



“Speciality Restaurants Ltd. Q3FY13 Results
Conference Call”

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EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3FY13 Results Conference Call of Speciality Restaurants hosted by Kotak Institutional Equities. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Amrita Basu of Kotak Institutional Equities, thank you and over to you.

Amrita Basu: Hi, everyone, thanks Moshin, on behalf of Kotak Institutional Equities, I welcome all of you to the Speciality Restaurants Q3FY13 Earnings Conference Call. I would like to welcome the Speciality Restaurants team, Mr. Anjan Chatterjee, Managing Director, Mr. Indraneil Palit, COO, Mr. Rajesh Mohta – CFO. I will now hand over the call to Mr. Rajesh Mohta to discuss the recently announced earnings. Thank you and over to you, Sir.

Rajesh Mohta: Very good evening from Speciality Restaurants' team. It is a pleasure to be back on our investors call after our quarter numbers, which have been approved by our board and posted on Stock Exchange sites. I am happy to announce that quarter 3, which is generally a good quarter for us has been reasonably good considering the overall sentiments of the discretionary spends in the country. Our top-line grew by 14.23% on operations revenue with an increase of PAT by 38.54% taking it to 6.67 crores from 4.81 crores year-on-year basis and on sequential numbers the profit after tax, which was 5.11 crores increased to 6.67 crores. Yes, there has been an operations profit margins, which were subdued because of two primary reasons, one we had not taken any price increase during this particular period of nine months because of the cost push inflation because of which the consumers were already affected so we wanted to maintain the footfalls into the restaurants, so the idea behind this price hike, which historically we have been taking over the years in April and September in the range of 4 to 5% had not happened resulting into a flat growth for our existing stores. The primary growth which has been seen in this quarter is because of the addition of the new stores and the maturity of the stores which were opened last fiscal and in the first quarter. Now we can have a Q&A session.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Amit Purohit from Dolat Capital, please go ahead.

Amit Purohit: Just wanted to check with you on Mainland China expansion, what is the current, how many, what is the number currently franchise and own breakup wise.

Rajesh Mohta: Amit, Rajesh Mohta this side. Number of Mainland Chinas' I would like to share with you that today we are having 48 Mainland Chinas across the country, it is 32 being company owned, company operated and 16 franchisee owned and company operated.

Amit Purohit: The new format that we were looking at Pune, how has it taken up.

Anjan Chatterjee:

This is Anjan Chatterjee, you see, what happens is that, the Pune, we were about to launch it in October and November. We got a bit delayed because of two reasons, that we had to do a renewal of the liquor license, and the second was the form of the fact that we wanted to get ensured that we are getting into new zone; new domain and our DNA did not have any kind of a Mediterranean or Continental cuisine. As you know it is not the first store, we intend scaling it up. So we ensured that we do trials time and again, so we finally have been satisfied to ensure that we have now the wherewithal and understanding, so any time between now and the next seven days we are rolling Mizuna out. So I think that it has come up, very, very, very, beautiful in terms of the look and it is very minimalistic and exactly doing its kind of job of attracting the 18 to 24, and the first time we are getting into the zone of all time, all day bar and eatery because as you know, all the restaurants that we have are all-day restaurant and bar. Our break shift, that is morning and evening, so this is a very big leverage and the step that the company is taking, because I think that the number of trials hours that we operate upon is, you know, excepting Friday, Saturday, and Sundays in the malls, but in Mainland China we only have lunches and dinner, but in this model we will be leveraging it. It starts for breakfast around 7:30 and it will go on till 12 o'clock at night.

Amit Purohit:

Okay, thanks a lot, and Sir and just on the demand scenario, in this festive season, how has it been and how are you seeing January, February.

Anjan Chatterjee:

I can only tell you that there is tremendous level of pressure on the discretionary spend. There are two ways we can, you know, we are as I say, we are not anymore a restaurant. We are a restaurant corporation company, we understand, we have gone through this 2007-08, so we have gone through this kind of a patch earlier. This looks like worse than what we had gone earlier because at that time particular time, there was an effect, but in this case what we are seeing is that while the brand is intact, there is tremendous respect and love with God's grace and as I was telling Amrita sometime back that just as Research Report which is talking about the satisfaction levels in restaurants. On the basis of the survey done, the ratings etc absolutely touch wood, is in the best place besides the internal audit that we with the customer, the mystery audit, but everything seems to be in one focus, that at the end of it, in spite of all that number of times that people are interacting with a fine dining is lower, as you know, even the pizzas this time are not naming a brand, also have been affected quite, but respectfully in this particular quarter, so I am saying that what we have done is that we are controlling our cost intelligently excepting our EBITDA levels have gone down a little bit because of the fact that we are carrying on a full Mizuna, a total research understanding existing people, you know, of the staff, we carry the cost of that over a period of time, and also we are looking at this quarter particularly and also there is a humungous developed research and development which is being done for this brand, so that also is one more reason that the EBITDAs look a little, little flat, but we are very sure that once this comes up and global grill, which is our another new brand, which is a reposition way of taking new way forward for Sigri, I think these two are taking off in the last week, maximum in the last week between the 15th and 20th of February, so I think there is a new perspective that we look forward to.

