SPECIALITY
RESTAURANTS LTD.

Morya Land Mark – 1, 4th Floor, B-25, Veera Industrial Estate, Off New Link Road, Andheri (W), Mumbai - 53
Tel No. (022) 3341 6700 Fax No. (022) 3340 6878 Website. www.speciality.co.in

June 2, 2016

To,

General Manager,
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.

Dear Sir/ Madam,

Sub: Conference Call- Transcript

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

1. Speciality Restaurants Q4-FY16 Conference Call - May 31, 2016.

Kindly take the above document on record.

Thanking you.

Yours sincerely,

For **Speciality Restaurants Limited**

Authorized Signatory

Name: Avinash Kinhikar
Designation: Company Secretary & Legal Head

Encl: As above

"Speciality Restaurants Limited Q4 FY 2016 Results Conference Call"

May 31, 2016

ANALYST: **MR. ANAND SHAH – INSTITUTIONAL EQUITIES**
KOTAK SECURITIES LIMITED

MANAGEMENT: **MR. ANJAN CHATTERJEE - MANAGING DIRECTOR - SPECIALITY RESTAURANTS LIMITED**
MR. INDRANEIL PALIT - EXECUTIVE DIRECTOR - PROJECTS, BUSINESS DEVELOPMENT AND STRATEGIC PLANNING - SPECIALITY RESTAURANTS LIMITED
MR. RAJESH MOHTA - EXECUTIVE DIRECTOR - FINANCE AND CFO - SPECIALITY RESTAURANTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Speciality Restaurants Q4 FY 2016 results conference call hosted by Kotak Securities 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. Anand Shah. Thank you and over to you Sir.

Anand Shah: Hi, good evening everyone and on behalf of Kotak Institutional Equities, I welcome you all to the Speciality Restaurants Q4 FY 2016 Earnings Conference Call. We have with us the senior management of the company represented by Mr. Anjan Chatterjee, Managing Director, Mr. Indraneil Palit, Executive Director of Projects, Business Development and Strategic Planning and Mr. Rajesh Mohta, Executive Director, Finance and CFO. I would now like to hand over the call to Anjan for opening remarks. Thanks and over to you Sir.

Rajesh Mohta: Good evening ladies and gentlemen, on behalf of the management of Speciality Restaurants we welcome you to the investors' call post Q4 results of financial year 2015-2016. It has by far been the most challenging quarter for the company as the expected increase in the discretionary spends is yet to be seen; rather there has been downward trend at certain locations and cities. Despite all odds the income from operations during the quarter grew from 74 Crores to 77 Crores on year-on-year basis registering a modest increase of 5% with an EBITDA which is almost nil from 9.38 Crores which has resulted in to a net loss of 4.03 Crores from a profit of Rs. 1.94 Crores. The growth in the revenue resultant of opening up of new restaurants between the comparative quarters, however, same-store sales have been negative during the quarter by almost 3.5% which on a year on year basis with existing stores continuing in March 2015 has dropped by 1%. I hope you all would understand that operating leverage at this point of time is working very negatively for the company primarily because raw material cost has not moderated. All other costs have inflationary pull and we have not been able to neutralize these increases in the input cost by way of increase in the menu prices as the company which is to maintain footfalls in the restaurants which already had a pinch on the pocket of the guests. Few of the restaurants which opened during the past 18 months continue to have struggle and are yet to achieve break-even levels resulting in to an overall drain on the profits but we are putting all our efforts by way of campaigns, festivals, promotions to get in to the targeted revenue mode for those restaurants. During the quarter four of financial year 2016, we have opened five restaurants, which have taken the total number of restaurants, and confectionaries to 123 out of which 22 restaurants are franchised restaurants. Now, I invite the investors and analysts for their questions on the performance under review. Thank you.

Moderator: We will now begin the question and answer session. The first question is from the line of Gaurav Jalan from Avant Garde Wealth Management, please go ahead.

Gaurav Jalan: Hi, of the 125 total restaurants that you have, can you just give a break down between the various formats?

Rajesh Mohta: See as on date 48 Mainland China with 5 Asia Kitchens, Oh! Calcutta 9, Haka 2, Sigree 6, Global Grill 11, Café Mezzuna 4, Hoppipola 10, Zoodles 3 and rest get distributed among Flame & Grill, Machaan, Kix and Shack.

Gaurav Jalan: Going forward is this mix expected to change dramatically, where is the focus in terms of expansion, which particular formats do you see growing in new restaurants?

