



SPECIALITY
RESTAURANTS LTD.

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To,

✓ **General Manager,
Listing Operations,
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Mumbai - 400 001.**

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

Scrip Code: 534425

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Dear Sir/ Madam,

Sub: Conference Call - Transcript

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

1. Speciality Restaurants Q4-FY17 Conference Call - May 29, 2017.

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 Q4 2017 Earnings Conference Call”

May 29, 2017



ANALYST: MR. ANKIT KEDIA – 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 Q4 FY2017 earnings conference call hosted by Centrum Broking Limited. 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 call please signal for 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. Thank you and over to you.

Ankit Kedia: Thank you Zaid. Good evening everyone. We at Centrum Broking are pleased to host the Q4 FY17 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 opening remarks followed by which you can have an interactive Q&A. Over to you Sir.

Rajesh Mohta: Thank you Mr. Ankit. Good evening ladies and gentlemen. On behalf of the management of the Speciality Restaurants I welcome you all to the investors call post Q4 results of FY2017 and also for the year ended March 2017. The numbers are already available with you all and on an opening remark I can say the performance has not been satisfactory from a management perspective. These are there have been some reasons specifically attributed to this kind of a performance.

We saw the demonetisation move in the Q3 of FY2017, which continued and had an impact during Q4 of the financial year as well and we have continued with the pressure of spends during weekend across our restaurants especially in some of the cities and certain locations, which are dominantly technological driven. But post March we see there is some sort of recovery in the month of April, which continued in the first fortnight of May, which gives us some hope that things are getting back to normal and we will be able to reap benefits out of it.

The income from operations during Q4 of the FY2017 were lower by ₹ 6.10 Crores year-on-year. The impact of demonetisation was felt, which was coupled with two large restaurants of us Mainland China and Flame & Grill in South City Mall of Kolkata. The mall, which has gone under renovation on floors, which generally contributed approximately ₹ 1.2 to 1.25 Crores monthly to the revenues, are not operating from February because we are also modernizing of our both the restaurants. This was added with the same-store sales also remaining negative to the tune of 5.60% during the quarter.



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However the silver lining is the stable raw material prices and with the predicted good monsoon it is likely that the COGS to the revenues in coming quarters would yield benefits and we hope that could be in the range of 1% to 1.5% points to the revenues. On the other cost fronts as well; efforts are on to right size the staff compliments. We have renegotiated rentals in some of the properties wherever it is possible and trying to work on various other cost parameters as well. Needles to say that the effort on increasing revenue is on with respect to promotions, etc., format change, transformation of formats, new locations, etc. The company has opened a new restaurant called Gong during April 2017 at Balewadi, Pune, which is an Asian cuisine restaurant and we are very hopeful that post reviews, etc., it has been accepted well by all the guests and from a financial point of view we hope that it gets break even in the third month of its operations, which would be the next month.

There are developments on international front. We have a Dubai franchise in place. The location has been identified in BurJuman Mall of Dubai and in couple of months' time we would see a Mainland China in Dubai as well with various enquiries and strong discussions happening for Bahrain also. A Mainland China in Colombo the work is in progress as a franchise restaurant as well. To add on there are still few restaurants, which are on the watch list of the company, which are yet to break even. We are trying our best to promote through various promotions, etc., to increase revenues, reduce cost, so that those restaurants do not burn cash. The total number of restaurants and confectioneries as on March 31, 2017 are 123 for us, out of which 24 restaurants are franchise restaurants and 18 are Sweet Bengal confectionery stores in Mumbai. Now I invite the investors and analysts for their questions on the performance under review. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin with the question and answer session. Mr. Kedia would you like to ask a few questions while the question queue assembles.

Ankit Kedia: Sure.

Moderator: Please go ahead.

Ankit Kedia: Sir my first question is you said you have started to see some green shoots in the month of April and May while some IT cities you had seen pressure in Q4 and in previously in some quarters you had mentioned in some cities where ITs are in the south and the pressure is there, so could you take us what recovery are you seeing in which format you are seeing some recovery signs and going forward over next three to six months what kind of same-store sales growth can we look forward to.



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Rajesh Mohta: Mr. Ankit to answer your last question first we are into a negative sales growth so the first objective of the organization is to get into a stable same-store sales then we would think of positive because primarily if you can see it has been at around 5% points on negative same-store sales. Coming to the issue of IT there have been situations where certain locations in particular cities have shown improvements, but what is happening is the momentum is not being maintained. As a result of that it has become very difficult to understand the exact reason for such kind of volatile revenues, which do come in because what happens is even in case of certain cities restaurants have been doing good for us rather than specifications may be because of early onset of let us say in the month of April-May despite having early summer or peak summer things are better in mall restaurants, so we are working towards that, but say for in case of certain high technology driven cities of Pune and Bengaluru there are issues with respect to buffets, etc., which have been addressed. We have introduced various buffets where it becomes value for money.

