



“Speciality Restaurants Limited
Q2 FY '25 Earnings Conference Call”
November 18, 2024



MANAGEMENT: **MR. AVIK CHATTERJEE – WHOLE TIME DIRECTOR –
SPECIALITY RESTAURANTS LIMITED**
**MR. RAJESH KUMAR MOHTA – EXECUTIVE
DIRECTOR, FINANCE AND CHIEF FINANCIAL OFFICER
– SPECIALITY RESTAURANTS LIMITED**

MODERATOR: **MR. KARAN BHUWANIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Speciality Restaurants Q2 FY '25 Results Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bhuwania from ICICI Securities. Thank you, and over to you, sir.

Karan Bhuwania: Thank you, Manav. Good afternoon, everyone. It's a pleasure at ICICI Securities to host Q2 FY '25 Results Conference Call of Speciality Restaurants. From the management we have Mr. Avik Chatterjee, Director; Mr. Rajesh Kumar Mohta, Executive Director, Finance and CFO.

I'll now hand over the call to the management for their opening remarks. Post that, we'll open it for Q&A. Thank you. Over to you, sir.

Rajesh Kumar Mohta: Thank you, Mr. Karan. On behalf of the management, myself, Rajesh Mohta, CFO of the company, welcome all the participants to the investors call of the company for the quarter 2 of financial year '24-'25 after the approval of results by Board of Directors and submission to the stock exchanges as per guidelines.

I now summarize for all concerned about the quarter highlights. During the quarter, the revenue remained steady on year-on-year basis, primarily because of few reasons as a result of which those revenues have been steady, like Calcutta accounts for almost one-third of the revenues, and during the quarter, there were certain incidents in Calcutta where the restaurants' business -- footfalls into the restaurants was very low.

Second, we find that pressure on discretionary spends during the quarter resulting from higher inflation, which is having a pinch on the guest's pocket. On the same side, inflation of food materials have been very steadily increasing and our input costs as well. But in order to maintain the total business per se, we have not been passing the increase in the inflationary trend of raw material prices in our menu prices in this current quarter.

But we are very hopeful that in the current quarter, which is the October, November, December, we will be able to neutralize this inflationary increase in raw material prices by increasing our menu prices. As yourselves would all know, that October, November, December happens to be one of the best quarters for the company.

Second, what has happened is, as far as business is concerned, spends on aggregators platform and discounting has become a new normal for the company. This is resulting into an amount of expenditure, which is happening on marketing spends, sales promotion, discounting on aggregators platform for delivery is always on an increasing trend.

We have been trying our best to balance the same, but yes, there are headwinds on the same. Two incidents of fire in Acropolis Mall in Calcutta, because of which our two restaurants had

to be shut during the quarter, but we are hopeful since the properties are covered for our fire insurance as well as loss on profits, we have lodged our claim with the insurance company and expect somewhere between around INR40 lakhs, which would as and when will be received and accounted for as receipts for the insurance claim.

There is one big, large restaurant, which is Mainland China at Infinity Mall in Malad, is under renovation and conversion to an Asia Kitchen, which is from the 7th of July, it is still under renovation and which is now completed. The puja of the kitchen has happened day before and we are hopeful that in next couple of days, we would start after the trials our commercial operations. During the quarter, we opened one Episode One restaurant at Viviana Mall, Thane in Mumbai on the 15th of September 2024.

This is the second wet-led restaurant of the company on the brand of Episode One. Though it has started on 15th September, it has started on a good note and we hope in the quarter of October, November, December, we would be able to get benefits of this new restaurant. We opened a cloud kitchen in Bangalore as well.

Last and not the least, like say for instance, because of the headwinds in the economy on the inflation front and cost, the new restaurants which we had opened are having a greater period of break-even to achieve. We are very hopeful that the restaurants which were opened during the financial year '23-'24 and in the first quarter of financial year '24-'25 will soon get into break-even in this quarter resulting into contribution towards the fixed cost and improvement in profitability. Thank you.

Moderator: Thank you, sir. We will now begin the question-and-answer session. We have our first question from the line of Zakir Nasir, an individual investor. Please go ahead.

Zakir Nasir: Yes, sir. Congratulations on a decent set of numbers. My question would be, sir, the first half of this year has remained flattish for us. So what kind of growth would you put for the full year, sir? Would you expect a single digit growth and 7%, 8%, 10% growth at least year-over-year this year? And going forward over the next two to three years, what is your broad outlook? Thank you.

Rajesh Kumar Mohta: See here in any which ways, H2 happens to be a better path for the company primarily because of October, November, December. And historically, we have been achieving number both on revenues and profitability, which has grown over the years, and especially during the last, I would say, 13 quarters. So considering that, we expect growth on revenues to be around 5% to 7%.

