



SPECIALITY
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February 13, 2017

To,

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Listing Operations,
BSE Limited,
P.J. Tower, Dalal Street,
Mumbai - 400 001.**

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

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Dear Sir/ Madam,

Sub: Conference Call - Transcript

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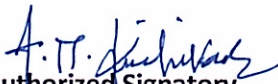
1. Speciality Restaurants Q3-FY17 Conference Call - February 10, 2017.

Kindly take the above document on record.

Thanking you.

Yours sincerely,

For Speciality Restaurants Limited


Authorized Signatory



Name: Avinash Kinshikar
Designation: Company Secretary & Legal Head

Encl: As above



“Specialty Restaurants Q3 FY 2017 Results Conference Call”

February 10, 2017



ANALYST: MR. ANKIT KEDIA – RESEARCH ANALYST – CENTRUM BROKING PRIVATE LIMITED

MANAGEMENT: MR. INDRANEIL PALIT - EXECUTIVE DIRECTOR (PROJECTS BUSINESS DEVELOPMENT AND STRATEGIC PLANNING) - SPECIALITY RESTAURANTS LIMITED
MR. RAJESH MOHTA - EXECUTIVE DIRECTOR (FINANCE) AND CHIEF FINANCIAL OFFICER - SPECIALITY RESTAURANTS LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the Speciality Restaurants Q3 FY 2017 results conference call, hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Kedia from Centrum Broking Limited. Thank you and over to you Sir!

Ankit Kedia: Thank you Aman. Good morning everyone. We at Centrum Broking are very pleased to host the Q3 FY2017 results conference call for Speciality Restaurants. Today from the management, we have Mr. Indraneil Palit, Executive Director, Projects Business Development and Strategic Planning and Mr. Rajesh Mohta, Executive Director (Finance) and CFO. I would now like to invite the management for their opening remarks followed by which we can have an interactive Q&A. Over to you Sir!

Rajesh Mohta: Thank you Mr. Ankit and good morning ladies and gentlemen. On behalf of the management of Speciality Restaurants, I welcome you all to the investors call post Q3 results of FY2017. Since the published results are there with you all, I would like to drive some points for your ready reference. On revenue side, the spend pressure on weekdays did not subside in this quarter as well and we witnessed the demonetization move by the Government of India to have happened in our so called best quarter of the year because of the festive season being good, October, November, and December the spendings are there. Despite the challenges, we did see improvement in the last week of December 2016 from spend perspective, which was impacted during the month of November in the first fortnight of December because of nonavailability of cash, clarity not being there, and what is

going to happen. On the numbers side, the income from operations were lower by 1.24 Crores year-on-year basis, which is significantly lower than what we had projected for. The company at least was cash positive with EBITDA being 5.67 Crores with other income and Rs. 4.31 Crores without other income against 8.60 Crores and Rs.7.19 Crores respectively year-on-year basis. This overall performance resulted into a net loss of Rs.4.62 Crores against a profit of 58 lakhs year-on-year. The company during this particular quarter has taken a onetime impairment expense of Rs.59 lakhs for the closure of one restaurant in Goa, which happened post the end of the quarter and to comply with the accounting standards. The revenues have almost been the same because of primarily negative same store sales growth for restaurants, which is around 5% during the quarter. The only possible time, which is available now is with respect to the moderation in the inflation wherein we find that the raw material prices instead of moving let say northwards primarily, which used to happen for the last two and two-and-a-half years, we see there is a movement, which is happening southwards, which is reflected in the numbers wherein we have been able to control our raw material cost per se at restaurants. The benefits have started accruing to the company and we look forward to better cost to revenue in months to come. There has been an increase in other expenses during the quarter on year-on-year basis because of A) Rent escalations during the nine-month period and B) Increase in the revenue of share because of higher revenues. Redemption of preferred points by the guest being charged as discount in our profit and loss account and importantly reversal of service tax on input services, which is continuing in this financial year and we hope that would benefit the company once the GST regime starts. Few of the restaurants opened during the past 12 months are yet to achieve breakeven, but efforts are on through various promotions even renegotiation of rentals with the owners of the property. During the quarter three of FY2017, we opened only one restaurant that is a QSR

category restaurant Zoodles in Viviana Mall, Thane and closed the one Sweet Bengal confectionery stores in Vashi, Mumbai. The total number of restaurants and confectioneries as on 31 December 2016 are 124 out of it 25 restaurants are franchise and 17 are Sweet Bengal confectionery stores. Now I invite investors and analysts for their questions and the performance under review. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We had the first question from the line of Sriranjjan Seshadri from Gaja Capital. Please go ahead.