- Moderator:** Thank you. Our next question is from the line of Jaibir Sethi from Premji Invest. Please go ahead.
- Jaibir Sethi:** Just wanted to understand how you are thinking about the price hikes for this year, whether April, it looks, like you will be able to push it through, or still worried about the consumers not being able to accept it.
- Anjan Chatterjee:** In the month of April we have to bite the bullet. We will not pass on 100% recessionary inflationary gaps that we have now. What we are doing is that, we are making it slightly easier for the customer. So what we are doing is that from the month of March only, we are increasing one by one, we are starting with the farinaceous dishes which is in the form of rice and noodles. We will increase that by 4 to 5% and till the month of April end, we will be doing it in everything, but the range will not go to the usual 8 to 10%, which we do, we will only restrict ourselves to a 4 to max of 6% for sure. Because I think that we have the scope and there is head room, and we are countering that with very intelligent kinds of sops in the CRM, that 100,000 odd people. So we are giving them a kind of points will be more, so we will rationalize it and balance it with some kind of sop to start with, but surely we are going for a price increase.
- Jaibir Sethi:** How are you thinking about cost inflation for next year, because presumably by now most of your annual contracts would be under negotiation?
- Rajesh Mohta:** See what has happened, we find now the peak is already been achieved in this particular financial year, and now the trend is towards South. So going forward, it appears, since we are now getting into the tendering process for the financial year 2013-14, we are looking at more stable and lower prices for the next year to come.
- Jaibir Sethi:** So, overall then some of the pressure that we have been seeing on margins should begin to ease next year.
- Rajesh Mohta:** Absolutely correct.
- Moderator:** Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund, please go ahead.
- Arjun Khanna:** My question is in terms of the slowdown that you talk about. Has it impacted our rollout plan going forward?
- Rajesh Mohta:** See, as far as rollouts are concerned, we are no track. We have not curtailed our rollout plans primarily being, basically what is happening is, these are the times when we should continue with our expansions and there have been rentals which I have moved southwards and we are able to negotiate best, so we would be putting up those restaurants and the moment there is an improvement we would be not found wanting to have restaurants in those places.

- Arjun Khanna:** So could you give us a sense of how many stores you plan to open for the next fiscal and our target for this fiscal.
- Rajesh Mohta:** As far as the target for this fiscal and the next fiscal is also 15 to 16 restaurants.
- Arjun Khanna:** And we would be on track for this fiscal?
- Management:** Yes please.
- Arjun Khanna:** And the next fiscal have we changed our targets?
- Management:** No not as yet, we are continuing with the same, what we had committed in our prospectus.
- Arjun Khanna:** In terms of franchise enquires, has that actually come off, is that at similar levels.
- Management:** See what has happened, prior to our listing, the information was not done in a public domain. Post listing, the information is very much available in public domain and the franchise enquiries which were coming from tier II and tier III cities have quadrupled actually speaking, so it has become more a selection process, which we are having a problems with. So we have been very selective and going and selecting a particular franchise of ours in any of the cities. Most importantly, what has happened, after the listing we are finding that there any number of enquiries from international destinations also for wanting Mainland China and our Indian brand of O Calcutta to cater to international destinations.
- Arjun Khanna:** So, we had planned I think for the Middle East, is that on the anvil.
- Anjan Chatterjee:** See, at the moment we are obviously focusing, as you know, we only had experiment with Dhaka as two restaurants, that is monitored and gone. I personally think that the UAE is a very big opportunity, a very, very big opportunity for us, because as you know that the percentage of Indians, is very high there. We are an Indian brand, of course we can take on some international brands in terms of our understanding and we tailor make it, but that apart, in UAE I think it is an opportunity of eight restaurants, so we have certain things which are being discussed, we have not signed the dotted line, but Insha'Allah if everything goes well, we intend doing a joint venture. We intend to do a joint venture with a very respected group, which is already got, Rather than doing a franchisee arrangement then, the opportunity would be to leverage that and ensure that we have a bottle like a mango, and tango mango actually becomes a 50:50 investment. These are being discussed now, and then we have a controlling stake of around 60 to 70%. They have some percentile. In the Tango, we actually managed the brands, for the management of the brand, we charge a percentage fee, depending upon 8 to 10% of the revenue. So this is how we are looking at it, it is a very big opportunity and I just don't what to be one of those cheap restaurants in Karaba, I don't know if you know the Dubai Karaba area, I want to get into a Dubai Mall or a BurJuman Mall, so we are in the process. We are scanning the whole area, and Insha'Allah** I should be able to give you good news by the next quarter.

