



SPECIALITY
RESTAURANTS LTD.

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September 16, 2017

To,

✓ **General Manager,
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**Vice President,
Listing Compliance Department,
National Stock Exchange of India Limited,
'Exchange Plaza', Bandra Kurla Complex,
Bandra (E), Mumbai - 400 051.**

Scrip Code: 534425

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Dear Sir/ Madam,

Sub: Conference Call – Transcript.

Please find attached the following document on the above matter:-

1. Speciality Restaurants Q1-FY18 Conference Call – September 12, 2017.

Kindly take the above document on record.

Thanking you.

Yours sincerely,

For Speciality Restaurants Limited

A. N. Kinshikar
Authorized Signatory



Name: Avinash Kinshikar
Designation: Company Secretary & Legal Head

Encl: As above



“Speciality Restaurants Limited’s Q1 FY2018 Earnings
Conference Call”

September 12, 2017



**MANAGEMENT: MR. ANJAN CHATTERJEE – CHAIRMAN & MANAGING
DIRECTOR, SPECIALITY RESTAURANTS LIMITED
MR. RAJESH MOHTA – EXECUTIVE DIRECTOR,
FINANCE & CHIEF FINANCIAL OFFICER, SPECIALITY
RESTAURANTS LIMITED**

MODERATOR: MR. ANKIT KEDIA – CENTRUM BROKING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Speciality Restaurants Q1 FY2018 Earnings 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 from Centrum Broking. Thank you and over to you sir.

Ankit Kedia: Thank you, Stanford. Good Evening, everyone. We at Centrum are very pleased to hold the Q1 FY’18 Results Conference Call for Speciality Restaurants. Today from the management, we have Mr. Anjan Chatterjee – Chairman and Managing Director 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, ladies and gentlemen. On behalf of the management of Speciality Restaurants, I welcome you all to the Investors Call Post Q1 Results of Financial Year 2018.

To begin with, demonetization was felt in this quarter as well. But in all likelihood it would wane out now in the festive season. There were a couple of restaurants which were impacted because of Hon’ble Supreme Court Order Banning Sales of Liquor within 500 Meters of Highways from 1st April 2017. But the same has got regularized all across the country.

The income from operations were lower by Rs.6.39 crores during the quarter on YoY basis. Primary reason being we had informed earlier as well that two of our restaurants, large format restaurants in South City Mall at Kolkata, which has gone under renovation because the mall is under renovation and we had to renovate those two restaurants from February onwards which continues to be there and as a result of that Mainland China and Flame N Grill Restaurant contributing revenues of almost like Rs.1.15 crores per month are still under modernizations which has resulted into a drop in revenues by Rs.3.45 crores and impacting bottom line. We hope that the mall will start functioning from October 2017 which would definitely get resulted impact in Q3 of the financial year.

The same-store sales also remain negative by 4.91% during the quarter, though this is an improvement from 5.60% from the sequential quarter. We hope the same should zero down during the festive season.

The company continued its persuade in controlling cost and has been able to reduce expenses in absolute terms. There has been renegotiation in rentals of a couple of the properties.

The company during the quarter opened Gong in April 2017 at Balewadi, Pune and Asian Cuisine Restaurant with two Sweet Bengal Confectionery Stores in Mumbai.

For the first time, the owner of one of the properties in Chennai where we used to operate our global grill restaurant, has been taken over by the owner from 1st April 2017 and the same has got converted as a franchise restaurant.

There are a few restaurants which are still on our watch list as they are yet to breakeven. Efforts are on through various promotions, etc., to increase revenues of those restaurants and trying to reduce fixed cost and renegotiation of rentals for the properties concerned.

The total number of Restaurants and Confectionaries as on June 30, 2017 are 122. Out of which 22 Restaurants are Franchise Restaurants and 19 are Sweet Bengal Confectionaries.

The company has opened a Restaurant POH, Progressive Oriental House at Kamala Mills during July 2017 which is an award grade gourmet experience that showcase Asian World Cuisine.

The company has opened a Dariole Bakery and Confectionery at Kolkata in July considering the market size of the bakery and confectionary to be Rs.17,000 crores and growing at a CAGR of 13-15%. Primary reason for going into opening a confectionary store in Kolkata was to utilize the operational depth basically which the company has in running Fine Dining and Casual Dining Restaurants.