Rajesh Mohta: The core continues to be Mainland China which has already been refreshed in the form of Asia Kitchen by Mainland China, majority of the expansion would be focused on Mainland China or conversion of our existing Mainland China in to Asia Kitchens, rest would be a component of other brands like Hoppipola and Café Mezzuna. These are couple of brands, which are in focus at this point of time.

Gaurav Jalan: For Cafe Mezzuna and Hoppipola format, can you talk a little bit about their performance, how the restaurants have been doing in terms of profitability, what kind of margins or whether they are break-even or are these restaurants still loss making?

Rajesh Mohta: Hoppipola started with the concept of sweating of assets and we now run ten Hoppipolas out of which 8 are working positive EBITDA margins and are very high compared to others primarily because the rentals etc at some of the places have got amortized. Second is Cafe Mezzuna, yes Cafe Mezzuna is a brand which is being taken over as part of let us say from when we have combo restaurants and we find the performance of few of the Cafe Mezzuna especially in Kolkata and in Bombay where we opened three months back, the response is very encouraging.

Gaurav Jalan: Compared to Mainland China restaurants are these new formats operating at comparable margins over the ones that are doing well, can you put some colour on that?

Rajesh Mohta: Few of the new brands basically location specific are doing much well than what we have been doing at this point of time in Mainland China as well.

Anjan Chatterjee: I will just explain and tell you. One of the things which we are seeing is that in the format of Mainland China over a period of time we have realized that operational leverage for a period of four hours that is because we operate only for lunch and dinner these four hours are not being utilized in any form, whereas in the formats of Cafe Mezzuna or Hoppipola this four hours are being, everything else, all fixed costs being what they are, these four hours the extra four hours actually helps build the EBITDA better, hence for example in Mainland China Asia Kitchen we continue to open them for those four hours particularly in malls and then we have also seen that there is traction on that because coming to the mall especially on weekend Friday, Saturday and Sunday and they hang around and even if they have a late lunch or a snack or a beer, we have been getting that kind of a things, so we realized that it is extremely important that we take the new formats which we are building should be having that operational leverage and I am sure that with two more Hoppipola coming in which are internal in the sense that they are sweating of assets in the existing place without any kind of rentals accepting notional, of course we will calculate that, I think that this is where the operational leverage will come from and all the dining

becomes much, much more profitable than just a lunch and dinner format although in malls where we have even the existing Mainland China wherever there is a mall format we are continuing to keep them open particularly on Friday, Saturday, and Sunday.

Moderator: The next question is from the line of Kaustub Pawaskar from Sharekhan Limited, please go ahead.

Kaustub Pawaskar: Sir, just wanted to understand the trend of the weekday sales and the weekend sales, have you started seeing any kind of improvement or any colour on what is your expectation because things are not looking good for past four to five quarters for you, so considering the weakness and the environment how are things panning out for you in the coming quarters or in the coming years?

Indraneil Palit: Particularly we were considering weekend to be only Saturday and Sunday, now we find that Friday and also Wednesdays gradually getting reduced to three days a week, but it is only picking up, it is not the way we would like to have it, but there is definitely an improvement on that particularly in commercial areas we find that the Fridays and Wednesdays are improving today, so I think if this trend continues and we are pushing that very hard, we should be able to get better results in weekdays also and plus the promotions that we are carrying out for the weaker days during the week, that is also showing results, again location specific but there are tractions on those days where promotions are being carried out, so we are hopeful that may be another two or three months we will see a far better improvement.

Kaustub Pawaskar: Sir just a question on your corporate sales, may be weekday sales, is online ordering or may be home delivery or pick ups, are they affecting your business in the weekdays?

Indraneil Palit: **(Inaudible) 11.47** always affect but you see we are also joining the whole endeavour in the sense that we have tied up with Zomato, we have tied up with Swiggy etc., and we find that the traction there is also quite good, so we are not lagging behind much though it is very difficult to say that whether the home delivery business will actually pull away so much of crowd from us. Generally, there is a dip, there is no doubt about it, we see our home delivery or the takeaways, we find that weekends and the days that I mentioned earlier, Wednesday and Thursday the pick ups as well as home delivery is also higher. We are pushing sales through Zomato, which is the in thing now, very hard and it is showing results. I would put it this way that we are riding on the wave rather than being kind of facing it as a headwind in that sense.

Kaustub Pawaskar: My next question is on your Hoppipola brand, we have been seeing that Hoppipola has now become more of a key brand for you after Mainland China or Asia Kitchen because quarter-on-quarter you have been adding two to three restaurants in this particular brand and as Sir mentioned that it has better margins than some of the other brands because of better operational leverage, is it right understanding that after Mainland China or Asia Kitchen now Hoppipola would be one of your key brands, earlier it was Oh!Calcutta and Sigree where we used to see one to two additions every quarter or may be in a year there is three to four additions under the

Oh!Calcutta or the Sigree Global Grill but now I believe that Hoppipola is at the center of key addition.