Considering the new year for financial year '25-'26 and '26-'27, from a guideline perspective, since we would be opening new restaurants and with the maturity of the restaurants which have opened during the financial year, we envisage that we should be growing in the early teens, in my opinion.

Zakir Nasir: Early teens, you would say next year, that is '26 over '25, sir?

Rajesh Kumar Mohta: Correct, sir.



- Zakir Nasir:** And in terms of your brand sector, are you trying to consolidate a few brands and what are you trying to do with Sweet Bengal? And what is the percentage of your cloud kitchen in your overall stock line, sir?
- Rajesh Kumar Mohta:** See here, what happens is, if I may, sir, you have -- would answer your question in two parts. One is with respect to Sweet Bengal. Sweet Bengal is a brand which has primarily in Bombay and Pune. At this point of time, we continue with Sweet Bengal in these two cities with a limited scope of expansion in stores with respect to Bombay and Pune primarily because it is a hub-and-spoke model. It is a factory which is one center and capacity of the factory to service 35-36 stores is big in number for us.
- As far as contribution in the business is concerned, the total revenues of around 9.5% to 10% of our total revenues are contributed by Sweet Bengal. And we are exploring opportunities of taking it to other cities, but those are at an ascent stage. And we would update you as and when certain decisions are materialized after the approval of the Board on capex and the plan.
- Coming to the answer of your cloud kitchen, sir, as on date, we are running 12 cloud kitchens, but with the focus more on Oriental cuisine and our Mainland China and Asia Kitchen brand, we continue to focus on opening new restaurants, but from -- with an object of kitchen within kitchen, which would mean the dining numbers increasing and delivery also continues of our multiple brands like Mainland China, Asia Kitchen, Hakka, and Oh! Calcutta from the dining restaurant itself.
- Zakir Nasir:** And what would be the percentage of take-away versus dining, sir, broadly?
- Rajesh Kumar Mohta:** We are currently running at around 25% of our total business as delivery and take-away. When I say delivery and take-away, including the aggregators.
- Moderator:** Thank you. We have our next question from the line of Viraj Mahadevia from MoneyGrow. Please go ahead.
- Viraj Mahadevia:** Congratulations on steady results. Given the food inflation that is clearly eating into some of your profitability, have you all now commenced taking price increases across the various formats?
- Rajesh Kumar Mohta:** See, sir, we are facing a wall. We are left with no choices. Now, with the season coming in, we have contemplated and we have taken strategic eases at formats. And if required, we may have to neutralize the increase in the month of December as well.
- Viraj Mahadevia:** Right. And any progress on any of your overseas franchising conversations? In the past, you mentioned Vietnam, Middle East, other such markets for Asia Kitchen, Mainland China. How has that progressed and any signups there?
- Rajesh Kumar Mohta:** See, we have a master franchise for our Middle East, Dubai, primarily, who have opened one in Muscat, which opened in February 2024 of this year. They are into talks of opening another restaurant in Dubai as well as Abu Dhabi going forward. But at appropriate time, once they open, we'll update yourself.



- Viraj Mahadevia:** And how about other geographies beyond Middle East?
- Rajesh Kumar Mohta:** We are yet to get into a good franchise to open in other parts of the world.
- Viraj Mahadevia:** Right. And what are the planned use of proceeds of the cash that sits on the books? I think last it was INR170-odd crores.
- Rajesh Kumar Mohta:** Yes, to put it on record, let's say, for instance, we are continuing to have around INR153 crores, but the capital expenditure has begun in last year, which was absolutely not there earlier, post-COVID, when we had to shut restaurants rather than open restaurants. Now, going forward, the company is planning to open restaurants in Oriental brands, primarily Mainland China, Asia Kitchen in malls, converting few of the let's say, new brand, GONG, which is already there in Pune. And opportunistically, Episode One, which is the wet-led brand of the company.
- Viraj Mahadevia:** So the capex will go towards that in the next 12-24 months.
- Rajesh Kumar Mohta:** Yes, so the plan is to have renovation of the restaurants as well as the capex of the restaurant.
- Viraj Mahadevia:** And how much would that cost over the next year and a half?
- Rajesh Kumar Mohta:** See, if we contemplate, last year, let's say, for instance, we expect another INR50 to INR60 crores gets utilized in a financial year.
- Viraj Mahadevia:** Okay, so about INR100 crores over the next two years.
- Moderator:** We have our next question from the line of Siddharth Trikumar from ithubot. Please go ahead.
- Siddharth Trikumar:** What would be the capital expenditure to open one Mainland China?
- Rajesh Kumar Mohta:** Mr. Siddharth, what happens is it depends upon the size of the restaurant. Currently, we explore of taking 2,500 to 3,000 square feet carpet area. And on 2,500 to 3,000 carpet area, we spend somewhere between INR3.5-odd crores to INR4 crores, including the GST because GST is an input cost to us and we don't get any benefit out of it.
- Siddharth Trikumar:** Sorry, how much amount?
- Rajesh Kumar Mohta:** INR3.5 crores to INR4 crores on an area of 2,500 to 3,000 square feet.
- Siddharth Trikumar:** Understand. So, like going forward for the next five years, you said that you wanted to expand on the Oriental cuisine. Is it with Mainland China, Asia Kitchen or do you have any other strategy for Hakka?
- Rajesh Kumar Mohta:** Mr. Avik is responding to your query.
- Avik Chatterjee:** Hi. So, what we've understood is that cannibalization had become an issue for us in the past. So, we would not want to expand with one brand left-right center. In fact, our newer strategy is

