



## “Speciality Restaurants Q3FY15 Conference Call”

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**MANAGEMENT: MR. INDRANEIL PALIT – EXECUTIVE DIRECTOR,  
PROJECTS BUSINESS DEVELOPMENT & STRATEGIC  
PLANNING, SPECIALITY RESTAURANTS LIMITED  
MR. RAJESH MOHTA – EX. DIRECTOR, FINANCE &  
CFO, SPECIALITY RESTAURANTS LIMITED**

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

**Moderator** Ladies and gentlemen, good day, and welcome to the Speciality Restaurants Q3 FY15 Results Conference Call, hosted by Centrum Broking. As a reminder, all participant lines will be in the listen-only mode. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Kedia. Thank you and over to you.

**Ankit Kedia** Thanks Zaid good evening. We at Centrum Broking are very pleased to host the Q3 FY15 results conference call for Specialty Restaurants. Today from the management we have with us, Mr. Indraneil Palit – Executive Director, Projects Business Development and Strategic Planning and Mr. Rajesh Mohta – Executive Director-Finance and CFO. I would like to invite Mr. Mohta for his 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 participants and welcome to have spared your time for this conference call of Speciality Restaurants for the quarter ending December for financial year 2014-2015. We have pleasure to inform that the company clocked revenues of 80.44 crore and EBITDA of 10.45 crores and PAT of 3.22 crores during the quarter three of FY15. On year-on-year basis the revenues grew by 11.41% and the PAT declined 52%. From an operational prospective the company opened five restaurants and closed two restaurants also during this particular quarter.

As on 31<sup>st</sup> December the total number of restaurants was 96 and Sweet Bengal confectionaries were 18 which took total to 114. Post 31<sup>st</sup> December we have opened one restaurant Hoppipola which takes to 115 restaurants in confectionaries as on date. To bring to the highlights of this quarter performance we would emphasis that the margin had been under pressure because of the front end cost of the new restaurants which got opened during this particular quarter compounded with the break even period getting extended over a period of time to a longer duration then the targeted. This is happening primarily because of the targeted revenue not getting being achieved in time to come because of the pressures and the discretionary spends which have more skewed towards to the weekend rather than weekdays where the corporate spending etc. are yet to pick up. The underlying seems to be positive from a revenue prospective and then we hope so in time to come in next few quarters this cost curve push would convert into a revenue curve. Secondly, on the cost front we have seen moderation in the inflation rates in this particular quarter which is very

insignificantly have had impact in this particular quarter but going forward with the tendering process etc. on for the financial year '15-'16 we look forward to raw material cost under control with revenue increases there would be a gain from this particular percentage points.

Now I look forward to question-and-answers for us to respond. Thank you.

**Moderator**

Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. Our first quarter is from the line of Prakash Kapadia of iAlpha Enterprises. Please go ahead.

**Prakash Kapadia**

So my question sir broadly two questions, sales growth for us is at two year low 11% so why is that despite inflation, falling crude prices, we are not seeing better sales growth because if I remember first-half we were expecting second-half to be better so what is gone wrong on the revenue front.? Secondly, on the raw material side as I see nine months raw material cost are up 200 bps at 31.7% so, if you could give an update on some of the initiative we were targeting in terms of reduction in raw material cost reducing import content so when do we see that coming? And lastly, what has been year-to-date guidance and next year's CapEx guidance please.

**Rajesh Mohta**

Thank you, Mr. Prakash to answer the first question of growth on revenues we presume this is more an impact of macro factors because first change in government we were looking forward to ground reality ache din in my opinion which is yet to come and the momentum seen in H1 primarily which was supposed to have been extended in H2 or Q3 of this particular financial year we find the same to be on the low ebb only. The discretionary spends growth has not happened. The business has skewed towards the weekends more prominently on Friday, Saturday, Sunday, Monday to Thursday have been challenging because of the corporate spending not being there this is the impact on the revenue side. To the cost side there company continues to take in initiatives on imports substitution lowering of cost etc. but primary when we take in terms of the nine months period what it happens since we have contract which run into three, six and nine months kind of a scenario bit to arrest the volatility in the various prices in time to come since we are into the renewal phase of all those agreements we look forward for benefits in the cost front in quarters to come. Answering on your third question on CapEx we would like to once again draw the attention we would continue to open 10 to 15 restaurants in one financial year which would utilize roughly around 45 to 50 odd cores on the capital expenditure for the new restaurants.