Sriranjjan Seshadri: Good morning Sir! Just one quick question we have noticed a revival in same store sales growth in the QSR format of other brands in the country. How do you say the market has changed in terms of same store sales growth across a QSR, CDR, fine dining, etc.? Thank you.

Rajesh Mohta: Primarily when you talk in terms of QSR and fine dining, I would find reason being with respect to the ticket size primarily because in the month of November and December the fine dining was more impacted because of the ticket size being more and confusion prevailing in the minds of guests, so this could be the one of the reasons why fine dining is more impacted than QSRs.

Sriranjjan Seshadri: Just as a followup question post demonetization what would be the proportion of business that you are seeing through PoS terminals and digital transactions?

Rajesh Mohta: We had always witnessed a ratio between 65 and 30 between credit cards and cash, which moved to almost like 90 and 5 in the month of November, which has got changed to 80 and 15 during the month of December.



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Sriranjan Seshadri: In the quarter that just went by because of demonetization have you seen any shift or drop in say the week's day revenues as compared to the weekend revenues?

Rajesh Mohta: As I said so weekdays continues to be under pressure for us, which has been there for the last couple of quarters. I do not find because of the demonetization is there any shift per se and we can still continue to be good.

Sriranjan Seshadri: So what weekend form say 45% of your revenues?

Rajesh Mohta: If you include Friday, Saturday, and Sunday the business is almost like 60 plus during those three days.

Sriranjan Seshadri: Thank you. No further questions from me.

Moderator: Thank you. Take the next question from the line of Ankit Kedia from Centrum. Please go ahead.

Ankit Kedia: Good morning Sir! Sir my question is on the new restaurant opening and closures in the last two to three quarters most of our restaurants, which were nonprofitable we have shut in smaller cities, so how many malls and restaurant closures are remaining currently and how many conversions are there because I noticed that even conversions in last quarter or last to last quarter it happened, so what is the status from a existing slate of restaurants, which needs to be closed or converted to new formats remaining and my next question would be on how many new restaurants we are looking to open going forward in quarter four or FY2018. Given that in one of the press articles we are looking a new format opening as well wherein the shares of liquor and food could be 50:50, so if you can throw some light on that?

Indraneil Palit: As far as expansion is concerned, we are looking at it very cautiously, so if you look at it at this particular time I do not think we are looking

more than five to six new restaurants opening that is one, the second issue the conversions we have started already and I think another four needs to be converted, but there again we will take the step very cautiously without being in a hurry situation. What was the third question was conversion?

Ankit Kedia: Conversion.

Rajesh Mohta: During this quarter, we would be opening two new restaurants by March where the work is in progress and let me tell you Mr. Ankit what happens is since we are into I would say a dynamic situation, so opening of a number of restaurants during the financial year 2017-18, the calls would be taken as the year progresses primarily because we have let say 90 days from a zero date to open a restaurant, so it does not require for us to have plans, which could be stabilized for the whole year, so short term I would say we are cautious, we are only looking at profitable locations and yes the two restaurants, which are there in pipeline would open before 31 March 2017. Coming to your question one of opening and closing in smaller cities, etc., yes there are couple of restaurants as on date, which are on our watch list, which wherein we are last leg we are putting all our efforts to see that we at least break even on cash and going forward since the time has passed we will take appropriate calls as and when required.

Ankit Kedia: Sure and Sir about the new format, so now Mainland China accounts for less than 50% of revenues and incremental growth was coming from Hoppipola and Sigree to a certain extent global grill, so how is that mix changed in the last quarter or quarter or two and then going forward the new two brands we are looking to open where does that fit in, in the puzzle for us because at one place we are closing some of the old brands like Shack and Machaan and others and now we are looking at new brands coming in, so what is the broad strategy on the brands and Hoppipola, Sigree, and Mainland China?

