



“Speciality Restaurants Limited
Conference Call”

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**MANAGEMENT: MR. RAJESH MOHTA
MR. INDRANEIL PALIT**

Moderator: Ladies and gentlemen, good day and welcome to the Speciality Restaurant's 2Q FY'14 Results Conference call, hosted by Kotak Securities Limited. As a reminder for the duration of this conference, all participants' lines are in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Rajesh Mohta. Thank you and over to you Sir!

Rajesh Mohta: Thank you very much. On behalf of Speciality Restaurants, we welcome all the participants to the earnings call for Q2 FY 2014 of Speciality Restaurants Limited, which have been approved by our Board of Directors yesterday and have been submitted to stock exchanges as per listing requirement. We would like to highlight that the total income of the Company during Q2 has increased from 54.73 Crores to 63.95 Crores registering an increase of 16.8% year-on-year with EBITDA being steady at 10.37 Crores from 10.15 Crores representing 16.2% of the revenues.

The PAT for the quarter was 4.02 Crores as against 5.11 Crores which is showing degrowth of 21.3% year-on-year. Correspondingly the results of H1 FY 2014 have been a growth in revenue from 107.32 Crores to 124.15 Crores registering an increase of 15.68% year-on-year with PAT at 8.77 Crores from 11.39 Crores registering a decrease. These are the highlights and we would like to bring to your information that this in challenging environment we have been able to continue with our expansions. We are maintaining whatever we had committed to investors a year back for opening of restaurants.

The biggest challenge, which we have been facing on macro front have been during weekdays where the corporate spending has been less, but weekends continue to grow wherein we have waiting at our restaurants. In order to increase margins, we had a last price increase, which has happened in September 2011 and a tactical price increase happened in end August 2013 with almost after span of 24 months.

We have seen the steady footfalls into our restaurants, which has given us an impetus to have another price hike during this fortnight of November, which should get effective soon from December and Q3 always happens to be one of our best quarters because of the seasons, festivities, and New Year coming in.

Now I would request participants to have questions so that we can answer. I have with myself, our ED Mr. Indraneil Palit, who would also be able to answer your questions please.

Moderator: Thank you very much Sir. The first question is from the line of Prakash Arya from I-Alpha Enterprises. Please go ahead.

Prakash Arya: If you could give us some sense on input cost especially in an environment where the food prices are going up? Secondly, if you could share any updates on the proposed food plaza which was part of the IPO proceeds you have to spend around 15 Crores so, I do not think we will spend any

amount on that as yet? Thirdly, if you could give some sense on the southern markets is spending back with IT doing well and increments now flowing to the sector?

Rajesh Mohta: Thank you so much. On the food inflation, yes there have been pressures on our raw material prices because of the inflationary conditions in the economy, but our emphasis has always been to maintain footfalls. That is the only reason why we had not taken price increase for last two years but now we are finding the footfalls to be steady, which is giving us an impetus to have a price increases, which we had done tactically in August end and now another touching 5% in increase this particular fortnight. Number two on the food plaza what had happened there was a food plaza which was planned in New Town in Kolkata, but there are infrastructure issues in that particular area, because until and unless government spend money and create infrastructure it is slightly difficult to get our, because we are ready with our plans but we are slightly keeping it in abeyance because until and unless the infrastructure because ours would be a service industry wherever we have put in we would have food plaza, we would like people to come in and now if the infrastructure conditions are not conducive for people to come in it does not make a business sense to invest money at this point of time.

Prakash Arya: So, are we planning to wait for some more time or maybe drop that idea or change the clause and utilize the money in maybe ramping up our capacity as well?

Rajesh Mohta: Sir, to be very honest. It is a prime location, which is available in New Town in Kolkata, which would be a growth center in time to come so we are keeping it in abeyance and we are waiting for some more time.

Prakash Arya: So, it will be more of a hold over the next few months at least?

Rajesh Mohta: Absolutely correct Sir.

Prakash Arya: Lastly on the Southern market, as you know the footfall increase seen that IT is doing well, increments are flowing through the sector because earlier that was one area where we were not seeing growth so any sense you could give us on the southern markets?

Rajesh Mohta: On the Southern India conditions we have been struggling. We had in last quarter also indicated the same specific cities being Bangalore, Chennai and Hyderabad. We have not been able to see any major growth in those cities primarily.

Prakash Arya: Even now the same scenario continues?

Rajesh Mohta: Absolutely right Sir.

Prakash Arya: Thank you. All the best.