- Prakash Kapadia** Okay. And year-to-date what would this number have been approximately sir in the first nine months?
- Rajesh Mohta** It would be let's say I do not have a specific number parse Mr. Prakesh. I may not be able to give you the exact number but restaurants spending the way we spend on our existing restaurant number is more a multiplication factor of that.
- Prakash Kapadia** And sir you mentioned about the corporate demand which you have been maintaining has been a weak so wanted to get your sense as a very old player in this business what is stopping consumers from spending more or coming more to your restaurant because it has been some while we have seen positive trajectory and we were hoping we would see that but despite inflation being reasonably okay falling crude prices. So why is that dot not actually translating into better sales for us apart from the corporate side?
- Rajesh Mohta** It could be let's say for instance when we say corporate primary what was happening the group lunches and the corporate coming during the weekdays for lunches and spending money has not begun. Even earlier we use to see early dinner's also from corporate team coming into various restaurants across the country is yet to happen. Particular cities in South India which is more towards info industry we are still finding the spending has not come. So which we had seen earlier that is the only reason why we say this kind of spending which we generally comes during weekdays is supposed to happen and we are looking forward to the weekday there have been some changes we find that trend to be positive. The underlining is very positive some of the centers in various cities where we had stress on corporate spending primarily has started showing signs of recovery.
- Prakash Kapadia** Okay. So we are expecting may be better FY16 is that now a fair estimate to make?
- Rajesh Mohta** We will remain optimism Mr. Prakash.
- Moderator** Thank you. Our next question is from Jagdish Bhanushali of Florintree Advisors. Please go ahead.
- Jagdish Bhanushali** Yes, I wanted to have a hang of the number of stores that we have currently so how many Mainland China's do we have? How many Asia Kitchen's do we have? How many Sigree Global Sigree and Flame & Grill?
- Rajesh Mohta** See we have 52 Mainland China's and 2 Mainland Asia Kitchen, 9 Oh! Calcutta, 15 Sigree and Sigree Global Grill, 3 Machaan, 2 Haka, 3 Flame & Grill, 3 of Shacks,

Kibbeh, Kix and others basically, 2 Mezzuna, 4 Hoppipola, 1 Zoodles and 18 Sweet Bengal Shops which total to 114.

**Jagdish Bhanushali** Okay. And one more thing how has been the churn rate for Mainland China, Asia Kitchen, and Global Sigree in this quarter?

**Rajesh Mohta** Well it had been on the same levels what we had done in accepting a few one of two bps differential like say for instance in case of Mainland China were we at 1.39 we continue to at 1.38 Oh! Calcutta has increased from 1.14 to 1.28 in Global Grill we still see 1.7 kind of a turn around.

**Jagdish Bhanushali** Okay. So one thing I wanted to confirm as last time you had mentioned in Global Grill Sigree Global the churn was 1.4 in Q2 FY15?

**Rajesh Mohta** Yes.

**Jagdish Bhanushali** Is that continuing right now?

**Rajesh Mohta** This is 1.7 now.

**Jagdish Bhanushali** Okay. That has increased. Okay. And one more thing is how many restaurants do we have in Calcutta?

