

March 23, 2012
Mumbai

CRISIL Research assigns IPO grade '4/5' to Speciality Restaurants Ltd.

CRISIL has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed IPO of Speciality Restaurants Limited (Speciality). This grade indicates that the fundamentals of the IPO are above average relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The assigned grade factors in favourable prospects of the food services industry given India's favourable demographic profile and the rising base of working class, two major factors expected to provide impetus to the restaurant business. Also, increasing urbanisation, a growing middle class population and rising disposable income in India are leading to an increase in dining out as a lifestyle choice. The grade reflects Speciality's strong foothold in the fine dining restaurants segment in India with 69 restaurants and 13 confectionaries under 11 brands spread across 21 cities; it also runs two restaurants in Dhaka, Bangladesh. The company has been successful in creating brands like Mainland China (the flagship brand) and Oh! Calcutta in an industry which is characterised by high brand mortality and strong competition. The grade also factors in the company's strong focus on quality food, attentive services, and ability to identify locations with high consumer traffic. Further, its strategy to introduce new brands has enabled it to attract more guests per day for all of its restaurants thereby improving the overall profitability. The grade also takes into account the company's prudent expansion strategy through internal accruals which has enabled it to manage the overall risk in this business. Further, the grade is influenced by the strong and professional management team, the strong internal control system implemented by the company and good corporate governance practices being followed therein.

However, the grade is moderated by the fact that the food service industry is highly fragmented and there is stiff competition from the organised (domestic and international) as well as unorganised players. To beat competition, the company will have to consistently set up new outlets as older ones tend to mature in four-five years. Besides, Speciality's business is dominated by the success of a singular brand, Mainland China, which contributes more than 50% to overall revenue.

Speciality's revenues for FY11 were Rs 1,751 mn and Rs 962 mn for 6MFY12. EBITDA margins were 22.7% in FY11 and 21.5% during 6MFY12 and PAT margins were 10.2% and 10.6%, respectively. As of September 30, 2011, the net worth of the company was Rs 1,078 mn against a debt of Rs 289 mn.

About the company and the issue

Speciality Restaurants Ltd is one of the leading fine-dining restaurant operators in India. Besides its flagship brand Mainland China, the company operates a chain of 69 restaurants under various brands like Oh! Calcutta, Machaan, Sigree, Flame & Grill and Haka. Of the 69 restaurants, 20 are under the franchise owned and company operated model and the rest is owned and operated by the company.

The company is co founded and promoted by Mr. Anjan Chatterjee, Managing Director, who has over 30 years of experience in the advertising and hospitality industry including his stint as a management trainee at Indian Hotels Company Limited.

The IPO proceeds will be utilised to finance the development of new restaurants and a food plaza, repayment of term loan facility and general corporate purposes.

About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be

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Media Contacts	Analytical Contacts
<p>Mitu Samar Head, Communications and Brand Management CRISIL Limited Tel: +91-22- 3342 1838 Mobile: +91- 98200 61934 Fax: +91-22- 3342 3001 E-mail: msamar@crisil.com</p> <p>Priyadarshini Roy Communications and Brand Management CRISIL Limited Tel: +91-22- 3342 1812 Mobile: +91- 9819742778 Fax: +91-22- 3342 3001 E-mail: proy@crisil.com</p>	<p>Tarun Bhatia Director, Capital Markets CRISIL Research Tel: +91-22- 3342 3226 E-mail: tbatia@crisil.com</p> <p>Chetan Majithia Head, Equities CRISIL Research Tel: +91-22- 3342 4148 E-mail: chetanmajithia@crisil.com</p>

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 Last updated: March 31, 2011

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