



## **Jubilant FoodWorks Limited**

### **Investor/Analyst Conference Call Transcript**

### **February 4, 2013**

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**Moderator** Ladies and gentlemen good day and welcome to the Jubilant FoodWorks Limited Q3 & 9 MFY13 Earnings Conference Call. 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 call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference to Mr. Siddharth Rangnekar from CDR India, thank you and over to you sir.

**S Rangnekar** Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for the quarter ended December 31<sup>st</sup> 2012. We have the senior management of Jubilant FoodWorks Limited on the call with us including Mr. Hari Bhartia – Chairman of Jubilant FoodWorks and Mr. Ravi Gupta – the CFO. We will initiate the key thoughts from Mr. Hari Bhartia and follow that with operating and financial discussions with Mr. Ravi Gupta. After that the management will be happy to respond to any queries and questions that you may have, just to say our standard disclaimer, certain statements that may be made or discussed on this conference call may be forward looking in nature and may vary significantly from actual results that are delivered. A detailed statement in this regard is available in JFL Q3 and 9M Results release and presentation which are available on the company's website under the investors section. I would now like to invite Mr. Hari Bhartia to share his perspectives with you.

**Hari Bhartia**

Through the disciplined application of a long-term strategy, JFL has grown today to an industry leading company with an unwavering commitment to customer service and profitable growth. Our network and earnings have consistently increased over the past decade and we are confident of enhancing them again in the coming years. JFL has a strong balance sheet and a proven track record in terms for financial stability and we are confident about taking this trend forward as we move ahead.

I want to thank our all our employees and the management team, who with their passion are constantly working together with determination and perseverance, to create new levels of success for our brands each day. Along with this I would like to express my sincere gratitude to our loyal customers and our investors who continue to put their trust in our company and our future.

As we look ahead, I am confident about the progress of both our brands - Domino's Pizza and Dunkin' Donuts and I believe the key would be to execute our strategy systematically as we have been doing in the past. We have the capabilities, systems, the wealth of talent and the right strategic guidance which today arms us well to tap the potential in the market as well as set in new trends in the industry. I would now request my colleague, Ravi, to continue with the presentations.

**Ravi Gupta**

Thank you Hari,

Good Evening to everyone present with us today. So I will take a few moments to quickly provide you with a brief on our performance and my perspective of the results this quarter.

As we are growing both our brands Domino's Pizza and Dunkin' Donuts, the key imperatives for us will continue to be - network expansion and improved distribution, innovative product launches, a strong system to support these initiatives and above all customer satisfaction. I shall broadly discuss these aspects with respect to both Domino's and Dunkin' Donuts, over the next few minutes.

In Q3FY13, our topline and earnings performance witnessed an increase of 39% and 28% respectively as compared to the corresponding period last year. This growth is driven by targeted growth initiatives, innovation and an improved store network.

There has been a good complement of increase in sales from the number of pizzas we sell, the increase in our store count and the excitement that new introductions such as Taco Indiana and the Cheesy Boloroni pizza generate. Listening to our customers and designing our strategic plans around what is important to them has always been the key to success and

hence we aim to create and deliver products that cater to customer preferences in an innovative manner.

While we continue to creatively work that side, our store count for Domino's Pizza was at 552 at the end of December 2012. Entering new cities remains an important agenda for us given the potential and scope for growth presented by them. As a result we did see Domino's extending to new cities such as Guntur, Navsari, Ankleshwar, Tirupur, Ambala and Tumkur. Today we have presence across 118 cities in India. While we are pleased with the rate and manner in which we are expanding, we believe there is still an immense set of opportunities that we can capitalize on.

Another important growth driver for us is the Online ordering system, which continues to throw up some impressive statistics, reinforcing our thrust on technology along with our endeavor to reach out to a larger audience base. We had over 4 lac downloads on the Domino's Mobile Ordering Application since its launch.

Moving on to EBITDA for Q3FY13 was at Rs. 671.8 million as compared to Rs 523.7 million in Q3FY12. This is again reflective of our topline performance and also of the continual efforts taken to improve on key measures of operational excellence. Further related to our profitability, PAT for Q3 was at Rs 377 million, which is a growth of 27.9% over the same period last year.

On the expenses, the nature of increase in expenses was aligned to our growth during the quarter. We are also witnessing expenses related to development of Dunkin' Donuts, which is in the roll out phase yet.