**Rajesh Mohta** Calcutta specific or what?

**Jagdish Bhanushali** Yes, as in region.

**Rajesh Mohta** I presume we have 16 including Howrah we would have 16 restaurants in Calcutta.

**Jagdish Bhanushali** Okay. And have we taken some service charge increase in that region in Q3?

**Rajesh Mohta** Service charge, yes. We have implemented service charges in Calcutta.

**Jagdish Bhanushali** That is 10%, right?

**Rajesh Mohta** No, in my opinion it is less than 7.5% and 5% on buffet some. It is mix it is not the total 10%.

**Jagdish Bhanushali** Okay. And how would have been that has an impact on the overall Speciality level?

**Rajesh Mohta** You mean to say increase or impact?

- Jagdish Bhanushali** Yes, the impact in the revenue on the company level?
- Rajesh Mohta** See it started only in the month of November. Earlier there were couple of restaurants which were already there. There were four cities already there was a service charge which was there. So we look at overall there would be an increase of a crore of rupees from what we had in one particular month.
- Moderator** Thank you. Our next question is from the line of Kaustubh Pawaskar of Sharekhan. Please go ahead.
- Kaustubh Pawaskar** I have a couple of questions sir as you mentioned because of the increase in the break even period of some of the restaurants there is impact on the operating margins. So I just want to know that earlier your restaurants use to break even in a six to eight months. So what is the breakeven period now means extension in breakeven period is it 12 months 16 months?
- Rajesh Mohta** See average sir it use to be between three to six months earlier which is more than six months now.
- Kaustubh Pawaskar** Okay. And once you start seeing improvement in your weekday sales as well you expect this breakeven cycle to reduce?
- Rajesh Mohta** Yes, sir. You would appreciate that we work in very high operating leverage environment and the moment the revenue increases beyond on a threshold the breakeven period would reduce substantially.
- Kaustubh Pawaskar** Right, sir. Sir my next question is on, as you mentioned that weekends have been good for you so it is specific to any particular city or you are finding weekends to be good in most of the cities or towns where you have restaurants or establishment?
- Rajesh Mohta** Sir this is general trend which we had seen across.
- Kaustubh Pawaskar** Okay. And since you are saying that you expect the corporate spending on weekdays to improve so, what kind of offerings you are have you come out with any special offers or promotions for corporate to start or in terms of increase in the response from there in?
- Rajesh Mohta** See there is marketing team which is working trying to meet corporate we have eat five pay four schemes during the weekdays, we have happy hours, we have preferred

card membership, all those actions and initiatives are already in place which we trying to push through with various corporate across the country.

**Kaustubh Pawaskar** Right, sir. But I think this initiatives you have been going on for last two to three quarters I believe but nothing has been kind of turning up in terms of response from the corporate end so anything specific or anything special initiative you believe you should do basically to improve the response from the corporate side or maybe to increase the sales in the weekdays?

**Rajesh Mohta** Sir our efforts are already on but the whole idea that the sentiments and the spending at the corporate level needs to improve upon because they themselves every corporate has been under pressure over a period of time so once that is overcome we think that the spending would automatically come in.

**Kaustubh Pawaskar** Okay, right sir. And sir my another question is on the raw material front as you mentioned that you will start seeing improvement the gross margin from FY16. So one of the initiative took that lowering the imports of some of the materials which was impacted by the volatility in the currency and higher prices. So just wanted to understand now what is the component of the imports of the raw material?

**Rajesh Mohta** We were having 7% imports of the total raw material cost which continues to be at that particular level at this point of time but overall when we talk in terms of prices et cetera which are moderating or which has reduction trend which would lead to overall raw material we improve upon.

**Kaustubh Pawaskar** Okay. No because in the past you were talking about some kind substitutes from the local markets for some of your imported components so that's why...

**Rajesh Mohta** The quality sir we continue to maintain have imports etc. that is a business call which has been taken 100% substitution is not possible so we continue to have some imports to maintain the standards which we are already into. But continues efforts are on.

**Kaustubh Pawaskar** Right, sir and last two questions, first, on your take away model and secondly, on the international operations, anything specific you want to comment on this too?

**Rajesh Mohta** See take away and delivery has been we have been working towards it but there has been no exponential growth I would say we maintain the same standards of 3.5% to 4% of revenues on take aways and home delivery because of the certain challenges as far as Chinese food is concern. And on international we are the joint venture work is

on and we hope we should be starting restaurants in a couple of weeks from now with two franchise restaurants already in progress which we should see during this particular quarter itself.

**Moderator** Thank you. Our next question is from the line of Karan Desai from L&T Mutual Fund. Please go ahead.

**Karan Desai** Sir congratulation on decent set of numbers. Sir wanted to get a sense on two things. How is the new format of Hoppipola and Zoodles panning out especially you are opening four stores of Hoppipola if you take us through?