Now, I invite the investors and analysts for their questions on the performance under review. Thank you.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar:

This Confectionery thing is a new surprise and it also happens to be in Kolkata where I am from. So can you please throw a light on where it is and what exactly is the game plan?

Anjan Chatterjee:

Kaushik, this is Anjan Chatterjee. A Very Good Evening. I would like to tell you that as you know that this whole market of Confectionaries particularly ...I am talking about organized market is in and around Rs.13,000 crores, now the point I am making is that we had an internal discussion. Earlier on if you see the historical, we were very interested in having a line extension of a bakery because it is belief of mind based on data and the fact that bakery chain whether internally or externally, because it is not necessarily done by very large players, but we have seen small operators within Kolkata and in Mumbai or Delhi who are operating nice and good in regional pockets. Historically, we have been famous for scaling up of Fine Dining which is a fairly difficult challenge. We think that this particular category is not a big challenge, it is a commissary base like Sweet Bengal within Bombay, it is comparatively easier, it is more hub-and-spoke model and we can actually standardize quality, it is basically on refrigerated vans that move around, I am sure you know of many bakeries which are famous within Kolkata, example is that historically the Monginis which came in... I am talking about

organized ones, then came in Mio Amore and then you have of course the famous one on a high end is the **Lavi Barman's Cookie Chat**. Now what we did was that we have a very large commissary in Kolkata and we have a facility there where we train people. So based on that we were anyway supplying bakery things from the bakery mart within the commissary there and we have the wherewithal of doing that because we are doing distribution to almost 18 restaurants there and the units of ours. So we thought that looking at the quality and consistency obviously we are slightly quality conscious of. It so happened that we said that we had the category interest, we had taken LSD, Love Sugar Dough earlier ...unfortunately that did not work because the partner split. So it was a wrong acquisition we had done at that point because unfortunately the partners did not work out within themselves and we had to walk out. So hence the interest has been there for quite some time. So this is a game plan based on the fact that we would like to do in 18-months within a commissary which is standardizing our product and I think it has got a very good resonance within Kolkata, within a very short period of time, we have done no advertising, no promotion whatsoever, but very quietly a) because of the fact of quality and intelligent pricing and of course, since you are from Kolkata, you may know that it is on Rowdon Street. So this is the one, but we have already finalized a few LOIs which we would be doing within a period of six months, we would be doing at least five to six of them because it is a no-brainer, just need a counter, very low CAPEX and then you just put things together as long as the things are standardized, so which we are in the process. Post Durga Puja, we would like to open the first one with Salt Lake, then we have a plan to do one in Triangular Park, the other one is being done slightly away in the Southern Avenue. So we are geographically keeping at least 4-5-Kms distance, looking at the density of population, mapping them very carefully and I think that within Kolkata city in 18-months we should be able to come internally between minimum of around 8 to 12 of these bakeries. The overall margins in this business is comparatively higher than that of any other margins that you can keep in many more sectors within the food and beverage. Hence we think it is a huge opportunity and once we do this hub-and-spoke model, we can actually amplify that in rest of India, starting again we have taken Mumbai as a base we have a commissary, and we have the bakery shafts, etc., So it is comparatively in terms of overhead, we are working backwards, not very high overhead loaded and we would like to actually make the stores very clean and minimalism, in the first one may have been a little more CAPEX, we will reduce that as we are going and getting in the process of learning. The name is Dariole. Actually in French it means the cakes mold is known as Dariole. So hence we have slightly not kept typical cakes and bakes and cookies and this. We just moved out of that.

Kaushik Poddar:

Just for the sake of comparison, in case of Sweet Bengal, are you breaking even in Mumbai... is it giving the return on capital?

Rajesh Mohta:

Yes, Mr. Kaushik, we make money out of Sweet Bengal, but it is not break even because what had happened, the kind of factory which we have created for Sweet Bengal it is a state-of-the-art factory and we have capacities to cater more number of Sweet Bengals. You would see that the last quarter also we added two Sweet Bengal Confectionery Stores. So continuous process

is on adding Sweet Bengal because from a backward integration perspective, the factory is geared to take more number of stores.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.

V.P. Rajesh: First question is just trying to understand the economics of the confectionary that you are describing Mr. Chatterjee, if you could just give a sense of the CAPEX required and what is the payback period in this format and what is the game plan in terms of the rollout?

