



“Speciality Restaurants Limited Q4 Financial Year 2015 Conference Call”

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CENTRUM



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Moderator: Ladies and gentlemen, good day and welcome to the Speciality Restaurants Q4 FY 2015 results conference call, hosted by Centrum Broking Private 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. Please note that this conference is being recorded. I now hand over the conference Mr. Ankit Kedia. Thank you and over to you Sir!

Ankit Kedia: Thank you. Good evening everyone. We at Centrum Broking are very pleased to host the Q4 and FY 2015 results conference for Speciality Restaurants. Today from the management, we have Mr. Indranil Palit, Executive Director, Projects Business Development and Strategic Planning and Mr. Rajesh Mohta, Executive Director (Finance) and Chief Financial Officer. I would like to invite Mr. Mohta for his opening remarks followed by which we can have an interactive Q&A. Over to you Mr. Mohta!

Rajesh Mohta: Thank you Ankit, and good evening to all the participants. We have pleasure in getting to call for the Q4 FY 2015 and would like to start with that we could close Q4 FY 2015 with income from operations at 73.6 Crores from 67.5 Crores, registering an increase of 9% year-on-year basis.

EBITDA has been flat at 9.32 Crores from 9.33 Crores. Profit after tax reduced from 3.43 Crores to 1.94 Crores, registering a decrease of 43.44%. During the Q4 FY 2015 we opened three restaurants, which included one Company Owned Company Operated, and two Franchise Owned Company Operated Restaurants.

In the same quarter, we have closed two of our restaurants. During the financial year, we have opened 14 restaurants out of which Ten were Company Owned Company Operated and four were Franchise Owned and Company Operated. In these Four Franchise Owned Company Operated restaurants, two are at international destination in Dar es Salaam, Tanzania.

During the FY 2014-1015 we also closed nine restaurants, which included four Company Owned and Company Operated restaurants and five Franchise Owned Company Operated restaurants. At the end of FY 2015 we have 115 restaurants and confectioneries.

One highlight, which I would like to bring to the information of all concerned that during the FY 2014-2015 because of the new Companies Act, 2013 we have additional charge of depreciation amounting to Rs. 2.33 Crores and there is an amortisation cost of Rs. 71 lakhs because of the closure of restaurants on our leasehold improvements.

I now welcome participants for questions so that we can answer. Thanks.

- Moderator:** Thank you very much. We will now can question and answer session. The first question is from the line of Mr. Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, thanks for the opportunity. My first question is in terms of demand this quarter we have seen two QSRs report challenging the numbers and one QSR has seen recovery and most of discretionary spends has seen the demand turn worst this quarter so in that context if you could talk about your same store growth across regions, across brands and when do you see recovery is it in second half of FY 2016?
- Rajesh Mohta:** Answering your first question, I would not be commenting on QSR movements. The numbers are there in public, but as far as fine dining is concerned, the pressure continues to be during the weekdays wherein the weekends, still are doing good for us. So, the particular demand during weekdays which comes from corporate is yet to come, so from a spend perspective, this is one major concern which we find. Second is primarily with respect to the discretionary spends, which have not been growing irrespective of whatever happening on the ground reality basis we are yet to see that kind of a swing coming into this spending. Now coming to the foreseeable quarters at this point of time, it is difficult to say how things are going to turn out, but the whole idea what we have been looking at is the way we have seen last couple of quarters, it appears that better days are ahead, but the timing is very difficult to predict like it whether it would be Q3 or Q4 of this particular financial year or which quarter because we shifted, we said the same thing during last financial year when that H2 would be good, but now we pushed it to H2 of FY 2016, but one important thing upon which we are banking upon is on the monsoon where we are keeping our fingers crossed, how does the behavior of monsoon will be, a big impetus for us both from cost point of view and economic recovery point of view which would in turn result into increased discretionary spends and improvement in fine-dining eating out.
- Abneesh Roy:** Sir, could you comment on same store growth, sales growth, across brands and some flavour across cities or regions?
- Rajesh Mohta:** On same store sales basis, I would once again like to repeat that from a fine-dining perspective since we are restricted to four hours of lunch and four hours of dinner this particular number after restaurants attain maturity is a factor of price increase rather than our footfalls. Yes, considering the numbers, we have seen negativity in certain cities, but on an overall basis, it is negative to a very insignificant impact.
- Abneesh Roy:** Across cities, is there any trend, which is different or it is largely one trend?
- Rajesh Mohta:** Yes, let us say for instance that with our presence in 23 cities in the country, we may like to state which geographies, I presume Southern India has a larger negativity rather than Western and Eastern India.

Abneesh Roy: Any sense, why it is like that, because this is being said by most of the companies that South India things are worse on a relative basis, what is your reading, why it is like that?

Rajesh Mohta: What we have understood primarily is with respect to corporates where the visibility from a spending perspective is so low, which has resulted into reduced spending and there has been a slashing of budgets on sales promotion, on team lunches because of euphoric businesses have not come in. People have not been achieving targets nor the milestones are being achieved. So this kind of a celebration spectra happening has got reduced from a corporate standpoint of view.