**Rajesh Mohta 18.04** Hoppipola has got we got very good response in Hoppipola we see the target audience was much younger. And as you know that the population of young people are much more so our we are very well received I mean the last one was Khar and Powai these are two we open in Bombay and they have been Khar was exceptional touch wood and Powai is reasonably good so this is one brand we are definitely having our bet on. So far as Zoodles is concerned we are still experimenting in 'Hub and Spoke' model it is not there are some challenges but we are hoping that we will be able to crack it.

**Karan Desai** Okay. So Hoppipola we can assume you can continue to add two to three?

**Rajesh Mohta** Yes, absolutely.

**Karan Desai** And so you want to get in city or first explore the city and then move to another city?

**Rajesh Mohta** Well yes in a sense that we have gone city wise only so therefore we will go to one city taste one and then perhaps expand the same. We are concentrating on metro's first and then we will look if at all Tier II cities or so.

**Karan Desai** Sure. And sir as far as international operations are concerned you pointed out that you are planning for two franchises which you will announcing later in the quarter. So what would be our total franchise and what is the kind of one time franchise income which usually flows in? Where I am coming from is or actually if I see the other operating income it has gone down so is that because we have few number of store opening is the franchise income one of the reasons for the lumpiness?

**Rajesh Mohta** Yes, absolutely Mr. Karan. See the two franchise which we opening internationally are in Darussalam for which the agreements were executed much earlier and when we talk in terms of giving franchise there is an initial access premium which has



taken at the time of signing up agreement. This particular quarter there has been no franchise and the focus more opening company owned company operated restaurants rather than franchise restaurants.

**Karan Desai**

Okay. So currently we just have two franchises, am I right?

**Rajesh Mohta**

Yes, this is the two international franchises. The current franchise numbers in India is 19 with two in Bangladesh, 21 franchise stores as on date.

**Karan Desai**

And how many of these are Sweet Bengal?

**Rajesh Mohta**

No, there is no franchise of Sweet Bengal. Sweet Bengal model is on revenue sharing basis and we run the restaurants we run the shops.

**Moderator**

Thank you. Our next question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

**Manoj Menon**

I think a fair performance given the headwinds. Just a couple of questions over here. One, if you comment about the churn rates over the weekends while it is well understood about the corporate stress can I myself can talk about that probably we have not gone outside a very long. So, I can understand that part if you could talk about the B2C segment and how that consumer behavior in terms of let's say churn rates for the weekends and how it has been? If you just dive a little bit more into either any city wise variance of anything which you are seeing it will be very helpful.

**Rajesh Mohta**

Yes, the churn on weekends is almost the double what we have during four days of the week basically Monday to Thursday so, if the average gets skewed because of that, number one. Number two it is more city specific and within city also there are certain locations which are the laggards which draw the average down.

**Manoj Menon**

Okay, rephrase this. I am just trying to understand is there any perceptible change in the churn rates or the weekends let's say in the last quarter versus the quarter before or any trends which you are seeing in that?

**Rajesh Mohta**

No, sir there have been no change in the trends. Weekends have been good for the last couple of quarters now.

**Manoj Menon**

Okay. Now, the reason I ask this because recall let us say the service tax was implemented a couple of years back there was a high food inflation situation which warranted higher price increases more than let's say what you would liked. So there

was a definitely trust for let's say for a consumer like me to go out and actually eat. So what I am just trying to understand that those stress at least in the last six months seems to have come off because service tax is now pretty much part of it. So at least the inflation in the ticket size is much lower then what it use to be let's say in calendar year '13 in '14 versus '13. So I just like understand either any improvement which you are seeing or it is just the same kind of weekend churn rates?

**Rajesh Mohta**

See it continues to be the same the only point which has happened in primarily after 2011 since we had not been neutralized the increase in the cost by passing on to the guest like you rightly said because there was an implication of 5% already as service tax which has become part of system now. So we never wanted to increase prices wherein which would have an impact on people coming into the restaurants also during weekends. So we had maintained the same kind of price levels without effecting footfalls into the restaurants which in my opinion cannot be extrapolated to even weekends like primarily because we wanted to guest come into the restaurants.