Moderator: The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

- Kunal Bhatia:** Just wanted to know how is Mezzuna doing currently? Have we reached our target in terms of sales?
- Rajesh Mohta:** Mezzuna I think we will reach the target in maybe at the end of January or so. This is a new brand. So, it is taking a little time to catch up. We are doing a lot of events, etc., so that in the season time we can catch up and get the right amount of topline that we want, so, in other words maybe in another two months away.
- Kunal Bhatia:** Sir, since we have Mezzuna for a couple of months now, how has been the margins in that case? Are we having better margins compared to Mainland China also?
- Rajesh Mohta:** This is a pilot project, which we had taken in Pune. We started in April and in any which ways we adjust into the six months. We are yet to breakeven.
- Kunal Bhatia:** Sir, what would be our guidance in terms of opening owned restaurants for the current year?
- Rajesh Mohta:** As committed earlier we would be continuing to open 14 to 15 restaurants and we would maintain that kind of numbers by the end of financial year.
- Kunal Bhatia:** 14 to 15?
- Rajesh Mohta:** Yes.
- Kunal Bhatia:** 75% of that would be Mainland China?
- Rajesh Mohta:** That is correct.
- Kunal Bhatia:** You did mention in your initial comments that corporate spending has come down, so normally as a percentage of sales, how much would be sales to corporate's?
- Rajesh Mohta:** See Mr. Kunal, what happens is we do not have a tracking mechanism as far as corporate spending is concerned. What happens is primarily weekend it is more of a family dinning, during weekdays we find corporate lunches to happen. So, corporate lunches and early dinners for corporate's there, there is a spending, there is a curb I would say from corporate's.
- Kunal Bhatia:** Sir, finally on how is the pickup in case of home delivery?
- Rajesh Mohta:** We have been struggling with respect to packing primarily because what happens is the Chinese being an à la minute cuisine, there have been few complaints with respect to the food which is getting, because we are trying to educate guests also because it has to be consumed the moment it reaches there, so those challenges have been overcome. We have started delivery on a scale. In Mumbai, we are already done and we are touching 2.5% to 3% of our revenues from delivery now.

- Kunal Bhatia:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pooja Swami from Span Capital. Please go ahead.
- Pooja Swami:** Sir. Firstly, I would ask that you have taken various initiatives in terms of price increase and new initiatives like Hoppipolla wherein you do not have a much of cost to incur plus you are also reducing your staff. So with all such initiatives where do you see your margins going forward like what kind of improvement do you see in your margins?
- Rajesh Mohta:** If you historically look at our target EBITDA levels on corporate is 22.5%. The drift in EBITDA levels have been because of the cost push inflation and discretionary spends being low for which I need not explain to yourselves. The only reason why we are trying to neutralize this increase in wages cost and the material cost is by taking price hikes at our end prices, and reengineering wherever possible with respect to the staff cost, so that at least we are able to sustain the margins, which are presently and we work in a very high operating leverage environment. The moment we cross the threshold sales because of our gross margins the bottomline improves very substantially, and that is the only reason why we are continuing with our expansions with the discretionary spends the moment it goes up towards let us say it moves northwards we would be able to capitalize that particular momentum whenever we have that, and on Hoppipolla I would definitely say this is a major shift from our side. Till this time, we have been a company, which was being called restaurants and bars, this is first restaurants or a bar, where we have 70% liquor sales.
- Pooja Swami:** I was just saying that this initiatives like Hoppipolla obviously there the cost incurred by you in terms you can say the rental cost and staff costs that will be minimum compared to others?
- Rajesh Mohta:** You are absolutely right. See what happens is we are opening Hoppipolla in most places where we have terraces, wherein we do not incur additional rental cost. The idea behind this is to optimize utilization of our existing assets, which in turn would improve upon our EBITDA.
- Pooja Swami:** Sir, that is what I was asking like how do you see the EBITDA margins improving because of these initiatives that you have taken?
- Rajesh Mohta:** Madam, what happens is this is one Hoppipolla which is there, which is a very miniscule to the total environment in which we work with 103 restaurants including confectionaries. Yes it would improve upon the margins, but let us say for instance the major chunk will not come from that particular brand at this point of time.
- Pooja Swami:** Means, you at least see some improvement in the margins because of these initiatives?
- Rajesh Mohta:** Yes please.
- Pooja Swami:** Second question is what is the investment in the restaurants, total investment?

