



“Speciality Restaurants Limited Q2 FY16 Results  
Conference Call”

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**CENTRUM**



**MANAGEMENT: MR. INDRANEIL PALIT – EXECUTIVE DIRECTOR,  
PROJECT, BUSINESS DEVELOPMENT, & STRATEGIC  
PLANNING, SPECIALITY RESTAURANTS LIMITED  
MR. RAJESH MOHTA – EXECUTIVE DIRECTOR,  
FINANCE AND CHIEF FINANCIAL OFFICER, SPECIALITY  
RESTAURANTS LIMITED**

**MODERATOR: MR. ANKIT KEDIA – CENTRUM BROKING LIMITED**

**Moderator:** Good day, and welcome to the Speciality Restaurants Q2 FY16 Results Conference Call, hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Ankit Kedia. Thank you and over to you, Sir!

**Ankit Kedia:** Thank you, good afternoon, everyone. We at Centrum Broking are very pleased to host the Q2 FY16 result conference call for Specialty Restaurants. Today we have with us from the management Mr. Indraneil Palit – Executive Director (Project, Business Development and Strategic Planning) and Mr. Rajesh Mohta – Executive Director (Finance) and CFO. I would now like to invite the management for their opening remarks followed by which we can have an interactive Q&A. Over to you, sir.

**Rajesh Mohta:** Thank you, Mr. Ankit. Good evening to all ladies and gentlemen on behalf of management of Specialty Restaurants I welcome you all to the investor’s call post Q2 results of FY16. To start with I would like to draw attention that it has been a challenging quarter for the quarter as expected increase in the discretionary spends is yet to be seen. We anticipated this should have started but yet to be seen till this time. Despite all income from operations grew from 75 crores to 80 crores year-on-year basis registering an increase of 7%. EBITDA declined from 9.10 crores to 7.63 crores registering a decrease of 16%. Corresponding PAT has decreased from 2.38 crores to 1.02 crores year-on-year basis.

During the quarter two of FY 2016 we have opened all three restaurants which are all company owned one Sweet Bengal Confectionary in the city of Mumbai. This has taken the total restaurants and confectionaries as of 30th September 2015 to 122. Out of which 23 restaurants are franchise restaurants including our four number of restaurants at international locations. Three restaurants which open during this particular quarter are Café Mezzuna at Bangalore, Hoppipola and Sigree Global Grill at Hotel Spring in Chennai.

During the reviewed quarter we have also closed two restaurants one Mainland China at Bandra Mumbai and the other, Sigree restaurant at hotel Aruna Chennai. In order to draw your attention I would like to mention that the company has opened 13 restaurants in the last 12 months from October 2014 till September 2015. In the light of the pressure on discretionary spends the new restaurants breakeven period has increased substantially during the last 12 months. This has resulted into the pressure on margins because of the operating leverage working unfavorably. The basis on which the restaurants industry has been doing good we foresee that in time to come though it is difficult for us to say what number of months or quarters thing should look on but we are very hopeful that things would look up and we would be able to capitalize this opening of restaurants. We continue to endeavor to open new restaurants but with a strategic decision the locations et cetera are being checked and looked at

selectively so that we are able to improve upon our bottom-line considering the gross margin of individual restaurants.

Now I leave to the investors and analyst for their questions and performance under review.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Koustubh Pawaskar from Sharekhan Limited.

**Koustubh Pawaskar:** Sir, just wanted to understand whether the quarter two results has to do with the delay in festive season because Dussehra and Diwali fall into second quarter and this year it has a little bit delayed and they fall into quarter three so, it has to do with delay in festive as well?

**Rajesh Mohta:** See last year it was part in September and part in October. So this is phenomena which is a continuous one but it does have an impact not to a larger extent.

**Koustubh Pawaskar:** So in this festive how your sales has been do you got any indication of any improvement in your footfalls or the table turnaround ratio?

**Rajesh Mohta:** There has been no euphoric period for this festive season to be saying in month of October but yes, we have been able to maintain levels this is what we can say.

**Koustubh Pawaskar:** Okay. And what would be your table turnaround ratio on year-over-year basis, is there any decline? Because the top-line has just grown by 7% so I believe that there must be decline in your turnaround ratio?