- Arjun Khanna:** Just I mean, broad numbers, what kind of CAPEX would this entail.
- Anjan Chatterjee:** Actually, too early and this is sketchy thing, but we are trying to ensure that the CAPEX will be lowest possible because we will have the partner, who will have the wherewithal of existing, we are looking at somebody almost tentatively looked at, somebody and we are just about to finalize. Somebody has got the DNA of the restaurateur or a franchise outlet that he has got around 20, 25 to 30 restaurants of noncompetitive kind, so he understands this space and hence they have the wherewithal of an interior and wherewithal of already leveraged real estate space and also CAPEX. So we are trying to get that marriage right, so we are very conscious about the kind of CAPEX that we put abroad and we will also have to get a mandate so all discussions are on, I think, we will be definitely giving you news by the next quarter.
- Arjun Khanna:** Sure, my second line of questioning is largely on this slowdown that you talked about and Same Stores sales growth largely being flat. What is actually the resultant, are we seeing that the average spend per table is actually coming off of footfalls are not growing. What reason, if you have to boil this down to what would be the main parameter?
- Anjan Chatterjee:** See, there are two trends which we see. That in every kind of, since we have gone through the 2007-08 we now, actually, it is like a pilot who has handled a bad weather patch like a cumulonimbus cloud, so it is called a CB cloud if you know that, so where you get it, and you know where to be sensitized through a radder, so our radders tell us with a historical research and understanding that we can smell that. A person who would in the corporate open two bottles of wine, come to Gurgaon, or come to Saki Naka or come to a place like Powai, two to three bottles of imported wine, Jacob's Creek or the upper ones, not Sula, he is downgrading to Sula or a glass of Sula.
- Arjun Khanna:** Sure.
- Anjan Chatterjee:** The incidence of coming here is going and coming down or even if he is coming down there is a restriction, one glass we will drink today or maybe the four starters, and the three main courses, and then suddenly it is becoming lesser. It is just becoming a base, of maybe, one, one-and-half starters, we share it all, and then the proportion of the usage of the brand also, we see a shrinkage in the sense that, somebody who would come into a Mainland China thrice of four times, is coming twice. Of course he is ordering it out sometimes although we don't deliver now. We are looking at the delivery model, signing up to the Just Dial for the logistics, that is another news I am going to give you, but I am sure of the fact that its being felt throughout across category from FMCGs to everywhere and I am sure that you are much more knowledgeable on this, but this is the kind of trend. We have the understanding of this very, very tightly. We are monitoring people and we are ensuring that we had already informed earlier that eat 5, pay 4. We have now actually made it better, because in the lunches that we are making it slightly easier, and giving a better kind of an offer which will be, may be in the sense that, you know, it is for the bigger group, we are also doing that. Eat 10, pay 8. Because the larger groups come in, lots of people come in. We want our volumes to be surging. So,

these effects have already given us some kind of methodology on the steps that we have taken there. They are already showing us some kind of ... but this quarter fortunately because of the celebration quarter as you know, this is the best quarter, Of course, this has not been the best, best quarter as it would be for any company for that matter, including that of even retail for that matter. 26th January was not the best as you know. So, with a sale like that. But in spite of all that I can only say this to you, that because since we have the shock absorbers to ensure that being a brand we understand the tweaking of it, we have a national and we have a very strong air traffic control centrally, which monitors this on a day-to-day hourly basis. I am sure that it is just a matter of time. We are continuing to grow at the same pace and ensuring that we are doing one or two experiments at this point in time. We have some time with us. We are doing global grill, we are doing Mizuna so all this, by the time the cycle gets out, which is bound to happen, it is a matter of time. We will be in a position to actually bounce back the same way as in 2009 and 2010. The kind of things which we had done, the kind of EBITDA levels etc which had gone, so as long as the brand does not get affected or diluted.

Arjun Khanna: Just to understand this a bit more, so what we are saying is that the footfalls continue to be strong, it is just the average spending per person has come off?

Anjan Chatterjee: Both, no, most of it, the average spend is going down, but number of times they are coming to Mainland China are also is less, and the incidence of going out is becoming less.

Arjun Khanna: That would be on a general, but say for a particular restaurant, on your same stores sales, stores which have been there for two to three years. You may have this repeat customer coming in less, but on an average the number of covers that a table is doing, is that ratio changed a lot.

Anjan Chatterjee: Not changed, but it is flattish.

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

Ankit Kedia: Just wanted to know what has been the churn in average bill per cover for Mainland China during the quarter?

Management: Average churn has been 1.63 and APC has been Rs 675.

Ankit Kedia: So that has actually increased from last quarter, right.

Management: That is correct.

Ankit Kedia: That is healthy. My second question was regarding the CAPEX plans, during the IPO we had envisaged we will be opening around 15 to 16 owned restaurants along with franchisees selectively. So, if you look at first nine months, we have only opened eight own restaurants and 3 franchisees, so the full year what is the target owned restaurants and what would be the CAPEX plan for the same?

Management: See we have already opened after the 31st December, we have opened one more O Calcutta, which is a company owned company operated, which makes it nine, and we have six restaurants which are already into pipeline, any time, what happens is the trials etc are taking longer than usual and there are licensing issues which generally takes few more days, since the work is in progress on those nine restaurants we are very comfortable that we would be able to match those numbers.

Ankit Kedia: So, on owned restaurants we will be having around 15 to 16 during the year, and same goes for next year.

Management: Correct.

Ankit Kedia: Sure.

Ankit Kedia: On the takeaways model, Anjan was hinting a bit, we were expected to start that during the quarter, what is the progress on that?

Anjan Chatterjee: Takeaways, okay, my point was that, we did this in two to three stores, it was very nice, but what we saw that was needed a right logistics partner. Now the problem was that we could not deliver food and we have strengthen our packaging done, everything, but the point would be that, the ordering pattern, the kind of website, and the kind of wherewithal to actually have a back area from where you take the order, generate that and put it, punch it, and also monitor that orders. My concern is not just to deliver food. Like in our restaurants we have a transparent system where in you eat food, you write a comment, you have a bad comment, we get it on the same night, online, but here I just don't want to deliver food, which could have gone bad or there could be some problem, so it will affect the restaurant's brand image. So hence we wanted a very thorough understanding of this, so we were talking with two partners, one is Tid Bit. Tid Bit is another company which is in the similar kind of state, and we were evaluating, so when we did a little bit of work with them as a pilot, did not like it, now finally we have signed up actually with Just Dial,. Just Dial has the wherewithal, as you know that they are a company in this core business, so there will be a percentile of maybe you know they are asking for 6, we will give them 3 or 4%. But it will not be, so we will see that all over India, overnight, I have the logistics partner who is as strong as Just Dial. So this marriage will be the ideal one, our expertise is to produce food and ensure we package it nicely and deliver, while the rest of it with the data comes to my concom online on the next day.