Anjan Chatterjee: I think you heard when I was elaborating and talking to Mr. Kaushik, so I will not repeat what I have said. I will only be specific to your question would be that, firstly, we have spent in and around 20, in the first store, since it was Rowdon Street and the space taken was 600-odd carpets, so we had to spend because we wanted to be in the right position within Kolkata and Mr. Kaushik if he is hearing me, he knows that is the prime location next to the Best Bakery Brand Next to it, it is like Theobroma in Mumbai if you are Mumbai-based. So considering that we have put in 600. We do not need that kind of space. So, a) we are paying a slightly higher rental in this case, 1,60,000-odd and we would like to reduce and keep it between anywhere in a city like Kolkata for example, where we are talking about eight of them, not more than between 70,000 to 1,00,000 max in a prime location. We want to reduce the size of the store because in this place since we have a compel, we had a seating of around 16 people, we do not need a seating, we will make it carry, like a QSR or any street mart which we have Sweet Bengal. Basically you come, there is a counter, you interface and you choose, take and go back. There is no seating, there is no interaction in terms of area expansion. 250 to 300 would be the ideal store area. Hence retail expenditure in terms of rentals go down. Secondly, it is Rs.3,000 crores market, so there is scope enough and even the local guys are doing very well unorganized highly, we would like to get into an organized like Mio Amore has done, in Kolkata maybe Theobroma, all the 15 and there are two others who are actually in the process of becoming more mature, BKC also we have seen a space, later on when you move to Mumbai. Now, the point would be that we would like to keep our rentals as low as possible, for example, in the Sweet Bengal model, which is basically hub-and-spoke. Now when we do a fine dining, we have to have a kitchen which is a main line kitchen, in the sense that a back area kitchen, we have done commissaries because a lot of cutting, chopping comes in from there and then initially we had large kitchens which have now reduced to the size of around 600, 650, in Kolkata we have a kitchen of course, there is a huge banquet there... that apart, but we have started with the kitchen size of around 1800 sq. ft. carpet which is now reduced to 600 because we are optimizing, making the operations so tight, example of the fine dine. But here, you have one hub as you will rightly understand and there is an air-condition van which takes a standardized product and it goes around, there may be two vans, three vans which we do in Sweet Bengal and move around. Now the question may come in your mind is that "Why not press a button on a brand which is successful in Mumbai like a Sweet Bengal?" Yes, we could have done, but then at the same time we did a research which said that the generation which is coming up, is not eating sweets excepting in Kolkata now, but even the youngsters between the

age of 18 to 24 are very sugar conscious... all of us are becoming, but at the same time when it comes to a cup cake or a cake or a celebration cake, they love it, and they keep on repeating the size, the confectionery, there is also savories which is about the patties and the buns, etc., etc., So that is a very easy thing for everyone including the youngsters. So we want to now understand and make things so that it is slightly futuristic and it is growing at a CAGR of 15% or so, that is what is the data that we have collected. So I personally see that we will be able to optimize return on investment on an EBITDA level if we are talking about a mature store of us, like a south city which was giving us around 13, 14% it used to and we are reopening the way because it is under renovation. In mature stores if we are making 12, 13%, but in this case the EBITDA levels can go to easily without any effort, as you expand and then the cost of the commissary comes down, amortized, it will come at least between 14% to 19%, that is the average EBITDA that people are operating on...of course, there are unorganized players who are not paying GST, manipulating and all that, they make more... that apart. So this is the kind of economic the bakery will have.

V.P. Rajesh: One just follow-up on that; what will be roughly the payback period? What is the investment that will go in a typical store when you are opening a new store in Kolkata or in Mumbai or Delhi let us say?

Rajesh Mohta: It would be dependent on size primarily but let us say for instance when you look at the kind of information which Mr. Anjan conveyed on the size which we have taken slightly larger, but taking an economic size of 250-300 sq. ft. the investments would be around Rs.15 lakhs and based on the numbers which we are looking at our first store, it looks like the moment we have an economic size of number of Dariole store with the commissary, the payback should range around two years.

V.P. Rajesh: How many stores are you planning to open over the next 12-months or so?