Abneesh Roy: My follow-up question: I see now lot of offers even in fine dining, buffet (**inaudible-7.55**) and all of that, so in the last one year or two year, if you could tell us in terms of real pricing in existing stores. How much is the negative real pricing and second is what is the impact of all these websites, which have come up like foodpanda because essentially, it is the same consumer, he might instead of going for the in-store dining, he can go for the delivery option, so is that the big risk or you are seeing that as an opportunity in some of your formats?

Rajesh Mohta: We being in a fine-dining industry, I would say people plan to eat out in fine-dining restaurants because it is not a whim that you get into QSR or you can order, but at the end of the day, the category and the type of ambience and value which is being given by a fine-dining people like to come, enjoy, and spend quality time in our restaurants. So, we do not see that to be a major competition, but yes, in any way, we have also started our delivery models. We have been trying to perfect and we are also associated with such delivery websites where we can also deliver our foods, so the threat that the people will not come out and dine will be not be there but still today, let us say for instance when we talk in terms of spending, the weekends still continues to be good where we have waiting at all of our restaurants.

Abneesh Roy: Sir, delivery will be low single-digit currently as percentages are the same?

Rajesh Mohta: Yes.

Abneesh Roy: Lastly Sir, two stores you have closed. If you could get into reasons and anymore stores and anything you have written off because of these two closures?

Rajesh Mohta: Yes, like I said, amortization may have happened to the extent of Rs. 71 lakhs for those two stores, but say for instance, it is a combination of various factors, because what is happening, we keep on reviewing the inefficient stores, which we have and couple of let us say new restaurants, which we opened the breakeven had got extended, so that review process is always on and if you see that the cash flows would not continue with the visibility is not there, we definitely take decision of pruning it.

- Abneesh Roy:** But what was the specific reason, was it competition, was it standalone store or was it a bad mall, what was the reason behind these two closures?
- Rajesh Mohta:** It was more location driven closure where we had one in Chennai and one was in mall where the mall itself did not do good.
- Abneesh Roy:** Thanks and I will come back later.
- Moderator:** Thank you. The next question is from the line of Rinkel Shah from Motilal Oswal Asset Management. Please go ahead. Sorry to interrupt. Ms. Shah.
- Rinkel Shah:** I have a couple of questions. Do we have segmented target audience?
- Indraneil Palit:** Segmented target audience for Mainland China yes of course.
- Rinkel Shah:** Can I have the breakup, how is it?
- Indraneil Palit:** We are looking at SECA , so that is the Mainland China of the crowd, but I think the new brands actually the SECA will be the right description. The age group is not the essential part though we have created a brand called Hoppipola, which is for age group, but we will be still SECA anywhere.
- Rinkel Shah:** Sir do we plan to open more restaurants abroad since we already have opened in Tanzania?
- Rajesh Mohta:** That is a process, which is on, but we would like to stabilize the ones, which are getting opened and see the returns etc., and then take a leap forward.
- Rinkel Shah:** Why did you choose Tanzania and not other countries like the UK or the USA?
- Rajesh Mohta:** These are developed market where you have stiff competition, so what happens is these are franchise route wherein we find there is an Indian population .
- Rinkel Shah:** What is the current break even? Do we remain at six months plus?
- Rajesh Mohta:** If you are looking at an average numbers it is yes, but there are certain brands, certain locations, which are breaking even in the second and third month also.
- Rinkel Shah:** Which two restaurants you shut down, in Chennai?
- Rajesh Mohta:** We closed one restaurant in T.Nagar Chennai and one in Sterling Road, at Chennai .
- Rinkel Shah:** What was the name?
- Rajesh Mohta:** Both were Mainland China.

- Rinkel Shah:** The restaurants, the land that we build on the restaurants, do we own that land and do the leased out land?
- Rajesh Mohta:** We work on an asset like model, we do not acquire properties.
- Rinkel Shah:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from Sharekhan. Please go ahead.
- Umesh Patel:** Thanks for giving me the opportunity. A couple of questions from my side, I just wanted to know if you can elaborate what was the cover turnaround average cover charges across all the restaurants like Mainland China, Oh! Calcutta and Sigree Global Grills? Your voice is cracking Sir.
- Rajesh Mohta:** This is one implication, which has pinched we had partially earlier, but at this point of time since it is slightly restrictive data, it would be difficult for us to share.
- Umesh Patel:** Can you give us some sense I mean whether it was could come on sequential basis across all the segments?
- Rajesh Mohta:** It would have been good. My margins would have been much better on a lighter way. There are pressures on footfalls, that is why we have not taken price increases substantially. Just to maintain that with the people to come to our restaurants. We have been successful in retaining that.
- Umesh Patel:** What is the current number of restaurants under Mainland China including franchise?
- Rajesh Mohta:** Current number of restaurants in Mainland China is 51 as on March 31, 2015.
- Umesh Patel:** At franchise level?
- Rajesh Mohta:** It is 17.
- Umesh Patel:** What about the others Oh! Calcutta and Sigree Grill?
- Rajesh Mohta:** Global Grill we have eight of our own one of franchise, which makes at nine. Oh! Calcutta is nine.
- Umesh Patel:** What about Sigree Grill?
- Rajesh Mohta:** Sigree Grill I said nine.
- Umesh Patel:** That is nine and Oh! Calcutta is how much?