Indraneil Palit: A little while ago Mr. Anjan was mentioning that see Hoppipola as well as Cafe Mezzuna both are all-day formats and we find that the trends are changing as far as dining out is concerned in the sense that there are early diners, there are late diners, so therefore the time in which we do not operate a Global Grill or a Mainland China we do operate Hoppipola and Cafe Mezzuna and there is a fair amount of attraction there which is only going to go up, so these two brands were created of course only to sweat assets initially but we recognize the facts that these are the formats which is going to stay for the future and these two will definitely have its advantages and we will push it, again location specific, we are not going to go overboard, wherever we find that yes, there is an opportunity we will take this forward and also the fact that Mainland China is almost present in every nook and corner that we have today. The next opportunity we can create in similar locations would perhaps be in these two new brands which also has a fair amount of draw of the younger population which is the order of the day, so yes, I think to answer your question Hoppipola as well as Cafe Mezzuna both will be backed by us after Mainland China.

Kaustub Pawaskar: Sir, just to understand this better as you said that sweating of assets, is it right understanding that suppose there is a Mainland China or Asia Kitchen so in the evening you are operating it as Hoppipola or there is a separate section which has been now considered as Hoppipola and there is separate section which has been considered as Mainland China.

Anjan Chatterjee: Initially as you know that the number of covers in every restaurant, I am talking about historically we have had 140 covers or there had been additional floors, so as we see that Mainland China traction is going a little down, we have converted those floors and we are continuing to convert those floors in to a Hoppipola and that has been very, very successful because of the fact that it is sweating of assets as you rightly understand but operating that as Hoppipola it does not happen, it clashes the brand values and it is just that additional space available there are two of them which are being opened now and we are looking at the logistics and we are hopeful to do that.

Kaustub Pawaskar: Sir, I just wanted to understand by doing this will it have any impact on your main brand like Mainland China because you are sweating the assets and operating two brands under one asset, will it have any impact on the brand as such?

Anjan Chatterjee: No, not at all. This will not all interfere whether it is Bangalore, Kolkata or wherever we have done sweating of assets or may be there is no question and there are separate entrances, separate brands, they are being operated under different brands and the staff is completely different, so it does not intervene and interfere in to each other.

Kaustub Pawaskar: Sir got your point. Now we have around 47 Mainland China. Do we expect similar kind of action in all these Mainland China restaurants over a period of time?

Anjan Chatterjee: I did not understand, what is action?

Kaustub Pawaskar: Action in the sense Hoppipola coming up in the mid hours in Mainland China restaurants?

Anjan Chatterjee: I am once again clarifying. These restaurants of Mainland China there is one floor which is the ground floor and we also have first floor and second floor at least being used, at least the first floor being used in the building of Mainland China but what we do is that we are not doing the first floor consolidating on the ground floor complete Mainland China, maybe the first floor or the floor above we are converting that in to a Hoppipola.

Kaustub Pawaskar: How much such Mainland China restaurants you have where you can try this sweating of assets?

Anjan Chatterjee: At the moment two, there could be a possibility of three and four which we are working in terms of operationally because there is no backdoor etc., so we are trying to convert it and also in discussions with the operations team as well as the architect and the owner of the space.

Kaustub Pawaskar: Sir, one last on your future capex, should we expect around 10-12 restaurants going ahead may be FY 2017 and FY 2018?

Anjan Chatterjee: I cannot tell you a figure but we are being cautious. The word would be that it is cautious optimism and we will continue to ensure that wherever there is an opportunity, for example, there is a Mainland China Asia Kitchen opportunity in Pune, which has not been explored. There is no Mainland China Asia Kitchen there and also converting, I would not say new opening, and there would be conversion of three to four Mainland China. We will be doing some of the brand refreshes and few of them, so if you call them, brand refresh obviously will not cause 2.5 Crores, it will cost comparatively much less because we have equipment, we have everything else, it is just the interiors, so there we are wanting to do it, so there will be some brand refreshes, at least three to four for sure and may be additional to that there are Hoppipola which will be coming, two for sure, maybe three or four.

Moderator: The next question is from the line of Ankit Kedia from Centrum Broking, please go ahead.

Ankit Kedia: Sir, my first question is regarding the gross margins. While I understand that the Indian food and Sigree Global Grill has a lower margin compared to Mainland China but at the same time Hoppipola has also higher margins but still over last three years we have seen a gross margins decline by nearly 500 basis points, so could you throw some light what has gone in to that and going forward how should we look at the mix change?