Rajesh Mohta: As indicated by Mr. Anjan in his opening answer to Mr. Kaushik, there is in all likelihood that in next 18-months' time we may get into 8 to 12 stores in Kolkata primarily in Phase-1.

Anjan Chatterjee: We concentrate and dominate regionally. It is easier for us to have a hub and then start expanding on the spokes which we believe will become easier for us to one consolidation concentrate, dominate move to the other city and I think that we are talking very intelligent expansion mode because it is actually 250 sq. ft. in pockets which is around 4.5-5 Kms like I am sure that you know the depth of density...

V.P. Rajesh: I think I got the answer for my first question which was understanding the rollout, etc., related to the bakery chain. The other question I have is just trying to understand, Mr. Mohta, you mentioned it was 4.9% I believe, so if you could just bifurcate between your Mainland China versus other formats, that would be helpful?

Rajesh Mohta: If I may say so, basically what happens is we give a same-store sales of overall company. The brand wise same-store is slightly confidential. So we will not be able to share at this point of

time. But on a general basis, I can definitely say to yourself that Mainland China is much lower because of whatever numbers which we have, it is in the early single-digit.

V.P. Rajesh: And then in terms of understanding the cost reduction measures that you have taken, so for this quarter if I see if you take out the cost of goods sold, there is a cost base has gone down around Rs.2.5 crores in the current quarter and we have talked about around Rs.10 crores back on the May conference call. So my question is that should we continue to expect that there would be further cost reduction or this cost basis of Rs.350 crores is the base line that we should expect for the rest of this year?

Rajesh Mohta: It will all depend upon the number of restaurants. But if you could look at the staff cost, etc., there has been a good amount of reengineering happening because of which there is an absolute reduction on QoQ basis to the extent of Rs.1.8 crores which we presume will not increase but definitely would be very steady going forward. #2, when we talk in terms of percentage to revenues, yes, there have been pressures of revenues because Q1 generally happens to be the lowest amongst the four quarters I would say. So going forward, the number percentage to revenue would definitely improve upon.

V.P. Rajesh: What about the lease rent and other expenses line items?

Rajesh Mohta: What happens is lease rental generally we have a majority of the rentals now in place are on percentage to revenue and there are certain fixed rental model also. Wherever it is linked to revenues, we will not see a drop but yes, on a fixed rental basis, there would be some drop. Since it is a combination, it will not be a major drop per se.

V.P. Rajesh: So is it fair to say that it will be also a steady number, right?

Rajesh Mohta: Steady number, that is correct sir.

V.P. Rajesh: On the other expenses line, is there more potential for the cost to come down or what is the color on that particular line item?

Rajesh Mohta: What will happen is post-June, there are quarters now we have started on GST basis, we are also trying to work out exactly the kind of input benefit, etc., which are going to accrue to us., so it is in a process. So it would be too premature for me to comment on other expenses. But what has happened like there have been increasing license fees, etc., by the government in this particular financial year vis-à-vis. But we have controls on other expenses, so we will see that the cost do not increase substantially and remain steady.

V.P. Rajesh: What I heard you say that you will try to keep that constant as well?

Rajesh Mohta: Absolutely right sir.

V.P. Rajesh: So my other question is when we were talking back in May, you were saying that there will be benefit of around Rs.3-4 crores from the rental piece where you were not getting the credit but now in the GST world you are going to get that input benefit. So my question is that, is there more cost benefit that has to accrue in the business just given that kind of dynamic or most of it is now baked into the Q1 numbers, just from the absolute number of cost basis that you are looking at?

Rajesh Mohta: That working is already on with respect to GST because government also have come with various regulations on prices, etc., So it all depends upon what kind of end pricing we have. So we are working towards once the quarter July-August-September goes when we have returns, etc., in place, we will be able to ascertain the exact number.

V.P. Rajesh: And then could you throw a little bit more color on the exceptional item of Rs.9,35,00,000?

Rajesh Mohta: Say for instance, the exceptional item relates to Doha... and Mr. Anjan is with the answer.