- Rajesh Mohta:** Nine.
- Umesh Patel:** That is also nine.
- Rajesh Mohta:** Yes.
- Umesh Patel:** What is the capex that we have planned for FY 2016 and number of restaurants that we are expected to add in FY 2016?
- Rajesh Mohta:** See historically we have been adding 12 to 15 restaurants and going forward and depending upon the situations we would get in, we would also like to consolidate and wait for how the economy behaves because you get impacted because of macro factors. Since we have been opening 12 to 15 restaurants over a period we may contemplate to open those numbers. Depending upon the situations, we would like to conserve capital rather than to be aggressive openings.
- Umesh Patel:** So is this the way to assume capex per restaurant around 3 Crores to 4 Crores?
- Rajesh Mohta:** Yes, it is touching 3 Crores on an average.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florine Tree Advisors. Please go ahead.
- Jagdish Bhanushali:** Do we maintain our vision or the guidance that we had of about 20% in FY 2016 or how are we revising it downwards by how much?
- Rajesh Mohta:** See, this year also we have grown by 13% to 14% Sir and continued to do that because what will happen is, primarily with respect to some revival which we explore into H2 FY 2016 present circumstances, we would maintain a lower to 20%, but it will not be plus for sure.
- Jagdish Bhanushali:** Okay, because our store openings would come down to about 10% or 12% or so as you said just now, so would there be a price increase that you are looking into or the churn is going to increase?
- Rajesh Mohta:** Sir, it is a combination of one factor, which you all would understand better depending upon discretionary spends. If there is a swing somewhere, it would have a direct impact on us wherein both the restaurants will do good, opening would increase and we will be able to increase prices also.
- Jagdish Bhanushali:** I am looking at your gross margins have shown some improvement this quarter compared to previous quarters, so wanted to understand how is the price movement happening right now?

Rajesh Mohta: It would be something on these numbers only. We are not looking at any major moderations on ground basis despite inflation numbers, etc., coming low on an overall basket, it continues to remain the same.

Jagdish Bhanushali: Because as you had mentioned that in February some renegotiation of contracts could happen?

Rajesh Mohta: It had happened, but because of our unforeseen unseasonal rain, the visibility is not there to the suppliers so the reduction, which was expected have all got neutralized.

Jagdish Bhanushali: Another thing that comes from mind is that the cost of rent has come down it seems for this particular quarter. So, is there any particular reason for the same?

Rajesh Mohta: No, it is basically because what had happened, we have opened a couple of Hoppipolas during the year where there was sweating of assets on our existing properties which contributed to the revenues without the rentals, number one. Number two the Global Grill format volume has increased with fixed rentals remaining the same.

Jagdish Bhanushali: So, what is the churn that seems in Global Grill right now?

Rajesh Mohta: Sorry, I would not be able to give you the churn number, but it has been on the same static number what we have been seeing for last couple of quarters.

Jagdish Bhanushali: But the even the rentals in the absolute terms have come down QOQ, so wanted to understand on that.

Rajesh Mohta: Basically what happens is, since there have been closures like and we have a model wherein we have rental to revenue ratio, which is basically a revenue share model. So, if you look at on Q-on-Q basis, the revenues have reduced from what we were, so percentage revenue shared to the owners have got reduced.

Jagdish Bhanushali: So, would this be the constant rate now, about 10 Crores per quarter?

Rajesh Mohta: No, it all depends upon how the revenue increases. If there are revenue increases on revenue share model, it would once again increase in absolute terms if percentage remaining the same.

Jagdish Bhanushali: Another thing that comes into my mind is that we have closed down some restaurants and we have also opened some 14 restaurants currently, so wanted to understand how is the recovery that do we see when we close down the restaurants, we do a capex about 3 Crores to 4 Crores, so how much are we able to recover from that capex in terms of the tables and chairs and everything, would you want to put a number to that?

- Rajesh Mohta:** See, if I may say so, it is only the immovable which we lose and even in case of immovable, we try to remove and move to our new restaurants, especially since we keep on opening restaurants, the utilization of the kitchen equipments which is the major constituent and the movable furniture, those all get moved to the new restaurants.
- Jagdish Bhanushali:** Right, so how much has been the capex for FY 2015 as a whole?
- Rajesh Mohta:** FY 2015, the capex had been around 46 Crores if I am correct. I will just check on the number and let you know.
- Jagdish Bhanushali:** On the cost basis, any recoveries on the closed down, any number like .50 lakhs, 70 lakhs, or a Crore or something?
- Rajesh Mohta:** We have already taken the amortization of .71 lakhs.
- Jagdish Bhanushali:** Another question comes is that, our loans and advances for this particular year has increased, some of the account it seems to the tune of about 17 Crores, so wanted to understand that where is that going exactly?
- Rajesh Mohta:** Loans and advances is more with respect to the opening of restaurants where we need to give security deposit to the owner of the property depending upon six months, 12 months to 18 months rental, major constituent of loans and advances.
- Jagdish Bhanushali:** All right. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vaibhav Bid from Motilal Oswal Asset Management. Please go ahead.
- Vaibhav Bid:** Good evening. Sir, just one question. In a lot of metros, you see the trend of wok centers opening up, so basically if you know Wok In The Box kind of brands which will give out deliveries for Chinese, so make your own stuff and you get a wok box to eat. So, are we thinking of going into such a model? Because this basically attracts a lot of crowd and you can build a brand also out of it.
- Indraneil Palit:** I think we have given birth to a brand called Zoodles and where we do these kinds of boxes, which are very popular. We have just started one.
- Vaibhav Bid:** What is the brand called?
- Indraneil Palit:** Zoodles.
- Vaibhav Bid:** Okay. Where has it started Sir?
- Indraneil Palit-:** Mumbai, Andheri.