Ankit Kedia: Sure. My third question is regarding core operating margins, they have declined by nearly 500 bps during the quarter, so what is the trend going forward for the fourth quarter and for next year?

Management: Sorry, I would just like to correct, I don't find that there is a drop of 500 bps, if I don't know how it has been calculated.

- Ankit Kedia:** I am removing the other operating income because that is the franchisee income. That straight comes to EBITDA. If you exclude that and calculate the operating margins.
- Management:** Sorry, there also because what happens is, to earn the franchisee income also there is a huge amount of corporate cost which is incurred for that, so there is some element of cost, which is offsetting that particular income. May I request you to kindly include that into calculating there, because there is an expenditure which is attributed towards that.
- Ankit Kedia:** Okay, even if I take that into account, still we are seeing a drop of nearly 375 bps in operating margins.
- Management:** A dip of 2% points because as explained earlier, there have been primary two reasons, one is, not increasing the prices for the revenues of our existing stores and there are front end costs which are incurred for opening up the projects, like say for instance there are trials happening on Mizuna, the entire backend team for the Mizuna Restaurant is there in the system for the last four months, so entire expenditure of that particular Mizuna team is already there in this particular quarter, so this is though a trial basis, but it is there in this particular quarter. Over and above this, there are two elements which are happening on raw material cost also, because what happens is, there are food trials which are on, there also the cost gets front loaded.
- Ankit Kedia:** Right. My last question is on the menu. Have we changed the menu, any new items have been added. We were supposed to add Walks of Asia, one page in the menu, new launches out there, how is that progress going on?
- Anjan Chatterjee:** Sorry, I missed your question.
- Ankit Kedia:** Any changes in the menu recently have we done, and we were going to add a page on Walks of Asia.
- Anjan Chatterjee:** Very, very good, very close to my heart. You see, we are doing, after the Chinese New Year we are doing a festival, the Asian Walk Festival, and including, ensuring that from the whole of that pan Asian thing which I proposed last year, because it needs a little bit of change in terms of cooking methodology, ingredients, because they are not like kaffir lime, makrut leaf, galangal, all these things need a kind of logistics and it is not part of our material system. So, as you know we are not a one restaurant company, there are 54 of these Mainland China, so we will have to ensure that the supply chain has to be online, while we could have done a festival earlier, but immediately after the festival, we would have done this, so we are looking at a space. Now is the Chinese New Year Festival, starting now in February, the year of the Snake. March onwards, we start getting the logistics right, get the ingredients online, and we have already done the trials, there is one expert Thai chef plus a Spanish Chef who has come and joined on board. So, all of them, from the First of April outer limit, we will have that page included in our restaurant menus.

- Moderator:** Thank you and the next question is from the line of Sunny Agarwal from Aditya Birla Money, please go ahead.
- Sunny Agarwal:** Sir, just want to know the churn and average bill per feet for Q3FY12, you have given from Q4 FY13, if you can help us with a similar number YOY quarter.
- Management:** Mainland China continues to be in the range of 1.5 to 1.65. O Calcutta is at the level of 1, and Sigris continues to be at a level of 1.27 in quarter 3.
- Sunny Agarwal:** Sir, I was actually asking for Mainland China for Q3FY12. If you can give the corresponding number.
- Management:** It is 1.53.
- Sunny Agarwal:** Okay Sir, and Sir just want to know, on advertisement side, what we are planning to spend this year and next year.
- Management:** See from an advertisement spend, we don't look at a percentage to revenue, we have an absolute number planned over a year itself. Already we are on to air, which you would have seen if I am correct. There are two things which are very important for us, there is a budget which is there for the entire year is one, advertisement money which comes back to us from Pepsi and the beverage companies, which reimburses us.
- Sunny Agarwal:** Okay, so what is our ballpark, I mean budget we have allocated for this.
- Management:** You see, it ranges between 3 to 4% of the revenues.
- Sunny Agarwal:** 3 to 4% of the revenue. And Sir, are we planning to, with the significant decline in the discretionary spend, are we planning to increase our promotions when we give more discount to our guests to attract footfall.
- Anjan Chatterjee:** You know, historically, as a policy matter, we never discount our brand. Surely make it slightly more comfortable for them, because as you know, I think that the discounting policy can kill any retail, so what we do is, that we control it through a very intelligent way, that if you order an x number of starters, you get something free. There are tactical offers, which are very flexible on the floor every week. We have empowered our General Managers to take that decision, it is within a leverage of a very low food cost item, for example is, crackling spinach, we sell it at around Rs 240 to 250, but the cost is not more than Rs 15 to Rs 12. For a vegetarian-2 starters that I give a portion of crackling spinach, which is very much in demand, I only have a 15-rupee cost. But to the guest, it is huge plus. We are doing some interesting packages so that on the floor you get this out rather than just advertising it. There will be one thing very good you know, in the next one month or so, the process has already started. We are connected through an Ipad menu to all our restaurants. We will be able to change such offers on a daily basis centrally. Not many **quacks (Inaudible) 30.42** anymore.

