



“Speciality Restaurants Q4FY13 Earnings Conference Call”

May 30, 2013



MANAGEMENT Mr. ANJAN CHATTERJEE – MANAGING DIRECTOR
Mr. RAJESH MOHTA – CFO
MODERATOR Mr. ANAND SHAH – MANAGER, KOTAK SECURITIES



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Moderator Ladies and gentlemen, good day and welcome to the Speciality Restaurants Q4FY13 Conference Call hosted by Kotak Securities. As a reminder, for the duration of the conference, all participants' lines are in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Anand Shah. Thank you. And over to you sir.

Anand Shah Thank you Mallika. On behalf of Kotak Institutional Equities, I welcome all of you to the Speciality Restaurants 4QFY13 and full year ended March 2013 earnings conference call. I would like to welcome the management of Speciality Restaurants, Mr Anjan Chatterjee, the Managing Director and Mr Rajesh Mohta, the CFO. I will now hand over the call to Mr Rajesh Mohta to discuss the recently announced earnings. Thank you. And over to you sir.

Rajesh Mohta Very good evening, and it is a pleasure to have you all on this call. It had been a good quarter for us in these trying times when the discretionary spends are already constrained. We have been able to clock our revenue growth of 16% year-on-year quarter with an EBITDA growth of 14% to 46 odd Crores, and PAT growth of 36% to 23.41 Crores for the year ending, and for the quarter it was 5.34 Crores which had a growth 138% year-on-year, with revenues had grown to 58 Crores by 26%. We look forward to better quarters, but depending upon the spends in the economy and external factors. We are on roll outs; we are continuing with our expansion at this point of time with the commitment, we opened 14 Restaurants last year, and as indicated our flagship brand contributed 10 Mainland China in fiscal year with one Oh! Calcutta, 1 Machan and 2 Sigree, in which 1 was Global Grill, the new format which we had introduced last year. And we continue with our expansions, and we had opened 2 more Mainland China on 2nd of April of this year which were the spill over for the last quarter. Now, I invite questions for the management please.

Moderator Thank you very much. We will now begin the question-and-answer session. First question is from the line of Manoj Memon. Please go ahead

Manoj Memon Actually question is for Mr Anjan, Sir, I heard you on the television in the morning today you were mentioning about possibly reducing the number of headcount in the restaurant. Would you clarify in terms of that? Secondly, if you could discuss a little about the productivity improvements other than the manpower, let us say, what you have done in the last 6 months, and some thoughts on that?

Anjan Chatterjee Manoj, interestingly, what is happening is that, right in the beginning of the fiscal year, there were headwinds coming up, we would actually look **4:00 (Inaudible)** kind of recessionary



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trend in the economy to work around, one of the things we have tightened was that put an embargo on further recruitment of people. And we did absolute minimalistic areas wherever there was a little bit of attrition, et., and we started motivating our own people to tell them that “You should work with less number of people” and started giving them tremendous level of training on the job and off the job and teams of the kitchen staff for that example, background, the people who are doing dim sum, the master chefs came in from China and they were supporting them to ensure that they get the best of training. In a different section, for example, there were 4 people, we got 2 of them and made certain kind of incentives for them so that they work around and they would necessarily not get into kind of a leisurely mode. So all this tightened and that happened, one. Second was that in terms of the operational efficiency, as you know, we have shared this technology as it coming more and more prudent, we are seeing a lot of synergy on the floor also where we have introduced the iPad menus, finally, they are almost in most of the restaurants now. So iPad menu is saving hell of a lot of time, and we are much more flexible in changing a menu item overnight, we don’t have to print a menu. Besides the fact that it saves cost, and the timing of 10 minutes, 15 minutes on a crucial day on a weekend has been saved and we have been very, very tightly monitoring all these areas. So I think these are some of the operational efficiencies plus we went back to our suppliers. Right in the beginning 2, 3 suppliers meets in various places all over India, and told them that “You need to support us and not come out with any kind of jerk” and absorbed them because they have been with us for 20 years; most of the suppliers have been with us for almost 19–20 years. So they listen to us because we could tell them and impress upon them that “We will not be able to increase our menu prices so you need to support us. We will give you the right menu as we increase the menu prices we will support you”. I think by and large they agreed to. So all this has actually added, and then we have been able to achieve that. A great work by my team and my CEO. Unfortunately, Mr. Palat has gone abroad, and Mr. Mohta and everybody in the team. I think these are the basic factors.