Indraneil Palit: Shack we converted it to Hoppipola, which is a brand, which we are anyway putting our money in. As far as Machaan is concerned, we have not closed any neither have we convert it as yet. The Malad one that was quite some time yes. So the Malad one we converted to global grill and it paid off very well and there is only one Machaan left now, but it is again a locational issue because that Machaan to tell you the truth is a more vegetarian oriented place and it is a franchise as well, so we will not take a hectic decision unless we are sure that there is a market for the brand, which will replace it. So this goes about Shack and Machaan. I think we have reiterated that our main focus is on oriental cuisine, Mainland China, and Asia Kitchen. We are backing off Hoppipola as well. Global Grill will only happen when we find a suitable space. So largely you can say that Oriental Cuisine per se and Hoppipola are the two where we are putting our money in.

Ankit Kedia: And Sir the new brands, which we are looking to open. The incremental opening are going to be in a couple of new brands right?

Rajesh Mohta: Right, but the cuisine is the same. Only shall I say that the format and offering by way of packaging would be different, but the base cuisine is the same.

Ankit Kedia: And Sir my last question is on the raw material cost saving, which Mohta Sir spoke in the opening remarks. Sir how much could be the cost saving say from a nine to 12 month perspective and do you think that is sustainable or it is just a short term measure given the product mix also which we are having because Hoppipola is contributing now double digit to our revenues?

Rajesh Mohta: When you talk in terms of the total contribution in any which ways food component is the largest component of the overall revenues. What we have seen in the last quarter was a decline to the extent of a percentage point. Yes going forward we look forward to that we are

on sub 30 to revenue that becomes a target because what is happening is the way the Oriental Cuisine and Hoppipola are growing; we will try to benchmark ourselves with 30% of calls primarily, so it is all a factor of pricing yes. Stabilization in raw material prices have worked very favourably and we will look forward to that we are getting into a tendering process and from April to first half in any which way looks good from raw material prices then once again it would be dependent on monsoon. We are also strategizing renegotiating with our raw material suppliers whether it works favourable to have a shorter-term contract rather than 12 months. All those combinations are being worked out, but all said and done we are looking forward for improvement in cost to revenue.

Ankit Kedia: I will come back if I have more questions. Thank you.

Moderator: Thank you. We have the next question from the line of Abhijeet Sethia from SJC Advisors. Please go ahead.

Abhijeet Sethia: Just wanted to check what was the corporate overhead cost for this quarter?

Rajesh Mohta: Corporate overhead continues to be almost like 7%-7.5% of the revenues.

Abhijeet Sethia: If I take that number right and I try and find out or look at what is the first store inflation for you is so that still kind of hovering around at 4%-5% now? No, the stores in inflation in terms of cost? Sir what I am trying to work out here is that if I back out the corporate overhead that you have and I look at the store level cost then it looks like your store level costs are still growing in about 4%-5% year-on-year, will that be an accurate number?

Rajesh Mohta: That is right.

Abhijeet Sethia: Because I think a few calls ago you had mentioned that you are incrementally converting additional space that you have at your Mainland China, etc., into the likes of Hoppipola, so is there room to find out bring that inflation lower since you are sweating assets as of now?

Rajesh Mohta: That was the real reason why we started Hoppipola. It was primarily to do sweating up our existing assets because we have been paying rental, which is to the tune of 15% of the revenues, which is a major component of the cost, but looking at the EBITDA margins of Hoppipola, we expanded on standalone, but wherever we have spaces we are working towards amortization on larger revenue by opening Hoppipola.

Abhijeet Sethia: Got it and what is the outlook for Café Mezzuna because I think that is the other brand that we were looking to push more aggressively a couple of quarters back?

Indraneil Palit: Mezzuna was a cafe that we were planning, but I think largely that we see now that Hoppipola seems to be a brand, which is more shall I say suitable for the demography that we are catering to because Hoppipola can might as well work as a cafe in the morning and a bar and that is what we saw, so I think we will stick to Hoppipola more than Mezzuna at the moment.

Abhijeet Sethia: Got it and when you close a company-operated store as opposed to a franchise store are the impairment cost materially different?

Rajesh Mohta: The assets are in company store only belongs to us as far as franchisee stores are concerned because the balance sheet belongs to the franchisee, it does not impact our balance sheet.

Abhijeet Sethia: But then is there a locking that the franchisee has when you sign the contract with them, so they have to pay penalty if they want to close it

and the store is not performing for example before that locking period?

Rajesh Mohta: Yes definitely it is part of the agreement. At the end of the day the cash burn either for a company store or a franchise store cannot be looked at continuously over a period of time, so it is a mutual call, which was taken by us with the franchisee.

