



SPECIALITY
RESTAURANTS LTD.

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November 20, 2014

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.

Dear Sir/ Madam,

Sub: Conference Call - Transcript

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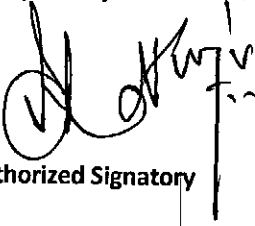
1. Speciality Restaurants Limited Q2- FY2015 Earnings Conference Call - November 13, 2014.

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Thanking you.

Yours sincerely,

For Speciality Restaurants Limited


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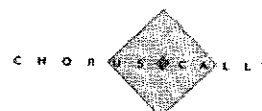
Name: Indranil Chatterjee
Designation: Director-Commercial Operations

Encl: As above



“Speciality Restaurants Q2FY15 Earnings Conference Call”

November 13, 2014



MODERATOR: MR. ANAND SHAH – MANAGER, KOTAK SECURITIES

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

- Moderator:** Ladies and gentlemen good day and welcome to Specialty Restaurants Q2 FY15 Earnings conference call hosted by Kotak Institutional Equities. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Shah of Kotak Institutional Equities, thank you and over to you sir.
- Anand Shah:** Thanks Inba on behalf of Kotak Institutional Equities, I welcome you all to the Q2 FY15 Specialty Restaurants Earnings Conference Call. We have with us today from the Senior Management, Mr. Indraneil Palit – Executive Director, Projects Business development and Strategic Planning and Mr. Rajesh Mohta – Executive Director- Finance. I will hand over the call to Mr. Mohta for opening remarks.
- Rajesh Mohta:** Thank you Anand. Welcome participants at the outset season's greetings from the team of Specialty Restaurants. We have published our results after the Board meeting yesterday. Our 1.26total revenue base growing by 17.3% from Rs. 64 crores to Rs. 75 crores, with PAT at Rs. 2.38 crores vis-à-vis at Rs. 4.02 crores year on year basis. Number of restaurants opened during the quarter were 4, 4 restaurants basically and we have now 110 restaurants as on 30th September and post 30th September we have opened 2 restaurants which make it 112 restaurants for the company, including the confectionaries and the franchise stores. Overall, there have been an increase in the revenues with pressures on margins but with an improvement in the gross margins basically with the moderation of the inflation which we feel is moving southwards and in time to come, we look at more number of quarters which will be a regressive progressions going down, which would result in the expansion of margin and with flagship brands continuing to be Mainland China with refreshed brand Mainland China Asia Kitchen which we opened in April, this year in Bombay we are opening a second Mainland China Asia Kitchen in Palladium Mall, Bombay and trying to make certain Mainland Chinas converted into Mainland China Asia Kitchen in time to come. Now I leave for question and answers to be answered by us.
- Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Jagdish Bhanushali of Flourinetree Advisors. Please go ahead.
- Jagdish Bhanushali:** Just wanted to have the hang on number of restaurants that we have under Mainland China, under Sigree Global, under Oh! Calcutta, and the newly opened Mainland China?
- Rajesh Mohta:** See as on date 30th September, we had 53 Mainland Chinas, which included Mainland China Asia Kitchen which is 1. Oh! Calcutta 9. Sigree, Sigree Global Grill 14, Flame and Grill 4, Machaan 4, Haka 2. Sweet Bengal confectionaries towards 17 and other brands like Cake Haka, Cake Shak, etc 7.

- Jagdish Bhanushali:** If I could get the churn in Mainland China, Sigree Global and Oh! Calcutta, for this quarter, how it has been?
- Rajesh Mohta:** We have not found a major change between June and September and it continues in that particular range. Let us say for instance, in case of Mainland China which was at the range of 1.40 in June quarter, it continues to be at 1.39 in this particular quarter. For Sigree Global Grill, it is 1.47. Oh! Calcutta is at 1.14.
- Jagdish Bhanushali:** Okay so in Sigree Global, is there a fall in churn?
- Rajesh Mohta:** No, Sigree Global Grill, previous quarter it was 1.15, which has increased to 1.47.
- Jagdish Bhanushali:** Okay and another question is on the APC of Mainland China, Sigree Global and Oh! Calcutta?
- Rajesh Mohta:** Sir these are all on the same ranges of June.
- Jagdish Bhanushali:** Okay, so have we taken any price hikes in Q3?
- Rajesh Mohta:** Till this time, in last one and a half months there has been no price increase excepting sporadically in certain cities, service charges we have implemented, some service charge.
- Jagdish Bhanushali:** Okay so the gross margin impact that we see from Q1 has been in the terms that there has not been any rise in the APC?
- Rajesh Mohta:** That is correct.
- Jagdish Bhanushali:** Okay so what steps have we taken in Q2 to get the improvement in gross margins?
- Rajesh Mohta:** See this is price moderation which is already started reflecting in your numbers.
- Jagdish Bhanushali:** Okay so do we expect this to continue for the coming quarters now?
- Rajesh Mohta:** It all depends upon the macro environment which is getting more and more but yes in all likelihood, things are looking towards that.
- Jagdish Bhanushali:** Okay and any plan to increase the APC?
- Rajesh Mohta:** See that is the call which is taken based on various factors that would not be only for neutralization of the cost increases, it would all depend upon market forces and how the momentum of the foot falls continues going forward.
- Jagdish Bhanushali:** So as of now, we have not taken any decision that we will be going with the price increase in any of the restaurant chains on a bigger way?
- Rajesh Mohta:** Not really Sir.

