manager bribed him to get “A+: Excellent” grade. However, in a sudden raid by mobile court lead by consumers' right protection directorate found several irregularities in inventory management and hygiene maintenance. The court fined the Regal outlet for BDT 200,000 and collected immediately.

News Clips regarding Food and restaurant industry in Bangladesh**Restaurants on path to recovery, 26 Aug 2021 on The Business Standards**

Thousands of restaurant employees lost their jobs after the first virus outbreak hit Bangladesh in 2020, but many staff members are now getting their jobs back. The restaurant industry is now on a path to recovery since the resumption of dining services this month, following a closure spanning more than four months mandated by the government to curb a spike in Covid-19 cases.

Most restaurants, coffee shops and fast-food vendors reported having recovered around 60%-70% of their pre-pandemic sales volume, according to industry insiders. They added that such businesses will fully recover after getting permission to operate at 100% capacity.

What's the color of your eatery? 16 January 2021 on The Daily Star

The Bangladesh Food Safety Authority (BFSA) has come up with a grading system for restaurants based on the quality of food and overall hygiene of the establishments. As part of the system, colored stickers -- green, blue, yellow and orange -- will be used to signify the grades of A+, A, B and C respectively awarded to the restaurants after scrutiny. A+ would mean excellent, A good, B average and C grade pending.

Restaurant owners call for end to ‘fear, force and fine’, 20 Nov 2021 on The Business Standard

Bangladesh Restaurant Owners Association (BROA) at a press briefing in the capital on the day cited at least seven authorities such as standards & testing institution, RAB and consumers' right protection directorate who conduct the courts. They agree that there are some restaurants which are resorting to illicit measures. According to the law, the fine is to be cleared within five days. However, the courts put pressure on the eatery owner to pay the fine instantly which is "unacceptable" and "unexpected".

Effects of junk foods on youngsters, 30 Sep 2021 on The Daily Star

Junk foods have gradually become the most readily available recreation within the reach. Whether it's hanging out or spending ‘me-time’ alone, or get-together with the family, junk food is taking its place. Already, watching food vlogging in leisure time and eating in those places have become the most valued hobbies for many. Many people try hard to avoid junk foods with a concern of obesity, but there is no way to do that where the food delivery apps and social media are making it very easy to spread the tempting ads. Fast food items are blamed for various diseases including diabetes and hypertension.

BSEC Chairman about exit policy from market & development of bond market, 15 March 2022

Mentioning that a policy has been formulated for the company to exit the stock market, BSEC Chairman Mr. Shibli said that about 20 companies now want to exit the stock market. These companies will return the money to the investors. Investors' money has been stuck for 20-30 years due to the closure of their activities. However, he said that the current exit and return of investors' money is a long-term pending issue. It will be handed over to CMSF to make it easier. From here, investors will get their money back. Thus, I am thinking of bringing the funds of the companies that want to exit the stock market to CMSF.

"We have told Bangladesh Bank that no country can improve without a bond market," he said. We are working to take this market forward. However, due to the inclusion in the investment limit of the banks, it is being hampered. I have asked Bangladesh Bank to cooperate in resolving this issue.

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