**Rajesh Mohta:** Yeah, see what is happening is the moment we talk in terms of revenue growth not being there the primary reason being the turnaround because we have been trying to maintain footfalls without having a corresponding price increase. So overall the trend which is being seen is neither positive but yes, there have been certain areas where there has been a decline especially in a particular month of September.

**Koustubh Pawaskar:** Okay. And sir, my second question is on the raw material side how the raw material price momentum is have you seen any decline in the raw material prices over the period of time and what is your outlook on the same?

**Rajesh Mohta:** Koustubh see what is happening is I did not tell you exactly what is happening on raw material prices where you have some benefit on some product that is eaten away by the increase in other items we have seen the Dal story and the Onion story which is prevalent in last couple of weeks now. So moderation which we had been thinking on inflation is yet to be seen on ground reality basis resulting into our raw material cost to revenues almost remaining the same and in turn effectively increasing per say. So we have not seen any kind of improvement which

we had been thinking like the inflation moving southwards et cetera but the ground reality there is no change per say.

**Koustubh Pawaskar:** Right. So my another question is on the menu price. So are we looking at any hike or you will be holding up menu prices?

**Rajesh Mohta:** See increasing price is decision which is taking into consideration the various impacts it would have on the footfalls looking at the scenario and the pressures on discretionary spends increasing price till this time is price elastic decision because we would like to maintain footfall. We would hold and see the best time to get into a price increase scenario.

**Moderator:** Thank you. We will take the next question from the line of EP Rajesh from Banyan Capital. Please go ahead.

**EP Rajesh:** My first question is could you talk about the same store sales especially on Oh! Calcutta and Mainland China format?

**Rajesh Mohta:** It is not sales as we have been saying in our fine dining and casual dining is a combination of various factor but to be specific like Oh! Calcutta since the number of stores are very restricted it has grown but in case of Mainland China overall for the country there is a decline.

**EP Rajesh:** Okay. And that decline is in single-digits or is it more than that?

**Rajesh Mohta:** Early single-digit.

**EP Rajesh:** Okay. And then could you also comment about the transition that you had spoken earlier where from Mainland China are being converted into Mainland China Asian kitchen?

**Rajesh Mohta:** Yeah, we have started the process in Bangalore and I think we are going to see the effect of it and then gradually all of them now talking about just to clarify a little more for example Mainland China in Mumbai has actually grown same stores. It is only the south that we find that there is degrowth and somehow for the last two years we have seen the south has not been a strong place for us. So therefore we have started converting Mainland China from the south and we will take up the other regions later stage. Whatever Mainland China that we plan to open will now be in the new format that is Asia kitchen.

**EP Rajesh:** Okay. And are you seeing break-up you said break evens are taking longer now so, if that true for Asia kitchen format as well you were just referring to Oh! Calcutta format?

**Rajesh Mohta:** I am referring to all overall scenario let us say for instance what is happening when we average it out it has got extended. There could be certain specific since we have only three Asia kitchen which are operational two had broken breakeven in previous year itself and one which we

have opened recently is taking a longer time but yes, it is an overall average which has increased.

**EP Rajesh:** Okay. And then what is the situation on Café format and the Hoppipola format? Those are also getting extended in terms of break even.

**Indraneil Palit :** No, not really the Hoppipola has except only one all other Hoppipolas have attained the break-even level within months of its operations. As far as Café Mezzuna is concerned they are not too many. In fact we have not opened any in the last one year. Sorry, Bangalore we have opened. So only one Mezzuna we have opened and that is taking a little time. Like I told you South seems to as a region of problem which also the retailer of other business is also reporting the same.

**Moderator:** Thank you. We will take the next question from the line of Ankit Kedia from Centrum Broking.

**Ankit Kedia:** Sir, my first question is regarding the incident which happened where we did not have some clearances in our restaurants. So how does do we need to take clearances every month, every year and what was the incident that happened at the Kurla restaurant?