- Vaibhav Bid:** Mumbai, Andheri. Okay, in Andheri, East Or West?
- Indraneil Palit:** Andheri West.
- Vaibhav Bid:** Okay. So, how is the brand doing in terms of demand?
- Rajesh Mohta:** It just started about six months back and we are experimenting what we should do before we open a couple of more stores looking at the back end to see what is the logistic cost vis-à-vis the cost of expertise. Once we are sure of that, we will perhaps take it forward. What is happening now, these small shops are basically, almost like Mom & Pop kind of shops and it needs a lot of expertise as compared to the others who can operate from a central feature and just supply as a retailer pool.
- Indraneil Palit:** I think we will have a clear idea may be in the next three or four months.
- Vaibhav Bid:** Three or four months, okay. Do we have a vision on this brand or we will just do it as a try and test?
- Indraneil Palit:** See, the point is that we have seen these kinds of models existing all over the world. The only thing that places a worry is the fact that what is the rent vis-à-vis the kind of revenue that we can expect and what is the logistical cost. We played this cautiously and at the same time we are very hopeful that we will have a breakthrough and will know what to do next after we open two to three more restaurants.
- Vaibhav Bid:** On the margin front, on the financials, your margins have declined quite a bit because of higher raw material cost, so which is that cost that has eaten into profits?
- Rajesh Mohta:** Combination of areas caused it. When we look at our raw material basket, every raw material price has increased even if you talk in terms of dairy products, you talk in terms of vegetables, you talk in terms of mutton, which has been very substantial, and seafood has also increased.
- Vaibhav Bid:** Also in terms of capex going forward, how much can we expect in this year?
- Rajesh Mohta:** As I answered earlier also, it is a factor which is dependent on what number of restaurants do we open in this particular financial year, basically since we had opened 12 to 15 restaurants and depending upon the macro factor's improvement, we would definitely do that particular number, but which would always be reviewed as and when required.
- Vaibhav Bid:** Coming back to the wok centers, what is the cost of setting up one wok center?
- Rajesh Mohta:** It would be about 35 lakhs to maybe 45 lakhs.
- Vaibhav Bid:** Thanks a lot.

Moderator: Thank you. The next question is from the line of Avinash Sharma from Dalal and Broacha. Please go ahead.

Avinash Sharma: Thank you for the opportunity. I would just like to know the like-to-like sales and like-to-like EBITDA figures for Mainland China as to this quarter as compared to last year?

Rajesh Mohta: That is not readily available with me.

Avinash Sharma: The other questions have been answered. I will come back if there is another question.

Moderator: Thank you. The next question is from the line of Resham Jain from Batlivala & Karani Securities India Private Limited. Please go ahead.

Resham Jain: Thank you Sir. I just wanted to get a sense on Asia Kitchen. We have redone certain Mainland China into Asia Kitchen. First how was the response of those stores? You have already mentioned they are good, but in terms of margins and profitability and number two how many stores are we planning to further covert into Asia Kitchen?

Indraneil Palit: The response as you said is already good, so we have already said that. The margins are no less and no more than a Mainland China. The reason why we did that was very simple that we wanted to take the cuisine, broaden the horizon of the cuisine. So far, as the plan for the future is concerned, we are looking at kind of changing this to Asia Kitchen maybe two in every city starting with the south. We will see how the reactions are and then perhaps carry on with the other cities, but whatever new Mainland Chinas we are doing now, we are going to do Mainland China Asia Kitchen in the new avatar and not the old avatar. So, maybe by end of the year, we should have, instead of two we should have six to eight Asia Kitchen in the kitty.

Resham Jain: In terms of store penetration, how many stores do you think can be opened in the next five years, like in terms of opportunity? I am not saying, you might have evaluated every city, may require this many restaurants, so what is the kind of opportunity we have in front of us? You may open less, but just from the opportunity point of view.

Indraneil Palit: We can open 14 to 15 depending how the economy is doing, because the advantage is that we have is that we have multiple brands, so therefore our opportunity with the multiple brands. I mean if it is not Mainland China it could be Sigree, if it is not Sigree, it could be Mezzuna, if it is not Mezzuna it could be Hoppipola. We think that we always wanted to grow at 14 to 15 restaurants a year and the opportunity will still remain the way it is, but yes we will take cautious steps, not overdoing it, but we think 14 to 15 restaurants can be opened every year. There is no such problem. We have never seen it and we do not foresee it.