- Sunny Agarwal:** And Sir, just want to know, what is the average payback period when we open any new restaurant like Mainland China, is it 3 years or something, what I mean, 36 months.
- Management:** From a financial evaluation perspective, whenever we are looking at a new Mainland China, we look forward for a capital payback of 3 years.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar:** What is your plan on Sigri, because that is your third important brand, so can you just throw some light where exactly are you looking at Sigri over to two to three down the line. My second question is on your tax rate. For nine months your tax rate stood at around 24%, so can you just guide us, what will be your tax rate for 2013, as well as for FY014. Yes, these are the two questions.
- Anjan Chatterjee:** So I am saying Kaustubh, there is one important thing that you asked for, Sigri. Now, see as you know that, Chinese is the flagship brand, Mainland China, and we think that there is no fine timing standalone chain of Indian restaurants and that is why we got inspired. But, what we see over a period of time that there is an interesting model which is coming across, the kabab filled, because primarily people eat out today, the contemporary upwardly mobile Indian does not want to have a goiy kind of meal which is filled with oil and grease. The Makhni of the world or the Makhni Daal of the world. Once in a while fine. So, to make it more and more easy on the palate and balance it out, we are making it slightly open and then and ensuring we make less oil and less ghee, and less of these creams are added in our food, and as we make that going forward, I think everywhere we are doing an experiment with Sigri, it has been respected very well. Ultimately Maachan will be merged in Sigri as you know. We have already said we have started the work in Malad, Maachan will be aborted, and going forward all the Maachans will become Sigri and there is an experiment which we are doing in terms of Sigri's new format, which is coming in Powai. So, once that format comes in, it is a fixed meal format, which is an all inclusive meal and you eat as much as you like, but at the same time it is a balance of some act. So, Sigri would be having one nomenclature under which there will be one brand, sub brand, and we will control it from a slightly different perspective in terms of price point.
- Rajesh Mohta:** On your tax rate, I would like to indicate because of certain investments happening on mutual fund perspective, the tax rate this year is at around 25%, which in my opinion till March 2013 would be the same. During March 2014 there would be slight increase because of the utilization of those money, which would be invested.
- Kaustubh Pawaskar:** Okay, and my third question is on, we were planning to have sector wise supply, so that you know, you can supply your perishable products. We will have a centralized supply system through which it gets supplied to your nearest restaurant and that will help you in bringing

down the operating cost to some extent. So, where exactly are we right now and can you just throw some light on that.

Anjan Chatterjee:

See we have already done that to start with in Calcutta. One of the things which we have learnt over a period of time is that you know, we have to utilize and set our assets better to ensure we get better returns. So, initially when we have done our restaurants, we had a large kitchen space, and so did we have in terms of a large logistics of the whole butcheries to everything together. The restaurant, the number of covers were 200, going forward we are seeing that as the number of restaurants of Mainland China itself grows geographically we don't need one store to be your 200-cover restaurant. An average is between 100 and 120, ideal model. So, what we are doing now is that, we are breaking down areas within Calcutta to start with, and also in Pune we have done that. So, we are merging, creating space within our same asset with a separate entrance or another floor and taking that kitchen out in the central place like a Salt Lake kind of back area where from butchery to the commissary, to the prep, everything, there is a day shift, people are doing, they come in the morning at 7 o'clock, so 7 to 8, they work to almost till 5 o'clock, till 5:30, they do a straight shift, and through 4 air conditioned vans these are reached to the different parts of the restaurants, which are located in Calcutta. The vacant space which is being generated will be used to do either a Mizuna or a Sigri global view wherever possible. So hence, we are seeing a very exciting space. After Calcutta, next will be Bangalore. We have already identified a commissary area. In Calcutta, we have made it as a part of the existing catering institution that we have there. Boys are being trained, so they are the ones, so we don't have any manpower cost going forward. So they are the ones who are already doing this work in the morning and we only give them a stipend to do this work. So, I think this is already started and if everything goes well, the next four months, that is our target. We will be able to achieve a lot in terms of Chennai, then we are looking at places where we have more than 4 or 5 restaurants, wherever we have, we are going to be following the same footprint.

Kaustubh Pawaskar:

Okay, that should help you a lot in terms of cost savings, or maybe not in the coming quarters, but maybe in one or two years down the line.

Anjan Chatterjee:

Completely agree, and we will give you some good news next quarter itself as to how the Calcutta is performing and how much it is added to the bottom-line because the assets as I told you need to be sweated more and we have lots of assets, which have extra capacity, so we will try and add one of these small ones all day dining eateries, as you know that, we are not at the moment in the all day business at all, which is the leverage of the operational arm, which opens in breakfast at 10 o'clock and ends at 12 o'clock for dinner, it is B2D, like breakfast to dinner. We have understood that this vertical will be one of the most successful, because the restaurant is not a restaurant and bar, it is a bar and restaurant. So, I think some good understandings are coming in, so going forward I think Insha'Allah, things will be better.