Anjan Chatterjee: I would just like to elaborate on the fact that Doha has been there for us since 2016. Initially there was a cost overrun because of the fact that there were draconian laws, etc., which we had to pass in spite of the due diligence we had done. It was a slightly delayed operation which started...that apart. But then you see, between '16 and '17, if you know that what is the condition of Doha at this moment? Ground reality may be not advertised but whole of the route of Dubai as well as the Saudi and all the routes of there to get vegetable, fruit, as you know nothing is produced there, like any other gulf country like Dubai but still Dubai has a huge trade base which they get it from all over the world including India, Pakistan, etc., Today, the condition is so bad that half the businesses are withdrawing from there or they are shutting down because the partners there who are the existing people, a) the dollar of the barrel prices of the overall economy of there which is based out of cash and petroleum has come down as you know from 100-odd to today almost 50 or 48 or 52, that is where it is hovering, it had come to 30. So economies was going down overall but still there was a resonance of the fact that people from the Saudi Arabia, one hour distance used to come every month four times in a week also to obviously because in Saudi obviously banned on liquor to anything, but at least in Doha there are restaurants, five stars, etc., where there is a possibility of liquor, they used to do there, spend blow up their money, similarly, from Dubai, there is a huge trade. All this has gone away. So the overall Doha economy is down, they are unable to handle the vegetables. Turkey is flying down milk to every perishable. Operating cost of the food cost particularly overall has gone up almost by 12-14% suddenly. So this whole business obviously we had a joint venture when we have a Katri partner and he did not have too much of resonance in terms of, it was the strength that he had. Everybody thought it is a short-term problem, it continued for a while but it looks like a long-term issue. So hence our board internally decided on the basis of the fact that the joint venture partners wanted to come out of that. So they wanted to reduce their stakes and then they go out kind of thing. It is a kind of reengineering. So we are continuing to look at the possibilities of having another joint venture partner who has the wherewithal and has the monetary you are doing a financial due diligence and if you ask me we are also doing a kind of forensic understanding. So to understand that they have the sustenance power, etc., to

reengineer the whole arrangement while the property continues to be at this moment everything is status quo. So we would like to reengineer and restart. That is the plan at this point of time.

V.P. Rajesh: But I thought in JV, we are not putting a lot of capital. So I am surprised that we have to take such a large write off. That is where I was coming from.

Anjan Chatterjee: In a JV it was 51:49. In a franchise we do not do. In a franchise arrangement, it is we take a franchise fee and we take a revenue share, like example, Sri Lanka and we have decided that we will try and minimize the opportunity, either we do it 100% or if we do not see any kind of a thing, we will not do any JV at this moment, we will only do franchise like Sri Lanka, we have Dubai and we are doing two more here within the country itself and also may be one or two of the international discussions which are going on.

V.P. Rajesh: Just talking about the partnerships, I believe you are going to open one in London. So any update on that? And then there was I believe another partnership for 10, 11 restaurants that was discussed on the last call for Middle East and I believe US also. So if you can provide an update on that?

Anjan Chatterjee: On Middle East, what we have done is that we have entered into an arrangement with the corporation who are running around 40 restaurants of a similar time Pan Asian Chowki and who are a very established company within the UAE, they also have in Abu Dhabi and they are also opening in Saudi soon, their own brand master franchise. So we have given at this point of time tactically one but right of refusal for three within Dubai and then we look at the other UAE. So at this point of time, since we had a little bit of understanding that Doha is not showing a kind of amplification and we did not so, we change the arrangement to a master franchise kind of thing and then they have given it there. On the US front, there is a strong running discussion and we have got into a kind of discussion which has ended in a point that we are supposed to meet them again because it is a fairly large opportunity which is being discussed. So there has been a negotiation on one or two points which are in the final stages. There are other considerations when you do international business as you know that you have to have the RBI approvals, you will have to have follow intelligences, which are not within our limited sphere of normal business. Our governance is very strong. Hence we have got many independent companies which are audit firms, etc., also to take and understanding that when we put money or we do an understanding with anybody who is internationally, we need to be a little more cautious and also prudent enough for the business. So that has been a discussion which is a large one and may be a little prolong than we expected. As they say 'Insha Allah', we should be talking to them, again they are coming over, then trying to take it to the logical end.

V.P. Rajesh: Is it fair to assume Mr. Chatterjee that we would not see much of revenues from either of these arrangement that you describe at least in the current year or you see by Q4 at least some operations in the up and running?