**Manoj Menon**

Fair enough. I recall few quarters back you were kind of enough to discuss about some of these special efforts which you have taken whether it is in terms of smaller portions particularly. We could talk about let's say how that has been? Has it been Pan India basically what I am just trying to get from you is that yes it is an extremely challenging environment outside but at least from your side you seems have done a lot of innovative stuff in the past. If you elaborate on that how are you adding on to that?

**Indraneil Palit**

You see the regular portion or the small portion has a very good impact still having a very good impact because I think we mentioned that earlier the size of the groups going today has largely reduced from 6 to 8 to may be 2 and 4. So we thought that people would like to eat less more variety and that's we will give them more opportunity to taste the menu in more elaborate fashion and that is worked well. There are the innovations like these regular portion or in the buffet we did eat five and pay for four and things like that but in large thing that we are doing at the moment which is a big effort is the fact that we are trying to refresh Mainland China by putting in Mainland China Asia Kitchen where the repertoire menu has extended to the Pan Asian also because we recognize that the palates of India is definitely moving towards more exciting flavors in the Pan Asian region so therefore that is one effort which is we have taken and we got very good result. So we are continuing in that direction because whatever Mainland China's we plan now we would be looking at Asia Kitchen more than Mainland China per se. It will have 60% of Mainland China's offerings but 40% will add value by having Pan Asian. So that is the major

effort that we had taken. We have chefs coming in and teaching us to make the Spanish food, our chefs have traveled out so that trying something which is which we are baking on. Apart from that as our Hoppipola was launched because to attract the younger people and we also did Café Mezzuna which is to get the attraction towards European food. So we are pretty much covered the segment and the cuisines both and it is a continuous process to add more value to what we can offer so as to create new interest in the existing market. I think that is pretty much what we are doing.

**Manoj Menon** Just one last question for Rajesh, if you could comment about the operating income which has come at 1.3 crores for the quarter versus 4 crores in the September and 5 crores last year. Any particular component you want to call out?

**Rajesh Mohta** See what happens once we enter into a franchise agreement there is initial access which has not been there in this particular quarter.

**Moderator** Thank you. Our next question is from the line of Kunal Bhatia of Dalal & Broacha. Please go ahead.

**Kunal Bhatia** Hi, sir. Most of my questions answered I just have one question. Sir you mentioned that margins were impacted because of the frontend cost of the new restaurants and some other expenses related to the extended breakeven period. Sir could you quantify a number which impacted because of which the margins were impacted in this quarter to get a sense if we remove that impact how was the margin say vis-à-vis on a quarter-on-quarter basis was there any improvement or year-on-year basis?

**Rajesh Mohta** Mr. Kunal see this is continues phenomena but yes rightly let's say for instance when we open a particular restaurant there are frontend cost with respect to operating supplies, etc., which gets charged to profit and loss accounts the range is from depending upon the format and the size of restaurants from Rs. 6 lakhs to Rs. 10 lakhs, number one. Number two on breakeven period it would be difficult for me to quantify a particular number because it varies from place to place and it depends upon the kind of fixed cost we incur on those restaurants.

**Kunal Bhatia** Sir what would be our same store growth this quarter?

**Rajesh Mohta** No, there is no growth per se it has almost been flat with certain cities and certain pockets being negative.

**Kunal Bhatia** Okay, that is what just wanted to get some sense if were to remove a bit of exceptional or these additional cost did we see any kind of improvement post the

price increases which we have taking into account that the high-end food inflation which was there has somewhat moderated in the current quarter.

**Rajesh Mohta** Yes, that is reflected in the numbers like we have been able to maintain the food cost at the same numbers despite revenues not growing particular and with the initiatives of whatever we have taken from our reduction in raw material cost we have been able to hold the percentages cost to the revenues which was the first basic condition for us because over a period of time that has continued to increase and had impact on the margins. But as far as raw material cost is concerned we presumed that the worst is behind now we look forward for improvements in coming months and quarters to come.