Lastly, to summarize the financial highlights of the nine month duration, our Total Income reported was Rs. 10,417.5 million, an increase of 42% y-o-y. EBITDA increased 33% to Rs. 1,831.6 million, while our PAT increased 34% y-o-y to Rs. 1,024.0 million. On the whole, I believe we are making steady, tangible progress towards operational and financial objectives that we believe pose well for JFL and its long-term prosperity. It is important that I also take a few moments to discuss our focus on our commitment to innovate. JFL has successfully strengthened its relationship with the customer via its innovation be it in marketing initiatives or via its strong product offering. We believe this lies at the core of our DNA. The Cheesy Boloroni Pizza which was launched at an opportune time, during the chilly winters in December, is truly unique and one of its kind. The pizza has been receiving positive response from our consumers and continues to gain traction as we speak.

For all our efforts, we are delighted to be acknowledged by some of the most prestigious industry associations. To quickly highlight these, JFL

featured in the renowned Forbes Asia magazines' list of companies in Asia's 200 Best Under A Billion list. At the Golden Spoon awards JFL was awarded winner for 3 out of 5 categories for the best QSR for Domino's Pizza, Best Food Service Company for JFL and Best New Brand launched for Dunkin' Donuts. JFL has also been recognized with 2 Effies which are India's most prestigious Marketing awards. Another feather to our cap was the recognition of Commendation for Strong Commitment to Excel in the Category of 'Food Service Restaurants and Eateries' in CII's National Food Safety & Quality Award 2012. Lastly worthy of mention is that JFL has been awarded as the winner in India Business Leader Awards conducted by CNBC TV18 for Most Promising Company of The Year. For all our efforts, we are delighted to be acknowledged by some of the most prestigious industry associations. To quickly highlight this; JFL has been recognized as an Emerging Company of the Year by Economics Times Awards for Corporate Excellence 2012. Such appreciation along with our efforts to take right actions for the long term implementing our strategy with speed and discipline has definitely enabled us to grow our business.

Moving on to the performance of Dunkin' Donuts, Dunkin' is gaining traction in a highly methodical manner. We believe the journey of Dunkin' thus far has been truly exciting and amazing. The response we have received in Delhi NCR for the brand is positive and the learning's we are gathering from the initial store launches, helps us to better prepare ourselves for extending Dunkin in new regions

We believe the all-day part food segment is largely untapped and with our unique innovations, we see tremendous potential for growth in the future. As you may be aware, we've taken a methodical approach to build Dunkin' Donuts' network and are seeing a steady ramp up in this area as we have launched 8 stores as of 10 Jan 2013. Our approach to identifying store locations, developing internal talent, maintaining a streamlined commissary system on a very prudent cost management is well known and we have the benefit of a steady balance sheet and healthy cashflow. JFL is one of our best placed companies in this space to be able to leverage opportunities that the sector will throw out. We believe that Domino's pizza and Dunkin' Donuts are the two most highly potential that are poised for great success.

To conclude, it has been quarter of a revenue growth, improvement in profitability, awards and accolades strengthening customer relations, innovation in our offerings, and augmentation of our management team. Our plans for the future is to remain focused on extension of our brand in the market, compete in the industry effectively, streamline cost, offer innovative and superior value product to customers and achieve operational excellence. These efforts along with many small and big initiatives to enhance operations will improve our profitability and ensure

better ability to deliver great product to our customers. With this I believe, we have the plan, the commitment and above all the people, our highly resourceful team of employees to take our products to the next level.

Along with this, I would like to express our success to next level along with this I would like express my sincere gratitude to our loyal customers and our investors who continued to put their trust in our company and our future. Before I open this session for question and answer session, I would like inform all the analysts and investors on the call that Mr. Ajay Kaul could not join this con-call.

With this I would like to request moderator to open the question and answer forum.

**Moderator** Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Aditya Soman of Goldman Sachs. Please go ahead.

**Aditya Soman** My first question is actually on your rent expenses, so typically, how many months in advance do you start paying rent expenses?

**Ravi Gupta** Typically store construction takes about 45 days, so you can say that typically that is the period; however, in most of the cases we negotiate the deal with the landlord where we get a similar rent free period.

**Aditya Soman** In this quarter, you have seen a significant increase of about 57% YOY increase in rentals is this primary a function of the stores opening towards the end of the quarter or is it just because that is higher than your sales growth?