Manoj Memon

Could you talk a little more about the productivity, the turnaround time, has it improved, is it static, based on these activities what you have undertaken?

Anjan Chatterjee

No, I just told you that 10-15 minutes on a weekend is a huge sum of time. We are further working on certain more modus operandi where we do not even have to move to the kitchen area at all. Lots of monitoring being done for that and we are ensuring that the people interaction is the lowest both on the floor as well as the back of the house.

Manoj Memon

Just one follow up question, this is particular to the last quarter. Are you finding any divergence in the performance let us say in the 4 parts of India? I was just trying to get a sense that, for example, Shoppers Stop talk about a correlation with stock market performance with their footfalls in Western Gujarat. I was just trying to get some cues from you that is it Pan India, how do you comment?



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Anjan Chatterjee I will tell you very honestly that particularly Karnataka that is Bangalore for us, has been affected very badly, so I think that all these IT Companies are not paying them **bonus 7:53** anymore. So we see quite a lot of depression there, and we are taking measures of course. And then in Chennai it is quite steady. Bengal is very, very good. Touch wood for us. Delhi is fine. And the rest of India is by and large deterrent. So south, there has been some little stagnancy or bit of a depression there.

Manoj Memon Any progress or anything at this time which you may want to comment on the international expansion, any thoughts on that?

Anjan Chatterjee The thoughts are very, very much on. A) we have already done an MoU, which has not been **(Inaudible) 8:32** another very famous group of Dubai, wherein we are putting up restaurants for which we have already finalized 2, 3 sites. This time when I was in Dubai, areas like BurJuman Mall, Dubai Mall, which is in the waiting, may be a third one may be inside a 5-star hotel. So all these are being done through a joint venture which is being finalized and the Doha; and there may be one in Africa; may be in Tanzania. So there is a huge amount of interest which is coming in even from the US as we are talking. So wherever we have an Indian diaspora, as it is we are a global brand, wherever we have an Indian diaspora, where there is a footfall, we are pursuing that and at this point of time, I think once it starts getting in and fructify, we will be able to generate a lot more because the average checks there are very, very high and return on investment of any capital, the people truly eat because fine dining is very evolved there. I think it will be a great idea.

Manoj Memon Sir when are planning to come to BKC?

Anjan Chatterjee I have never worked for the real estate owner. Historically, I have always believed that Rs.450 is what average they are asking for, for a per square feet which to me is not very feasible, I will not be able to earn for my company, I will earn it for the real estate owner. So that is exactly why we are not going and that is prohibitive and obviously we are a five star chain with non-five star prices. So I do not want to overdo things and get carried away. But whichever day they give us rationale of balance rentals, we will be there.

Moderator Thank you. Next question is from the line of Vidyanand Joshi from Reliance General Insurance. Please go ahead.

Vidyanand Joshi Can you please tell something about the progress of Mizona Brand and Mobi-Feast?

Anjan Chatterjee Two things, very interesting. Mizona is absolutely online. We rolled it out on the 15th of April, with very slowly and steadily catching the fire. As the IPL is over now, we will do any kind of announcement that is we are now doing it, some write ups are coming up slowly, so it is



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catching up very, very nicely. It is the only kind of restaurant in Pune. So that is in progress, on track. And second, Mizona also will be coming up in Kolkata. We have already signed up a place. It is all on track. Mobi-Feast has been one of the biggest developments which happened was that we were signed up by the IPL, particularly the KKR team to do their outdoor catering. So there has been already association of best kind that we have got, in and around above a crore or so, I do not know the exact figure that we have got a contract which we have just finished with the IPL getting over with KKR. So it will be in the next quarter that you will see them coming.

Vidyanand Joshi

One more thing Sir. Can you please tell us about the same-store sales growth? And at the same time are there any price hikes expected?

Anjan Chatterjee

Price hike is definitely expected because 5-7%, we have not taken almost 2 years, so we are bound to take a price hike. There is an interesting move which we have done which is for everybody is here, that it is the first time we are introducing regular and large portion, because today's time people don't necessarily want to leave food on the plate and pay for it or carry doggy bag. So we did a research through IMRB and found out that people would rather eat less and have only the limited quantity that they want to eat but eat more variety. So in order to do that we have introduced, in Bangalore we have already tried, test marketed, we are rolling it out nationally within a month's time, regular and small portion with a campaign "Why order a large when you can do with a regular."