**Rajesh Mohta:** See Mr. Ankit Mainland China Sakinaka specifically it is not Kurla which was reported in Times of India is our the first Mainland China opened by Specialty Restaurants and the fire NOC which is one time initial license which is given by the authorities was obtained in the year 1994. When the authorities had come there, they wanted to see that particular license which was not available readily in the files. So but the authorities to give us a closures notice and they had to seal the restaurant. Subsequently in couple of days' time we could produce that license to the authorities and they de-seal the restaurant and the operation started. And there are licenses which are renewed every year there are certain licenses which are given once and it is continues exercises so we have all kind of licenses which are available with us with respect to the renewed licenses and now what has happened since it was an owner the license we had taken the premises on lease from a hotel which continued to be there and it was in their name the now authorities have asked us to take a fresh license for which applications have been lodged.

**Ankit Kedia:** Sure, so might not see the incident happen again where in the licenses are not there in the restaurant needs to be closed.

**Rajesh Mohta:** Yes, we are doing that compliances because we open our restaurants only after obtaining requisite licenses but what is happening there is a continues exercises which is been taken care of by the authorities so we are trying to keep our selves abreast with it.

**Ankit Kedia:** Sure. And sir you just mentioned that Mainland China in Mumbai the same store sales growth seems to be positive but then in this quarter we did close Mainland China in Bandra so, why did we close the Bandra Mainland China?

**Rajesh Mohta:** See what was happening the rent to revenue ratio was working unfavorably for the restaurant per say despite being in the prime location so it was more a commercial decision because what is happening the targeted revenue were not being achieved because of there was certain infrastructure issues which had cropped up from parking perspective and there were certain issues with respect to guest coming in to the fifth floor. So we had to take a decision because the visibility was not getting into that we would be bouncing back to the revenues which we had one earlier. So the rent and what is happening every three years you have a rental increase which is to the extent of 15%. So when the rental the base rental is getting increased without any commensurate rate increase in the revenues the rent to revenue ratios clearly get more towards the owner rather than to the company so we had to take a call off moving out from that particular space.

**Ankit Kedia:** Sure. Sir in your television interview you said you would relook at the strategy of opening your target of 10 restaurants to 12 restaurants every year. So given there is slowdown in economy now and we are also facing some pressures. So what could be the CAPEX guidance and the restaurants opening count guidance for next two years?

**Rajesh Mohta:** What is happening hoping when we say a range of 10 to 15 or 10 to 15 we have now becoming very selective it could be depending upon because it is a very dynamic we do not target restaurants which would be your signing leases for restaurants which would be open to an opening 12 months from today because it is a matter of time we get leases signed and start doing work and open restaurants in six months' time. So we are blocking ourselves for next six months where we have certain lease deals already signed which we have to open and thereafter the planning has been to consolidated look forward for our space which is worthwhile and to have get into a targeted revenue. So it could be like instead of 12-15 we might restrict ourselves to 8 or 10 which would convert into let us say 30 odd crores - 35 odd crore of CAPEX in a year.

**Ankit Kedia:** Sure. And sir could you throw some light on your international expansion as well?

**Rajesh Mohta:** Yeah, as far as international expansion is concern we are trying to open our first restaurants because at Doha we are in all the licenses have all been received the government has given an approval for our people to move with requisite visa's so we contemplate that in another couple of weeks' time let us say for instance mid-December or early January we would be able to open our first international joint venture restaurant in Doha and see the stability of that restaurant before embarking upon other locations.

**Moderator:** Thank you. We will take the next question from the line of Dipanshu Madan from Locus Investments.

**Dipanshu Madan:** Sir, just wanted your perspective on you mentioned you are converting Mainland China to Mainland China Asia Kitchen. So one is how much do we spend per restaurant to convert that and then how different are the economics in terms of per ticket size and table turn, what have you seen till now how does that look going forward?

**Indraneil Palit:** The conversion process around a crore per restaurant. The basic reason was to refresh the brand Mainland China because there was a demand for cuisine Chinese extending to other part of Asia, Southeast Asia and also to make it look younger. You see the Mainland China is a 20 years old brand. The country has become much younger the way the dine out has changed so, the whole idea was to refresh the brand keeping the brand promise in place. Now so far as we increase in the churn is concerned we are going to see it now in the first response we are about to open after conversion and considering the fact that the ones which we opened earlier were not conversion they were all new restaurants. The kinds of restaurants we have had we expect that there will be a definite increase in the cover turnover. However, as far as the average spend is concerned that is not necessarily the idea; however, what would happen by the new design they would be able to perhaps have experience more flavor in one dine experience which will enhance the wholesome experience that we look forward in a restaurants and we would influencing repeat customers that is what the whole idea behind it is.