Abhijeet Sethia: What is the cash on balance sheet as of end of 3Q?

Rajesh Mohta: Have almost 75 Crores plus as on date.

Abhijeet Sethia: Thank you.

Moderator: Thank you. We have the next question from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.

Avinash Nahata: Thank you. One question is regarding is there a substantial difference between the operating matrix as the way a franchisee business is run within your setup and at a store level franchisee store and your own store in terms of operating matrix how different it is?

Rajesh Mohta: As far as the company owned or a franchisee store is concerned there is no change in operating matrix accepting the additional cost incurred by the franchise towards the royalty and management fees payable to us one, secondly most of the franchisees are in tier two cities, so primarily there is a difference between the revenue, which we see in a metro city and a franchisee city, but as far as operating matrix is concerned it is the same.

Avinash Nahata: No my question was I think what I wanted to understand is on a like-to-like basis as you mentioned mostly are in tier two cities, so as compared to the store we have our own store versus a franchisee store in terms of sales velocity, etc.

- Rajesh Mohta:** What would be space velocity by the way?
- Avinash Nahata:** Not space the occupancy ratios, etc., I mean how a businessman franchisee is running the store vis-à-vis we are running the store?
- Rajesh Mohta:** That is what I wanted to tell you like it does not make. As far as operating matrix the only change primarily, which happens is with respect to the size of the restaurant. They are in tier two cities, in any which ways we are also working towards lowering of sizes in our metros cities because per square feet cost in a metro and in a tier two city there is hardly any difference because of the ambience being the same, so we do not look at any kind of a change in matrix as far as operations of COCO or FOCO is concerned.
- Avinash Nahata:** So you are saying that it does not from a strategy perspective, it does not warrant a change as far as the business going incrementally towards franchisee or towards own stores?
- Rajesh Mohta:** The strategy from a company perspective has been to get into franchise only in tier two cities where the possibility of opening more number of Mainland China is restricted primarily one restaurant of Mainland China in a particular city. Those are the only cities where we are looking towards franchise because what historically we had seen the kind of EBITDA margins, etc., which are available in COCO restaurant are much superior to a franchise store. It makes sense for us to invest in our own stores rather than getting into a franchise model.
- Avinash Nahata:** One more thing you guys mentioned that we started renegotiation as far as lease rentals are concerned they are upwards of 15% as far as percentage of revenue, so what has been the success whatever talk you had?
- Rajesh Mohta:** We have been able to renegotiate in couple of the locations where in the minimum guarantee, etc., got reduced say to the extent of 10% -



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12% as well, but it is not blanket, a couple of restaurants I would say so.

Avinash Nahata: Across your properties one more question if I can squeeze in. Across your locations how many properties you would have the sharing as far as the rentals are concerned sharing percentage as well as plain vanilla rentals?

Rajesh Mohta: We have almost liked 32 properties where we have both proposition of a minimum guarantee or a revenue share.

Avinash Nahata: So 32 out of your 80 odd is it?

Rajesh Mohta: That is correct.

Avinash Nahata: Thanks.

Moderator: Thank you. We have the next question from the line of Viraj Mithani from Jupiter Financial. Please go ahead.

Viraj Mithani: I want to know how many own stores we have versus rentals like total?

Rajesh Mohta: Own versus?

Viraj Mithani: Own versus rental like total.

Rajesh Mohta: Company do not own any restaurant, all are leased, leased premises.

Viraj Mithani: All are leased there is not a single one that is owned?

Rajesh Mohta: Yes.

Viraj Mithani: Thank you Sir.



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Moderator: Thank you. We have the next question from the line of Abhijeet Sethia from SJC Advisors. Please go ahead.

Abhijeet Sethia: Yes just wanted to get a sense for, is there a big difference in terms of the same store sales that you are seeing in different parts of the country that basically significant at all?

Rajesh Mohta: In any which ways there are city parameters, which are different like, in Southern India we had the trouble wherein we see a drop more than other parts of the country?

Abhijeet Sethia: In terms of your environment is obviously fairly cautious and you are only looking to open five or six restaurants, but the ones that you do open what part of the county are you focusing more on targeting?

Indraneil Palit: Mumbai and Kolkata largely West and East.

Abhijeet Sethia: Got it. Thank you.

Moderator: Thank you. We have the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead Sir.