Resham Jain: Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from iAlfa Enterprises. Please go ahead.
- Prakash Kapadia:** Thanks for taking my question. Sir, if you could just give us some sense, we have seen 9% sales growth this quarter, 11% in Q3 in your opening remarks and in earlier calls also you had mentioned we were expecting H2 to be better, so what has gone wrong in terms of sales growth, because some of the macro indicators like food inflation, consumer sentiments all seem to be there, so what is affecting sales growth for us?
- Indraneil Palit:** The sentiments that you mentioned are still not very optimistic. I mean we do not find at least in our sector except for QSR but that also Pizza Hut and McDonalds took a beating, but the point is that the optimism does not seem to be back in any form or the other, so we do not expect it to change overnight as well, so basically it is a footfall issue, it is only we can business, malls are only full when there is a good movie, so there I think there is too much of fluctuation and I think it will take some time with some optimism in the market, it can possibly be steady, but so far we do not see any indication of that.
- Prakash Kapadia:** Raw material cost obviously are lower, you know we were targeting centralized processing, we were targeting localization. Given what is happening at least you know on the macro front, where you know commodity costs are lower, food inflation seems to be lower, CPI seems to be lower, so what is the kind of RM cost we would expect in FY 2016? Would we see further down trading of this or we would see stable cost?
- Rajesh Mohta:** See I would not be commenting on the statistics, which are thrown on CPIs and WPIs because on ground reality, the prices continue to be the same levels, so but we do not look at any major improvement or an increase but stable prices, keeping fingers crossed for this monsoon season Sir.
- Prakash Kapadia:** So you are saying that if monsoon were to be normal, there could be some improvement?
- Rajesh Mohta:** Operations should happen.
- Prakash Kapadia:** Lastly, on employee could you give us some sense what is the headcount today versus last year, which department we are seeing addition as you know employee costs are almost up 18% for this year, so where are we seeing increase in employees, very specific departments or is it part of our funnel which we have planned that is why we have front ended some of these costs?

Rajesh Mohta: Primarily the number increases with the opening of number of restaurants, because we carry a pool of staffs for our openings, but the moment the new restaurants open it gets shifted and it continues with that particular brand, so number of openings is directly proportional to the increase in number of staffs, but from middle management to top management there has not been a major increase, but it is only at the restaurant level.

Prakash Kapadia: What could be our employee count as on year-end?

Rajesh Mohta: I do not have specific numbers, it is somewhere between 4200.

Prakash Kapadia: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Sahil Chotalia from M3 Investments. Please go ahead.

Sahil Chotalia: Good evening Sir. I just wanted to understand as far as your debtors are concerned, is there some lag in the credit card payments or the debit card payments that you get or what kind of debtors are these basically?

Rajesh Mohta: These are debtors with respect to all franchisees primarily because there is no lag at credit card receivables comes from the bank on the third day. It is more on the franchisees, which we have opened and we are in the process. Those were there and then franchisees outstanding that are delays. That is the only quantum of debtors what we have.

Sahil Chotalia: Thank you so much.

Moderator: Thank you. The next question is from the line of Nitish Chawla from Banyan Capital Advisors Private Limited. Please go ahead.

Nitish Chawla: Good evening Sir. I wanted to understand the basic process that goes behind closing a restaurant. What kind of parameters do you look into and what are the steps that would take to turnaround a restaurant before actually deciding to close one?

Rajesh Mohta: See what happens is, before opening a restaurant, there are certain researches which do get carried out, we do a financial evaluation for opening a restaurant, but let us say for an instance, if we continue for six months and then try to find out where we went wrong and it is more like a factor of revenues because the costs is in any which ways are run on Indian basis remaining the same, so it is revenue driven and then we try to understand is it the brand promotion, is it the awareness of the brand, etc., in that particular area, locality or city. We try to put our best foot forward with respect to hoarding campaign, press campaign, etc., and despite that if there are no footfalls coming into over a period of time we would not like to get our good money converted into bad money, we will take a decision of going out of that particular locality or place.

- Nitish Chawla:** What would be the typical duration that you would give a restaurant to turn around?
- Indraneil Palit:** It is generally happening in 24 months' time.
- Nitish Chawla:** Secondly, I presume that the restaurants which are older restaurants, two to three years old restaurants, they would be more profitable than the newer restaurants which are opening, is that a correct assumption?
- Indraneil Palit** It could not be an assumption in the sense because it all depends upon the cost matrix and the revenue matrix of an existing even if a new restaurant is getting opened, it might so happen that the profitability matrix is different from the older ones also. Over a period of time, it does stabilize let us say, it might so happen that one particular brand, which starts at one location, maybe doing better than the earlier ones also.
- Nitish Chawla:** Secondly on this LSD acquisition that you had done and now you have sold it, so wanted to get what was the reason for that?
- Rajesh Mohta:** Primarily we went into to scale it up and then we were drawing up a business plan, there were constraints on financial capital with the partners, so before getting into and we had some constraints from there end we had to disengage ourselves.
- Nitish Chawla:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Anand Shah from Kotak Securities. Please go ahead.
- Anand Shah:** Thanks for taking my question Sir. One is can you comment on this number of stores that you have for the year-end. Within Mainland China you told is 51 and 17 franchise and Sigree Global Grill will be how many?
- Rajesh Mohta:** Sigree Global Grills are nine Sir.
- Anand Shah:** If I remember it was about 15, 16 right in the last quarter?
- Rajesh Mohta:** What happens is, if you combine Sigree and Sigree Global Grill as on March 31 these are 16 in numbers.
- Anand Shah:** 16 and 3 franchises are there. Oh! Calcutta you said is nine and then two franchises.
- Rajesh Mohta:** Nine, Oh! Calcutta, we do not have franchise Oh! Calcutta.
- Anand Shah:** No franchise. How many would be Hoppipola?
- Rajesh Mohta:** Hoppipola as on March 31 are 5.