**Dipanshu Madan:** Right. So essentially it looks like because it has multiple cuisines and offering this to the customers so it is probably going to be above the Rs. 700 APC then somewhere around the same table turn I am assuming.

**Indraneil Palit:** See what happens let us look at it a little this way actually the way people go out eat today is pretty much different from what it was a few years back. Now when I say that what I mean to say that there is a certain percentage of people will come and eat in restaurant occasionally to either celebrate or to come out during the weekend but there is also a very young crowd which frequents restaurant on a daily basis in the sense that they go out to eat every night. So what happens is when you are having a weekend you are spending much more money but when you are eating everyday then it might be half of that money. This is exactly what happens when you move away from fine dining to a more casual dining if I may call it so. So I do not feel that there will be a huge change upwards or downwards as far as average spend is concerned but we definitely feel that we could attract repeat customers one and another sector which is like I said there are a lot of huge population which are eating out every day not necessarily a huge meal but one or two dishes which is more functional that way. So I would say that it will the average spent will to change but the churn should change, yes.

**Dipanshu Madan:** Right. And sir have we finalize the plan as to out of the total Mainland China restos that we have how much are we going to ultimately let us say change in this year and next year is there target in mind at the moment?

**Indraneil Palit:** No, we will take it as it goes I can say that we are doing the first one, we have already done it in fact. We are launching it maybe in next 10 days. And we have also got new Asia Kitchens

opening in existing cities, see the reaction, and then take a call because like I said Mainland China in Q2 in Bombay has actually grown, there was no hurry for us to change. However the two restaurants that we opened in Bombay lately in Phoenix Mall as well as Oberoi Mall are already Asia Kitchen.

**Dipanshu Madan:**

Got it. And sir, just some light we began this journey of changing this Machaans and the Sigrees to a consolidated brand so, I had a couple of questions there what is left in terms of converting these restaurants into single umbrella that we embarked upon and secondly wanted to get some sense on the profitability of this concept of Sigree Global Grill. What have you seen in the last three quarters - four quarters even if it is point to point what is the change that you have seen that is positive and profitability wise how has the contribution improved just some sense on how that process is working out for you?

**Rajesh Mohta:**

See the whole idea of converting Machaans and Sigrees to Global Grill as you rightly said it is more to bring one umbrella Indian brand which can go nationally and **0:24:10 (Inaudible)** from a national level basis. But looking at the trends of the growth of the Global Grill both from a profitable perspective better than what we were having. In process of conversion primarily because **0:24:31 (Inaudible)** with individual restaurants as Machaan impetus could be given. This particular changeover has given us a substantial growth both in the format of revenues and secondly bringing us a scale of operations which could be stabilized across the country. So this is where the focus is and going forward also whenever we have certain opportunities we are trying to convert those spaces like we recently converted one in Calcutta one in Pune the kind of numbers which we had been done earlier are different from what we are seeing now because of the cost parameters and importantly rent-to-revenue ratio.

**Dipanshu Madan:**

Right. So sir, couple of just data questions, one is how many restaurants are still to be converted to this format?

**Rajesh Mohta:**

See to give you an example like today we have, almost like if I say Flame & Grills and three Machaans with us. So aggressively only we will be doing it because there are two Flame & Grills which are doing good are targeting those where the revenues have not grown. Convert those restaurants first rather than taking a blanket decision of converting across the brand. So this would be a progressive decision making up converting those restaurants over a period of time.

**Dipanshu Madan:**

Right. And sir any idea I mean clearly it is going to be progressive so we cannot even quantify the spent that will go into this at the moment. But if we have seen revised or much improved profitability from Sigree consolidating this brand and Mezzuna is a concept I think when we read a few calls, a couple of quarters back and you would said that even the table turns, there are pretty good. But if you look at EBITDA for example let us say in March 2014 or June 2014 even September and today also, we have been into 2.5 crores to 4 crores so if these brands are actually revising the profitability or doing better than the older ones and then what is really stopping us or what format is really stopping us from turning around and terms of EBITDA.

