



“Speciality Restaurants Ltd Q3 FY-16 Earnings Conference Call”

February 8, 2016



MANAGEMENT: **MR. INDRANEIL PALIT – EXECUTIVE DIRECTOR (PROJECTS, BUSINESS DEVELOPMENT & STRATEGIC PLANNING), SPECIALITY RESTAURANTS LTD**
MR. RAJESH MOHTA – EXECUTIVE DIRECTOR (FINANCE) & CFO, SPECIALITY RESTAURANTS LTD

MODERATOR: **MR. ANKIT KEDIA – CENTRUM BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Speciality Restaurants Q3 FY16 Results Conference Call hosted by Centrum Broking Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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 and good evening everyone. We at Centrum Broking are very pleased to host the Q3 FY16 Results conference call for Speciality Restaurants. Today we have with us from the management, Mr. Indraneil Palit – Executive Director (Projects, Business Development & Strategic Planning) and Mr. Rajesh Mohta- Executive Director – Finance & CFO. I would now like to invite the management for their opening remarks, followed by which we can have an interactive Q&A. Over to you sir.

Rajesh Mohta: Thank you Mr. Ankit, a very good evening Ladies and Gentlemen. On behalf of the management of SRL, I welcome you all to the investors call; post our Q3 results for the financial year 15/16. To begin with, I would definitely like to highlight that the pressure on discretionary spends in this sector seems to be persistent, despite festive months during the quarter under review, which is historically one of the best quarter amongst the 4 quarters of a financial year. We posted a modest growth of 5% in the revenues from Rs. 80.40 crores to Rs. 84.5 crores, in which the EBITDA has declined from Rs. 10.45 crores to Rs. 8.60 crores, a decrease of 17.70%, almost 18%, with corresponding PAT being Rs. 1 crore against Rs. 3.2 crores, year on year. During the quarter, we opened two restaurants and one confectionary store Sweet Bengal in Mumbai. The two restaurants which got opened during this particular quarter were 'Asia Kitchen by Mainland China' at Acropolis Mall, Kolkata and 'Zoodles' at Oberoi Mall, Mumbai. As on the quarter end we had 103 restaurants and 19 confectionaries, I would like to highlight that there is an impairment expenses for closure amounting to Rs. 1.14 crore, which has been charged to profit and loss account under review because of the closure of two restaurants, one Café Mezzuna during the quarter and Mainland China, Hinjewadi, Pune post the quarter because of which we had to take the impairment in the quarter ended December 31st, 2015. Our existing restaurant sales for 1 year which have been in operations has seen a de-growth of almost 2.77% on revenues, resulting into lower operating profits triggered by operating leverage. On costs, we have continued to remain at those levels despite improvement on inflationary trends as available to all and we hope because of the new tendering which is happening now and the rates becoming effective from 1st April, we look forward for a downward trend as far as food costs per se is concerned, which in our opinion would trigger improvement in the profits in coming quarters.

Now I leave it to the investors' and analysts' questions for the performance under review. Thank you.

- Moderator:** Thank you very much sir. Ladies and Gentlemen. we will now begin with the question and answer session. The first question is from the line of Prakash Kapadia from Anived PMS. Please proceed.
- Prakash Kapadia:** If you could give us some insights on the consumer sentiment, in your opening remarks you did mention because you know, if I look at some of the data points, fuel prices coming down, interest rates coming down, so in that context we have seen lowest quarterly sales growth of 5% and even if I take year to date growth of 9 months, it is just 8-8.5% in 9 months, so when will this change and what will drive this change?
- Rajesh Mohta:** We appreciate that we also keep our fingers crossed when this, as to how this would change and when, but looking at the trends as we have reported earlier too that the business has skewed towards weekends primarily across the country. We find the spending which we had seen earlier, from the groups of corporate coming into the restaurants during weekdays is yet to happen. Though family dining is continuously happening, so we expect once the overall improvement in the corporate sector is happening, which would definitely translate into spending increasing at our restaurants because we continue to have as far as restaurants are concerned, in fine dining, casual dining, even lounges, so we look forward to the major thrust coming into from corporates during the weekdays, which should have an improvement on the numbers, specifically on the revenues.
- Prakash Kapadia:** If you could give us some sense, because I think you have been mentioning this; corporates are the key for revival over the last couple of quarters, so historically how large has been corporate sale, contribution to sales in weekdays, if you could give us some insight because by that logic or understanding, I would guess corporate was a significant part of your overall foot falls and maybe revenues during weekdays? If you could give us some broader number, it would help?
- Rajesh Mohta:** See, let me tell you one thing; as far as business during weekdays and weekends are concerned, it is almost like 55-45 for Friday, Saturday, and Sunday. When you talk in terms of corporate, though it becomes difficult to understand because the individuals coming in are in, but the moment there is a group of 20-30-40 people, we consider them to be corporate spending especially and now since last one year we have also got into tie-up with various corporates, we are able to ear-mark because we have started offering discounts to groups which come from corporate. So business presently, if I may say so, is almost 10-12% from the corporate spending during weekdays. It is difficult to understand from a weekend perspective.
- Prakash Kapadia:** On the raw material costs, we were targeting some efficiency, we had taken some measures to reduce costs but RM costs continue to hedge higher, is it a mix change, is it partly because of the rupee depreciation and going forward, what is our sense on specifically raw material costs?

