

March 22, 2017

Speciality Restaurants Limited

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term/ short-term, fund based/ non-fund based facilities	100.00	[ICRA]A+/ [ICRA]A1 re-affirmed; outlook revised to 'negative' from 'stable'

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the **[ICRA]A+** (pronounced ICRA A plus) and **[ICRA]A1** (pronounced ICRA A one) ratings assigned to the Rs. 100.00 crore¹, long-term/ short-term, fund based/ non-fund based limits of Speciality Restaurants Limited (SRL)². The outlook on the long-term rating has been revised to 'negative' from 'stable'.

Rationale

The revision in the outlook reflects ICRA's expectation of continued subdued operating performance of the company over the near term. The operating performance has been weakening over a period of time, especially over the past two years, constrained by the prolonged downturn in the industry due to weak corporate spends on fine dining. While the company has been posting y-o-y growth in operating income till FY2016 aided by new outlet openings, the operating profit margins (OPM) have been declining over the years; OPM declined from 13.10% in FY2014 to 5.59% in FY2016. Decline in same-outlet revenues during 9m FY2017 not only resulted in ~1.2% y-o-y de-growth in operating income, but also led to contraction in OPM to 2.26% for 9m FY2017. While the company has taken several steps – such as optimal use of leased space by operating multiple brands at a location and sharing the common utilities, etc – to better absorb fixed expenses, the benefits in terms of improvement in margins are yet to be demonstrated. Further, given the competitive intensity in the business, improving/ maintaining footfalls into its restaurants, during these periods of constrained discretionary consumer spends, has been challenging. Thus, ICRA expects the operating performance of the company to continue to remain subdued over the near term.

The ratings, however, continue to take into account the well-established position of the company in the fine dining industry with a bouquet of strong brands, geographically diversified presence in the country along with expansion into overseas markets, vast experience of the promoters and the management team in restaurant business, and the strong financial risk profile of the company.

ICRA believes that the company will be able to maintain its strong financial profile as characterised by its debt-free capital structure, and healthy liquidity and debt protection metrics in the near term despite the weak operating performance. Surplus funds of Rs. 77.06 crore (in the form of liquid mutual funds and cash and bank balances) as of September 30, 2016 and cautious expansion plans provide comfort. Improvement in profitability through revival in same-outlet sales and efficient cost management remains a key rating sensitivity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

Key rating drivers

Credit Strengths

- Well-established market position with a bouquet of brands and a geographically diverse presence in India;
- Vast experience of the promoter and the top management in the restaurant business;
- Strong financial risk profile characterised by debt-free capital structure, and healthy liquidity and debt protection metrics.

Credit Weakness

- Vulnerability to risks associated with macro-economic cycles and resulting impact on consumer discretionary spends – high operating leverage in the business constrains profitability during a downcycle;
- High competitive intensity in the business, being part of the fragmented restaurant industry, restricts ability to pass on increase in input costs.

Description of key rating drivers highlighted above:

SRL has a prominent presence in the fine dining restaurants business with outlets across India (22 cities; 103 restaurants and 17 confectionary stores), Tanzania (one city; two restaurants) and Bangladesh (one city; two restaurants). The company's flagship brand (Mainland China/ Asia Kitchen by Mainland China) offers authentic Chinese cuisine and contributes to ~60% of company's revenues. The other major restaurant brands operated by the company include Oh! Calcutta and Sigree/ Sigree Global Grill, along with the confectionary brand Sweet Bengal.

Mr. Anjan Chatterjee, the promoter, has more than 25 years experience in the restaurant business and has been instrumental in scaling up the business under SRL. The management team is currently working on consolidation of brands, refreshing the identity of their major brands, and optimally utilising the leased space for a restaurant to profitably grow the business further.

SRL currently maintains a robust financial risk profile as indicated by negligible debt (car loans of Rs. 0.08 crore), strong networth (~Rs. 300 crore) and adequate liquidity (surplus funds of Rs. 77.06 crore; includes un-utilised IPO proceeds) as of September 30, 2016. While the company had added nine new outlets (net of closures) in FY2015 and eight new outlets (net) in FY2016, the pace of addition has slowed down currently owing to subdued demand conditions. During 9m FY2017, the company has added only one new restaurant (net). The company has currently adopted a cautious expansion plan and hence, the capital expenditure requirements are limited. This has cushioned the cash flows during the current difficult operating environment. Thus, despite the pressure on operating performance, ICRA expects the financial risk profile of the company to remain robust.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of SCTL.

Links to applicable Criteria

Corporate Credit Rating – A Note on Methodology

About the Company:

Speciality Restaurants Limited, founded by Mr. Anjan Chatterjee in December 1999, is a leading fine dining restaurant operator with presence in nearly 22 cities across India, and two restaurants each in Dhaka, Bangladesh and Dar es Salaam, Tanzania. As on December 31, 2016, SRL operates 107 restaurants under 11 brands, namely *Mainland China/ Mainland China Asia Kitchen* (50 restaurants and accounts for ~60% of company's revenues), *Oh! Calcutta* (9), *Sigree/ Sigree Global Grill* (18), *Machaan*

(2), *Flame & Grill* (3), *Haka* (2), *Cafe Mezzuna* (4), *Hoppipola* (13), *Kix* (1), *Kibbeh* (1), *Zoodles – Asian Street Wok* (4), and operates 17 confectionary stores under the brand *Sweet Bengal*. The Mumbai headquartered company offers a wide range of cuisines – including Chinese, Bengali, Mediterranean, Oriental, Spanish, Mexican, Moroccan and Indian, amongst others – across its fine dining outlets. The company is also present in outdoor catering business on a small scale through *Mobifeast – Speciality Outdoors*. SRL also operates a Mainland China outlet in Doha (opened in May 2016), owned by a joint venture (JV) with the Al-Mohannadi Group, with SRL owning 49% stake in the JV.

SRL, upon its initial public offer (IPO) in May 2012, became the first and the only public listed company in the stand-alone fine dining restaurant category in the country. SRL is listed on the BSE and NSE in India. As of December 31, 2016, the promoter group (Mr. Anjan Chatterjee and his family) holds 51.20% shareholding in the company.

As per unaudited financials for the nine-month period ended December 31, 2016, SRL reported a net loss of Rs. 13.00 crore on an operating income (OI) of Rs. 247.57 crore, as against a net profit of Rs. 4.29 crore on an OI of Rs. 244.40 crore during the corresponding period last year. As per audited financials for FY2016, SRL reported a net profit of Rs. 0.26 crore on an OI of Rs. 322.22 crore, as against a net profit of Rs. 9.45 crore on an OI of Rs. 300.10 crore for FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				March 2017	September 2016	June 2015	-
1	Fund based/ Non-fund based bank facility	Long-term/ Short-term	100.00	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Fund based/ Non-fund based bank facility	-	-	-	100.00	[ICRA]A+ (Negative)/ [ICRA]A1

Source: SRL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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