**Moderator** Thank you. Our next question is from the line of Sonal Minhas from SAIF Partners. Please go ahead.

**Sonal Minhas** I had a question on the transformation you are doing on the Machaan, Sigree, and the Flame & Grill brand last discussion I remember there were 22 odd outlets and some of them actually had been transformed to the new model. So first question was that how many of these outlets have been transformed as per your requirements? And secondly, what is the change in the table turns that you are seeing after this transformation? So just taking an update on that.

**Rajesh Mohta** See there were three restaurants which were three Sigree and Machaan which have got converted into Sigree Global Grill.

**Sonal Minhas** During this quarter?

**Rajesh Mohta** No, during this last let's say couple of quarters now. During quarter there have been no change. Now coming to the churn question of yours yes the kind of churns which we are having in Machaan, etc., which we are getting into a number of around one has already increased to 1.6 and 1.7 in those Global Grills.

**Sonal Minhas** So as a theme if I say that you have done the transformation that at that food concept level you would be making 1.7 to 1.8x table turns Sigree, Machaan, Flame & Grill all included?

**Rajesh Mohta** No, until unless those get converted into Global Grills because there are challenges into Flame & Grill and Machaan to get that kind of a cover turn around but Global Grill being a large format and a fixed price menu the cover turnaround is much higher that is the one reason why we are transforming all those Flame & Grills and

- Machaan's in time to come into Global Grill to capitalize on the growth and the offerings of Global Grill.
- Sonal Minhas** And then what is the limitation of transforming at a pace that you desire but you are not able to just understanding that.
- Indraneil Palit** No, see the point is that we do not want to close too many restaurants at one time for transformation always play with it.
- Sonal Minhas** I understand. The second question I think I have is on the people cost I see that going up a lot is that just a reflection of the sales not coming and the people cost preceding the sales for outlet that you opened in the last quarter is that what it is?
- Rajesh Mohta** Yes, see there is a normal increase which happens on the say employees cost and with the existing revenues not growing the function (**Inaudible**) 32.52 increase sir.
- Moderator** Thank you. Our next question is a follow-up question from the line of Jagdish Bhanushali of Florintree Advisors. Please go ahead.
- Jagdish Bhanushali** Yes, how has been the APT prices moving right now currently in Mainland China and Asia Kitchen?
- Rajesh Mohta** Sorry what is that do you ask?
- Jagdish Bhanushali** The average ticket table price churn price.
- Rajesh Mohta** It per cover has remain constant there is no major change.
- Jagdish Bhanushali** Okay. And one question is how is Asia Kitchen doing in the first one which you had opened-up?
- Rajesh Mohta** By the grace of god the Asia Kitchen format which opened in Oberoi Mall in Bombay has been doing extremely good for us.
- Jagdish Bhanushali** And how was the second one in the Palladium?
- Rajesh Mohta** It has let's say to share numbers let's say we started in the month of December and in the month of January itself it has broken even basically.

- Jagdish Bhanushali** Okay. And other thing how has been the average cover price for Sigree Global Grill because the churn has moved down so I assume that it would be coming up from Powai or one of the premium branches that we have.
- Rajesh Mohta** Yes, since it is fixed price menu there is the taxes, etc., borne by us it ranges between Rs. 650 to Rs. 680 across Global Grill sir.
- Jagdish Bhanushali** And other question is today in the media just I had a view where you had given an interview with a guidance of our 20% of revenue growth so if I could get a sense of how we are looking into in terms of you were to break that 20% how would that be is it in terms of churn that we are looking at that is ATP and the new stores opening?
- Rajesh Mohta** See it is a combination of both sir. When I had said it was a historical also we had grown at that particular number that is what we are trying to get into because we would be adding 12 to 15 restaurants also during this particular financial year to come in so there would be a revenue which would be converted from this maturity of our existing stores and the underlying positivity which is there in the economy which is a micro factor to give a tailwind to us.
- Jagdish Bhanushali** Okay. So where would we put us in terms of growth in opening of the stores would that be 15%?
- Rajesh Mohta** Yes, it is. Let's say for instance if we take on 115 from now it would 15 less than 15% basically.
- Jagdish Bhanushali** Okay. And the remaining 5% growth we assume that will be coming up from churn increasing and the ATP prices moving up?
- Rajesh Mohta** Absolutely correct sir.
- Jagdish Bhanushali** Okay. And the other thing any restaurants do we have under review for a closure currently which are not being that great?
- Rajesh Mohta** Yes sir we are reviewing certain restaurants we put our best forward to see whether we can convert them into profitability or at least break even. There are a couple of stores which are on our watch list.
- Jagdish Bhanushali** Okay. So any key marquee property that we are looking at?
- Rajesh Mohta** Not really sir.