- Rajesh Mohta:** See first to answer, like depreciation of rupee is very minimal having an impact on our overall cost but yes the product mix; let us say, for instance when we talk in terms of more number of Indian restaurants where the food cost is higher. Secondly, what has happened with an addition of 'Hoppipolas', wherein the pricing from our side has been aggressive, we had tried to maintain the kind of a gross margin which is more than Chinese, so with the lesser amount of Chinese contributing to the overall revenue, the food cost percentage has got stabilized. Now what will happen is, with the resultant decrease in the overall food prices, we would see some improvement as far as cost of raw material to revenues is concerned, on an overall basis.
- Prakash Kapadia:** Okay and in near term, what kind of restaurant addition we are looking at?
- Rajesh Mohta:** See post the quarter end of 31st December till date, when we are talking about, we have already opened 3 restaurants basically.
- Prakash Kapadia:** Say for the next financial year or something because I think historically we have maintained, we will have 12-15 restaurants as addition so, does that remain valid for the next 12 odd months for the next financial year or are we looking at scale up, scale down?
- Rajesh Mohta:** Let us say for instance, what has happened, in the overall scenario; 'Achche din', which is getting extended, so we are also trying to conserve and be very opportunistic and we would open restaurants which would be definitely a profit center rather than getting the breakeven extended more than what we anticipate. So it would be a 'wait and watch' situation but yes since historically, we have continued to open 10 to 12 restaurants and for FY 15/16 also, we will open those many restaurants but going forward 16/17, we will see during the quarters and take decisions accordingly.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from ShareKhan. Please proceed.
- Kaustubh Pawaskar:** Sir my question pertains to the Chennai effect; in some of your press release you mentioned that because of the torrential rains in Chennai, you had impact on your operations, especially from Chennai. So could you just quantify what kind of impact it was on your revenues and margins?
- Rajesh Mohta:** I would be able to say; on revenues the kind of revenues which we on an average we used to do in previous months, we had lost almost Rs. 50 lakhs on top line because of the rains.
- Kaustubh Pawaskar:** But now are things on track and what kind of additional cost you have incurred to begin with the operations in Chennai?
- Rajesh Mohta:** See, first of all the operations are back on track but as far as expenditures are concerned, there were minor repairs or let us say, up-keep of the places because most of the places were down only because guests were not able to come in. There were few restaurants where it got flooded but those have all that is not a very large cost component for us.