Anjan Chatterjee: No, not really. I will only elaborate on one point which you have not asked, absolutely other gentlemen are listening to it and may be ladies. I am saying that assuming the understanding, what is happening, I will tell you, we are debt-free and we have some money lying with us, so obviously we have to employ that money somewhere. Either we do within our restauranting or find out avenues to see amplification and return on investment, that is one or otherwise we have to ensure that there are lots of change within restauranting industry, small ones, it is not biggies, we are not talking about large investors, where we have to get into borrowings which we will not get, we do not believe that, so there could be a possibility we are in at the one stage of discussion, which we have been doing for a long time but lots of balance sheets do not show strength, so we do not want to take over a brand which gets us another hit but we are in the consultation with particularly one or two of them. So we are looking at which has been a long dream of mind, because I think that somebody who consolidate the space like I would talk in Kuwait we have a friend of mine who is called Ajay Bijli who has done for PVR, he started with Priya Cinema a small humble one, from where he catered to PVR and you know rest is history, right. I am saying that the institutions are also ready to support us to understand our investors like you and others. But yes, acquisition would be the way forward for a large corporation which has the strength and wherewithal of operations to may be take it forward. So there is another avenue which we are very strongly looking at. While your first question is that we will not do that part. I am adding this Part-B that which we have not added, I am just adding it from my end so that everybody is informed.

V.P. Rajesh: What is our cash position at the end of the quarter?

Rajesh Mohta: Roughly, the treasury is around Rs.70-odd crores.

V.P. Rajesh: On the Kolkata Mall Restaurant that you are talking about earlier, if I heard you right, you said the revenue from that is around Rs.1.15 crores. So can we expect that may be in the second half, we should have at least Rs.1 crore of revenue coming from that particular restaurant, is that a fair assumption?

Rajesh Mohta: Being in South City Mall of Kolkata, we were working with the promoters of the mall to start before Puja which was in September but looks like there is a delay there and Mr. Kaushik Poddar who was there asked first question, he would be aware that in Kolkata what the South City Mall is. So we are keeping our fingers crossed and hopefully the timelines which have been shared by the owners is somewhere in October and early November or so.

V.P. Rajesh: There was another restaurant which was supposed to be reopened in Kolkata. So I was wondering if there is an update on that?

Rajesh Mohta: No, these are the only two restaurants in Kolkata.

V.P. Rajesh: Both are in the same mall, is it?

- Rajesh Mohta:** Yes, there are three restaurants of us; one is running, and there are two which are under renovation, one is also running at 50% capacity.
- Moderator:** Thank you. We take the follow up question from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.
- Kaushik Poddar:** You have talked of acquisitions or something of that, if I got you correctly?
- Anjan Chatterjee:** Yes, we are basically talking about the fact that there is a possibility that we are in discussions with people who are able to have a balance sheet in which they have an EBITDA at least of around 8%, 9% which could be eventually becoming a little more with our support wherein because our purchases are better, we have the understanding a little better for sure and so in a time we know what not to do. There are small good promoters. I am sure that you heard of something called Aqua Investment. So may be on the promoters and their businesses, we are looking at that kind of a possibility in which this will be in the form of an inorganic, there can be a subsidiary independently, it was held by the company in majority and then we will try and guide them and also give them within our understanding a space to grow to. So somebody who has an opportunity hypothetically, they are one today, we will see the possibility of them doing 15 restaurants, not being over-ambitious in next three years and if we see that their EBITDA levels are good and they have the right kind of perception in terms of due diligence of our parameters of quality, consistency, FCQ that is food, consistency quotient and certain other parameters which we can understand now. We are looking at this kind of a thing for a long, long time, but at the same time we do not want to take a load of a balance sheet which is further more dragging us. So we have been very cautious but if everything goes well with god's blessing, we are in the process of locking at least one of them, may be two.
- Kaushik Poddar:** This is an existing restaurant chain, is it?
- Anjan Chatterjee:** I cannot say a chain, chain, but may be a restaurant or two wherein there is a potential of them to get into 14 restaurants. I will tell how it comes in. We have many stores which are not showing very good color. So we are watching over a period of time. Could there be a possibility of synergy? We have that space acquired because we have a long lease and may be a lower rental. We get into someone who is a good operator, has an independent and has the understanding and he works within our ambit and gets into an expansion within those areas. So we may extend and then give those spaces to them to see a little more obviously because return on investment will be based on our projections of their which is existing balance sheet and which is over a period of minimum of two years because we would like to see 24-months balance sheet running, it cannot be just overnight a man coming in and just showing things and this has a due diligence, this is the thought process.
- Kaushik Poddar:** So it is a courtship of around 24-months before you find anything to plan, is it?
- Anjan Chatterjee:** Not our courtship. I am saying they have to be sustaining their business in a minimum of 24-months.