Ankit Kedia: Sir just wanted to know what could be the benefit if GST is implemented in the next three months to six months to us in terms of P&L and which all line items could that benefit come in?

Rajesh Mohta: One most important line item is with the service tax on rental of premises, which is being paid by us and there are couple of other expenses primarily, but say for instance today we have only 40% being availed as CENVAT, in GST regime we will be able to take 100% and which on the current run rate of service tax we have a charge to the extent of 50 lakhs rupees a month, which when we get the fine prints of the GST act we will be able to ascertain what is the total quantum, which would be available on CENVAT. It could be 6

Crores, but because liquor is out of the purview of GST, so we will have to work out the implications accordingly.

Ankit Kedia: At this point of time can we contemplate a price hike and two months back there was a thing of service charge, which was there to restaurants with the government saying that the restaurants people are free not to give service charge, so what is our understanding of that law, which is there and how will that work if GST comes in from a consumer's perspective?

Indraneil Palit: To answer the price hike is not something we are not considering now. Secondly, so far as the service charge is concerned, it is only an advisory there is no law as such and we still continue charging service charge and I think the guests are pretty much okay with it, so I think there is no going back on that and the third thing was GST you said.

Ankit Kedia: I think you answered my question. Thank you.

Moderator: Thank you. We have the next question from the line of Abhijeet Sethia from SJC Advisors. Please go ahead.

Abhijeet Sethia: Thanks for the followup. Sir just wanted to understand when you convert a Mainland China into an Asia Kitchen what is the capex you incur on a per store basis?

Indraneil Palit: Well it would be anywhere between 75 lakhs to 1 Crores.

Abhijeet Sethia: This compares to how much can you open in Greenfield?

Indraneil Palit: No that is about 3 Crores because in this case when we convert we are not touching the kitchen and the back area, so at most 30%-40% of your area is taken care of, your AC does not change, a lot of infrastructure does not change, so what change is the interiors and the

furniture, so which is why when a Greenfield is 3 Crores you might be able to change something in 75 lakhs to 1 Crores.

Abhijeet Sethia: As far as Hoppipola is concerned obviously it is a much newer brand, but given that, that is why it seems like your push is going to be, would you be able to share some kind of sort of what the per person billing rate over there is or what major thing compared to let say in Asia Kitchen and also what kind of same store sales growth you have seen over there now that it is opening for a year at least and do you have some leads?

Rajesh Mohta: The average spend at a Hoppipola and Mainland China are slightly varied because the sitting capacity people do roam around and consume liquor, etc., at Hoppipola, so it becomes very difficult for us to understand exactly the APP, but it is still over that between Rs.450 - Rs.500, which is fixed, which is roughly around 675 to 700 in case of a Mainland China.

Abhijeet Sethia: How about the change of portfolio transit seen in the Hoppipola, which has been opened for more than a year now?

Rajesh Mohta: Hoppipola same store sales growth at certain locations yes has been into negative, which were opened first in three years because what is happening in every two years Hoppipola requires a revamp both from a food perspective because earlier we started with 70% to 80% liquor component of the total revenues, now we are switching towards bringing in food more prominent wherein we can have 50:50 ratio, so that is a revamp, which is continuously on.

Abhijeet Sethia: What is the cost of that revamp approximately, which you need to revamp the restaurant every two to three years?

Rajesh Mohta: It all depends like what kind of renovation we would like to carry one, which we carried out, was done at sub 50 lakhs of rupees.

Abhijeet Sethia: And this revamp requires kind of changing the interior as well or is it mostly a menu refresh?

Rajesh Mohta: See menu refresh is a continuous exercise that continuously is being done it is only with respect to the interiors.

Indraneil Palit: See what is happening Hoppipola is actually used shall I say the number of people using a place is far more because you got not only seating you got people who are standing around and drinking, so I think if you look at the per square feet at use if I may call it so, it will be far more. So every three years, it needs some kind of a refurbishment, etc., in some units, but the menu change does not require anything, the kitchen everything is the same it is only the menu card that changes.

Abhijeet Sethia: Got it great. Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants I would now like to hand the conference over to the management for closing comments. Thank you and over to you.

Rajesh Mohta: Thank you ladies and gentlemen and once again thanks for spending time for our review of Q3 of FY17 and we are working hard to deliver better results in time to come. Thanks so very much.

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