**Ravi Gupta** There are two to three reasons for that. First reason is that Dunkin' Donuts as a brand is included in these figures right now. So some portion of the expense of the rentals which is featured here was not there last year. And the rental in Dunkin' Donuts business is comparatively higher because it is a footfall driven different kind of business. Second reason, is that when we accelerate the growth of the stores - like we plan to open 110 stores in FY13 and in this quarter we have launched 37 stores, typically the new stores come at a comparatively high rental in terms of percentage. It is not that we are paying higher rentals, but the sales of the new stores, which we have explained in the past also, is about 70 to 80% of the system sale. Thereby the percentage rental becomes on a higher side. Now you may argue that in past there was no such trend seen, but that was because the same store growth used to be in 30's - at 37% in FY11, 30% last year, even till last quarter also, it used to be high. When the efficiency being derived by the same store is 16%, and the new stores are being added at a rapid pace and at a faster rate than the past, then the rent as a percentage is not

giving the similar efficiency. Right now there is another element also in the rent, which is service tax. Now this year service tax has gone up from 10.3% to 12.36% and about 10 basis points increase is arising because of service tax also.

**Aditya Soman**

In your other expenditure, what proportion of the increase would be on account of Dunkin'?

**Ravi Gupta**

Overall Dunkin' contributes about 70 to 80 basis points, I will not be able to give split between how much is the raw material contribution and how much is on account of personal expenses and how much manufacturing. But the question here is why the manufacturing and other expenses have gone up? The key reason for the expenses to go up is that we have spent higher amount in terms of advertising expenses in this quarter. Again, two reasons for that, one is we have launched a new brand positioning for Domino's Pizza this quarter, this was started at the end of the last quarter and continued mostly this quarter, so we launched brand positioning which we discussed over the last con-call also – 'Yeh hai Rishton ka Time'. Second thing, is that when the economy was not looking up very positive, in order to boost the consumer confidence, to invite the consumers to try our products, we decided to spend an incremental amount on advertising. So these are the two reasons for the manufacturing expenses to move up apart from the Dunkin' Donuts expenses being included in this head.

**Moderator**

Thank you. Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy**

We have seen the same store growth trend go downwards, could you tell us how are you seeing it in the coming quarters and there was a base effect which was higher last year and on the other hand we had the festive related impact also, so some color on that?

**Ravi Gupta**

We will first discuss like why it is seeing this trend and there is not one reason for that, 3 to 4 reasons which I think are attributable to this trend at present and I probably think similar reasons will continue in the future. The extent of it is very difficult to anticipate, but let me first discuss what are core reasons. One is higher base as you rightly said and base has been consistently becoming higher and higher. In FY10, we had grown at 22%, FY11– 37%, FY12– 30%, on top of it further we have grown at 16% this quarter and for YTD 19%. Second is the impact of splitting. We had cannibalization of sales happening because when we escalated with store openings, like the 37 stores we opened in this quarter alone and 87 stores we opened cumulatively then the impact of the splitting is going up and due to that there is an impact on the same store growth. Third factor, now again the extent of the impact of each of the factors is difficult, is the price increases. Last year we took three price increases, maybe there is

some impact of the price increase which is playing on the consumer when the economy is not playing a positive role.. The investment in economy are not coming up, the employment generation is getting slower; the consumer sentiment is not upbeat, that is the fourth and major factor which is bringing down this same store growth. Going forward, we don't know that how much impact of higher base and splitting price increases and the economic factor will bring in, there will be very difficult to estimate, but story does not seem to be very rosy right now.

**Abneesh Roy**

If we see the other discretionary sectors, the retailers, the jewelers, the results which have come out, they have been seeing that things seem to be bottoming out, if you see reforms are happening, interest rate cuts have started, based on the previous cycle any insights you can share, how many quarters it takes for the sentiments to turn around?

**Ravi Gupta**

Very difficult because FY2009, if we go back to the whole year we had a 6% same store growth and in some quarters it was negative, at that point time we were not listed. However we were really very upbeat that it will revive and the very next year from 6% we went to 22%. So it may be that 3 to 4 quarters, we witnessed lower sales and then once the investments start coming in the market then you start typically a rebound.

**Abneesh Roy**

My second question is on the new FSSAI norms, Food Safety and Standard Authority of India norms, I think this will specifically impact your restaurants, so do you see it being a problem for the new restaurants and maybe in terms of cost, do you see some cost implications in order to meet these norms?