- Kaushik Poddar:** So it is formally informal arrangement initially before you finally take a call...?
- Anjan Chatterjee:** I will give you an example; being a comparatively large company in this space, there are lots of promoters who come to us but some of them are having a balance sheet which is basically loading our balance sheet, so we say politely no, so we keep on getting information memorandum from many places and there acquisition people you know that, so lots of people keep on coming. So these are looking like some good ones. So we intend also looking at that which will not load us. It is not that we are giving them around Rs.100 crores to acquire them, no, not at all, very humble nice pies which can be a crore.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors. Please go ahead.
- V.P. Rajesh:** Just a follow up on the strategy, Mr. Chatterjee. What I understood from your commentary is that people have approached you where they may be running one or two stores at this point in time and then you guys will evaluate whether you like their operations and their value systems is in sync with what you have built and then you will essentially may buy 51% or may be more, then it gets consolidated in our P&L and then give them the capital to grow to let us say 15 stores in three years, is that roughly the gist of what you replied?
- Anjan Chatterjee:** You are absolutely right. Bang on.
- V.P. Rajesh:** Just to understand that these acquisitions or these investments what will be the capital that you are looking to commit over the next 12 to 24-months in this inorganic...?
- Anjan Chatterjee:** To be very honest with you that at this point of time slightly I may talk loose because it is in a last stage of negotiation, so I cannot indicate. Surely by the time they do it very soon with god's blessing, we will announce it. So we are not able to make a projection of how much money will be required for that. This is a matter of real negotiation. I am telling them we are not a money bag, we are a strategic partner...
- V.P. Rajesh:** I understood, you are very close to signing the deal, and you do not want to talk numbers on a public forum, I respect that, no problem. My other question was what will be the format does it need to be oriental or you are looking to diversify the type of formats we have?
- Anjan Chatterjee:** No, in fact, we are at the moment looking at oriental, non-oriental both. I told you, there are three parameters for us one, 24-months of operations of the minimum, there is something called there is jargon called FCQ, that is food consistency quotient, it has been there over a period of time, feedback on our research done to consumers, fourth would be balance sheet, this is also equally important because you cannot have a sick balance sheet which comes in and load our balance sheet and we further go down. These are the evaluated parameters.
- V.P. Rajesh:** If I heard you correctly, there are a couple of deals which are very close to getting done, is that the right understanding?

Anjan Chatterjee: I will be very honest with you that I believe in a life of uncertainty, because we are in this business unless locked in, we are all uncertain but at the same time may be three, I cannot say sorry sir, because there are lots of people who are interested to join hands with us because of the so-called expansion we had done over a period of time. Every month there is information memorandum coming to us. But we evaluate and put it on the side. Sometimes, we say, no, there is a resonance. Yes, we look at the parameters. If they agree, then we discuss.

V.P. Rajesh: Just last final question... I know it is a little futuristic but how would you characterize the probability of us turning EBITDA profitable for the current financial year?

Anjan Chatterjee: Again, it will be a loose talk; you know that I am in a public forum, I do not want to be getting on record to say anything, but I can only say this to you, 24x7 we are working towards ensuring not only are we EBITDA plus, we should throw in beyond that at the end of it we will try and create actual profits for the company and I think we are looking at each cost, line item, revisiting that all over again and putting a microscope on that and trying to ensure this is another parallel thing which is to convert this complete thing. See what happens in a corporation I will be very honest. You are our partner. Over a period of time, every corporation starts getting flap which is fat because you are in a comfort zone and over a period of time everybody gets into a level that "Okay, fine, fair enough, XYZ. What will happen if we take the weight out, etc.," But if you are dynamic, if anybody is and bold to take certain very-very prudent decisions without affecting the quality and ultimate payoff to the customer, you can really revolve things. So if you see that from last quarter to this quarter, we have been able to save a few very important cost which have gone down if we evaluate and see that. So going forward also on one side, we are looking at ensuring that the profitability of the balance sheet of the individual units go up. Whenever we see no resonance, we try to say that, "Okay, shut it." I said, "Why shut it and forget it? Why not ensure that we have an acquisition which is interesting? It is not clashing with our interest and get them in and they see the similar kind of areas which are existing within us." So this is a three-pronged kind of a strategy we have decided.