Rajesh Mohta: Good evening Mr. Ankit. Hoppipola gross margins are not very high because of the pricing the margins were at the same levels at what we have in our Indian format though Chinese is much better but looking at the trend of revenue mix getting changed from Mainland China which used to be plus 60% which is sub 50% now and with more Hoppipola and Cafe Mezzuna coming in the contribution from Mainland China the contribution from Mainland China which has a lower food cost which is higher gross margins this percentage is going to be increasing but yes efforts are on that we do not cross a threshold level of between 30-35% overall for the company because the other fixed cost are all linked to the total cost which we will have in time to come.

Ankit Kedia: Sir, what will be the differential in gross margins in Indian and in Chinese food currently and at what operating level is Mainland China currently operating at?

Rajesh Mohta: The range is between 26 to 38%; for Chinese it is 26, Indian could be at the maximum of 38%.

Ankit Kedia: 26% is the food cost you are saying.

Rajesh Mohta: Yes, that is correct.

Ankit Kedia: Sir my second question is on the employee cost, despite we opening less restaurants and initiatives we are taking on the employee cost front by not adding employees still we have seen that year-on-year growth in employee cost is nearly 15.5-16%, so going forward given that our restaurant opening count will be much lower how do we see this cost trend?

Indraneil Palit: We are looking at the employee cost by way of increasing efficiency per cover, per square feet as we look at it and we are seeing results, so we will bring it down as the restaurants and also the openings are also going to reduce, so over a period of may be three or four months, you will see that there will be a dip by way of percentages.

Ankit Kedia: Sir, how many restaurants have we closed in the past two years and what is the cost we have booked in P&L for closure of these restaurants or moving these restaurants to some different format?

Rajesh Mohta: In financial year 2016 we closed six restaurants and we had booked an amortization cost of almost 1.42 Crores during the financial year 2016.

Ankit Kedia: Sir, last year?

Rajesh Mohta: Financial year 2015, we closed nine restaurants, I do not have the exact number of amortization cost but it would plus a Crore of rupees, 1 to 1.5 Crores.

Ankit Kedia: So given that we are going to convert few restaurants from Mainland China to Asia Kitchen and others, do you think closure of restaurants is behind us now or still there are few restaurants which are loss making or not optimum level we could see further closures in the next two years?

Rajesh Mohta: There are couple of restaurants which are on the watch list category for us because all efforts are on to improve sales because sales is the only determinant factor for a failure or closure of restaurants, the efforts are on, but yes there are restaurants which are on watch list, so it would be premature at this point of time to say exactly what would be the number of closures because if the discretionary spends improve or if the economy, the macro changes or if weekday sales do increase things might turn around for those restaurants also because we have seen this happening historically as well, but yes during next let us say two quarters or so, there is a possibility that the one which are on the watch list if they do not turn around we will have to take such calls.

Ankit Kedia: Sir last question is on the service charge, in last two quarters con calls we have said that we have increased service charge from around 5% to 10% in most of our restaurants now and despite that if we look at our sales growth for the full year it is only 7%, so how much of this growth is on back of service charge and how much is it on back of pure sales?

Rajesh Mohta: Sorry Mr. Ankit, I do not have the breakup of that number right now.

Ankit Kedia: But would it be fair to assume that nearly 50% of that would be on back of service charge?

Rajesh Mohta: No, it will not be 50 because we already had implemented wherein the other service charges which was there it was only in the month of November when we had all across the country, so it would not be that component out of the total growth.

Moderator: The next question is from the line of Manish Poddar from Religare Capital Markets, please go ahead.

Manish Poddar: Hi Sir, could you actually share some light on the breakup of sales, if I look at this net sales for the annual year about 316 Crores, could you just breakup it among the top three brands for you?

Rajesh Mohta: Mainland China is almost 46%, Global Grill being 20% and Hoppipola would be 13-14%.

Manish Poddar: Okay, could you explain the unit economics for Hoppipola, if I look at it, roughly about 40 odd Crores of sales, what is its contribution at EBITDA level and what are the margins like?

Rajesh Mohta: The EBITDA contribution of Hoppipola ranges between 20 to 24%.

Manish Poddar: Given that depreciation has gone through would be similar now?

Rajesh Mohta: The depreciation is lesser than compared to other brands of Mainland China and Global Grill because the capex is lower to what we incur in case of Mainland China.

Manish Poddar: Just to understand the remaining stores which we had, the remaining formats, I believe all of this would be EBITDA positive that is why the management continues to run those formats right?