- Moderator** Thank you very much. Our next question is from the line of Jugal Jain from PhillipCapital. Please go ahead.
- Jugal Jain** I have few question, our of the 79 crores revenue can you tell me how much revenue has come from Mainland China, Sigree, Oh! Calcutta and others?
- Rajesh Mohta** See I do not have exact numbers but generally till this time we always have around between 57% to 60% of the revenue is coming Mainland China.
- Jugal Jain** And about Sigree and Oh! Calcutta some rough numbers?
- Rajesh Mohta** 18% is from Sigree Global Grill if I am correct.
- Jugal Jain** And Oh! Calcutta?
- Rajesh Mohta** Oh! Calcutta is less primarily to the extent of 8% to 9%.
- Jugal Jain** Okay. And the next question. The employee expenses increased by 23% so how much is phase growth and how much has been the increase in number of employees if you can give some rough estimates?
- Rajesh Mohta** See the number employees being but from a wage increase point of view we generally have 8% to 9% touching 10%, rest is because of the new additions restaurant which we are opening.
- Jugal Jain** Okay. And if you look at the other expenses they grew at a very slow rate so what are the reasons for that?
- Rajesh Mohta** Other expenses when we talk in terms of various restaurants, the restaurants are getting opened in certain specific cities where they get amortized so we have step up increase on those expenses rather than directly proportion to the number of restaurants opening.
- Jugal Jain** So what is included in other expenses?
- Rajesh Mohta** See there are four line items which are basically roughly let say for raw material, staff cost, the third cost which is important is power, water, fuel, repair, maintenance and other expenses.
- Jugal Jain** I did not quite get you, how is RM included in other expenses? Or is other expenses line item only applicable to due restaurants?

- Rajesh Mohta** No, sir what I am trying to say the main line item is raw material cost and when we talk in terms of other expenses rent, power, water, fuel, administrative expenses, repairs & maintenance, those all get covered under other expenses.
- Jugal Jain** Okay. These should also have increased at the same rate I mean since you have added some 14-15 restaurants in this quarter so why have these no increased at the same rate?
- Rajesh Mohta** Because if you look at the total component cost, the other expenses to the extent of 12% to 13% and rental being 15%.
- Jugal Jain** Fine, understood. And out of the total outlets how many are owned and how many are rented if can give some rough breakup?
- Rajesh Mohta** Yes, the company work on asset-light models, we do not own restaurant, and we take all restaurants on leases.
- Jugal Jain** Okay, all are rented. And even going forward will this be the case?
- Rajesh Mohta** Yes, that has been the strategy of the company.
- Jugal Jain** Okay. And can you give some numbers on the royalty income as to what is the percentage of sales and you also mentioned about some upfront income when you sign franchise so, how much is that approximately?
- Rajesh Mohta** See from a royalty and management fees it ranges between 7% to 10%, 11% of the revenues of the franchise restaurants on a recurring basis which is treated as royalty in management fees and upfront fees depends upon the brand location city, etc., which could be the range of Rs.50 lacs to 1 crore also.
- Jugal Jain** Okay. And what is the payback period for Mainland China restaurants?
- Rajesh Mohta** Sir now presently it is almost touching four years primarily and restaurants level basis which use to be three years.
- Jugal Jain** Okay. And how restaurants I mean which are the major formats for which you have franchise so you have 20 franchises so that for Mainland China or is that for some other format?
- Rajesh Mohta** 16 franchise stores of Mainland China and two of Sigree Global Grills and two of Machaans.