Because the margin seems to be just trending downwards and even gross margins for example in the last nine quarters or at least last six quarters they have been pretty similar to what they are today. So what is really stopping us then and which format is really not turning around at the moment?

**Rajesh Mohta:** On the question of formats we continue to open restaurants under various formats in the last 12-18 months. But a couple of restaurants like say for instance Café Mezzuna, we had one restaurant located at Pune and the other one at Kolkata. From a profitability perspective Kolkata is profitable but Pune continues to struggle because of location, etc., wherein we even renegotiated the rentals. But overall when restaurant do not **(Inaudible) 27:38** continue to contribute over a longer period of time, we take decision of closure of such restaurants like Mainland China, Bandra where at the end of the day we had to close our restaurants because they may be contributing to the top-line, they do not contribute to bottom-line. It is a balance between both long-term and short-term wherein we are trying of working both on brand **(Inaudible) 28:44** So that is the only reason why I am trying do the balance between long-term or short-term to improve upon the margin because the more number of new restaurants which have added which more like an hockey stick where it would convert into revenues and to operating leverage is working unfavorably today, could work favorably for us.

**Dipanshu Madan:** Okay, got it, sir. And sir, what would be the standard maturity that you provide on calls at time, what would be the table turn for Mainland China and Oh! Calcutta for the quarter?

**Rajesh Mohta:** See to be very honest, we earlier use to provide now since it is likely competitive information we have been restricted to inform what is the table turn exact at both the brands.

**Dipanshu Madan:** Okay. And sir, I could not actually see the presentation for the quarter is that going to be one put out or are we sometimes later or what?

**Rajesh Mohta:** Yeah, it would put out sometime late because we need to inform stock exchanges before giving to any investor.

**Moderator:** Thank you. We will take the next question from the line of EP Rajesh from Banyan Capital.

**EP Rajesh:** So just a couple of callers, so you mentioned the numbers of restaurants opened in the last 12 months, could you tell us the number of restaurants that got closed in the last 12 months?

**Management:** Yeah, we closed let us say for instance six restaurants in last 12 months.

**EP Rajesh:** Okay. And then we are mentioned we are going to open the restaurant Tanzania, so any update on that?

**Rajesh Mohta:** We have already opened our franchise restaurants in Tanzania, Mainland China, and Sigree.

- EP Rajesh:** And I thought I heard you say that we will have 30 crores to 35 crores of CAPEX for 8 stores to 10 stores. So are we saying that the CAPEX per restaurants has gone up?
- Rajesh Mohta:** It ranges between 3 crores and 3.5 crores including that deposits.
- EP Rajesh:** Okay. So it is in the similar lines what the past experience has?
- Rajesh Mohta:** No major change per se.
- EP Rajesh:** Operator. And any update on Zoodles sir?
- Rajesh Mohta:** Yes, one which was there was for last 12 months we have recently in a month time we would have another Zoodles at Oberoi Mall, Goregaon Mumbai with one at T2 terminal in Mumbai. The idea has been to get the brand visibility and then we are working towards commissary which would become a hub and spoke model and you would see more number of Zoodles in Mumbai itself in couple of months from now.
- EP Rajesh:** Okay. And then finally what has been the attrition rate in the employee bps?
- Rajesh Mohta:** See attrition at the lower end to middle level is high I would say it is more than 3% at this point of time per month.
- EP Rajesh:** Okay. But above that it is generally stable?
- Rajesh Mohta:** Yeah, yeah middle management and above it is stable I would say almost negligible on a total number basis.
- Moderator:** Thank you very much. As there are no further questions, I now hand the conference over to Mr. Ankit Kedia for closing comments.
- Ankit Kedia:** I would like to thank all the participants for taking their time and attending the call. I would also like to thank the management for giving us the future outlook on the business.
- Rajesh Mohta:** Thank you, Mr. Ankit, thank you everybody from the management of Speciality.
- Moderator:** Thank you. On behalf of Centrum Broking Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.