- Kaustubh Pawaskar:** I just wanted to ask that your normal operational hours for a restaurant in weekends is around 8 hours, and you had some plans to improve that to increase it to around 9 hours, to 9 ½ hours, so how are those plans working for you this year?
- Anjan Chatterjee:** All the malls where we are working our restaurants, that includes the new malls like Acropolis in Calcutta, we are ensuring particularly on Fridays, Saturdays, and Sundays, we are leveraging the whole day, we are making it all day, and during this period we have a short menu and charge one third or one fourth of the actual price, smaller portions, smaller price. People can have a quickie kind of a meal.
- Moderator:** Thank you. The next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.
- Vaibhav Kacholia:** Wanted to understand what time do we see Mizuna as becoming like the second biggest format for the company.
- Anjan Chatterjee:** App ke mu may ghee shaker.
- Vaibhav Kacholia:** I mean, but is that what you are trying for Sir.
- Anjan Chatterjee:** No, let me tell you one thing. See, the point is that the only thing which attracts us towards Mizuna is that it is an all day dining. So what is happening is that, you see, while we understand that being in fine dining, it is a lunch dinner business, and in malls we are trying to leverage that to an all day especially in the weekends, but this, the genetics of this, the DNA of this is an all day dining. So I leverage the same thing, my cost comes down and so I mean Insha'Allah, everything goes well, scaling up has been one of the strengths that this company has. We have assets in 26 cities today. So it is a just a matter of spreading with the right kind of manpower that we have already have, touch wood, and go to the next stage.
- Vaibhav Kacholia:** So, that would depend on the response for the Pune project?
- Anjan Chatterjee:** Absolutely yes.
- Vaibhav Kacholia:** What is the exact format of this, can it be compared with any other Indian or foreign restaurants.
- Anjan Chatterjee:** Surely yes. If you were to talk about the nearest, it would be Moshers, or the Indigo, Delhi.
- Vaibhav Kacholia:** Okay. Okay. Great. And Sir, this Sigri grill will be something like a Barbeque Nation? A little similar to that.
- Anjan Chatterjee:** No not really. I will tell you what, what happens is, Barbeque Nation is a model, which has been originally from a Turkish model and a Brazilian model, which is called churrascaria model, I do not know if you have heard of it. The churrascaria model is that meats come on

your table, and they are grilled and unlimited forms come in, but what is not been seen there is that, the Barbeque Nation is the form of, no offence meant, it is gross Indian food. The contemporary Indian does not want to eat so much of ghee, oily, Makhni, or Chicken Makhni, once in a while it is fine, but on a day-to-day basis, he cannot handle it, that is why Chinese has become very popular. Hence the Italian and the Mediterranean. So the upwardly mobile sensitive customer, wants to okay man, I am sure that you will agree with me that, Oh my God, Makhni Daal, and all that come on it is heavy. You don't eat at night. So we are looking at a space, which is becoming, Sigri is taking a leap to become a global grill. We are taking the grills of the world, we have got a chef from London, we have got a guy internally from ex-Marriott, so they are all on the table to give you a raspberry lamb, and I am going to be giving you the best of tetrazzini or anything on the table. So, I am saying that is what Indians want to eat beyond a point. Of course, there will be some kababs in this, and the rest, the food itself will be international from top to bottom with some little of 20 to 25% of Indian coming in. So, it is a slightly leap, and as you know when you call global grill, it is much wider in terms of perspective and position. It is broad spectrum, because we can encompass any grills of the world from Chinese grills, oriental grills, to a bandwidth of Indian. I think we are very excited about this space.

Vaibhav Kacholia: Okay, great. Sir, one more thing I wanted to understand, is the orientation an expertise required for QSR very different from the kind of business that we run.

Anjan Chatterjee: Again, my humble understanding of this business and space is that in a value chain, if you are selling fine dining, if you are in the business of fine dining and your corporation has done fine dining, it is much easier for you to go down and do a QSR, because in QSR, the expectations are very low, it is just an interaction of a content of, you are not supplying meals and come back, there are no layers in this service. So, in this case, for us to scale down to become a QSR ever, if we have a vertical of that kind, is much easier. Because our DNA is much more sensitive, much more detailed. So I think it is just a, it will be a, to do a café. I will tell you, there are two things in this, one is Mizuna, which is a Mizuna with a slightly large format. We are changing it café Mizuna, so 800 square feet, Central hub and spoke model, everything cooked centrally, going into that place. Brazilian coffee, international coffee, fantastic place and it is good food. So café Mizuna and Mizuna is the way forward.

Vaibhav Kacholia: On CNBC I had heard you say once that we are considering some QSR model so that is now being thought of for this mizuna café?

Anjan Chatterjee: No, QSR, see I will not compare. See we can have 100 of Mizuna Cafes, we need all malls, everywhere, it is all metros and mini metros, there is demand for such things. The point is that the QSR, my only problem is that, sorry to be quoted again in public, but the space is so heated up, the kind of price people are asking is irrational. So, here we are in a position, that the company we are sitting on, with God's grace, with all kinds of parameters which are fine. There is pressure under discretionary spend, fair enough. But then why would I take a step and then completely ruin my whole story by spending 110 to 120 crores of rupees to buy EBITDA

minus in the company, which is just because I want to impress my people that I want to, I don't know what is the satisfaction of doing that, so there is another difference, I am sorry, we are the only company with Indian DNA who have been able to do a respectable job of the brand and we have not acquired any brands from abroad. As you see that the other companies, of course, Jubilant, they have a different model, because they have taken a franchisee license for India, Sri Lanka, and Bangladesh. They are doing replicating a model, same with McDonald or maybe a Pizza Hut, etc. But in our space, we continue to be focused to do, and this wherewithal of being able to give birth to the brand and ensure that we sustain for 21 years, I think would be a very, very important thing, and God has been very kind, because of the top team till 10 to now, and the people who are joining us going forward are all understanding that we are in serious business.

Vaibhav Kacholia: Okay, one last question, can this takeaway and home delivery market be large, like in America we see a lot of Chinese being ordered at home in those cardboard boxes?