- Jugal Jain** And what is the tax rate going forward for '16 and for '17?
- Rajesh Mohta** I presume it would be roughly in the range of 25-26 because we would have our treasury surplus on which is invested in the mutual fund giving us tax free income.
- Jugal Jain** Okay. And I actually forgot to note it. What is the churn rate for Sigree Global Grills?
- Rajesh Mohta** It is almost at 1.7.
- Jugal Jain** 1.7. And last question, are you planning to any inorganic acquisition in the near future?
- Rajesh Mohta** We would inform at opportune time please.
- Moderator** Thank you. Our next question is from Sanjay Banerjee who is an Individual Investor. Please go ahead.
- Participant** Sir I want to ask you one question in the Annual Report I had checked that in the other expenses there is some rent and advertisement expenses were paid which accounted to about 5.5 crores and that was paid to a company which is group you told which is Situations Advertising & Marketing Services which is private limited controlled by the group. So how should we ascertain that this expenses which has been paid to another private group company is appropriate and not excessive?
- Rajesh Mohta** Sir now the Companies Act has come with related party transaction, etc., and Deloitte being our auditor we are complying all those rules and regulations.
- Participant** And sir also means can you make it more clear for me.
- Rajesh Mohta** In what sense sir?
- Participant** I was not able to understand like how could we see this amount was okay because last year it was around about 10 crores and this year it is around 5.5 crores. So how should we as an investor know that this amount is not excessive in that sense?
- Rajesh Mohta** See I cannot say specifically, how do I say whether it is excessive or not but yes the processes are followed. We tried to do whatever is possible under rules and regulation and get a report done by auditors.

- Moderator** Thank you. Our next question is a follow-up from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar** Sir my question is on your recent 51 stake in Love Sugar and Dough. What exactly the strategy is and can we just through some line on this acquisition what exactly your game plans for this particular entity?
- Rajesh Mohta** See it is small format which we have taken up, they have three stores in Bombay. We are working on the business plan and we would have something like we have done for Sweet Bengal Confectionaries stores of ours. On the same very basis we would like to expand it and over a period of time. So at an opportune time we would like to take it at all India basis and we would come back to you how do we try to expand on that particular brand?
- Kaustubh Pawaskar** Sir if it is possible can you just give us some sense on the revenues and margins of this particular format?
- Rajesh Mohta** It is total what we are doing sir. It is not very material that is the only reasons why we could take a stake of 51% at 75 lakhs.
- Kaustubh Pawaskar** Okay. So you mean to say that this format would be similar to that of Sweet Bengal where you would opening around five to six stores per annum and looking at the performance you would go with that.
- Rajesh Mohta** We would do a 'Hub and Spoke' see how it runs and then expand.
- Kaustubh Pawaskar** Okay. Any further investment or any further stake you would like to buy in this particular entity in the future?
- Rajesh Mohta** Not really this has just begun sir.
- Moderator** Thank you. Our next question is a follow-up from the Jagdish Bhanushali of Florintree Advisors. Please go ahead.
- Jagdish Bhanushali** Yes, in past one year we have seen that the promoter group stake into the company has come off by about 4.5% or so, so could you please put some light on that?
- Rajesh Mohta** This was strategic sales by the promoters specific personal regions.
- Jagdish Bhanushali** Okay. So would there be further selling of those shares?



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- Rajesh Mohta**                      Difficult for me to comment but not really. There is not plan pursuing.
- Moderator**                        Thank you. Our next question is a follow-up from the line Jugal Jain from PhillipCapital. Please go ahead.
- Jugal Jain**                         My question is how many commissaries do we have?
- Rajesh Mohta**                      Sir we have kitchen's in our restaurants we have not worked on the commissaries but the process is on getting in to now because the scale of operations have been reached at a particular city at that particular number in recent times because there has to be backward cost which can be service by the restaurants.
- Moderator**                        Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you.
- Rajesh Mohta**                      We are extremely thankful to all the participants who have spared their time and coming to the conference call of Speciality Restaurants. We look forward for further conference calls in future. Thank you so very much.
- Rajesh Mohta**                      Thank you.
- Moderator:**                        Thank you. Ladies and gentlemen, on behalf of Centrum Broking that concludes the conference call. Thank you for joining us. You may now disconnect your lines.