- Kaustubh Pawaskar:** So nothing one of kind of a thing, which will be having any impact on the margins, right?
- Rajesh Mohta:** Yes, that is right.
- Kaustubh Pawaskar:** Sir my second question is on the raw material prices; you did mention that in the new season or new tendering, you are expecting raw material prices to come down. So my question is on imports; since you are importing some of your raw materials from China and since there the scenario is not that great, so are you seeing even the import prices kind of reducing for you?
- Rajesh Mohta:** At this point of time, not very significant. We are not looking at; we have not got this kind of an information from importers. And what we have done is over a period of time, our dependents on those have got reduced, it is not a very significant proportion to the total consumption.
- Kaustubh Pawaskar:** How much it is now because earlier I guess it was around 20%, 25% of your raw material cost?
- Rajesh Mohta:** It is sub 10 now.
- Kaustubh Pawaskar:** So it has reduced substantially? My next question is on the table turnaround for this quarter; has it remain flat for most of your brands?
- Rajesh Mohta:** Yes, it is the flattest quarter we have.
- Kaustubh Pawaskar:** That means there must be a decline in the ticket size or ticket price as such.
- Rajesh Mohta:** It is not a question, it is a factor of, see what will happen is when we say flat; since the same store, like say when you talk in terms of restaurants which have been there year on year, it is almost flat scenario, so in case, if there is some trigger on average spent, which has got neutralized by the drop or the flattish cover, turnaround at that restaurant.
- Kaustubh Pawaskar:** My question is again on your week day, say as you have mentioned that the corporates are very important for you and on weekdays those are your important clients, but now the trend has been like, from some of the large hoteliers or hotel players are saying that; they are seeing improvement in their occupancies because the corporate tourism is back on track. So do you expect this trend to further exceed in terms of spends towards fine dining from a corporate kind of a thing?
- Indraneil Palit:** I think, you see, it is a fact that the room occupancies in the 4-stars and 3-stars have increased but the 5-stars are still suffering but anyways, the issue is that probably what we are expecting is that since the room occupancy is good, there must be some business which is happening, the effect of which comes in the near future but we are not seeing any immediate trend of that sort, so probably the fund allotted for this kind of entertainment etc., has been curtailed. I mean, that is what I think, the explanation could be. But yes, with the people travelling, there must be

some business happening; otherwise, why would it increase. But effect of it is not still come to our industry, especially in fine dining sector. So we have to wait and watch.

Kaustubh Pawaskar: And Sir in terms of restaurant addition; what will be your focus like, you would be adding more in the Mainland China space or it would be kind of a mix that 4-5 in Mainland China, 2-3 Oh! Calcutta and then Sigree Global Grill. So how the mix is going to be?

Indraneil Palit: Mix is basically location driven; in the sense that whichever brand fits into a particular location, we choose it that way and partly rent-driven as well. So it is more opportunistic like Mr. Mohta was mentioning, so do we have Mainland China as our flagship brand and we would like to expand it further but if there is an opportunity for; say Hoppipola or Global Grill, we will go for that at the same time. So it is something which we have to decide when a place is in the offer.

Moderator: Thank you. The next question is from the line of Gaurav Jalan from Avant Garde Wealth Management. Please proceed.

Gaurav Jalan: Could you talk about your expansion strategy; so how do you, not in terms of number of restaurants but how do you decide, what type of restaurant to open in what location, I mean is there a target reach brand that you have and how do you actually measure success. I mean whether or not, a particular location is being a success or not; I mean do you have some kind of profitability targets or how do you measure things?

Rajesh Mohta: See there is an absolute till evaluation metrics, which have been developed over a period of time to decide on whether to take that location or not. We have a fairly large presence in the country with respect to the cities which we cover for. So there is a special metrics which works on what kind of catchment is there, what is the competition, what is the spend, what is the socio-economic class equal because we target middle and middle class above guests into our restaurants. So there is a study which is done and thereafter a decision is taken as far as which cuisines, what locations and biggest advantage which we drive primarily because of the multi brands which we have; we have the driving pull of taking a larger space from the owners primarily to have a better negotiation on the rentals because we can do a combination of a Mainland China from a Chinese cuisine and an Indian which is in the form of Global Grill or as well as a Café Mezzuna which is Italian. So this kind of combinations gets decided and we try to do a multi restaurant location primarily to take advantage of economies of scale. So these are certain parameters on which a decision is taken for restaurants.

Gaurav Jalan: Okay, the second part of my question was; how do you measure success at a particular restaurant, so whether it is doing well, I mean?

Rajesh Mohta: The success of a restaurant Mr. Gaurav is, whether it is contributing positive and when it starts contributing positive, because we have seen restaurants getting into a breakeven in second and third month also or driving into more than six months. So there are occasions which are varied,

I would say; to extremes, but yes, the first focus is to get into the breakeven period and then start contributing, both from a restaurant level and towards the corporate cost. So we do chair track individual restaurants' profitability.

Gaurav Jalan: And I know, you have done closure in the past, you have mentioned it was not performing well, so you closed the restaurant. Sir, what is your hurdle, I mean how long do you wait before deciding that some restaurant business is not working?