Ankit Kedia: Sure. Sir in the past you know we had taken half size portions and twice cuts were seen starting the new restaurant pricing was very, very less compared to competition so what measures have we taken apart from these two cities in order to grow our same-store sales growth.

Rajesh Mohta: Regular portion and the large portions have been continued across restaurants. The debate is on whether we should have regular portions because we would never like the food to get wasted by the guest that was the real reason why we have got into the regular portion. It has been continuing, but let us say when you talk in terms of increasing revenues of those restaurants the only thing the challenge, which had always been with respect to increasing prices, which has not happened, but with addition of buffets in various restaurants things have started looking up and if it required we would introduce buffets in most of our restaurants.

Ankit Kedia: And the buffets are predominantly lunch or even dinner.

Rajesh Mohta: Primarily lunch.

Ankit Kedia: Sure. Sir my second question is regarding GST, could you just take us through what are the rate of GST and how will it be positive or negatively impacting us and what measures are we taking if price hike is going to come in the system.

Rajesh Mohta: See let me tell you one thing from an overall rate perspective as far as we are concerned we run air conditioned restaurants with the liquor licenses, so we get categorized into 18% bracket of GST, which from a guest point of view is lower in most of the states by a percentage to 2.5% points because if we include VAT and service tax, which is presently



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applicable works out to be 19.5% to 20.5% points. At the end of the day the cash outflow from the guest would get reduced because of the implementation of GST and prices. Coming on inputs, etc., the regulations, etc., are yet to be understood, government guidelines yet to come in, but yes wherever there were inputs, which were not available to us would definitely be available now in the GST regime, but the caveat here is on the liquor because liquor is out of the purview of the GST so we are not sure as far as the calculations, etc., which would come under regulations under the GST. We would be selling products, which would get covered under the VAT act of various states as well as GST. That is one challenge, which is still not clear to us. On overall basis we presume this to be a really beneficial for organized players plus the benefit which would come from a rate perspective, as a result of which the guest would have lesser outflow.

Ankit Kedia: Sure. Sir in near future can we expect a price hike at least in next six months or that is ruled out given that the outgo from the customer would be lower plus the same-store sales growth is negative.

Rajesh Mohta: Mr. Ankit this is basically a very fluid situation. It all depends upon the spend pressures since we had seen in last couple of years because of the spend pressure we did not increase prices, but we would continue to monitor situation and in case if it is practical to increase prices without having issue on footfalls at appropriate time.

Ankit Kedia: Sure and Sir my last question is on the international operations. How big could be the opportunity on the international side over next two to three years given that now Dubai, Colombo, Bahrain is expected to come, so if you could throw some opportunity and what kind of numbers we can look at.

Indraneil Palit: See we already have looked at US in a very big way because there have been a lot of offers, which has come from there, which we were waiting to settle down in India and then go. The other good thing is that we have found a partner because US being what it is I think that opens up a huge opportunity and Dubai also if you see there is only one that we have looked at the partner that we are going with is actually interested to open at least 10 in the entire region and they have got the bandwidth to do that because they are already in the business for the last 10 to 15 years. So I think we were waiting for the right partner so now that we are getting it I think we can look at good numbers; however, we will assess the performance of Colombo as well as Dubai and then go forward. US also we are already exploring in the sense that we already talking in terms of numbers now. I suppose that this year we might land up making our first mark in the US market as well.



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Ankit Kedia: And Sir how is the dynamics in international market different from India in terms of margins, revenue.

Indraneil Palit: If you look at it the margin is not too different. What happens is that if the component of say the staff overheads vis-à-vis the rent and vis-à-vis the raw material cost they may change against each other, but when you look at composite they always similar to what India is, this is what we have observed. Somewhere the rent is low raw material is high, somewhere raw material is low stock is high, but generally if you go to see there is not too much of a difference in the possible or the potential bottomline if I may say so.

Ankit Kedia: Sure. Thank you Sir. I will come back in the queue.

Moderator: Thank you. The first question is from the line of Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: You have talked about same-store sales growth decline of 5.5% last quarter how was it for the industry.

Indraneil Palit: The industry has not been doing well, we have seen the pressure except for one or two brands, which have come and done well for the first three or four months and they are also now facing the slow down. So I would put it very simply that the industry is still not looked up the way we would have expected it to, so I think we are in a boat where everybody is in.

Kaushik Poddar: Ok. Secondly you just talked about in case of liquor you are expecting a GST plus VAT, but VAT will not be there once GST comes into force isn't it.

Indraneil Palit: I meant was that liquor is not covered under GST it is a state tax it is the state's prerogative. There will not be double taxing, there will be only one tax, but that tax would be levied by the state.