- Jagdish Bhanushali:** And the second thing is, any outcome on cash utilization that we have on our books?
- Rajesh Mohta:** Sorry this was the money raised during IPO which continues to be there and that is being utilized for opening of our Mainland China fine dining restaurants in the country. So, that would be the utilization.
- Moderator:** Our next question is from Prakash Kapadia of Ialpha Enterprises. Please go ahead.
- Prakash Kapadia:** Sir if you could share some insights on the demand side, how has been the same-store sales growth because we are seeing Dominos is not growing, McDonald's is not growing, so who is actually growing in the current scenario, is it what roadside vendors, is it that people are going out lesser and is home eating increasing, so if you could give some of your thoughts on the demand side?
- Rajesh Mohta:** Thank you Mr. Prakash for asking this. This has been the concern for last so many quarters for us; that is the only reason why we had not taken price increases. So, now going to the same-store sales, etc which you referred to, in case of a fine dining that is one very important matter, it is primarily because in our country the business is most skewed towards the weekends, practically Friday evenings, Saturdays and Sundays and if we consider all those Friday weekends primarily there has been no dropped per say because you would find there is a waiting right from a Ready-wala on the footpath to a restaurant which is there in the 5-Star. So, the biggest challenge which happens specially for us when I talk in terms of our industry, from Mondays to Thursdays where the corporates have not been coming into the restaurants, so that is the challenge which we have been facing and let us say for an instance you want exact let say, there are certain cities in the country wherein, yes the trend had been negative but on an overall basis it remains kind of a flat situation if we distribute between the weekdays and the weekends.
- Prakash Kapadia:** And you know, this is the 3rd quarter where we have seen EBITDA being single digits, in your opening remarks you did mention about food inflation cooling off, so just wanted to get some sense, is the gross margin fall also because of increase of Global Sigree contribution. Specially, at a time where Rupee seems to be stabilizing and food inflation seems to be under control or trending down, so when do we see this EBITDA margin getting to a normalized level, is it next quarter because I think the last con call also you had mentioned some of the initiatives you were taking to reduce costs, so is it fair to say we are at the rock bottom and next 2nd half we should see a dramatically different margin, is that a fair assumption to make?
- Rajesh Mohta:** See Prakash it would be incorrect on my part to say there would be a dramatic improvement because what happens is, when you look at CPIs and the WPIs, on the ground reality the scenario is slightly different. So, when we get into a contract kind of a thing thereafter the suppliers have problems in supplying. So, the things have changed but what we find now is going forward, let us say, for instance if we look at the pricing of the November to December or towards March, we are finding that the prices are getting into the levels which were there in the month of March last year or April in this particular financial year. So it would be difficult

for me whether this trend is going to continue it because there are various factors related to it. Let us say, for instance, we talk in terms of movement of petroleum prices, etc. but ground reality those have not got reflected into the product pricing per say, till this time. Should happen in next, for instance, it might so happen in couple of months.

Prakash Kapadia: So definitely, you could expect improvement maybe, over a period of time.

Rajesh Mohta: That is right, absolutely correct.

Prakash Kapadia: I think there has been a 10% service charge which has been imposed, earlier this was not there. So if you could share is this across brand, is it across cities, is it for a specific format because 'Asia Kitchen' has one, 'Mainland', I think earlier did not have, so when has this been started and is it across the country or is it just Mumbai where we would levied this, if you can just ..

Rajesh Mohta: No, there were service charges which were there in Mumbai, in Chennai, Hyderabad, etc. in across cities like, across brands in the city. Let us say, it was not there in Calcutta, which have been implemented in month of November.

Prakash Kapadia: So where it was not there among there is a metros, maybe we have just implemented.

Rajesh Mohta: That is correct.

Prakash Kapadia: Are we ready for Sigree Global expansion at a Pan India level now given the response and the brand which we wanted to scale, so apart from Mainland China, Sigree Global going to be the next focus area and are we ready for Pan India roll out?