Anjan Chatterjee: I can say this to you that Chinese is one cuisine which was a very difficult thing, because the challenge, because A-La-Minute Cuisine, it is walk to the plate should be within three and half minutes, what we have done now is that with the technology coming in, with the kind of packaging which we have been able to deliver, the food is going almost absolutely hot. So that is what we worked out. So, Insha'Allah, if everything goes well and what we are doing is that we are doing packages on outdoors, wherever it is going for a delivery, we don't charge you the similar kind of amount, because the opportunity cost, anything else fixed costs are same, the additional is only the motorcycle and the logistics, or the percentile to be paid to the Just Dial. So we are giving that sop to the customer, ensuring that they get a kind of package deal when they order and they are slightly more comfortable.

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

Ankit Kedia: Anjan, a question on our catering business, can this festive season be pilot tested on caterings for large weddings and other parties in the Calcutta area, so what is the vision and what is the opportunity on that front in the next couple of years?

Anjan Chatterjee: See, what happens is that, as you understand it is a separate vertical in itself. I only believe in one thing, which is my firm believe that if you are a food company, facing with say 5 lakh to 10 lakh customer on a day-to-day basis, and when we have an offering of Chinese, Indian, regional cuisine, and also a sweet shop which is in Bombay, now what happens is that it is bound to be, you are bound to be tempted to do this on a day-to-day basis like people have done. My only point would be that this is a very large business, very, very large business, and I know of some caterers, I don't know, the Bombay based people like Pratap Caterers, Chetak, I am talking about the ones who do marriage catering, and there are of course others which are slightly more sophisticated which is in the space of many other Western, etc. Now this being a different kind of a wherewithal, it needs a vertical. The only point that we stopped it here, that

all of us believe that if we do it from the restaurant and do it to our food, the restaurant is bound to get affected. So what we intend doing is, there is a huge opportunity, we have waited for all this time, so in Calcutta we are creating a commissary which we spoke about some time back. From that commissary there will be somebody Ex-Taj, who will be heading the banqueting of ours. So it will be known, we have already called it the Mobi Chef. So within Speciality, We have got the brand registered for Mobi Chef. So that Mobi Chef is going to be the face of the Speciality Restaurant offerings. We have done some tactical experiments. We have done that, but I think that the moment we started as a vertical there is a humungous, big, big opportunity because every second day, not just a wedding, the corporates, the Tatas, everybody wants us to catering. We have not touched that business as yet, only tactically we have been able to do, some on it on request, some like, you know, we always do the President of India obviously he is a Bengali gentleman and honorable President is a fan of O Calcutta and of course done the Prime Minister's house, so exclusive ones we have done, that is for 60 people, 80 people, etc., at 1500, 1800 cost. But at the level of Rs 500, that market of around Rs. 500 to the Rs. 1000, or 1500, depending on that, there is absolutely a very, very large potential, which is awaited to be taken up, but we have 24 hours, out of which I sleep for 4 to 5 hours, so I don't want to take up something and do a humping job and spoil my restaurant story. So, we are just doing it now in Calcutta with the commissary coming up and going forward also in Chennai, these two areas, and if that gets added, I mean God save us, the top lines and bottom lines and the margins is at an average of 40%.

Ankit Kedia: The opportunity is very huge, and possibly the next couple of years, if not this year, next year we could look at a big.

Anjan Chatterjee: Definitely yes. Trust me, the only thing is that we don't want to bugger it up, we don't want to do a shoddy job of it, and spoil the restaurant story. We will have to have a different wherewithal, of course master chefs can be the same, but we need somebody to head that vertical. So we are exactly doing that with a commissary base, and then going to all areas.

Moderator: Thank you. The next question is from the line of Jatin Khemani from Adhar Securities. Please go ahead.

Jatin Khemani: My question has been partially answered, it is about takeaway. Right now it firms around 5% of our top-line, please correct me if I am wrong.

Anjan Chatterjee: In and around that, you are right.

Jatin Khemani: So with this tie up with Just Dial, does this have a potential to go to let us say 15 to 20% in the next two years.

Anjan Chatterjee: No, no. That would be too ambitious. I think that very honestly, you see, it is not a pizza delivery. Let us understand it is not McDonald or a pizza particularly, which home delivers and then people eat it on a casual level. When you want to eat a good Chinese meal, you plan

it. So it can go to surely, I am not big over ambitious, surely to a 10%. So that much of leverage we have, but I can only tell this to you, over a period of time that when Maggie, I keep on telling my friends, my chefs, and my colleagues, that Maggie is a 900-crores brand, which sells only noodles as a snack. So, it has been in our delivery model. We are trying to look at a couple of snaky packages in the noodle kind of baskets, which would be just noodlie and you know giving it to children and if they can look at that sort, that is not necessarily on the menu, but we can have a special menu for this. If we explore that area that we are talking very big because you know, you can noodles on the go. It is packeted and you can just pick it up with a fork. So, that apart, but I think 10% should be the basic, bare minimum.

Moderator: Thank you. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

Utkarsh Maheshwari: Actually just want to get a feeler, why are we trying to merge the Machaans and Sigris of the world. I mean we have created Machaan and now we are trying to merge it, what has been the thought process for us here.