Kaushik Poddar: Ok. What you are saying for liquor GST will not be there it will be VAT only that is what you are saying.

Indraneil Palit: Correct.

Kaushik Poddar: See you have done the format change from Mainland China to Mainland China Asia Kitchen so how is the changeover one thought that after the changeover things will settle down, but has not it picked up to your expectation.



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Indraneil Palit:

It has. You see the thing was that once we opened in a mall they have been extremely well received. However, so far as the standalone restaurants are concerned we found that the market is changed even further, so now when we go to say Pune, Balewadi High Street there we have opened Gong. The food has also evolved further, the decor has gone may be five notches up, so in a sense not way of only being opulent or extravagant, but much more energetic shall I say like now we understand high energy dining where the entire environment is much more youthful and vibrant where as against the fine dining, which is a quiet affair, so that is what we saw and that has been so well received that we are very hopeful that now we will move with the Gong brand elsewhere. So far as the Asia Kitchen is concerned it will remain the way it is because in the malls wherever we have the opportunity we will go with this Asia Kitchen format because Gong will not fit in that at least what the way we see it now. So in other words what I am trying to say is that as the market is evolving we are finding that there are various pockets, various demands. For example, a mall predominantly is a family oriented destination highly dependent on the movie, but if you look at the way people go to eat in a mall is very different from a standalone. So we are looking at these small changes very carefully and we are trying to make the product tailor-made we have also embarked on shall I say a progressive cuisine development with a very, very well known chef of India, who has now joined us and that is we are doing to do in Mumbai. Now this particular brand for example will be high end and the thing is that from this particular creation that we have we will be able to get the drama back into the food because as you know that food has now become also a theater so if Gong has made it high energy this particular progressive cuisine will be magic in many ways and we are investing a lot on the expertise so that people who are performed in the sense that they have been able to create their own niche by creating something different we are looking at those talents and we are already hired them. So Asia Kitchen we have the Gong that I just spoke of and this progressive cuisine, which is going to be launched in the next one month. These are three things that are happening. I will carry on so that others also can perhaps listen to it, which is that you know for example in Hoppipola we are already embarked on developing our own app, which will make the whole interaction more digital, more fun, conducive to the buyer's market I would say and we expect that we would be able to get Hoppipola back to where it was earlier it has already come to a great recovery, I would not call a recovery, but we have almost gone back to the same-store sales in many of the units and some of the units we are planning to upgrade and put this app, which should come in a month or two, which will put a new excitement. Apart from that what we have done is that we have looked at rationalizing the cost, be it staff, be it any other non-operational cost and we are looking at a benefit of almost 90 Lakhs a month, which is I think a fantastic effort that we put in and we found the ways to do it. The question is now to sustain it. So with all these measures that we are taking by with new brands, new



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applications, cost reduction I think the 2018 if not later 2017 I think we are expecting a much, much better result.

Kaushik Poddar: Can you expand on this 90 Lakhs per month savings what exactly, where are you going to get that 90 Lakhs per month is nearly equal to 10 Crores per year where are you getting it.

Indraneil Palit: Correct. You are right. There is rationalizing of staff that we have done. What we did was we rationalized our offerings as well. We found that like I said a little while ago that Asia Kitchen has taught us that fine dining, which is elaborate dining is actually dying out slowly. Now in certain parts not everywhere in the country so therefore we realized that perhaps a shorter offering with more frequent changes would attract people and that makes it easier for us to deliver things with less number of expertise if I may call them so, so that really helped us phenomenally. We did a very good exercise by way of ABC analysis of our raw materials and we saved almost 1% on raw materials, then there are marketing cost, which we evaluated with the benefits that we were getting and we found that those methods are perhaps old, we should concentrate more on digital and we have done some digital things, there have been phenomenal results and vis-à-vis the cost that we have incurred. So we have looked at the traditional cost and we are very hopeful that we will be able to sustain this 90 lakhs per month.

Kaushik Poddar: When you are talking the ABC analysis have you cut down on the menu I could not get it.

Indraneil Palit: See what happens is typically. Now say for example there are five chicken items, just for an example, now what we can do is we make it three every three months or four months we change those three with these two, which we have taken out what we call a very scientific way of doing things, which is called menu engineering. So menu engineering was required when we realize that people do not want to go through volumes of pages to choose their items they would rather every time they come back they would be seeing something new, so we have changed the strategy of that because the people have little time and I think rather saying we studied with a gentleman who is actually looking at behavioural patterns in the digital platform and one thing, which came about very strongly is the patience is absolutely a no, no, so people want to decide and move on. Also told us that it is no point putting all our expertise in one single menu and all our caliber we rather showcase it short burst, few menu has come it has been implemented, we were waiting in some of the areas because of GST we were not very sure what is coming about, so I think by the end of June all the menus will be changed and we have already experimented so it worked very well and there is no question of any shall I say what do you call that fatigue of the menu because we are going to change it in every three or four months.