Rajesh Mohta: Yes, it is already there, if you look at the presence of, say for instance, Sigree, Flame and Grill and the Machans, which are coming under the umbrella of the Indian cuisine, we have started converting our Flame and Grill, Sigrees into Global Grills and we have now in Bombay, Pune, Chennai, Calcutta already. And in time to come, all those Sigrees and in new destinations also there would be a Global Grill like in coming few days we would have the Global Grill in Indore also. Footprints are there and that becomes a Indian cuisine brand like we have our Mainland China, which happens to be our flagship, the same way we would have Sigree Global Grill in the Indian cuisine.

Moderator: Our next question is from Ankit Kedia of Centrum Broking. Please go ahead.

Ankit Kedia: Just one question on service charge, what do we do of the 10% service charge, how does it go in the cost items, how do we use this, typically it is in terms of the tips for the stewards and others, but then can you explain in details of the use of service charge?

Rajesh Mohta: Are you referring to the accounting treatment or usage?

Ankit Kedia: Both.

- Rajesh Mohta:** If you are asking from my revenue perspective, since it is getting collected from the guest, there are taxation element, etc. involved into it, so we need to treat this as revenue.
- Ankit Kedia:** So full 10% is revenue.
- Rajesh Mohta:** We need to pay VAT and Service tax on the same, so that becomes part of the revenue from an accounting standard perspective and then there are certain expenditures on staff, etc. which gets offset against that, which is get paid to them. So there are two line items; one on the income side and the other on expenditure side.
- Ankit Kedia:** So we do not give it to staff as cash.
- Rajesh Mohta:** It could be cash, kind because there are various expenditures which are incurred upon because you need to, let us say, for instance, if you are getting into cash, there is a component of salary, there are tips, there are notional tips which get distributed to the staff.
- Ankit Kedia:** So why we did not collect this in Kolkata and why now have we decided to collect service charge in Kolkata?
- Indraneil Palit:** You see in Kolkata, there was no precedence of service charge earlier, so we did not find an opportunity. But now, it has become prevalent all over the country, so therefore I think we can take the liberty of putting it that is why we put it.
- Ankit Kedia:** So have competitors' restaurants also levied service charge?
- Rajesh Mohta:** Yes, they have done that before us, so that is why we followed the queue.
- Ankit Kedia:** There was also an article in Chandigarh that the Government over there is decided to put a stay on service charge given that tips already paid to higher level, so would we reduce service charge in those cities where we are seeing an approval on that as well, though we might not be present in Chandigarh currently, but..?
- Rajesh Mohta:** We are in Chandigarh, I mean in a sense that, there is a franchise right but anyway, but I am saying that see in Chandigarh it is a stray case because I think the directive has come from the Commissioner of Tax, so I think the jurisdiction itself is under question, so service charge is a world affair, so I do not think anybody minds there, everybody is used to it and I do not think there will be a problem as such all over the country at all, because I think there was a confusion about service tax and service charge, on the basis of which a fee was basically admitted and this is has been interim notice which has been given, which has been challenged already.
- Ankit Kedia:** And my second question is, on the revenue growth, could you share some data on the same to sales growth, you said you know the churn rate is pretty much similar to quarter 1 numbers and Q3 is a seasonally good quarter and we have not taken Clive hikes, how do we see that in one

year's timeframe, do you see any green shoots of that happening certain pockets, do you see sentiments change or probably it is going to be black lister.

Rajesh Mohta: See Mr. Ankit, when we have maintained like, it has been a flat kind of thing now going forward, we look forward to an improvement.

Ankit Kedia: So how was the month of October, the festive season because that is the key season for you, have you seen any improvement in that month?

Rajesh Mohta: Yes, if you look at previous 6 months of April-September, October was definitely much better, forward to that, the momentum continues in the month of November and December also.

Ankit Kedia: Sure, anything on the International operations front, we were looking to launch one in January in Doha, is that on track?

Rajesh Mohta: Yes, it might get delayed by couple of weeks because of certain approvals but the work has started and we are progressing on it and will update during next couple of months.

Moderator: Our next question is from Kunal Bhatia of Dalal and Broacha. Please go ahead.

Kunal Bhatia: Few questions actually, just wanted to know in case of your raw material, for the current quarter, how much was the imported content?

Rajesh Mohta: The imported content, what has happened like we have been able to trying to reduce it but it still continues to be at the level of 7%-8% of the groceries which we import.

Kunal Bhatia: 7%-8% of the overall raw materials?

Rajesh Mohta: Yes.

Kunal Bhatia: Sir and how has that moved say, in terms of pricing over the last year?

Rajesh Mohta: See, the pricing, it was more from, if you look at August 2013 and the exchange rate impact, rather than but yes because of FSSI regulations and the jobs which are being carried out by the exporters there in the overseas countries, the prices had increased. That is the only reason, why we took a drive of indigenizing all those materials which have been procured now, so we are moving towards that direction but yes, still there is an import component which is there.