Vidyanand Joshi

Can you please tell, how much CAPEX would be there in future?

Anjan Chatterjee

We have already told that 16 plus 16 plus 16, fiscal three we will be doing. One fiscal is over. So that is exactly why we raised the money. You know as of date, we still have money in the treasury. Last year 14 restaurants have been done. Next year we are looking at 14 to 16, inshallah, and CAPEX will be spent from the same money. And next year also we will have enough money unless we do any kind of an acquisition of any kind which is in the form of bakery or QSR which we are discussing with people.

Vidyanand Joshi

Because there is almost cash of 123 crores, that is why I asked this question, nothing else.

Anjan Chatterjee

We are deploying this money totally for our growth which has been planned growth of 14 to 16 restaurants and right in the beginning.

Moderator

Next Question is from the line of Jaibir Sethi from Premji Invest. Please go ahead.

Jaibir Sethi

A couple of things I wanted to understand. One, while talking about the price hike, you mentioned a figure of 5-7%. So do you think that is something which can be absorbed in the



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current environment or would you sort of tweak it through in the form of other menu changes and mix change and so on?

Anjan Chatterjee

Not really, it is a mix of things like, once we are doing a regular a large portion there will be absolutely complete legitimacy because a table for two we are rationalizing the prices by just adding 5-7% in a regular, supposing a normal chicken is costing around 495 hypothetically or 450, we will make a regular at around 395. And that another 5, 7% percent would be added so that will become 405 or 410. I do not think that will get anyway affected, whereas 495 guy or 485 guy does not have to order. Today, we only have one option of large. So unless if you have a large group, we have seen this over a period of time and this has come up with all group discussions of the IMRB research we have done that "your quantities are too much". Now we say that "Okay. if our quantities are too much, we need to save on our food cost". So how do we do that?" If we increase the prices on the existing prices, it will be absolutely hara-kiri, but if we reduce the portions a little, balance it with regular and large, nobody will mind because you have a choice, it is exactly like a Pizzahut or a pizza shop where you have a regular and large. In that 5 or 7%, absolutely absorption, the people are ready to take it and there will be some little entries also in the buffet prices of the afternoon.

Moderator

The next question is from the line of Ankit Kedia from Centrum Booking. Please go ahead.

Ankit Kedia

If you go with a regular portion, won't our average bill per cover get reduced by a significant amount?

Anjan Chatterjee

For an average person who was wanting to order a large portion, he just orders a chicken and rice. When we make it comfortable for them, they order a starter, they order a chicken, they also order may be a soup and then they come to the rice and noodle. So today, the large portion which is being wasted or which is very steep for them they can just afford a chicken or maximum chicken rice and noodle. So the patterns of research have shown that, if you lower the portion size, and it is A) saving our cost, which is tremendous cost saving of around 3.5-4% and on top of that it is also ensuring that more order pattern is there. We got to push this through on the table, we have already trained our captains and I am quite confident of the average, even if it means initially that we take a little hit here but we will be able to bolster this and we will be able to make them order more things on our menu.

Ankit Kedia

And Sir, could you give for Mainland China the average churn for the year and for the quarter?

Rajesh Mohta

Mr. Ankit, the average churn during the year for Mainland China had been at 1.5 for the year.

Ankit Kedia

And average bill per cover?