Anjan Chatterjee: Okay, now I tell you what happens, is that, you see, in any brand basket over a period of time, there are certain things, on one level you stick with the Mainland brand, which is a flagship, and you keep on doing some experiments or the other in some areas, which is a humble experiment, it is not very capital intensive, so Machaan was thought of as a rain forest kind of a concept. We learnt it from the rain forests of the world and we said that, fair enough, can we have an opportunity there. Now to our surprise, we learnt that while Machaan is a very attractive area, but we are selling the similar kind of Indian food. We are one Machaan, one Sigri, and one Flaman Grill, it is all creating a kind of a confusion. We are learning from the Mainland China experience, we have one single Chinese brand, one single identity, which gets leverage on a basis that if you open another one, everything is amortized, both your cost, it is like one airline company having one kind of aircraft so that spares are the same, because the cost of spares are very high in the airline industry. Aviation also believes in that, so hence we have learnt, we got brand expert called Sripat Nadkarni, I don't know if you heard of him, ex Coke head, so Sapat came in and he gave us a lot, another gentleman from McKenzie, so they did an audit to tell us that listen, and secondly Machaan why? Because Machaan is become a theme restaurant, and it is a slightly different kind of thing, so, in a theme restaurant, people tend to get bored in three to four years. That is exactly what is happening on Machaan, because it is becoming a little too predictable, because food is the secondary factor, although we sell good food, same Sigri does better. When we do a Machaan, it is just becoming a little predictable kind of an area. So, the ambiance is not necessarily off the fact that it is neutral a palate, so look at Mainland China, it has got the right kind of oriental look. It has got the right kind of feel, but we keep on sprucing it up, but people keep on loving the décor and they don't have questions, because it is a fine dining place. So, we think that the Sigri and the global business kind of thing, which is under Sigri, we have the opportunity of going across and having a brand which will be a single brand, which we can advertise tomorrow, which we can 100 stores, so everything in the system, and going forward, we are having brand directors, each

brand will have a brand director, who will be reporting to the CEO. So, the brand director understanding that it should be one brand, Mizona is one brand, this is one brand, there is another brand, so we only stick to three to four brands, and all the brand directors are looking at the welfare of each.

Utkarsh Maheshwari: So basically the going forward way would be like I mean, you will have some big brands, which are going to be something like a chain of 50 odd restaurants in the next five to seven years, and that each brand will be monitored by one person, one particular brand director, right.

Anjan Chatterjee: Absolutely right. What we have done in Mainland China.

Utkarsh Maheshwari: Okay, just want to get another feeler. My question is that, I believe we have cash of something like 130 odd crores is on the books right now, right.

Anjan Chatterjee: I think so. Yes, around that. Yes.

Utkarsh Maheshwari: Do we have any intent to have any kind of acquisition somewhere which can add up something in your takeaway foray because that can be something new avenue.

Anjan Chatterjee: I just answered that question. We have been talking to several people in the QSR zone, I announced discussions going on, some of this quoted, but the problem is, space is so heated up that people are asking for heaven and earth. No businessman in his senses should agree to pay heaven and earth for a brand which has a pidlie little EBITDA, not even cash plus, and trying to show me a dream whereas our DNA shows that we are capable of doing our brand and leverage them.

Utkarsh Maheshwari: Anjan actually I just want to get a feeler possibly if we agree QSR can be a very big opportunity or pretty heated, but the kind of offering which we have, and as you have rightly addressed that, you cannot be a Maggie per se, you don't want to sell a Maggie. I mean, don't you think that this particular format, takeaway format can be well played through some kind of inorganic play, revenue.

Anjan Chatterjee: The takeaway, are you talking about the takeaway in Mainland China.

Utkarsh Maheshwari: I mean playing the takeaway through an inorganic acquisition kind of thing. New brand could be offered something. Just say, Mobi Chef for the catering. Something of a different sort for this particular new brand per se.

Anjan Chatterjee: I will tell you what. The leveraging the potential of the outward deliveries in the sense that when we are doing the home deliveries, is a completely different thing where they are getting into a logistic like Just Dial, so that is a marriage which is very fantastic and which is working absolutely bang on. Our experiments have worked. But, you know, acquisition of a QSR worthwhile, we have looked at the whole space and discussed with many people, whoever has

got a little bit pf EBITDA plus or cash plus, they are asking for a kind of PE value which to me is irrational.

Utkarsh Maheshwari: Okay, basically I mean the market is so heated up that things are not rational per se.

Anjan Chatterjee: Perfect. Just imagine that if I end up paying 120 crores for something who has just got a EBITDA plus, just touched the cash plus level, and I acquire that, which does not have a potential necessarily, shows me only 40 to 50 stores. Turnover has come but what about my bottom-line.

Utkarsh Maheshwari: Yes, actually it will be more of a margin dilutive. I believe that answer Sir. Just want to get one more thing. I believe you have addressed that all kind of expenses in relation to Mizona has already been taken into the P&L. right.

Anjan Chatterjee: That's right.

Moderator: As there are no further questions I would now like to hand over the floor back to Mr. Anjan Chatterjee for closing comments.

Anjan Chatterjee: I can only say this to you, that we are extremely positive about the fact that two-three of these brands which are new ones, which are teaching, which is especially the one which is the all-day dining is a very exciting opportunity we are getting into besides the formidable levels of Mainland China, and O Calcutta, and Sigri which are being rationalized and one thing which we have learnt in this short period of time through some experts who had come in and done an audit here, people like Rakesh Mathur of Welcome Hospitality and others, who have given us the understanding of asset utilization, perfect ones, but we did not have enough models to get attached to. So going forward I think 2013-14 looks like a place where we will have a different kind of play and asset utilization and set our assets more.

Moderator: On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your lines.