Rajesh Mohta: At brand levels those are positive but when you get in to the composition of various restaurants it could be that number of restaurants in a particular brand may be negative which have opened in last 12 months or 18 months.

Manish Poddar: Could you explain to me what is this concept of opening Hoppipola in a Mainland China? I did not really understand the concept really well?

Rajesh Mohta: I think it has been misunderstood. What Mr. Anjan was referring to was where we have spare spaces like we have a particular building where on two floors we run our Mainland China there are third and fourth floor which are remaining idle or empty at this point of time, those empty

floors are being used now as Hoppipola. We have been paying rentals for the whole building, now it would get amortized on two restaurants.

Manish Poddar: Where has this been happening?

Rajesh Mohta: It had happened previously like say for instance we have in Indira Nagar premises in Bangalore, Church Street we have done that. We are now doing in Hyderabad and Bangalore as well.

Manish Poddar: You are alluding that all the while the rentals for these two floors were being incurred but there were no sales on those certain premises?

Rajesh Mohta: Absolutely correct.

Manish Poddar: This is for three or four restaurants I believe.

Rajesh Mohta: That is right.

Manish Poddar: Could you just once again mention what is your growth plan, how many stores do you intend to open and I believe you mentioned something about the franchisee formats?

Rajesh Mohta: No. There is no further plan of opening more number of franchisee restaurants but yes, since you would have seen there is a category of ours which is QSR which is Zoodles, there we plan to get in to franchisee and one of the first franchise which we have opened for Zoodles is in T2 Airport Mumbai wherein we are getting franchise, our initial access premium which was received by us for 15 lakhs of rupees, so this is one format where we look forward to expand on franchise and there are number of, let us say, even in intra city or inter city we are getting inquiries for taking that particular brand because the visibility of that brand has increased very substantially the day we opened in T2 airport which is more on the domestic side.

Manish Poddar: How long has been Zoodles under your portfolio now?

Rajesh Mohta: We started in September 2014.

Manish Poddar: Right now we have how many stores; I think it is in high single digit right?

Rajesh Mohta: Low single digit.

Manish Poddar: Because initially I remember we opened the brand saying that we will by ourselves launch a lot of stores but have we factorized those plans and gone on to a completely different model altogether?

Rajesh Mohta: No what has happened it would be more on a combination but see the initial what happens it is easier to start one restaurant the moment you get in to multi locations things needs to be streamlined, the team has to be in place because the vertical has been created, there have been

good amount of back effort which has gone, now we would contemplate, things have stabilized what is happening because another two, because we would like to experience first in Bombay, so we have already owned basically decided on the premises for our own restaurants wherein Zoodles can start in to malls per se. It would take time because it is easier said than done because we will have to get in to, it would be a hub and spoke model where we would have our own commissary catering to at least 10-15 restaurants in time to come.

Manish Poddar: How much would be our ATP clocking now for Mainland China?

Rajesh Mohta: It has been ranging between 675-680 per person.

Manish Poddar: It has been flat in about last three years if I am not mistaken.

Rajesh Mohta: Absolutely correct.

Manish Poddar: What is Anjan's view on Chinese or the formats, which you run, their attractiveness compared to the other formats, which are there in India?

Anjan Chatterjee: I will be very honest with you that Chinese will never go out of fashion and we continue to believe that there is a trend of youngsters; you know India is a very young country, lot of youngsters are not eating out with families and specially with the age of 21-25-26 hence we have started Hoppipola and that would be the second biggest brand going forward and I do not think the Chinese food will ever go out of fashion, hence we are continuing to refresh our brand Mainland China because we started the first Mainland China in 1994, if you see that all of it, although we have done tactical part renovation, soft renovation, soft renovation today is not enough, so we need to change the look and feel in terms of even the cuisine offering, we tried in our menu the Asia Kitchen festivals we have done and we thought that people will be continuing to have that kind of food, but unless otherwise we change the perception, the name and look and feel of the restaurant it will not be getting the kind of traction because in all Asia Kitchen we have seen the number of people coming in, number of covers that is, have increased more than the Mainland China excepting in the East, so wherever we are getting an opportunity we are getting it to change in to a brand refresh but Chinese will never, never, never, ever go out of fashion and hence we have also at the top end we have the Mainland China, Mainland China Asia Kitchen and then we have the QSR now the Zoodles because as you know there are many brands internationally won which has been franchised has been signed at a very high cost which is in the name of Panda Express which is the US brand, so there is opportunity there because they are saying they will open 100 stores, we do not want to overdo things by talking but I am confident of the fact that the QSR is something which has not affected again on all day operation and we are planning to do commissaries and it is a very strange and a good thing that after we opened at the airport we have got six enquiries for city franchise Master Franchise for the cities because people have somehow eaten there, understood the opportunity of that, for example a Mainland China cannot be opened in a place like Jabalpur or a place like wherever we are talking about in tier 2 or tier 3 cities whereas a Zoodles can penetrate and go to any place like a Dominos.