Rajesh Mohta: See there are two conditions to that; primarily because when we enter into agreements with the owners on the property, there is generally a lock-in of 24 to 36 months from both the sides; more particularly from our side because owners are generally logged in for the entire period. So when we had taken a particular place, there is a metric like I referred to, is done and then only our restaurant is put. So we try to analyze what has gone wrong in that particular location, try to put our best foot forward; both in terms of marketing, in case if there is a quality issue, if the product has not stabilized, Chefs, etc. are changed, our people do travel. So all things, all sort of let us say, because the major question is, as far as revenues are concerned, so all effort goes in into trying to see how the revenues can be grown. And this generally takes almost 24 months' time and despite that if we find that the risk, there is no visibility on the increase in revenue per se over next few months, then only our closure decision is taken because which is, in any way a very painful decision for the company per se, we would never like to close restaurants but yes, because we would not like to continue till if it does not break, cash is breakeven, we need to take those call.

Gaurav Jalan: Okay just in terms of your margins, historically you have made margins as high as 19%, 20% and even higher at the EBITDA level, and currently you are running at probably about 5% for the year, so this I realize that some of it is, it is a very high operating leverage business. But at currently, if I look at your average sales per restaurant, it is about Rs. 2.6 crores, if I am not mistaken per year. So at what, I mean where does this number need to go for you to get back to margins of around, let us say 18%, 20%?

Rajesh Mohta: I would like to clarify one thing; the numbers you said, sub 5% of EBITDA, I would definitely refer to that if we take EBITDA without other income for nine months' period, it comes to almost 7.5% on restaurant level basis because I assure that you would not like to include other income but we include the other income, the EBITDA for the company per se comes to 10.4% as far as 9 months is concerned. Secondly, answering your question as far as, to an average business put request because what happens is that since we have a brand profile which is from Mainland China to a Kix and Haka, it would be improper on our part to average out the particular revenue but yes, for a restaurant to do a business like we look forward for that between Rs. 4.5 crores to 5 crores of business; the economic number to begin with for a restaurant to do in a year. So it would be, so because of various smaller formats, smaller brands; number has got skewed. If we do a business of 3.6 crores to 4 crores, we breakeven or we are into a positive, as far as restaurants are concerned.

- Gaurav Jalan:** Okay, so Rs. 3.6 crores to Rs. 4 crores is breakeven and then to get to like margins to 18%, 20% that requires about Rs. 5 crores of revenues on a restaurant.
- Rajesh Mohta:** That is correct.
- Gaurav Jalan:** And you mentioned you have small brands, so these are which; I mean one is your confectionery, but any brands that are smaller in revenue size?
- Indraneil Palit:** We have Kix, we have Haka we have Shack, and we have Kibbeh; these are one, two locations' brands which are very smaller in comparison to other brands.
- Gaurav Jalan:** So generally if I were to ask this question a little differently; let us say over the next, say 3 years, if your average inflation is about 5%, at what rate would your revenues need to grow for you to bid to let us say, 20% EBITDA margin.
- Rajesh Mohta:** See, it is a question of operating leverage, what will happen is; because if the increase in inflation is 5% and if we are able to neutralize that with some amount of price increase between April and September; 2 half's of the year. Getting into that kind of a margin is not a major challenge for us because the most of the cost excluding the operating revenues are cost of goods sold; these are all fixed for us.
- Gaurav Jalan:** Right I understand that. So what I was trying to understand is what is that magnitude of increase? Do you need to grow 5% ahead of inflation or 10% ahead of inflation for you to get to higher margins, just what is that, whatever magnitude, what is that figure?
- Rajesh Mohta:** That is also dependent on various brands and contribution from various brands because margins on all the brands are not same, so this percentage varies with the weighted average of individual brands.
- Gaurav Jalan:** Okay and just on your materials' cost; that has gone up considerably from a lower from 25%, 26% to about 33% now. So is any of these structural or all of this food inflation, because you have mentioned that you have obviously introduced a lot of new brands in the last 4-5 years, so can it ever do you think that material cost to revenue can ever get back to 25% - 26% or it will stabilize at a lower number even if you get some efficiency benefits?
- Rajesh Mohta:** This is, there is one particular reason for change in product mix also because Indian brands have started contributing on an overall revenue because the response of Indian Cuisine brands have increased, so we would look forward to this kind of a number only going forward, excepting the change in the inflationary trend now the price is getting lowered, but there will not say 25, 26 looks remote.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please proceed.