Kunal Bhatia: And since in this quarter also, there was a high raw materials to sales, so which were the main ingredients which actually hit back along the cost side?

Rajesh Mohta: This is overall, there is no specific, let us say, for instance, all AA products had prices which were much higher than what we used to pay earlier. So it would be difficult for me to quantify exactly, which were the items like.

- Kunal Bhatia:** Coming to the second question, how was the festive season this time if I want to compare it on a year on year basis, now period of say, Diwali or the festive season, on a year on year basis, did you see any kind of a same store growth or any improvement on that end?
- Rajesh Mohta:** Not a major euphoric kind of a thing but it would have been a flat with some pockets positive.
- Kunal Bhatia:** And in regards to how is our home delivery business doing and have we seen any kind of an increase in terms of percentage to revenues for home delivery and how about the catering business?
- Rajesh Mohta:** I think for home delivery, we are at same levels, there has not been a major thrust in increasing the delivery sales till this time. We are maintaining whatever we used to do earlier, around 2.5-3% of our revenues from home delivery and on catering business, there has been sporadic increase in some months and we are trying to work on, like say, for instance in, this is the marriage season which is coming into wherein we are trying to rope in good number of parties.
- Kunal Bhatia:** Like we have already got any bookings for the same?
- Rajesh Mohta:** It continues but there is no major increase like, it would be on the same levels at what we did last year.
- Kunal Bhatia:** And also, I would like to have an update on your new opening, that is Zoodles.
- Rajesh Mohta:** In case of Zoodles, this is just, we have tested waters in a QSR category which we have been contemplating for long, so it would be too premature to comment anything because this is the one first store which we have launched, we are trying to stabilize it, work on more parameters to look at, so that the scaling up is easier, etc. yes, in coming quarters, in months to come we would be able to have a definitive plan which we would share at appropriate time. Overall, the first store itself, response is very good, which is the most encouraging element for us.
- Kunal Bhatia:** But in term of size, how big is that?
- Rajesh Mohta:** It is more like a takeaway and home delivery model with less of seating so the overall area is 600 square feet.
- Kunal Bhatia:** And how much would be the average spend purposes in that case?
- Rajesh Mohta:** That is very difficult to do, because see what happens here, that there are takeaways, there are delivery and all that, so when you do a delivery and takeaway, you cannot really take a per person kind of a break up, but the average billing if you consider, and that would be around Rs. 1000 plus, minus.
- Kunal Bhatia:** Also an update on LFT.

- Rajesh Mohta:** See the LFT, the agreement is getting signed in couple of days now, final.
- Kunal Bhatia:** So with that, how many stores we will be getting?
- Rajesh Mohta:** See we currently run 4 stores, with 2 franchise additional that would form part of it and then we will have an expansion plan because it has to back up with the commissary central factory for that to expand it to various parts of Bombay.
- Kunal Bhatia:** Just a book keeping question, I am sorry I am repeating myself but just in regards to, if you could just give me the numbers for Mainland China, Sigree and Oh! Calcutta in terms of average spent per person, post the price increases?
- Rajesh Mohta:** In last couple of months, we have not had any increase of prices, we made those same levels, there have been hardly any change. We continue in the range of 670-680 APs, that is the scenario in Mainland china.
- Kunal Bhatia:** And how much for Sigree and Oh! Calcutta?
- Rajesh Mohta:** Oh! Calcutta is in the range of 850-875 in last 3 months, so on an average it is 860 or so. Sigree is 550.
- Moderator:** Our next question is from Kaustubh Pawaskar of Sharekhan. Please go ahead.
- Kaustubh Pawaskar:** Sir my question pertains to the margin side, if we assume that raw material prices remain at the current level, since they have fallen on the sequential basis or maybe on quarter on quarter basis and if we expect the cover turnaround to improve maybe around by 4-5%, then can we expect your operating margins to get back into double digits maybe at around 11-12%?
- Rajesh Mohta:** We wish for the same, because we had done earlier on the same basis, so we tend to working towards that Sir.
- Kaustubh Pawaskar:** But provided your cover turnaround improves by around 4-5%, then it will happen.
- Rajesh Mohta:** It has to be a combination; revenue is a combination of cover turnaround and the price increase also.
- Kaustubh Pawaskar:** Right, so price increase currently you may not be considering the fact that you would be focusing more on increasing the foot falls, so if your turnaround improves and raw material prices remain at this level or might slightly reduce from the current level, then we might see your operating margins coming back to around 11-12%.
- Rajesh Mohta:** It has to be a combination because what is happening, if you look at the cover turnaround in that case, the weekdays needs to improve upon with the corporates coming back because in any which ways the weekends are always full so we have a maximum turnaround during the weekends.