Manish Poddar: That is what the point I was alluding to, so earlier initially I remember when you had opened this format about two years back, the underlying was that we would open stores like Dominos in and across areas where Mainland China has presence just because the delivery format and the return economics makes much sense and given the all-day dining format but now we have retraced from it, I just wanted to understand has there been a change or has the return economics when we initially test marketed the model did not turn out to be what was planned to be?

Anjan Chatterjee: No, not at all, it will be part our own stores, for example in three of the Bombay locations, food courts including Ghatkopar we are opening Zoodles because the capex is very low, so the more we penetrate, so it will be part owned, company owned company operated and part would be master franchises, now for example in spite of the kind of age the brand has **(inaudible) 37.12** has 15 years to get the franchise option for people and interest of the franchisees but Zoodles is showing traction right in the beginning, so if we could do this in terms of the franchising them at the cost of initial access premium between 15 and 25 lakhs per store and also do the expansion whereas the returns to the company are the same, return economics have not changed, so I think it makes much more sense to do a combination of COCO that is company owned company operated and profit will be FOCO.

Manish Poddar: Just the final bit, I believe you all would have made the budget for the coming years. What are the EBITDA margins which you are looking at a steady state basis, now you are clocking about 5 odd percent, so what is the EBITDA margin which you are internally planning for and could you just allude to me what is the price hike you are anticipating across blended cross format for FY 2017 and 2018?

Rajesh Mohta: We have been pinning hopes from 2014, 2015, and 2016. Things have not worked the way we would have done our budgeting, so it has become a very dynamic situation for us because we thought last year the raw material prices would moderate but it has not happened because of the monsoons now, we are keeping our hopes high on whether the monsoon is good because raw material component will have a very strong bearing on our total cost, so it is a factor which are not in our control depending upon macros but yes if I may say so we are looking towards an improvement in EBITDA despite because there could be some closures etc., which would also have an impairment but EBITDA should be growing at least in this financial year.

Manish Poddar: What about the blended price hike across formats?

Rajesh Mohta: Very difficult to say because it is a combination of various factors be it external etc., because last three years as you have seen we have not made a major price increase and once again there is an increase in any which way though it is 0.5% which is happening from tomorrow for the guests basically by implementation of Krishi Kalyan Cess, so lets see how things pan out and then only we will be able to think on a price increase because that can be working very detrimental to us because we want footfalls to be there in the restaurant.

Manish Poddar: What is this Krishi Kalyan Cess, I am not aware of this?

Rajesh Mohta: There is this stipulation, another 0.5% from tomorrow is getting implemented like we have Swachh Bharat Cess it is Krishi Kalyan Cess.

Moderator: The next question is from the line of Gaurav Jalan from Avant Garde Wealth Management, please go ahead.

Gaurav Jalan: Just following up on the earlier question, if I look at your sales per store, on an average across 125 across and 316 Crores it works to about 2.6 Crores per store and based on the figure that you provided on Mainland China and Hoppipola the sales per store for these two formats works out around 3 Crores for Mainland China and 4.4 Crores for Hoppipola, so what is really dragging down the average of sales per store, which formats are at significantly lower levels?

Rajesh Mohta: Let me tell you one thing just to rectify this because this includes 22 franchised restaurants the topline of which is not covered in our revenues and second there are 18 Sweet Bengal Stores which also form part of 123, basically if these two are excluded we run with 83 restaurants and yes there are smaller formats with respect to some of the Kix, shack etc., those were for strategic reasons to have liquor licenses etc., if I may say so we have 52 Mainland China out of which 16 are franchised, so if the mix is roughly between our Mainland China does a business of almost 3.5 to 4 odd Crores not on an average of 2.26.

Gaurav Jalan: Okay, so if I take the ATP the average works out for 3.8 Crores per store so that is the mix which you are saying.

Rajesh Mohta: Yes.

Gaurav Jalan: What is in terms of the strategy of growing sales per store what is the strategy, I mean one would be I get something like a Hoppipola format that generates higher sales per store, what kind of increase the mix of those stores in your overall portfolio and the second would be pricing, what is the company's strategy in terms of how do you plan to take up sales per store?