- Jagdish Bhanushali:** Good Evening. Could I get the absolute numbers of Mainland China and Asia Kitchen that we have at the moment?
- Rajesh Mohta:** See as on date, Mainland China's are 54.
- Jagdish Bhanushali:** Okay, Oh! Calcutta.
- Rajesh Mohta:** Oh! Calcutta's are 9 in numbers.
- Jagdish Bhanushali:** Sigree Global?
- Rajesh Mohta:** Sigree Global Grill's are 11.
- Jagdish Bhanushali:** Okay, and total how many restaurants do we have in all, other than the franchise and excluding the confectionary?
- Rajesh Mohta:** 80 Restaurants.
- Jagdish Bhanushali:** Just one more thing is; how much improvement do we see due to raw material tendering or at a lower price at the moment when our gross margin stands at about 67%, so how much basis points' improvement can we see in coming quarters?
- Rajesh Mohta:** See Jagdish, it is difficult to foresee that until a pricing, etc. are decided. Because if you look at say for instance, today onion is available at between Rs. 9 and Rs. 50 wherein the contracts were for Rs. 25, the peak price being Rs.65.00. we have such volatility in the prices, it would be difficult if I say that there would be some reduction because at times, it has so happened that there is a reduction in one of the items of the constituents whereas one has also increased. So we will have to do an ABC analysis, try to find out the items of highest consumption and see for their prices.
- Moderator:** Thank you. The next question is from the line of Mehul Khandelwal from Span Capital. Please proceed.
- Mehul Khandelwal:** Few questions from my side; in previous call Sir, you have mentioned that you have planned to open 10 to 12 restaurants every year with a CAPEX of Rs. 35 crores. So how do you plan to fund it and for FY17, you maintain the same guidance Sir?
- Rajesh Mohta:** Typically done that but looking at the circumstances and the macro factors we would continuously review our decision of capital expenditure. So what we were referring to was from a CAPEX point of view we would continuously review but we do not foresee any major, let us say, for instance, any fund raising for capital expenditure in the financial year '16-17.
- Mehul Khandelwal:** And Sir my next question is; how long does it take to breakeven a new restaurant in terms of cash profit and PAT level?

- Rajesh Mohta:** New restaurant; primarily what happens is, it is a location driven if I may say so, yes there are restaurants which have cash breakeven in the second and third month itself and on a PAT basis including corporate, it happens between 4 to 6 months, but at this point of time, if we try to take an average, it could be extended 6 to 8 months.
- Mehul Khandelwal:** Sir, how much is the debt in our books?
- Rajesh Mohta:** By the grace of God, we do not have debt in our books.
- Moderator:** Thank you. The next question is from the line of Ankit Kedia from Centrum Broking. Please proceed.
- Ankit Kedia:** Sir just wanted to know; in your opening remarks, you mentioned same store sales growth was negative 2.7%, so which of the restaurants actually impacted the same store sales growth?
- Rajesh Mohta:** It is very difficult to pinpoint individual restaurants or individual cities because now with the presence of 15-16 restaurants in a city, there are couple of restaurants which do good for us and couple of restaurants are into negative territory, but yes Southern India still continues to be a pressure zone for us which has resulted into this kind of a negative, despite I am not highlighting Chennai because Chennai also we had same stores which were operating for 12 months, so those all have overall impacted this.
- Ankit Kedia:** So predominantly, it is more of a Chinese format or even Indian format; like Sigree Global Grill which is a new format we have started, even we are seeing pressure out there?
- Rajesh Mohta:** As I mentioned, Mr. Ankit it is not a new format or an old format, it may be let us say, for instance to give a specific example – Hoppipola which we had opened in April '13 at Indiranagar, yes there was a pressure on that particular brand also. So it is a 'mix and match', it is not specific to a particular brand.
- Ankit Kedia:** Sir second question is; regarding the gross margins, so what will be the gross margin difference between the Indian and Chinese Cuisine because going forward, with the Indian shares increasing, probably instead of gross margin expanding they could actually contract if the Indian share increases.
- Rajesh Mohta:** We are, say for instance, the flagship brand as Mr. Palit had indicated would continue to be Chinese wherein we would have either few of their Mainland Chinas are getting converted into Asia Kitchen, so this product mix where you will get skewed towards Indian but as far as gross margins are concerned, there is a gap of almost 6% to 7%.
- Ankit Kedia:** Sir, my third question is regarding Zoodles, now with the second Zoodle Chain opening in Bombay, how is that going and what is the road map for Zoodles going forward?