to break up our Asian dominance into various brands, namely Asia Kitchen by Mainland China, which is mainly a high-footfall mall-oriented brand. We have Mainland China, of course, which is a fine-dine neighborhood restaurant. Apart from that, we have a brand called GONG, which has been successfully running in the city of Pune and we're scheduled to do a second one in this coming quarter after this one.

GONG is more youth-oriented, higher revenues with liquor and a younger audience. Hakka is our delivery format, which also does have a store in Calcutta. Hakka is going to be, for us, one of the key expandable brands in the next year for Tier 2 cities as well. That is an extensive research that we have run for Tier 2 expansions and because of the lower cost and high potential to grab market share there, Hakka would be one of our pure go-to, low-cost, low-entry-level Chinese brand.

Siddharth Trikumar: The reason why I ask this is because if you look at the Tier 2 and Tier 3 market, the Korean cuisine is very unorganized. There is no quality provider. I asked specifically about Hakka, if you are planning to capture that part of the market.

Avik Chatterjee: Yes, absolutely. Like you rightly said, it's an unorganized market and we can definitely come in to win from this current situation because of our past. Another thing just to understand is that Hakka is a Chinese brand. What happens is, when you have a pure Chinese format, your cost to operate your menu becomes a little more economical because you don't have specialized skills in Japanese, Thai, Mongolian, Malaysian, and so on and so forth. Hence, we think Hakka is going to be the best in terms of cost, even manpower cost, and to gain from the better rental scenarios in the Tier 2 cities. I think it is going to be a brand that we will expand from next year onwards.

Siddharth Trikumar: One more question is that, are you actually looking at any acquisition in the Oriental cuisine space? Any brand that you want to potentially acquire?

Avik Chatterjee: There are talks with someone on a later stage at the moment. As soon as that is through, we should be announcing that.

Moderator: We have our next question from the line of Swamin Gujarati, a shareholder. Please go ahead.

Swamin Gujarati: Sir, my question is regarding the shareholder who forfeited the issue. Can you throw the light on this, sir?

Rajesh Kumar Mohta: Sorry, come again. I could not hear you properly.

Swamin Gujarati: The shareholder who have forfeited the tax, can you throw the light regarding why they forfeited the tax?

Rajesh Kumar Mohta: If I may, sir, as per guidelines, whatever was required to be done, we had done. And the amount has been forfeited and taken into reserve for meeting the capital expenditure.

Swamin Gujarati: What is the amount, sir, forfeited?

Rajesh Kumar Mohta: INR25.03 crores.



- Swamin Gujarati:** For around INR127 crores, only INR25 crores was still received.
- Rajesh Kumar Mohta:** Out of that INR127 crores, we received INR50.23 crores and out of which INR25.03 was forfeited, sir, INR27 crores was allotted as shares.
- Moderator:** The next question is from the line of Saaksha Mantoo from Old Bridge Capital. Please go ahead.
- Saaksha Mantoo:** I have just two questions. Firstly, were there any store additions or closures during the quarter? And secondly, what is the typical life cycle of a store look like for you? How much time does it take for a store to mature? And what is the progress really in terms of, suppose, three years maturity, what is the potential year one, two, and then three? Those are my two questions.
- Rajesh Kumar Mohta:** See, answering your first question, if I heard yourself, what number of stores we opened in the quarter, I will just repeat once again, we opened a cloud kitchen in the previous quarter and an Episode One wet-led brand in Viviana Mall, Thane, Mumbai in September '24. Now, as far as maturity of our store is concerned, what we see is, let's say, for instance, the throughput or the breakeven is happening between four to eight months, but it all depends upon the location and the throughput of the restaurant. So once in a -- let's say, in one particular year, we get to ensure that the restaurant becomes cash profitable for us with stable revenues from second and third year onwards.
- Saaksha Mantoo:** And, sir, a follow-up on that. Does the breakeven look different for your own store versus a franchisee store? I'm sure it will be looked at in the future, but it just helps me understand how does that work?
- Rajesh Kumar Mohta:** See, here, when we are talking in terms of mostly company-owned, company-operated restaurants, and for us, franchisee and the company-operated store does not make much of a difference from a financial parameters point of view. Except that the investments which happen in a franchise restaurant is by the franchisee. So the typical matrix for both the restaurants, whether it is a FOCO, which is franchisee-owned, company-operated, or a COCO, which is company-owned, company-operated, remains the same. Excepting in case of a franchisee restaurant, there is an additional cost to the extent of between 5% to 7% of the top line as revenue and royalty and management fees to us from the franchise restaurant.
- Saaksha Mantoo:** Sure. Very clear. And if I may ask one more. So you highlighted that there are some inflationary impacts on the market right now. So what could be the levers that could bring in some cost efficiencies here? So are there any efforts being put in that direction and if at all they can be?
- Rajesh Kumar Mohta:** Very valid question, madam. If I may, that's a very continuous exercise which happened in the company. And all chefs and the team works towards rationalizing, let's say, improving in case of a wastage. So the processes have been streamlined and on a daily basis, those are being monitored to save on any penny which is getting wasted. But yes, when you have a price increase, etcetera, like say for instance, if I may, like in case of edible oil, government increased the customs duty, resulting into a 22% to 24% price increase. Such cases, we are left