- Anand Shah:** Mezzuna is 2?
- Rajesh Mohta:** Mezzuna is at 2. Just to give you, let us say if you want Mainland Chinas are 51, 17 franchise, Oh! Calcutta nine. We have another brand called Haka which are two. We had Shack one, we had Kibbeh in Hyderabad one, Sigree and Sigree Global are 16, 7 plus 9. We have another Flame & Grill, which are three in number. We run three Machaans, one Kicks and two Mezzuna, 5 Hoppipola 1 Zoodles and two Mainland China Asia Kitchens which are 51 plus 2, 53.
- Anand Shah:** Two Mainland China Asia Kitchens also 53 okay and Zoodles (**unclear-37.25**).
- Rajesh Mohta:** The total is 9 and 18 Sweet Bengal Confectioneries.
- Anand Shah:** That is the store addition. Second thing you have been indicating that monsoon is a big concern. I mean hope the things pan out, but as you stated that your (**unclear-37.40**) population is a key target market. Why you then so worry about monsoons?
- Rajesh Mohta:** I am worried that the monsoon with respect to our raw material prices
Anand Shah: Okay, you expect RMs to go up in monsoon, but that is only key concern, not on the demand for sure. Net addition this year was 5, you said you open 14 and close 9, what was it last year?
- Rajesh Mohta:** For 2015 we have this number. I do not have 2014 numbers.
- Anand Shah:** But roughly let us say this year you closed 9, you would have ballpark number, how many restaurants would have closed in 2014 or 2013 any rough idea?
- Rajesh Mohta:** It would be much less than what we closed this year basically.
- Anand Shah:** Why has this numbers have gone up? What has been the issue? Are you facing some resistance in tier 2 towns or so because Aurangabad example you closed this?
- Rajesh Mohta:** We closed thereby franchise which we closed five in numbers in Nasik and Surat, five restaurants. So these cities the kind of revenue to the let us say it is more a driven factor from rent to revenue ratio if the revenues are not commensurate, you continue to make cash losses and then the final closure call has to be taken.
- Anand Shah:** Then can one conclude that tier 2 towns are still not ready for your kind of restaurants?
- Rajesh Mohta:** But there are certain tier 2 towns, which are doing good. For instance if you look at Guwahati and Lucknow, they are doing good. It is a combination of various factors. It depends upon the pallet, it might so happen in one particular let us say support the particular city, there could be two locations which we will be doing two different numbers.

- Anand Shah:** Any expansion plans now in Delhi? Do you have been slightly slow in expanding into Delhi, so any further plans to expand in Delhi?
- Rajesh Mohta:** There are locations which are being explored, but we would like to be sure before getting into any kind of arrangement as far as the rentals are concerned, because we have seen if you get into any location where the rentals are high, because the revenue factor depends upon the macros, but the fixed cost remains with you and you have some sort of arrangement with owner. So we are very, very selective and we are looking at financial evaluation in a very thorough way.
- Anand Shah:** It means a long time I mentioned you have not expanded much in Delhi that remains big market?
- Rajesh Mohta:** It would be a big market, but what happens is, rent to revenue ratio has been a critical component for us till this time. If you take Delhi the same is with us in Bandra-Kurla Complex.
- Anand Shah:** GM Sir you do not have much expansion from here as you indicated some RM costs have already gone up, so Q4 number can we taken a ballpark trend?
- Rajesh Mohta:** I look forward for that.
- Anand Shah:** One last thing, when do you get initial access premium for the franchises like Tanzania one that you have started. When would you have recovered the initial access premium any on other operating income?
- Rajesh Mohta:** Opening of the restaurants we do get the initial access premium from them, but we enter into agreement and we account for that particular period itself. We are not getting into franchised restaurant anymore at this point of time. Strategically it would only be a very opportunity based. Further down the line IIPs would get reduced.
- Anand Shah:** Okay they will keep getting reduced and for this quarter you would have recovered the initial access premium for both the Tanzania franchises?
- Rajesh Mohta:** For instance we entered into agreement earlier, so that was accounted for in those quarters.
- Anand Shah:** When was this?
- Rajesh Mohta:** I think it was almost like nine months back.
- Anand Shah:** So I think may be about Q3, Q4 last year you had initial access premium going up, so may be is that that time whatever caused it?
- Rajesh Mohta:** Recurring fee has now started.