Rajesh Mohta: The whole idea has been the kind of refresh, which we have been talking about Mainland China. This is the one thing which would be giving us higher sales from our existing setup though at a certain additional costs because the refresh has become very critical to take the flagship brand to a second level.

Gaurav Jalan: Coming down to EBITDA your reported EBITDA for the full year 2015-2016 is around 17 Crores if I assume 8 Crores in interest income through bank, so out of this what is your store level EBITDA and how much is corporate overhead?

Rajesh Mohta: We have a corporate overhead of around 8% of 316 Crores.

Gaurav Jalan: So around 29 Crores is your corporate overhead. So if I add that back 45 Crores is your store level EBITDA.

Rajesh Mohta: That is correct.

Gaurav Jalan: Now, this 45 Crores in terms of margins this works around 15% store level EBITDA margin, what is the mix because you had mentioned that Hoppipola is around 20-25%, where is Mainland China in terms of EBITDA margin and how do you get to this 15% average?

Rajesh Mohta: Mainland China is at 14% at this point of time.

Gaurav Jalan: Okay, that is why your average is around 14% because Mainland China is your major contributor. Then in terms of growth this 14% EBITDA margin for Mainland China what was it in the past and four, five years ago when the overall company margins was higher what was the Mainland China EBITDA margins?

Rajesh Mohta: We were doing 22 to 23%; we were doing total 22 Mainland China being 26%.

Gaurav Jalan: The idea is that this format should be able to get that in the past eventually right, is that the internal target of the company?

Rajesh Mohta: That target at this point of time looks slightly difficult because it takes time, there are external factors, which have an impact but yes that is the brand where we have historically done, and we look forward to.

Gaurav Jalan: If I look at the underlying drivers of the margin one is your raw material cost as a percentage of sales have gone up and you just explained that one of the reasons is that your newer brands like Hoppipola the pricing is lower and so cost of material is higher, going forward how will this change, it used to have a 25-26% margins so for the overall company margins to go back up your raw material cost needs to decline as a percentage of sales, what are the drivers that will make that happen?

Rajesh Mohta: The biggest trigger for that to happen is the increase in the existing store sales for all the brands irrespective of Mainland China or other brands, so once those revenues get the targeted revenues are achieved this percentage to revenue would reduce and secondly what has happened over a period of time, we have reduced our fixed cost by having lower sized restaurants, earlier we used to have restaurants which were 4000 square feet, today we have started taking 2000-2500 square feet restaurants which had given us an economies on both fixed cost because we work in high fixed cost area, so the whole motive is to reduce the fixed cost because weekday sales etc., are very low, we don't have capacity utilization during the weekdays, so there is no point in carrying an extra cost for additional days, so those costs would have an impact on improvement of EBITDA.

Gaurav Jalan: You mentioned that as revenues go up your raw material cost as a percentage of sales should come down, what is the rationale behind that, is that due to less wastage of material because I would imagine some raw material cost there is no operating leverage and serving more and generating more revenues you have to use more raw materials.

Rajesh Mohta: We have buffet restaurants wherein during the weekdays also the entire buffet is laid but the guests do not come as requirement of the total buffet, so those kind of wastages would get eliminated when we have good number of buffets, covers, etc., happening during the weekdays.

Gaurav Jalan: In terms of the rental cost as a percentage of sales again should there be a significant decline there as revenues go up because those costs have been going up on an average around 3-4% on a per store basis, so what is the outlook going forward and what are your rental agreements like and do you have an annual inflation that accounts?

Rajesh Mohta: We work on revenue share model also, the restaurants where we have a revenue share model it would be increasing progressively with increase in revenues but wherever we have fixed rentals the increase generally happens every 15% every 3 years but we have also taken directive like we try to renegotiate rentals wherever we do not do good, so there is a mix and match but yes, it would be on the same trends.

Gaurav Jalan: What percentage of restaurants is on revenue share?

Rajesh Mohta: We have almost 28 restaurants, which are in revenue share.

Gaurav Jalan: In terms of your new store opening what is the plan for the coming year in terms of number of stores?

Rajesh Mohta: It is a slightly fluid situation, we would be taking calls in time to come because we can take restaurants but yes it could be four to five restaurants at this point of time.

Gaurav Jalan: What is the lead-time from when you decide to open a restaurant to when it is operational?

Rajesh Mohta: 120 days.

Gaurav Jalan: In terms of capital expenditure you need for a new store how much is it typically?

Rajesh Mohta: It depends upon the size and the brand and city but it ranges between 2 odd Crores to 3 Crores.

Moderator: The next question is from the line of Anand Shah, please go ahead.