**Ravi Gupta**

We already have very strong standards for quality and hygiene factors and that is the reason, I mentioned in my speech also that we have got acknowledgment for strong commitment to quality and hygiene from CII, basically Food Safety and Quality Award, so our standards for safety in food, hygiene are pretty high, but however, we are not going to get restricted what is permitted by law, our standards are even more tougher in general and we are making them tougher as we go forward. This is because as we are expanding at a rapid pace, it is necessary for us to strengthen them each and every year and that is the reason we keep on investing back in this area. The costs for the same will go up proportionately as we keep making the rules more stringent. But does it significantly impact us? The answer is no.

**Abneesh Roy**

One last book keeping question, on the staff cost, I see the cost flattish quarter on quarter in spite of new store opening, so how does this line item behave with new store openings?

- Ravi Gupta** This quarter typically last year we had given a salary increase to our team members and that is the reason Q3 see last year, there was a growth in the number, otherwise typically in Q2 we give a salary increase and Q3 we can maintain by a marginal increase, but due to the same store growth lowering, the incentive provision is slightly lower, that is the one reason I can say other than that since the team members salary increase is not there, that is reason there is no major increase you are seeing in the cost.
- Moderator** Thank you. Our next question is from Kalpesh Makwana of Quant Capital. Please go ahead.
- Kalpesh Makwana** If you could just throw some light on FY14 guidance for store and SSG and EBITDA margin?
- Ravi Gupta** We will be more than happy to answer this question along with our annual results in the next quarter which is when we typically give this guidance.
- Moderator** Thank you. Our next question is from Rakshit Ranjan of Ambit Capital. Please go ahead.
- Rakshit Ranjan** First of all, in terms of your same store growth declined on a sequential basis from 18 to 20 and the mid 20s in number in a couple of quarters ago to 16 odd percent, is the decline more related to Tier I same store sales or is it more related to Tier II to III same store sales if it is possible?
- Ravi Gupta** There is no particular reason which is emerging, whether it is one city or another city which is causing the impact, whether a bigger city or smaller city which is impacting or the age of the store, so practically irrespective of the age of the store, irrespective of the city, there is no such rationale for this spread of the same store growth. It is all uniform, there could be some cities where it is has impacted more, but that is not because of the economic factors, it could be that we have split more stores in that city. If we take out the impact of splitting, the impact of competition practically is more or less uniform **Rakshit Ranjan** I understand that, but in terms of the factors behind the SSG decline that you highlighted higher base impact of splitting and all, at least these two factors would be more Tier-I, I guess right?
- Ravi Gupta** Yes, because as I have stated earlier too, that in top 10 cities itself we will open about 50% of the stores, but I think even the difference in the same store growth between the bigger cities and the smaller cities is not very significant. It is different definitely but it is not significant. Plus the base is higher for these cities.
- Rakshit Ranjan** I had a second question on the promotion or discount vis-à-vis price hikes, you have taken price hikes, I think, 3% each twice in the year so far, on top



of the price hikes obviously you have increased the promotion and the discount as you are giving to attract customers, It is the net effect a decline in transaction cost per customer or transaction cost per transaction or something like that?

**Ravi Gupta** If you just look at the price increase and then the discounting, net on net still we have gained. In Q3 specifically if I am to answer it, net on net we have still gained, there is an impact of the price increase which is flowing down to the bottom line.

**Moderator** Thank you. Our next question is from Avi Mehta of IIFL. Please go ahead.

**Avi Mehta** Are you changing the FY13 same store sales guidance from 18 to 19% same store sales growth?

**Ravi Gupta** It is very difficult to estimate the full year sales, but the way the economy is panning out, we are not very upbeat about the future as of now, so Q4 sales could be even lower, lower than what we have currently and in that context may be the same store growth will come down below 18% definitely for the full year. We have earlier stated a guidance of 18% but this may come around 17%.

**Avi Mehta** But you said that you are seeing weakness even now continuing but growth has not been very good even going forward, I did not get that?

**Ravi Gupta** Now we are seeing the economic factor which is playing and the consumer sentiment is not very positive as we speak that is the factor which is creating unusual uncertainty about the future growth. I want to highlight here, our new stores are generating payback which is less than 3 years, so the question often asked is that as same stores growth comes down, will you reduce your store opening guidance? The answer is “no” because the new stores generate less than 3 year payback which is an excellent return, so there is no concern about store opening, our guidance remains and we will definitely open 110 stores for Domino’s and 10 for Dunkin’ Donuts.