Indraneil Palit: See, Zoodles is doing well in Oberoi Mall because we have got a captive audience and secondly we are doing it something at the airport that also will have a captive audience. We are observing because this is the first time we have got a captive audience to deal with. So we are looking at these two units opening and seeing how they do over a period of 3 or 4 months and then we will try and expand a standalone a High Streets or wherever. And also build a commissary which we have already planned.

Ankit Kedia: Sir, my next question is regarding our International operations; so in last couple of quarters, you have been talking of International operations being there and we have got approvals for that. So when can we see the daylight of our serious expansion on the International front?

Rajesh Mohta: Mr. Ankit, what has happened, let us say, for instance, since we have pressures domestically, we are first trying to stabilize one of our joint venture operations which is about to commence operations in couple of weeks from now. So look at the stability, understand, learn more from how to run International operations of our own rather than on Franchise and thereafter we would be exploring possibilities of going into other destinations of the world.

Ankit Kedia: And Sir, regarding Mobifeast, you know, couple of years back, we had launched Mobifeast and we were quite bullish on catering segment, so what is the status on that and can we see the scale up of that on taking place going forward given that we are seeing pressures in our core business?

Indraneil Palit: I think Mobifeast is doing well in Calcutta already; we have launched it in other cities as well. But this seems to be shall I say, a more marriage driven vegetarian kind of market unlike Calcutta. So which is why there are some intrinsic difficulties that we have to take it further. But like I said we are doing parties whenever we can. We are publicizing the same thing also, but at the moment we find that Calcutta accepts our non-veg fare better and the other cities are more veg-oriented, so we have to wait and watch how the trend changes.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managements. Please proceed.

Prakash Kapadia: Just wanted to understand about Southern part of India, you know, it has been few quarters I think South of India has been growing lower as compared to the overall company, so what is it which is causing to a lower sales; is it poor local competition or is it change in habits if you could throw some light on that?

Indraneil Palit: See at this particular time we are seeing some kind of improvement in the South in the month of January particularly but I think the general retail market in down South was bad for whatever reason, the real estate is down in place like Hyderabad so, I would say general business atmosphere was low but January we saw some improvement so we are aggressively pursuing the South as our core pressure area and we hope that it will improve soon but if

you talk about the general reason I would say that business atmosphere was not very optimistic that way unlike Bombay or Calcutta.

Prakash Kapadia: Okay. And one more thing, Mr. Palit if you would let us know because initially our value proposition was we are one-third cheaper than the 5 Star, ambiances good, food quality is good and I would guess given that we have taken muted price hikes for the last few years I guess the difference between a 5 Star and us we would be more competitive or even cheaper. Despite that we have not seen the kind of sales growth or the momentum which we would like to see. Has that proposition changed or what is happening because it has been quite a few quarters and that translation is not happening for whatever reasons so just trying to figure that out.

Indraneil Palit: See we still maintain that we will serve 5 Star food at a much cheaper price may be it is not one-third, may be it is slightly more. In certain places we are seeing growth in the same price. I think price would not be an issue here. Like I said we have already got a new avatar of Mainland China called Asia Kitchen. We are taking it forward everywhere may be the entire menu have to have more Pan Asian flavor which we have already introduced and it is very well-accepted. But there again the acceptance in Calcutta will be far more than South. Essentially a right market which is ready to accept anything new very quickly I am not really too much what you call swayed by the general pessimism we find that same things for Bombay as well. So South since it is showing some improvement in the month of January and we are now focusing totally on South in we are seeing that this whole thing will change but price proposition remains the same we will be much cheaper than the 5 Star though our quality will be as good as theirs.

Prakash Kapadia: Okay. And lastly, when was the last price hike we have done?

Rajesh Mohta: See Prakash, last couple of years the general price increase which we used to have in April and September generally is no more happening so it is sporadic, specific and let us say city-based, etc., but effective no price increase. Yes, there have been levy of service charge which was not there earlier at various cities has now been brought into a specific service charges across the country that is one change which has happened in the month of November and January.