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- Rajesh Mohta** 675.
- Ankit Kedia** Sir one more question. What was the rational of giving dividends? Since less than a year back we raised money for expansion and without being free cash flow positive we are actually paying back these dividends?
- Rajesh Mohta** It is basically a reward for investors like primarily because we have cash which have been generated of our existing business rather than the deployment of funds. This is a maiden dividend by the company in the history. The company was got incorporated in December 1999 and without dividend it has grown to this level. So the board decided in favor of parting first maiden dividend this year.
- Ankit Kedia** So is there a policy that we will continue to give dividends every year from now onwards the same amount or?
- Rajesh Mohta** It is a call which has to be taken by the board. It would be wrong on my part to commit anything at this point of time.
- Moderator** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Sir please go ahead.
- Kaustubh Pawaskar** I have three questions. Just a broader perspective. First, is it not feasible basically to break this price increase into two; 2.5% maybe in a quarter and maybe 2.5% maybe in another quarter. So that makes feasible enough for you to take the price increase.
- Anjan Chatterjee** A very, very valid question. You would not believe that if it is not one quarter Vs one quarter, definitely one month after two months, so we are definitely looking at it, because there is another debate which is going on. Hypothetically, in one month we will only increase the Non-vegetarian prices, another two months another **pernicious 19.28** only rice noodle prices will go up. So in the process we cumulatively get it so that the pinch of the pocket of the person who is coming into it will not be there. It is a very, very valid question and it is being debated very heavily, and I am very happy that you raised it, and it is going in our favor I think so it is a independent validation which is coming in, so I think we will do it slow and steady because the season caches from August- September, we have enough time to roll it out.
- Kaustubh Pawaskar** And my second question is on your expansion. You said that you are planning to add another 16 restaurants in FY2014. Just wanted to understand, is it not feasible that in an environment where you are seeing the discretionary pressure and the macro uncertainties, is it not right to first improve the growth prospects of whatever restaurants you have added in FY 2013 and



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then look at expanding. That is like adding 14 stores or may be 10 stores in FY 2014 and may be expand 18 stores in FY 2015?

Anjan Chatterjee

Agreed, but you must understand that economy is not going to be like this for ever. What we want to do is that continue when the opportunity is with us. We are a debt-free company, we got the capital to expand. Wherever there is a possibility, wherever we are getting low rental, because somebody just asked me about BKC, so I am never going to BKC because that is a prohibitive rental. So at this point of time people have respect for us giving us anchors, brand status like we are entering the Oberoi mall very soon in Mumbai, very prestigious locations are coming to us. So I do not think we should leave that opportunity. Today, tomorrow, I am sure the things will be much, much better, with all the measures taken and the economy has to bounce back, it is just a matter of time. We do not want to be waiting and watching. We are also improving. There are two teams I must tell you that. One, which is expanding, and looking at the new store and the one which is fully looking at the radar to improve the performance of the existing one.

Kaustubh Pawaskar

And my third question is the book-keeping question. For the quarter, what was the average turn around if you could share that number for Q4?

Rajesh Mohta

Q4 let us say on the Mainland China, the churn were 1.42.

Kaustubh Pawaskar

And for Oh! Calcutta?

Rajesh Mohta

For Oh! Calcutta it was 0.98.

Kaustubh Pawaskar

And what was it for the full year FY2013 for Oh! Calcutta?

Rajesh Mohta

Oh! Calcutta is averaging at 1.02.

Kaustubh Pawaskar

And do you expect it to improve in FY2014, may be not in first half but may be in the second half?

Rajesh Mohta

It would be a factor based on certain external factors because what happens is, in any which ways, weekends are always full for our restaurants, touchwood, God has been kind. But it all depends between Mondays to Thursdays where the corporates spending needs to improve upon. So it is a factor which would be dependent on these two.

Moderator

Thank you. Next question from the line of Vidyanand Joshi from Reliance General Insurance. Please go ahead