- Kaustubh Pawaskar:** So any thought process on how the week days have been proposed the fact that sentiments are improving or the things are on the verge of improvement at the macro level, so how the improvement is in the weekdays turnaround, maybe from the corporate side, any kind of improvement you have seen or any expectation on that front?
- Rajesh Mohta:** 'Achche Din' from corporate side in week days have not come yet.
- Kaustubh Pawaskar:** So anything you have planned to enthruse those customers or those corporate customers.
- Rajesh Mohta:** That is a continuous exercise which has always been carried out, like we have tied up with ICICI Bank for their debits and credit cards, we have certain schemes running during weekdays, like 'Eat 5-Pay 4', there are festivals which are done, we have certain offers which goes on during the week days. So that is a continuous exercise all across brands, across cities in the countries, to get maximum foot falls during those days because we have the capacity which lies idle.
- Kaustubh Pawaskar:** My second question is on Zoodles, format, can you had just explained that it is a more of a takeaway format, size is also small, so can we expect a similar kind of format in the Indian menu, for example in Sigree or Grills, can you expect similar kind of format in the coming days because a takeaway can we consider as one of the key trigger, in terms of revenues so can we expect similar kind of a format in Indian menu?
- Rajesh Mohta:** See at this point of time, the management is of the opinion that since Chinese had been the core of our business, we should focus on Chinese, which is our core specialty and make it something which is workable, it would be premature for me to say whether we would venture into Indian at a later stage, but at this particular point of time, we will have to prove ourselves in this particular category first. Then we can think of anything else.
- Kaustubh Pawaskar:** And just for the understanding, how are the margins in the takeaway format are they better than what your conventional fine dining's spaces?
- Rajesh Mohta:** See what happens is, when you have, we have the latent capacity with the restaurants, and the takeaways have happened during that particular period, it adds to our margins in a substantial way. Say for instance, on a weekend if we have our restaurants fulls, then there are takeaways and home deliveries happening from that particular day, the volume increases and this is the trigger for operating leverage to come in.
- Kaustubh Pawaskar:** That I understood, I am just trying to understand in terms of format, which is better in terms of margin perspective, takeaways or the conventional fine dining space what you currently are into?
- Rajesh Mohta:** There is no comparison between the conventional sitting restaurants and the takeaways because the model itself is very different you had a different kind of a capital expenditure, you had different kind of fixed cost in to it.

- Moderator:** Our next question is from Jagdish Bhanushali of Flourinetree Advisors. Please go ahead.
- Jagdish Bhanushali:** I wanted to compare what has been service charge revenue in this quarter Q2 versus Q1, if you could throw some light on that in the revenue part?
- Rajesh Mohta:** There has been no change in Q1 and Q2 as far as service charge is concerned. It was on same levels.
- Jagdish Bhanushali:** Even the revenues have been the same?
- Rajesh Mohta:** Yes, no change with percentages. The new applicability has happened in the month of November.
- Moderator:** Our next question is from Pritesh Chheda of Emkay Global. Please go ahead.
- Pritesh Chheda:** For a fairly longer time period, if I try to analyze the operating metrics of your business, I see a capital-to-output ratio of about 1.4x-1.5x and let us say, for a fairly long point in time barring 2, 3 years but margins have been about 17% odd at the EBITDA. Are there any drivers to both these aspects which can drive it up or the nature of the model is largely this and it also tells me that the payback for your stores which you opened largely is about 5-6 years. So in these 3 areas, are there any drivers which can improve them?
- Rajesh Mohta:** See, let us say for instance if you compare 3 years back and now, what has happened primarily because we have historically always used to take 2 price increases in April and September, but because of the pressure on discretionary spend, we could not pass on the cost increases on our revenues so there was a cost curve which was more than revenue curve. Moving forward, if we look at the kind of a format which we are getting into like Mainland China Asia Kitchen, which happens to be all-day dining format for us because till this time we were getting restricted between lunch hours of 4 hours and dinner time of 4 hours, so in order to improve up on the realization from that particular store or improvement on per square feet basis, we are trying to keep the restaurants open between lunch and dinner also wherever it is possible let us say in the malls where we are present. So, this is one particular aspect which is improving the revenues of our existing stock. Second, now what has happened is, we have number of restaurants in particular city so we are trying to reduce the back area for the restaurants so that the unproductive area which do not generate revenue is getting reduced by a central commissary kind of a thing, central storage because we have 15-16 restaurants in one city. This is resulting into lowering of fixed costs which has a direct impact on the profitability. So, going forward like in Kolkata we have already done, we are working towards the same in Mumbai in order to reduce the overheads in the cost of individual restaurants and the new restaurants which are being taken are of a tight size like we used to have kitchens which used to be 1500 square feet has already been reduced to 800-900 square feet. So, the idea behind this reengineering has been to reduce the fixed costs which get into the restaurant. Resulting into number 1, Capital turnover would be higher, operating margins would improve.