- Anand Shah:** You will continue to get royalty.
- Rajesh Mohta:** That is right.
- Anand Shah:** Thank you Sir. I will come back if I have more questions.
- Moderator:** Thank you. The next question is from the line of Poorna Venkateshan from Jefferies. Please go ahead.
- Poorna Venkateshan:** Good evening Sir. Thank you for taking my questions. Sir I just wanted to understand, how do you see the online ordering space building up? What kind of presence do you want to see or since having in the next few years? Do you have target percentage of sales coming from online, because that seems to be a growing source of demand?
- Rajesh Mohta:** We are and we have also started doing it, but it is more linked to delivery model wherein our focus has been there, but we have not been able to get into double digits. It is most like single digit earlier. So the focus in the team is working towards it, but in case of Mainland China primarily since it is always been said to be à la minute cuisine from a wok to the table has to be there, because it is more aroma driven, so kind of experience one has in the restaurant do not get the similar experience if food is called at so there are challenges there.
- Poorna Venkateshan:** Are you looking at taking certain brands to be only online focus brands?
- Rajesh Mohta:** As Mr. Palit is indicated in the QSR category we have already started Zoodles. We would take that into that particular segment, because it would be more delivery based wherein online ordering, online booking etc., would be happening.
- Poorna Venkateshan:** Do you think it is online delivery that is actually eating up into your demand or do you say that are you seeing that fine dining is totally separate from online food ordering?
- Indraneil Palit:** There is a wall between ordering and fine dining, because fine dining goes with ambience also. Here it is more like destination driven where people like to enjoy the ambience and food. So it is altogether a different segment and when you are in the go you would like to get into QSR or a delivery base, but the moment you have some amount of family celebrations etc., because we have huge amount of family gatherings happening at our restaurants. So that is one segment which would continue to be there in fine dining.
- Poorna Venkateshan:** But in the last few quarters, have you seen an increase in your online ordering?
- Indraneil Palit:** Not significant.

Poorna Venkateshan: Another question I had was on the impact of service tax increase that you see in your business, what kind of impact would be seen?

Rajesh Mohta: It is any which is going to pins up a guests pocket, I think our increase would be 0.66%, because we have an abatement available to us to the extent of 60%, so 40% only gets levied so it would be 5.6% increasing from 4.94%, in any which ways is an increase.

Poorna Venkateshan: In terms of consumer end would that again result in lower demand, because you have not been taking any price increase, because of that if I understand right from your call?

Rajesh Mohta: This increase is not that significant where it would be very, very large like, so it would not be a major impact yes but in any which ways the total outflow for the guests would increase.

Poorna Venkateshan: So your impact is only 0.66% like you said?

Rajesh Mohta: That is correct 0.66%.

Poorna Venkateshan: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Jubil Jain from Phillip Capital India Private Limited. Please go ahead.

Jubil Jain: Good evening Sir. Sir I joined the call a bit late, so pardon me if the questions are repeat. I have three questions. First of all what is the price hike and second what is the SSSG and third what is the reason for the decline in the rental expenses by 16% QOQ?

Rajesh Mohta: First is let us say for instance on the SSSG I did explain, because of fine dining, we have four hours for the lunch and dinner, so it is not like that every time it would be an increase here because the restricted hour, working hard time number one. Number two, with respect the decline in rental is primarily because of a combination of fixed rental revenue share and revenue generated by restaurants, which do not have rental wherein in fact for us sweating of assets.

Jubil Jain: Sir I did not understand the part about SSSG, so what is the number, is it flattish or was it from decline?

Rajesh Mohta: There is a decline. Let us say for instance on certain cities it is a major decline, but on an overall basis it is not positive or flat, but some decline there.

Jubil Jain: The last question, the price hike?

Rajesh Mohta: Price hikes have not been on an altogether basis, which we used to take three years back, depending upon the invitation pricing etc., we have increased prices to neutralize

some impact on certain cost like Global Grill format, etc., which were there when we started with initial invitation price we have increased some component of it.

- Jubil Jain:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florine Tree Advisors. Please go ahead.
- Jagdish Bhanushali:** I wanted to understand that how many restaurants are we reviewing for a closure in particular FY 2016, any sense or any ballpark figure?
- Rajesh Mohta:** There is no particular number per se, but let us say for instance because at times what happens is that there are restaurants, which during particular week season do not do good, but at when in the particular peak season they do good, so it is an average which we have to take out for 12 months, but yes there are couple of them which are under the caution list of ours.
- Jagdish Bhanushali:** Because what happens is as an investor I was a little concerned that we opened up , 14 restaurants this year. We closed down 9, but for those total that is net we have added five restaurants and on the COCO models we have added some six restaurants, but we have incurred a capex of about Rs.46 Crores, so that is a big concern that comes up, so I wanted to understand your view on that?
- Rajesh Mohta:** I appreciate because the capex number right now is not handy with me, but closure of restaurants had got because you cannot have a net of because 10 restaurants, which are getting opened would incur the individual cost for individual restaurants. It would be slightly lower than when we move on certain immovables, etc., movables and immovables to that particular location, where there is some reduction but it is not like that the 100% gets moved to the new location.
- Jagdish Bhanushali:** That is right, I understand that, but what it means that if we have more restaurant opening up in this particular year and the things stand where they are today, there will be few more closures that will come up, so on net-net basis, our capex actually like for this year we opened six and the capex is Rs.46 Crores, so again for next year also it could be like we opening five on a net basis, our capex will be high. We have four restaurants on a net basis seems to be very high that will be concern for us.
- Rajesh Mohta:** We appreciate it, but what will happen is depending upon the opening and when the restaurants when they do not generate revenue because of certain macro factors and if there is an improvement on a revenue front it might so happen that those which are on our watch list or the caution list might get converted into a break-even situation where the closure is not required.
- Rajesh Mohta:** Thank you so much.