- Rajesh Mohta:** We invest somewhere around Rs.3-odd Crores in a standard size restaurants. Basically it is dependent on certain areas also.
- Pooja Swami:** Obviously, about 3 Crores you are saying for restaurants?
- Rajesh Mohta:** That is spent as capital expenditure.
- Pooja Swami:** Sir, going forward where do you see or when do you see your ROE improving from present date to 9% to 15% or something?
- Rajesh Mohta:** The moment we get this investable surplus what we have invested into productive assets this would have an improvement.
- Pooja Swami:** Would you like to give some timeline for it like how many years it will take?
- Rajesh Mohta:** Difficult for me to say at this point of time, but we are looking forward to the moment it is getting utilized by fiscal 2015 by which time we would have cash flow positive.
- Pooja Swami:** What is the timeline? When you open a new restaurant how much time does it take to mature? Obviously it depends on the area as well, but how could you say that minimum time what does it take to mature?
- Rajesh Mohta:** Madam, on an average if you may allow to say, let us say for instance earlier Mainland China used to breakeven in three to four months time, but because of last two years discretionary spends were under pressure this has got slightly elongated to six months time, and it is more like you yourself had said so it is more a location driven.
- Pooja Swami:** Yes obviously. So six to seven months is like ok. That is it from my side. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Jaibir Sethi from Premji Invest. Please go ahead.
- Jaibir Sethi:** Good afternoon Sir. Could you give me a breakup of what has been the store openings in the first half and how is the split across various formats that are owned by franchise?
- Rajesh Mohta:** The total restaurants which we opened during this first half, we opened eight of our own restaurants which are company owned, company operated restaurants and one franchise restaurant.
- Jaibir Sethi:** Within the eight how many are Mainland China?
- Rajesh Mohta:** Within that there are five Mainland China's.
- Jaibir Sethi:** Full year you are still targeting 14 to 15?

- Rajesh Mohta:** Yes please.
- Jaibir Sethi:** Out of which around 70% will remain Mainland China?
- Rajesh Mohta:** Say nine to 10 would remain Mainland China. There may be some skew towards global grill format of ours.
- Jaibir Sethi:** Second could you give us an update on how the global grill format is doing and whether it is profitable now and if yes what kind of margins we would make?
- Rajesh Mohta:** Global Grill is very good. It is doing extremely well. I think the signs are that it will keep on doing well for times to come. It is good.
- Jaibir Sethi:** Is it already breaking even?
- Indraneil Palit:** Of course, yes. It has already broken even.
- Rajesh Mohta:** Powai, which we opened in the month of April is contributing to our bottom-lines now.
- Jaibir Sethi:** And the new ones?
- Rajesh Mohta:** New ones we have opened in OMR Chennai, which is doing good. We have opened a third in Bangalore which is yet to breakeven, but OMR has already broken even.
- Jaibir Sethi:** All right. That is all from my side. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Jessica Mehta from Sharekhan. Please go ahead.
- Jessica Mehta:** Thank you for taking my question. I have two questions. First is what is the cover turnaround of Mainland China and Calcutta for this quarter and previous quarter, I mean the previous quarter of the last year?
- Rajesh Mohta:** Cover turnaround of Mainland China has been in the range of 1.45 to 1.55 and with Q3 it would be improving. At Oh! Calcutta it is remaining sub-one basically. It is in the range of 0.95 to 0.98.
- Jessica Mehta:** In Q3 it will be improving?
- Rajesh Mohta:** Q3 it would improve so that the average for the year would improve.
- Jessica Mehta:** The second question is I suppose on from August 20, the company has taken into account a regular and large portion menu across India, so has it been implemented across India or still it is going on and how is the response to it?

- Indraneil Palit:** It is implemented all over India. The response is very good. The whole idea was to give more options to people to order one extra dish or one extra soup or one extra desert and people are exactly reacted the way we wanted them to. So the value perception has improved for sure.
- Jessica Mehta:** That is it from my side. Thank you so much.
- Moderator:** The next question is from that line of Ankit Kedia from Centrum Broking. Please go ahead.
- Ankit Kedia:** Sir, could you also share the EPC for Mainland China for the quarter?
- Rajesh Mohta:** EPC is at static number at 675.
- Ankit Kedia:** Sir second question was on what changed in the last two months that we are taking a second price hike given the fact that from January onwards we are contemplating a price hike, but we deferred it till August. So, last two months, is the traction been very strong from consumer end because the cover turnaround has not changed. The EPCs have remained flat. So why the second price hike suddenly?
- Rajesh Mohta:** Most important factor is at any point of time, we will have to neutralize the impact on costs which we already have. Like there has been increase in wages from July onwards. Now basically we are entering into season so the footfalls we are able to maintain the footfalls, so meagre price increase of 4% to 5% we would be able to offset some of the increase, which we are already getting from cost pressures.
- Ankit Kedia:** You are also expecting the cover turnaround to increase in Q3 which is a seasonal quarter?
- Rajesh Mohta:** Seasonal, that is the only reason why I said, yearly average gets skewed because of this particular quarter Sir.
- Ankit Kedia:** So, then do not you anticipate in Q4 if the economy remains the way it is, we could see some backlash?
- Rajesh Mohta:** Mr. Ankit, we will have to leave it with some optimism.
- Ankit Kedia:** Sir, my next question was on the catering business. With the festive season coming and the marriage season starting do we anticipate strong traction from that business going forward because you were anticipating in first year around 5% to 7% revenues coming from that?
- Rajesh Mohta:** We are doing marketing, we have got good contracts now. We are working towards Mobifest to become a major contributor to the topline.
- Ankit Kedia:** Any guidance for the year or for next year?