- Pritesh Chheda:** Can you directionally peg a number on capital-to-output ratio, where it can head towards, from 1.5x that is basically you call it as churn?
- Rajesh Mohta:** It could be let us say, for instance we say churn on the covers in the restaurants but if you let us say for instance when you talk in terms of 1.5x, it could be to the extent of 1.8x.
- Pritesh Chheda:** There is a 20% lever there in terms of increasing the output from the assets. When it comes to margin, it has to be a function of lower operating costs is that what you are highlighting towards or it is some other driver to the margins?
- Rajesh Mohta:** See there are two things, one particular driver had been the cover turnaround which I just explained earlier that is one of the biggest trigger from a revenue front point of view and the operating margin cost which I spoke about is on the other side, which is on the cost side.
- Pritesh Chheda:** And this reengineering is possible, let us say see you have so many formats but I can see that the formidable format is Mainland China and Sigree Grill, which is a sizeable number of stores. So, this re-engineering and on the other hand we are adding other formats as well. So, is there a counter balance there, number 1 that what you gain from Mainland China on re-engineering can get utilized elsewhere because you are trying other formats or directionally for your company you are seeing in a way that those re-engineering benefits should flow in? And second question is this re-engineering more possible with the formats like Mainland China which have many stores in the system?
- Rajesh Mohta:** See the focus is towards Mainland China because that is the biggest contributor both to the revenues and the profits.
- Pritesh Chheda:** And just last question, philosophically or strategically why are we dabbling with so many formats, ideally what is the eventual aim or strategy or direction for this company?
- Rajesh Mohta:** See let us say, for instance when we qualify ourselves as a fine dining restaurant chain if you look at the food company and various segments of the restaurant business, we are already into fine dining with Chinese cuisine being our flagship and Indian, 3, 4 brands which are getting consolidated under one brand to have a Pan India presence and this particular brand which is basically a QSR category where we did not have anything and our core is Chinese for sure that is the only reason we are trying to do something in QSR category which is more a scalable model than a fine dining.
- Pritesh Chheda:** But in fine dine, Sigree Grill is also a fine dine, Machan is also a fine dine, so we have so many formats in fine dines'. In each of these formats in your opinion, scalable to some 40 to 50 key stores as a Mainland China is today.
- Rajesh Mohta:** That is the only reason why an Indian brand is all being brought under the umbrella of Sigree Global Grill, you will dine to come all those Machans, Flame, and Grills and the Sigrees would get converted into Sigree Global Grill. There will be one Indian single format.

- Pritesh Chheda:** And reengineering benefits in your opinion should flow in at the company level in a shorter time or it is a long haul or a transition which we will see over a time?
- Rajesh Mohta:** See what happens is, certain impacts happen in a shorter period, certain actions are medium term and certain are longer term so it would be a combination of all those factors. Yes, we work toward short term and long term both.
- Pritesh Chheda:** So let us say, the 1.8x asset turn is possible over the next 3 years' timeframe or a 5 years' timeframe or a larger timeframe than that?
- Rajesh Mohta:** It all depends how the discretionary spends' move Sir.
- Moderator:** Thank you. Our next question is from Avi Mehta of IIFL. Please go ahead.
- Avi Mehta:** Just wanted to understand this Zoodles concept, a little bit more. You do delivery as well over here, is that correct?
- Rajesh Mohta:** Predominantly takeaway and delivery Sir.
- Avi Mehta:** That would mean that it is a primary kitchen kind of an environment, less seating space. Does the delivery also happens with Mainland China, etc. or do you kind of prefer not to do that?
- Indraneil Palit:** No we do a lot of delivery for Mainland China, but Zoodles are different market altogether.
- Avi Mehta:** What I was trying to get to while fine dining, I agree with your comment, it is quite different from the QSR space, I just wanted to get a sense of the pricing differential between, I know they are 2 different price points completely but is there some kind of reduction that price point or is the competitive intensity kind of hurting us or is it primarily just the demand because you know what is happening, as we see across the remaining sectors, there are some kind of pickup in spends whether it is retailing, whether it is jewelry, but food seems to be one thing that has not seen that pick up till that extent, if you could help me understand that Sir?
- Indraneil Palit:** As far as Zoodles' pricing is concerned, it is obviously different from Mainland China and also the offering is different by way of the portion, the size of the portion.
- Avi Mehta:** I did not mean Zoodles, I mean generally as a fine dining concept as in the QSR concept. I did not mean specifically Zoodles and Mainland China, what I was trying to understand is, you yourself are qualifying, but we are still not, we are not seeing some kind of pickup. As you rightly said, 'Achehe din abhi tak nahi aaye hai'. So what do you think, is it just competitive intensity as well that is kind of hurting you?
- Indraneil Palit:** Yes, that is of course very true. As in there are too many people mushrooming all over the place, which is definitely going to cause diversion but I think in the long run, we have seen that earlier also, but now this time perhaps there are too many mushrooming at one time and we are