- Moderator:** Thank you. The next question is from the line of Devanshi Dhruva from Dolat Capital. Please go ahead.
- Devanshi Dhruva:** Good evening Sir. Thank you for the opportunity. Sir I wanted to ask the expansion plan that you will have for FY 2016, so how many of them would be Mainland China and how many would be others, if you could indicate that?
- Rajesh Mohta:** We have always worked towards our flagship Mainland China. It would be at this point of time we would look forward to 50% of it should be Mainland China or conversion from Mainland China to Mainland China Asia Kitchen and could be a combination of Global Grills and Hoppipolas.
- Devanshi Dhruva:** Sir this amortization you said of 71 lakhs. So is that over an FY 2015, have you done it on a single time or is it going to happen over a few years or something?
- Rajesh Mohta:** That has been taken into FY 2015 amortization.
- Devanshi Dhruva:** FY 2015 completely. Thank you.
- Moderator:** Thank you. The next question is from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.
- Avinash Sharma:** Thank you for the opportunity again. I just wanted to know the nine stores, which were closed down so the breakup of that like in Mainland China and the rest?
- Rajesh Mohta:** Out of this nine there are five franchise owned restaurants, which were closed in Nashik and Surat. There are four company owned restaurants, which I assume there were two Mainland Chinas in Chennai, one in Aurangabad, which was Flame & Grill and one was another Mainland China in Mumbai, Tardeo, we moved to Palladium.
- Avinash Sharma:** The 14 restaurants which you have added in the full year out of them how many were Mainland China?
- Rajesh Mohta:** I think there were six Mainland Chinas and one Oh! Calcutta and Global Grills would also be there and four Hoppipolas. I do not have that number right in front of me otherwise I would have given it to you.
- Avinash Sharma:** That is all Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Nitish Chawla from Banyan Capital Advisors Private Limited.
- Nitish Chawla:** I wanted to get an update on the restaurant planning to open in the Middle East. I believe the Doha one was to come live in January and there was one plan in Dubai as well, so what is the status of those restaurants?

- Rajesh Mohta:** Doha is almost in the completion phase. We got delayed because there are certain permissions availability from government of Qatar. We hope to open in a couple of weeks from now before Ramadan on a soft trial basis.
- Nitish Chawla:** The one in Dubai?
- Rajesh Mohta:** We are into talks, but at this particular of time we would like to open Doha first, stabilize it and then venture out it to a new destination.
- Nitish Chawla:** Both these are franchised if I am not wrong?
- Rajesh Mohta:** Doha is a joint venture Sir.
- Nitish Chawla:** That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Umesh Patel from Sharekhan. Please go ahead.
- Umesh Patel:** Thanks for giving me the opportunity again. Sir I just wanted to know your sense on EBITDA front like if I look at the performance since 2008, our EBITDA margin was quite fluctuating between 15% to 19%, 20%, in current year also we reported around 9.7% excluding other income, so I just wanted to know where do we see our EBITDA margins considering the fact that we are also opening new restaurant, which will also increase our rental expenses as well as the other expenditure?
- Rajesh Mohta:** Sir, answering your EBITDA percentage improvement, it is a combination of spends in my opinion from 2012-2013 onwards we have been having a macro pressure on discretionary spends. This trigger to the improvement of EBITDA would be very substandard number one. Number two the new restaurants as you were mentioning whichever we are trying to take we are trying to rationalize our rental and that is the only reason why we are not choosing the aggressive path of opening restaurants. We are trying to make sure let us say we know by this time what not to do than what to do.
- Umesh Patel:** Is it fair to consider that with the gradual pickup in consumer discretionary spending, we can report around 200 to 300 BPS expansion at operating level in the next couple of years?
- Rajesh Mohta:** That is what we are working towards. We tried to put work towards it. It is the objective of the management.
- Umesh Patel:** Thank you very much.
- Moderator:** Thank you. That was the last question. I would now like to hand the floor over to the management for closing comments.

Rajesh Mohta: It had been a pleasure interacting with you all and we work towards improving margins etc., in quarters to come with the hope that the macro factors would improve. Thank you so very much to all.

Moderator: Ladies and gentlemen, on behalf of Centrum Broking Private Limited that concludes this conference. Thank you for joining

us. You may now disconnect your lines.