Anand Shah: Sir, out of the closures that you had, how much would be tier 2, tier 3 market or are they in the big metros as well?

Rajesh Mohta: They have been in big metros as well because we closed two restaurants in Bombay, two in Guwahati, one in Pune, it is a mix.

Anand Shah: What is the issue essentially you are facing with these closures, I mean, is there no demand or are they not liking the cuisine or competitive pressure, what exactly is happening here?

Rajesh Mohta: I presume it is more like a locational issue where you do not get the footfalls in to the restaurant as a result of which most of your fixed costs are very high and you continue to bleed because if we had closed restaurants in other places, this had been the primary reason.

Anand Shah: Bulk of these store closures would have been what format?

Rajesh Mohta: There have been Mainland China and Sigree as well, couple of, one Cafe Mezzuna but since the contributor is Mainland China, and there have been few closures on Mainland China.

Anand Shah: And in terms of current store count you told is about 123 which is including the 18 Sweet Bengal.

Rajesh Mohta: That is right.

Anand Shah: How much does this equate to in terms of net addition YOY FY 2015 versus FY 2016?

Rajesh Mohta: We added 8 restaurants in FY 2016 net.

Anand Shah: You closed 8 net and you closed how many?

Rajesh Mohta: We closed six. 14 were new openings out of which 6 closed and the net addition is 8.

Anand Shah: These 14 new openings can you just break it up in formats as to which were the ones?

Rajesh Mohta: We opened Asia Kitchen 2, Hoppipola 5, Global Grill 2, Cafe Mezzuna 3 and Zoodles 2.

Anand Shah: And the future expansion you are essentially looking at will be largely in one is a conversion from Mainland China to Asia Kitchen and more in Cafe Mezzuna and Hoppipola and Zoodles.

Rajesh Mohta: Absolutely correct.

Anand Shah: Zoodles can you share any dynamics as to per store revenue how much do you generate?

Rajesh Mohta: There are two different models, one is a standalone and one is other mall where we have a range, let us say standalone is doing roughly around 30,000 rupees a day which is 9 lakhs or 10 lakhs of rupees and the mall format is doing roughly around 18 lakhs of rupees. There are two extremes to it.

Anand Shah: What kind of margins do you make in this?

Rajesh Mohta: At the standalone we are able to break-even at the restaurants level and particular mall level we are in to plus EBITDA of 18-20%.

Anand Shah: Would you be looking for aggressive expansion as Anjan was saying now in Zoodles?

Rajesh Mohta: Yes we are working towards it; the whole idea is in this financial evaluation model we are trying to be very sure that we start making money from the second or third month. We do not want to get in to any sort of location of brand or property where we will have to plan that we will be able to break-even in six to nine months, so we have become very conservative, so wherever we are assured that there are particular places in malls etc., where we can have assured sales we are exploring those locations only.

Anand Shah: Lastly can you just share the APC for the main formats, Mainland China, Cafe Mezzuna, Hoppipola and Sigree?

Rajesh Mohta: There has been no major change what we have been reporting earlier and actually basically since this is slightly price competitive information we have stopped sharing it.

Anand Shah: But on Cafe Mezzuna and Hoppipola these are two new formats, which have evolved this year largely, and can you share the average APC a broader range would also do.

Rajesh Mohta: In case of Cafe Mezzuna it is plus 500 and Hoppipola APC is very difficult to ascertain for us because you don't have specific covers etc., wherein you can immediately say because there could be number of people consuming N number of things, so it is very difficult to ascertain what is the APC at Hoppipola.

Anand Shah: But let us say on an average how much would the Hoppipola restaurants would be earning in revenue?

Rajesh Mohta: There also it has a big range basically; it could be 80,000 rupees a day to 3 lakh, 3.5 lakhs a day.

Moderator: We have one more question from the line of Mehul Khandelwal from Span Capital, please go ahead.

Mehul Khandelwal: Since you are saying that in FY 2017 you will do better, what kind of ad spends are we going to see in FY 2017?

Rajesh Mohta: We do not have a specific percentage to that. It is based on requirements and we keep on monitoring as to the requirements be it on digital media or SMS campaign or press etc., depending on because we will take care of any which ways there are pressures on the bottomline so the decision would be taken based on the revenues and the bottomline in time to come.

Moderator: Thank you. As there are no further questions I would like to hand over the management for closing comments.

Rajesh Mohta: Thank you very much for participating in our conference call for Q4 review of financial year 2016 for sparing your time. Thank you once again.

Moderator: Thank you; on behalf of Kotak Securities we conclude this conference. Thank you for joining you and us may now disconnect your lines.