also seeing a lot of people not being able to keep it open beyond a certain point, so that is 1, the other is probably like I said, I think that is the (Inaudible-38:05), the choices are too many, that is probably the reason. And also, earlier what we used to see that there were new suburbs which grew in cities very quickly. That has not happened for a long time, in the sense that when we went to Poona or Bangalore those days, it grew at a much faster rate than we see today even in the same cities. So that is also a problem that the new markets are not growing as fast as they should have grown in the pace that we have seen earlier.

Avi Mehta:

If I get you correctly, what you are saying is a) there are too fast a churn in terms of new players; which means the existing restaurants are also facing pressures. And the new restaurants that we open, the kind of payback that we used to see, that was a kind of got elongated because there was growth opportunity in terms of new stores in also has kind of started.

Indraneil Palit:

Very correct.

Avi Mehta:

Lastly, what is the timeline on Zoodles because it requires a completely different kind of thinking, fine dining?

Indraneil Palit:

First this is for us to see that this particular shop that we have opened, we need to understand that what are the plusses and minuses, our intention is to have a 'Hub and Spoke' model so we will only be able to, shall I say decide on that, the size of the hub and you know how many to open in one city and so on. After we have stabilized here to see where the pros and cons of this particular unit is, so we are going slow on that, we are monitoring it very closely, it has only been a month actually. So I think we will at least observe and learn for the next 6 months and unless we find that there is a some kind of a, which I do not think will actually happen, I mean there is no such magic which is going to happen overnight. So this is a learning process, we will go through and maybe in 6 months' time or so, we will come through a model which will be implementable.

Avi Mehta:

Now, it is just in evaluation stage, is what I hear.

Indraneil Palit:

I would say so because by way of the offering, the pricing, the churn, everything is basically being monitored very carefully to see what we learn from this experimentation, yes.

Avi Mehta:

Just trying to understand, in terms of the competitive landscape, how are you placed versus other options, I do not know which, if there are any and what is the kind of the delivery area that you are currently saying and also, I am just trying to understand this model a bit, so that because my concern is that with fine dining the skill sets that are different from the skill sets that you would need whilst there is some commonality, there is a different approach in the business and I am just trying to understand how will you look at it because then you kind of, you are trying to balance to both, so I am just trying to understand this.

- Indraneil Palit:** You are right. There are the thoughts, 2 different verticals as such. In fact, the team which is the think tank and the monitoring team is also completely different and they have so far nothing to do with the fine dining vertical. So we have taken expertise from that sector, so I would put it this way that we are completely treating it as a different ball game in that sense and we have certain values like we always would like to serve the best food possible under all circumstances and not compromise, just because there is a price war and we are conscious about our hygienic standard or our SOPs and so on. So I think that is something which we have learnt over the years when we have served the top fine dining sector and we have taken those values and inculcated those but the entire team of execution and even the team which is leading it, is a different team altogether. So I think and also like I said, that perhaps we actually 'Hub and Spoke' is what we are looking at without which this kind of a model would not really take off so which is very unlike a fine dining scenario, So in other words, it is a different vertical, different thought, only the values of the company are the same, yes.
- Avi Mehta:** So who are the guys who are working on this, you said there is a different team, could you share any....
- Indraneil Palit:** No, different guys in the sense that I meant operationally chefs.
- Moderator:** Our next question is from Anand Shah of Kotak Securities. Please go ahead.
- Anand Shah:** One question I had is Sir, let us say if demand environment is not a pickup in the next 2, 3 quarters, then do you see margins going back into double digits, the EBITDA margins and what would be the drivers for that?
- Rajesh Mohta:** Talking in terms of margin this year, as far as revenue at the moment, there is an improvement in the discretionary spends, the revenues and the churns would improve which would have an impact on the revenues and from the cost side, the measures which we have already taken with respect to imports, etc., are continuing and we find the cost of raw material because of the inflation getting moderate. We look forward to improvement in coming quarters to happen that which would definitely improve the margin. It would be difficult for me to say what number and in what timeframe but yes definitely it is looking southwards.
- Anand Shah:** And your taxes has been somewhat low in the 1H, what would your guidance for that?
- Rajesh Mohta:** We will be having around, this time we had 20%, it would improve to 25% because our operating profits were low and other income which was more a component of tax free dividend from our Mutual Fund Investments, the tax rate had been low.
- Anand Shah:** So for the full year, it will remain at about 24, 25?
- Rajesh Mohta:** That is correct.