- Rajesh Mohta:** Let us say for instance on this particular front it would be difficult for me to give guidance numbers because it is a very erratic kind of a thing. You do not have a steady number there.
- Ankit Kedia:** My last question would be on the international operations. Can we expect in the first half next year some positive developments on that front?
- Rajesh Mohta:** The spade work is happening. It would be difficult for me to say when we would start revenues because there are good number of regulations, which we need to overcome. We will have to comply with all rules and regulations. So it will take some more time.
- Ankit Kedia:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from CX Partners. Please go ahead.
- Rahul Agarwal:** Sir what is your same store growth numbers?
- Rajesh Mohta:** Same store sales growth has been flat because what happens is though it is not a very important parameter for us, because we being fine-dining, lunch after a stable restaurant which has matured, the same sales growth comes only from price increase because we cannot get more guests during the weekend despite the waiting being there on the restaurants.
- Rahul Agarwal:** What is the company wide EPC including all formats?
- Rajesh Mohta:** Sir, this number is readily available because it ranges across formats.
- Rahul Agarwal:** Do you have companywide cover servers during the quarter and how has that number grown?
- Rajesh Mohta:** If you look at the total servers those have grown by around 12% over year-on-year, H1 basically.
- Rahul Agarwal:** How many of your restaurants are more than one year old?
- Rajesh Mohta:** We were having a total of 82 including construction. So we were having 83 restaurants in the beginning of financial year.
- Rahul Agarwal:** So, just one more, at store level how many of your restaurants are loss-making?
- Rajesh Mohta:** At store level?
- Rahul Agarwal:** Yes.
- Rajesh Mohta:** There are couple of and they have been closures also because of that.
- Rahul Agarwal:** The current one that you are operating are all profit making at store level?

- Rajesh Mohta:** Let us say for instance there are certain restaurants, which have been opened in H1, but that is new, so it will take some time to mature, yet to break even, yes please.
- Rahul Agarwal:** But the old ones are pretty much doing well?
- Rajesh Mohta:** Yes.
- Rahul Agarwal:** Fair enough. Thank you.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar:** First of all, I am sorry. I am a little bit traveling. So, there would be some kind of disturbance, but I would be audible. There are two questions from me. In the earlier quarters we were talking about enhancing the operating period for our restaurant by introducing some kind of promotional activities as well you were trying new formats in those operating periods. So can you just throw some light on that? How they are working for you?
- Rajesh Mohta:** Yes, the formats let us say wherever we are into malls, wherever we are into malls, we have started keeping the restaurants opened between the lunch and the dinner time with shorted menu and we are working towards the formats, which could run from morning to evening because we would like to capitalize on the fixed investments, which we make so that the assets can be swept more.
- Kaustubh Pawaskar:** But any light on where from malls are you planning to get into your normal restaurants in terms of introducing these formats. Are there any plans?
- Rajesh Mohta:** We need to do step by step. So we have started into malls, because most of the places wherever we are those are destination dining, so it is very difficult to get into a catchment between 3 o'clock to 7:00 to 7:30 or 8 o'clock into those places. Those are standalone restaurants and into high streets.
- Kaustubh Pawaskar:** My second question is festive season has already started. So what kind of traction are you looking? If we compare it with the previous year because I do not think there is any fundamental change in comparison to the previous year, but are you seeing some kind of improvement or something like that?
- Rajesh Mohta:** These are steady state of affairs. Nothing euphoric, this is nothing euphoric. This is a season, which has been there let us say for instance you come. Similar kind of situations persists.
- Kaustubh Pawaskar:** So nothing great in terms of improvement.
- Rajesh Mohta:** Not really.

Kaustubh Pawaskar: Thanks.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor back to Mr. Rajesh Mohta for closing comments. Thank you.

Rajesh Mohta: On behalf of the Company, and the team we are extremely thankful to all the participants to have taken time out and attending this particular call. We look forward for furthermore interactions in time to come. Thank you so very much.

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