Moderator: Thank you. The next question is from the line of Abhijeet Kundu from May Bank. Please proceed.

Abhijeet Kundu: Just one clarification. You said that corporate revenues as percentage of your weekday revenues would be about 10% to 12%?

Rajesh Mohta: I said corporate revenue in the total revenues.

Abhijeet Kundu: Okay. The total revenues would be 10% to 12% and it is difficult to really bifurcate between weekdays and weekends.

- Rajesh Mohta:** That is getting bifurcated but it is difficult whether let us say for instance if there is group of five people until and unless they avail that corporate discount we are not sure whether they are from the corporate but during the weekdays when we see there is group of 10 people - 12 people coming in group we presume those are from corporates rather than family primarily.
- Abhijeet Kundu:** Right. And secondly on your gross margins – you said a part of your gross margin depletion was because of the higher contribution by Indian food cuisines so, if we have to strip off that effect and just look at the effect of food inflation how much would be that broadly?
- Rajesh Mohta:** Sorry, come again when you say inflation...inflation is built in both the brands whether it is Indian cuisine or the Chinese cuisine.
- Abhijeet Kundu:** No, I am just saying that there is an impact on the gross margin because of product mix and secondly because of pure food inflation because of higher prices, if I have understood it right. So if I have to just look at the impact of food inflation or higher prices of your inputs what would be the broadly effect of that? Because why I am asking is that once you are able to renegotiate and get a better price that would see may be not fully but some amount of softening so just to get a view on that.
- Rajesh Mohta:** See if I may put it like say on a percentage basis it would be 40% of the total impact would be because of the product mix and balance 60% would be the inflation.
- Moderator:** Thank you. The next question is from the line of Deepan Shankar from Trust Line Portfolio Management. Please proceed.
- Deepan Shankar:** I just want to understand how had been our same store sales growth during previous economic cycles? The thing I just want to understand whether our peak growth comes at the point of immediately after recovery phase or just before peak kind of economic cycle so when does same store sales growth have been better for us?
- Rajesh Mohta:** See in better cycle sir we would have grown on same store in the range of 7% to 9%.
- Deepan Shankar:** Okay. So the thing I want to understand is like at what point exactly the growth starts picking up for us immediately after some months of the recovery or just before the peak change of economic cycle?
- Rajesh Mohta:** No, in my opinion the moment there is a recovery in the economy things would start spending and people would come to our restaurant so this particular trend it would not wait for the peak to come in and then spend at restaurants, it is a combination. It will synced with the growth in the overall economy.
- Deepan Shankar:** Okay. And how would you see this contribution of fun dining to overall revenues improving over next three years to five years?

- Rajesh Mohta:** See as far fun dining is our view in time to come it would be becoming more fun dining than family dining, fine dining primarily because things are changing India is getting younger and younger so let us say if we take a view point on three years to five years' majority would be fun dining.
- Deepan Shankar:** Okay. So more than 50%.
- Rajesh Mohta:** It is difficult to quantify that number at this point of time.
- Moderator:** Thank you. The next question is from the line of Rajat Budhiraja from Banyan Capital. Please proceed.
- Rajat Budhiraja:** So we are talking about corporates where the demand is not coming, so have you done any kind of study that where are these people spending or they are spending or not or there is a change in their behavior in the last year. So can you please throw some light on that?
- Rajesh Mohta:** Yes, see what happens is ground realities are always checked and we have found because like Mr. Palit say the sales promotion expenditure at corporates (have been pruned and delivery at offices has increased rather than going out and eating at the restaurants.
- Rajat Budhiraja:** Right. So in that case do you think this is a structural change and when we are expecting a growth from the corporate this may not come say next year or next to next year because there is a structural change in the behavior of the guy and if you think so then how should we tackle it?
- Rajesh Mohta:** See it a question of sentiment sir, if the corporates are doing good, if the economy is going good the spending power would definitely come back. It is not like that it is getting restricted. Today the achievement of milestones at various corporate are at lower level so there is no moment for you primarily which used to happen earlier. Let us says for instance if the investment banking activities at slightly larger pace people do have meetings, etc., during lunch and dinner at restaurants which we had seen earlier.
- Rajat Budhiraja:** Okay. But can you quantify that this is coming from IT Company, this is coming from this particular sector or this is coming from different ways?
- Rajesh Mohta:** It is very difficult to quantify, sir.
- Rajat Budhiraja:** Right. And therefore it is like really very difficult to judge whether there is a structural change or not, is it fair to say?
- Rajesh Mohta:** No, I would not say a structural change, it is basically a spending change primarily which is at low level.