Ankit Kedia: Sir, you mentioned that 14 restaurants we might just give it to the other parties, we may not be profitable or...

Anjan Chatterjee: No. No, I stand to be corrected... I think it has been recorded and you can recheck. How can I give? I do not have the wherewithal to give all. The whole company will be taken over by them. That is not the point. The point is that some of the restaurants which again is a loose talk we are looking at certain resonance at the same time something. We know that we can have synergies with a few like two, three, four of them. So they quickly expand. Supposing we acquire a person. He does not have the wherewithal to overnight get a space which is in a prime spot. We have it. We do not see too much of amplification and profitability in that area for a brand A or B. We immediately convert and say that you take it, it is a subsidiary of us, at the same time it will be an outlet, we will get into an understanding with them with an understanding of the kind of rentals, etc., which has been negotiated over a period of time and then we give them an offer. If they agree, they have an independent authority, at the same time

we are controlling. We are putting money on the promoters, it is called Aqua Investment. So we evaluated the promoter's credibility in a very detail. So not all of them. 14 of them, then I will be out of business.

Ankit Kedia :

Sir, my second question is a few years back we had a strategy of cutting down the numbers of brands and restricting it. So from Mainland we went to Asia Kitchen which was a good strategy, then from Sigree Grill from Sigree, that is good. But now again we POH and Gong we have other things, the old ones are not cut. So is the market changed where we see churn happening frequently and the boards need to be changed and we are following that... what is happening in the market side?

Anjan Chatterjee:

What is happening now is that on one side there is a large franchise of Mainland China which has the respect and love for Mainland China which continues, but a few of the new trend today has come in, it is like a new bride in the city. People get to look at the new bride with more understanding. So I will give an example, Asia Kitchen, we pressed the button and we have expanded to five, six, seven of them, so we are looking at them in different mall. So we have decided that we will not necessarily do standalone, we tried one which did not show too much of resonance, so we have decided that we will concentrate only on malls. On the basis of that now there is for example SEC A1, that is absolutely top level we have four, then we are talking about in the affordable luxury it is Mainland China mainly and wherever Mainland China Asia Kitchen which is an extension because it is more global, in the sense that it is more Pan Asian, it is modern, contemporary in the seating and everything as you have seen. Third one is Zoodles and Gong comes in, in between because of the fact that POH cannot be replicated overnight, it is a more of a boutique restaurant, it is a showy touchwood, very, very, very good amplification. Now that continues to be a 70 cover restaurant which is boutique and there is an opportunity like as you see in the Masala Libraries of the world, Indian Accent, over a period of five years they have been doing, very-very good respectable business. So we cannot make up POH for more another Mainland China. It will be slow, steady growth of them in cities, metros and consolidation may go to Delhi, we may do one in BKC later, etc., on one side is that. Second is the Affordable Luxury wherein one part is Mainland China, then we have the Asia Kitchen, then we have also looked at Gong, Pune experience has been very good, although Balewadi is not the best location in Pune, and then we are looking at Delhi, that is GK2 which is our existing restaurant, we are converting into Gong. Now you may ask me, "Why not Asia Kitchen? Because at the same time we have seen that in a standalone, example, Koramangala or necessarily Sakinaka of course, there are traffic challenges, we are solving them. We are all watching and monitoring. I will give you an example, it is exactly air traffic control which is looking at the radar and seeing where is the resonance coming. So you will see as the Gong comes in, that becomes a very interesting model and it is a more resonating brand which is slightly fresh from Mainland China Asia Kitchen also. Asia Kitchen in malls, standalone Gong but we cannot help it because within the pan Asian we are wanting to dominate and continue to be the #1 because we have the wherewithal.

Moderator:

Thank you. Sir, would you like to give any closing comments?



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Rajesh Mohta: We are extremely thankful to all the participants who had joined conference call of Speciality Restaurants. We work harder for presenting better results in quarters to come. Thank you very much for your time.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Centrum Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.