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- Vidyanand Joshi** Sir, you mentioned about MOU with a group based at Dubai. Just wanted to check, will you guide us on the number of stores you will be aiming to open in Middle East?
- Anjan Chatterjee** We at the moment have looked at around 7 locations within UAE which includes Doha. Within Dubai we are looking at 4 stores for sure, and the way the Chinese market of Dubai is and I have done a thorough research there, actually the Indian Diaspora is absolutely being neglected there, Mainland China's demand and I am talking about a research document of Dubai, done by a research agency locally. Mainland China is a sought after brand. We are very, very bullish about that so we will be able to do. Sharjah can have 1. Similarly, all of UAE will be having. We are looking at 7 stores, 7 locations.
- Vidyanand Joshi** Just for my understanding the formula 16, 16, 16 which you mentioned, those 16 stores will be opened now, will they include these 7+ 4+ 1 which you mentioned now?
- Anjan Chatterjee** Not necessarily, because it is a cluster. That is a cluster which is within India. It could be a combination that we do 14 years two there so. We do not want to overdo things, we will do 1 store, monitor and then go in because it is an international market.
- Moderator** Thank you. Next question from the line of Anand Shah from Kotak Securities. Please go ahead.
- Anand Shah** I just had a few questions. Sir you actually recently closed down one Mainland China in Aurangabad after actually the restaurant failed to gain momentum. How should one read into this? Do you think Tier-2 cities are actually not ready yet for the fine dining experience or this is like one off issue with Aurangabad or that location itself?
- Anjan Chatterjee** Let me just clarify, I think Aurangabad will come into Tier-3. So Tier-3 we experimented. Flame N' Grill, they are doing very well. The kind of Chinese cuisine that we sell not a Chopsy kind of thing or not a Manchurian Chinese. So we have upgraded. You need a basic kind of understanding. While Aurangabad buy 50 Mercedes Benz at a time, we all know about this famous thing, we got slightly conned by that. We thought all these people who bought Mercedes will come and celebrate in Mainland China but they did not do that, they came to Flame N' Grill. We learnt a lesson. So Tier-3 is banned for the time being.
- Anand Shah** And also are there any other stores in your network that are actually not doing well and could be up for store closures or so?
- Anjan Chatterjee** Not really, at the moment we are not looking at it. If there could be **Hakka 26:00** here and there small one, but not at the moment Mainland China.



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- Anand Shah** Globally, you have done a study in fine dining markets and how is the Indian markets actually compare and in terms of how much they make margins there Vs here domestically?
- Anjan Chatterjee** Every time I see the balance sheet of an international fine dining chain, I get very greedy. And I pray to God that may be Indians will eat the same way one day. That is the hope we are living with but trust my word that their margins are much, much better. They are all evolved market. And in India it is a nascent market, just growing now, it will take a while. There is a discussion of doing one Mainland China in say Dubai hypothetically. The returns from that store can match 3 Mainland China in India at the moment.
- Anand Shah** One last question, typically how many employees are needed in Mainland China restaurant?
- Anjan Chatterjee** It all depends on the number of covers. Number of covers that we used to have used to be large earlier but since now we are expanding very fast, we have come to a template of around between 100 and 120 depending on the space availability and the rental; very important thing is rental. So we want to leverage this, and according to that we used to have around 70 people, 68 people which we have already lowered at almost 42. Going forward, we may be having less because we are training them better, making them ready for multi-tasking. So it is not just 1 guy. We Indians are very spoiled that one guy pour water, he will pour only water. We are just saying that "Management, you can pour water, pick up, clear and do many things." There is an international trainer who is training all these guys, showing them videos that how people work. I am sure that you are very well traveled and you will see in international there will be one woman; woman I am talking about and she will running the whole cafeteria alone. So we are trying to. We are not being so ambitious at this moment. But we will definitely, we are motivating them to look at it.
- Anand Shah** Last question is basically, your thoughts on the delivery model. I think you are working in terms of tie-ups on the delivery. How is that panning out?
- Anjan Chatterjee** We have already done a tie up with Just Dial for the back end, the final term sheet is being signed up, they are asking for a lot of money. But that we discussed it so the packaging is in order and everything is in order, and we have already started focusing this and we will have a different campaign going on social media for delivery model doing soft, doing all kinds of interaction that is fully being handled by one person.
- Anand Shah** So Just Dial is going to handle the complete back end and you will take care of the delivery part. Ok Sir.
- Moderator** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Anjan Chatterjee from Speciality Restaurants for closing comments.



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Anjan Chatterjee

I think god has been very kind in our team, I must congratulate that they work very, very hard, they must be complimented, and the kind of headwinds we have seen, because as I say that, we are not in a short term 100 metres, we are in a marathon and we will continue to bolster ourselves and even if it be the god forbid quarter here and there can go up or down it is not always an indicator that we are going down. It may so happen that our quarter cannot be so good as what has happened this time. But in spite of all that we know what we are doing, we have been working for 20 years and we have had a lot of mistakes, we are repairing them, controlling them and doing, putting all kinds of people, getting international consultants, getting international master chefs to ensure that better things happen, ensure better efficiency crops in, so I think we are here to for a long-term and with god's grace we will be able to show you better and better results in the long term.

Moderator

Thank you. On behalf of Kotak Securities that concludes this conference. Thank you for joining us, you may now disconnect your lines.