- Rajat Budhiraja:** Okay. So my next question is on the closure of the restaurants. As you are saying that you review your restaurant on individual basis so how many restaurants are under review for the closure right now where you are not making money and you see a little scope of improvement.
- Rajesh Mohta:** We have three restaurants on our watch list.
- Rajat Budhiraja:** Three restaurants?
- Rajesh Mohta:** That is right.
- Rajat Budhiraja:** Okay. And just to confirm again, do you provide the data that what is the breakup of the revenues on week days as compared to weekends?
- Rajesh Mohta:** No, sir we are not providing those specific restaurant data.
- Moderator:** Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please proceed.
- Gaurav Bhatia:** Sir, how much was the ad spend for the company during the quarter and the nine months of FY16?
- Rajesh Mohta:** In nine months we spend 1.25 crores approximately.
- Gaurav Bhatia:** How do you principally spend that money?
- Rajesh Mohta:** Various advertisement media like say hoarding, press, SMS campaigns, let us say on FM channels.
- Gaurav Bhatia:** Sir, when you plan to do a national advertisement like on television for your plants?
- Rajesh Mohta:** We had done earlier. At this point of time we do not have any plans till March but earlier we had run commercials on national televisions too.
- Gaurav Bhatia:** But do you think these national advertisements will help you gain footfalls?
- Rajesh Mohta:** See it is very difficult question to answer whether it would result into increase in footfalls but yes, top of my awareness the existence of the brand with the large number of presence in cities that do bring in and at the end of the day it does convert into footfalls into the restaurants.
- Gaurav Bhatia:** Sir, if you look at QSR companies they spend about 5.5% of sales on advertisements, for us this number looks very small number compare to our sales and if I am not wrong this number has been coming down as a percentage of sales. Do you think this is one of the reasons why our same store sales growth is not picking up?

Rajesh Mohta: We have analyzed during our review meeting and we have realized it is not only the question of national scale advertisement which could get drop into restaurants like there have been the reason why we refreshed our brands because we have been in existence for last 20 years now. So the brand refresh has happened. We have changed our cuisine per se instead of Chinese we have expanded it into Pan Asian primarily. These are the major reasons and when you talk in terms of restaurants it is more like a word of mouth because we have products which is much varied than what you get into a QSR so, the Chefs, etc., play a very important role. We do have interactive seasons with the Chefs so, these are certain things which promotes a fine dining or I would say a casual dining brand.

Gaurav Bhatia: Sir, if I can take one more question. Have you done any study on your footfalls of how many customers are repeat customers? How many customers are new customers and any reason if I split the growth between the two is there any conclusion that I can draw on new customer acquisition, etc.?

Rajesh Mohta: Yes, generally sir, we have into our preferred membership there is a study which definitely gets carried out as far as repeat customers, who are the highest spenders into our restaurants, or which cities. So that is a continuous exercise which has been taken care of by marketing department.

Gaurav Bhatia: No, sir my question is what is the takeaway from those studies? Is there new customer acquisition as strong as it was probably three years - four years back is the slowdown more because of repeat customers going down, what is the key conclusion from those studies?

Indraneil Palit: It will be both in the sense that the new acquisition is slightly more complex with even if you are in a hoarding or usual medium of advertisement, the space that we could occupy earlier is not the same but we have found other ways of communicating and we are seeing effects of it. So far as the repeat customer is concerned we are seeing a drop for sure but we are now began adopting a different policy of communicating and getting them back and we have seen some result. So I would say that to answer your question that yes, acquisition of new customer is more expensive and more complex and repeat customers are a little down but we are taking steps which are shall I say reasonably costly to get new customers and also improve upon repeat customers.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing remarks, over to you.

Rajesh Mohta: We are extremely thankful for your participation and sparing time for the Investors Call, looking forward to better quarters and more interactions. Thank you 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 and you may disconnect your lines now.