Anand Shah: And Sir, last time when you explained the restaurant addition, you did mention that your Sweet Bengal stores had gone up to 17, is it?

Rajesh Mohta: Yes sir.

Anand Shah: So you added more, is it, for the last quarter year you had 14?

Rajesh Mohta: Yes, I think we have added 2 stores during this particular quarter.

Anand Shah: So you have gone up now from 15 to 17, so 1Q is 15, FY14, onwards 14.

Rajesh Mohta: Yes.

Anand Shah: And this quarter can you tell, how many open and how many you closed, so what is the net addition?

Rajesh Mohta: See in this particular quarter, we have opened 4 restaurants in Quarter 2 basically, one Mainland China, one Oh! Calcutta, one Sigree in Bangladesh, The Zoodles Restaurant.

Anand Shah: The Zoodles was opened in this quarter itself or actually post September?

Rajesh Mohta: It was 30th September, in this quarter itself. Franchise restaurant 1 in Mainland China and Machaan in Nasik.

Anand Shah: So end of quarter, it is about 114, how much is it?

Rajesh Mohta: 110.

Anand Shah: Did you had some closures also there?

Rajesh Mohta: Yes, I did mention 2 franchise restaurants' closure.

Anand Shah: And Sir, what is your expansion plan for this year?

Rajesh Mohta: We continue to maintain like in the range of 12-14 restaurants in this financial year.

Anand Shah: And 1H, how many you have added, net?

Rajesh Mohta: Net addition is, we started with 106 of total, which is now 110, and we have added another 2, so it is gone 6 until this time.

Moderator: Our next question is from Sanjay Banerjee of Krudent Research. Please go ahead.

Sanjay Banerjee: Can you just give some highlights on Café Mezzuna and Hoppipola?

- Rajesh Mohta:** See Café Mezzuna, there are two stores one in Pune and one in Calcutta which is in Forum Mall we opened, Pune is yet to be stabilize. From a profit point of view Café Mezzuna Forum Mall has been doing extremely good for us we will look forward to conversion of few of our spaces into Café Mezzuna going forward.
- Sanjay Banerjee:** And your expansion plan for Café Mezzuna?
- Rajesh Mohta:** See as on date, we would have conversion of our some existing spaces into Café Mezzuna, it would not be a very aggressive, it would be certain cities specific, let us say we would have a Café Mezzuna in Bangalore or in Mumbai in couple of quarters. As far as Hoppipola is concerned, we have been opening wherever we had spaces of our own and we have taken few spaces for opening Hoppipola. We recently opened in this particular in Mumbai, we are doing, in Pune we are doing, in Calcutta also. So, there are plans to open more number of Hoppipolas'.
- Sanjay Banerjee:** And sir for Sweet Bengal, most of them are in Mumbai, so are you going to open in any other states?
- Rajesh Mohta:** It is not most of them, it is 100% in Mumbai, if you take from Cuffe Parade to Thane.
- Sanjay Banerjee:** So are you going to open in other states like Bangalore, Kolkata, or Delhi?
- Rajesh Mohta:** No, we do not have any plans to getting into a taking a Sweet Bengal in Kolkata will not be a feasible proposition in any which ways but yes, we do not look forward for getting into another cities presently.
- Moderator:** Our next question is a follow up from Ankit Kedia of Centrum Broking. Please go ahead.
- Ankit Kedia:** Sir I did not get it right, did we take up price hike apart from the service charge in quarter 3?
- Rajesh Mohta:** No price increases in quarter 3.
- Ankit Kedia:** So we were contemplating to take a price hike, so have we dropped that or we could take up price increase?
- Rajesh Mohta:** See at the end of the day it is the guests which gets the final bill whether it is in the form of price increase or service charges, sir.
- Ankit Kedia:** Service charge is in Kolkata but any other geography?
- Rajesh Mohta:** Say for instance certain cities where we did not have service charges, we have implemented that.
- Ankit Kedia:** Sir what could be the blended for the company level increase because of service charge?

Rajesh Mohta: It could be 4%.

Ankit Kedia: Sir my second question was regarding Zoodles can you give a competitor chain in the same space in Chinese cuisine where you are into operating in Mumbai or anywhere else?

Rajesh Mohta: Not really.

Ankit Kedia: So we have that kind of an advantage with Zoodles currently?

Rajesh Mohta: We look forward for that sir.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments, over to you sir.

Rajesh Mohta: We are extremely thankful to all who participated in the conference and sparing their valuable time. We look forward to more interactions in time to come. Thank you so very much.

Moderator: Thank you sir. Thank you, members of the management. On behalf of Kotak, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.