with no choice but to explore with other suppliers, improve efficiencies, etcetera. And so that's a very continuous process which happens in the organization.

Moderator: We have a follow-up question from the line of Swamin Gujarati, a shareholder. Please go ahead.

Swamin Gujarati: Sir, can you throw light on Speciality Catering business of yours?

Rajesh Kumar Mohta: Sir, your voice is not very audible. I am not able to hear your question.

Swamin Gujarati: Sir, can you throw light on Speciality Catering business of yours?

Rajesh Kumar Mohta: Speciality Experience and Catering business, correct sir?

Swamin Gujarati: Yes.

Rajesh Kumar Mohta: See, here what happens is, these are the two formats. We call it Speciality Experience, which does niche catering in Mumbai. And then we have a catering division in Calcutta, which has been growing over the years, but that does not form a significant, let's say for instance, to give you a number, like in the month of November itself, we have catering business almost to the extent of INR1 crores. So we have a target to do in Calcutta, business between INR6 crores to INR7 crores in this financial year.

Swamin Gujarati: And in Mumbai, sir?

Rajesh Kumar Mohta: Sorry, sir?

Swamin Gujarati: In Mumbai?

Rajesh Kumar Mohta: In Mumbai, it does a very niche market, let's say, experiences. We should be doing between INR2 crores to INR2.5-odd crores in this financial year.

Moderator: We have a follow-up question from the line of Siddharth Trikumar from ithought PMS. Please go ahead.

Siddharth Trikumar: What would be the store level EBITDA in Mainland China and Asia Kitchen? And what would be the same for Hakka at the restaurant level?

Rajesh Kumar Mohta: As far as Mainland China and Asia Kitchen is concerned, we run between 20% to 22% of EBITDA in Mainland China. And Hakka is primarily a delivery brand, which forms part of the kitchen within kitchen and becomes part of the restaurant itself.

Siddharth Trikumar: This 20% is like pre-Ind AS, right?

Rajesh Kumar Mohta: Yes, sir.

Siddharth Trikumar: Understood. How much capex would be required for, let's say, if you have the strategy of expanding Hakka into Tier 2 cities? For one store, how much capex would be required?



Rajesh Kumar Mohta: See, Mr. Siddharth, the capex, in my opinion, is more related to the square feet. And now, if we may say, let's say, for instance, if we take an area of 2,000-2,200, we could be able to do that restaurant in INR2-odd crores.

Siddharth Trikumar: Yes, one more question I have is that, how do you manage the quality of -- I mean, the consistency in your food products? Like, what would be the attrition among the chefs?

Rajesh Kumar Mohta: Siddharth, God has been very kind. And if I may, our CMD considers himself to be a Chief Human Resource Officer rather than the Chairman and Managing Director, the kind of relationship, etcetera, with the chef and when most of the chefs are ex 5 stars. So, what has happened, in my opinion, if I may, the attrition at the senior level chef is minimal. And those who have continued have been given full authority, etcetera, to let's say to look into their creativity.

Now, as far as consistency of the product is concerned, we have our chef, Chef Dubey, who is a Director, who is a Chief Culinary Officer for us. The processes have been streamlined and then it is based on the city chefs who look into those processes on a systematic basis. And there are audit procedures by the chefs who keep on traveling between the cities, train the chef-in-charges of the restaurants, so that the consistency levels are maintained.

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

Rajesh Kumar Mohta: Thank you. We are extremely thankful to all the participants to have spared their valuable time in joining the investor's call of Speciality Restaurants for the second quarter of the financial year '24-'25. We look forward for your support in months to come.

And we are extremely thankful to have raised pertinent questions and we hope we have been able to answer those. In case any further queries are there, you may get in touch with us directly. Thank you once again.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.