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- Kaushik Poddar:** And lastly, you have also talked rationalization of rent, so this 90 Lakhs per month savings you just spoke about does it include this rationalization of rent or that is on top of this.
- Rajesh Mohta:** These are combination of various factors like staff cost, cost of goods sold, other expenses, all together.
- Kaushik Poddar:** Fine. That is all from my side.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.
- V P Rajesh:** Thanks for the opportunity. My first question on this cost saving you were talking about of 10 Crores or so per year could you just simply bucket it into which is cost of goods sold versus other operating income because we saw a 5 Crore improvement in your gross margin for FY2017 and I was just wondering if it is already coming from there just wanted to get clarification on that.
- Rajesh Mohta:** You are absolutely correct. See majority of this raw material because what we have done now with respect to the prices these are working favourably, we have done our re-tendering process and are trying to work out the cost on a quarterly basis rather than six monthly. This would be a big factor of contributing to all, which we are seeing about in this financial year.
- V P Rajesh:** So what you are saying is that the size has already come roughly in raw material cost and we can expect another 5 Crores in the current financial year, which may be mostly coming from operating cost.
- Rajesh Mohta:** It would be a combination of raw material and the operating cost.
- V P Rajesh:** Could you Mr. Mohta quantify between the two or that is not possible.
- Rajesh Mohta:** Difficult at this stage. This is a number, which have been worked out during a budgeting exercise we are working hard towards this because certain raw material contracts, which are supposed to happen from July onwards, so this would be a continuous exercise, but this is a ballpark number, which looks like where we are working hard to achieve on.
- V P Rajesh:** And then the next question is what is the capex plans for FY 2017-18.
- Rajesh Mohta:** See what has happened Sir, Let us say at this point of time as Mr. Palit indicated we are working on only one particular project, which is happening in Mumbai, Kamala Mills we will wait and watch how things pan out, take calls accordingly.



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- V P Rajesh:** It takes you about three months to put a new restaurant in place.
- Rajesh Mohta:** From a zero date it is almost like four months once we take over the premises.
- V P Rajesh:** So have you identified any other areas or not really.
- Rajesh Mohta:** Happening, there are couple of locations let say for instance, which are available already, there could be some changes of brands or let say in case of a Delhi restaurant of our Mainland China we are working of converting it into a Gong, coupled with a new locations.
- V P Rajesh:** And international expansion that you guys were talking about earlier it should be assumed that, that is all franchise model or are we putting some money in those projects.
- Rajesh Mohta:** So one which we spoke about Dubai, Colombo, etc., are on franchise models in London, etc., we may have our own investments getting into. We would come back to you all at appropriate time.
- V P Rajesh:** And I missed the part when you are describing about opening 10 restaurants with a partner, which geographic region you were referring to.
- Indraneil Palit:** That is right. Let say for instance when we talk in terms of partners he was mentioning as franchise basically so the opening would happen in middle east that is one partner with whom we would be working on. Partner would means franchisee for us.
- V P Rajesh:** No, I thought I heard you say that with one partner you may open 10 restaurants I was just curious with geographic region would you target.
- Indraneil Palit:** We are not putting in money there, it is a franchise partner.
- V P Rajesh:** Sure, what the geographic region, was it in Middle East or US.
- Rajesh Mohta:** Middle East.
- V P Rajesh:** My next question is on the number of employees you have they were currently what you had last year.
- Rajesh Mohta:** Rajesh I can get you on offline, but there is an overall reduction this March.



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- V P Rajesh:** And the last question you mentioned that the SSG is down 5.5% could you bifurcate that between Hoppipola versus the Mainland China and Asia Kitchen formats.
- Rajesh Mohta:** What happens primarily when we talk in terms of Hoppipola, Mainland China is almost single digit top five primarily. Hoppipola, etc., have been more let us say for instance because there have been change of format, closures, it was shut for renovation, so it gets included into that, which ran into a number, which were roughly around 20%.
- V P Rajesh:** So if I heard you correctly you are saying that Mainland China format it was less than 5% SSG negative and in Hoppipola because of closing of one or two restaurants it was overall negative 20% correct.
- Rajesh Mohta:** Yes. For Mainland China to be precise it was 4.3.
- V P Rajesh:** Thank you. I will get back in the queue.
- Moderator:** As there are no further questions I now hand the conference over to the management of Speciality Restaurants for closing comments. Over to you.
- Rajesh Mohta:** Thank you Ladies and gentlemen for participating into the call of Speciality Restaurants I assure you we are working hard towards making better numbers to come in, in quarters to come. Thanks so very much.
- Moderator:** Thank you very much members of management. Ladies and gentlemen on behalf of Centrum Broking that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.