**Avi Mehta** Just on the margin bit, now you have been highlighting that 70 to 80 bps is the impact of Dunkin’ Donuts, I want to understand that per se that model, is that very different in terms of margin from the Domino’s say 2 years down the line or would it be more or less similar in terms of margins, if you could give some guidance, should we just take that this is the long term kind of from what we saw earlier when only Domino’s was in play, you would see a 70 to 80 bps?

**Ravi Gupta** As the number of stores increases in Dunkin’ Donuts, this 70 to 80 basis points should come down and eventually become zero and become positive at some point of time. What happens is in the initial period you

have supply chain expenses, marketing and G&A which are not fully recovered and though typically store starts generating cash from the year one itself, but the generation of cash which happens at the store level is not sufficient enough to meet this supply chain expenses, because of the commissary you set up for 40-50 stores or similarly the marketing or G&A expenses. So the moment you open up, you can say a sizable number of stores or significant number of stores, it can cover up all these costs then start generating positive returns.

**Avi Mehta** How much time do you see in terms of number of stores? Do you see this to actually come through and do you have guidance for Dunkin's stores over the next 3 years that you could share?

**Ravi Gupta** Definitely, we have guidance that over five years we will open about 80 to 100 stores. Initial ramp up will be slow because we have signed all kind of models for Dunkin' Donuts, one thing we are looking at high street models, we are looking at malls, kiosks, food courts. Basically we will be trying all kind of models and all kind of sizes of stores and we are looking at various alterations in terms of our food offering also to the consumer, finally we will decide within a six months' time, on which product works best and which other offerings our consumers are liking. , once we finalize all that, then we will accelerate our store openings, so initial period the store opening will be lesser and right now we are concentrating only on the NCR region for this year and at least till we have worked out on all these parameters, at that point in time we will accelerate the store openings. Now at what year we will be positive very difficult to say, but one or two years definitely, further it will be putting pressure on the margins, but after that once its breakeven and it will start contributing positively.

**Avi Mehta** My question is more in terms of number of stores for which you think this?

**Ravi Gupta** This is not an easy question to answer because it depends on how you will grow across various cities.

**Moderator** Thank you. Our next question is from Gautam Chhaochharia of UBS. Please go ahead.

**G Chhaochharia** Firstly, any price increases taken?

**Ravi Gupta:** We have taken two price increases during this year. One was in June which was discussed earlier. Another price increase was in November end.

**G Chhaochharia** June was how much?

**Ravi Gupta:** 3% each.

**G Chhaochharia** Second question is in terms of new store opening, you opened almost 37 stores in this quarter. And your annual guidance is still at 110. So you are looking at crossing that easily possibly or it is just a one-off quarter in terms of new store openings given the pipeline?

**Ravi Gupta:** If you look at last year also, we opened 28 stores, which was the highest opening in quarter for that year. We try to open before the month of December, and our estimates for the full year stands 110 only right now.

**Moderator:** Thank you. Our next question is from Prashant Kutty of Emkay Global. Please go ahead.

**Pritesh Chheda:** Hi, this is Pritesh here. One you said that the 80 bps, is it the margin impact of Dunkin' Donuts in the quarter?

**Ravi Gupta:** Yes.

**Pritesh Chheda:** Which means on a top-line of Rs. 385 crore, it is Rs.4 crore EBITDA loss, that is how one should read it?

**Ravi Gupta:** Yes.

**Pritesh Chheda:** Could you give us the top-line number for Dunkin' Donuts?

**Ravi Gupta:** As of now we will not be able to share it. Going forward, we will decide whether we can share this number.

**Pritesh Chheda:** Now if I adjust this Rs.3.85 crore, which means that the EBITDA margin for Domino's Pizza is about 18.5%. You know, we have seen this number for quite some time, should one safely assume that Domino's, which is now a fully stabilized model has a margin profile of 18 to 19% with limited operating leverage available to this number?

**Ravi Gupta:** The business has a potential to grow its margins further in a longish timeframe. Now there are two reasons first, the ratio of the mature stores to the new stores keeps on improving, margins would be better because mature stores have a better margins compared the newer stores. Incidentally, when you look at last four years, ratio of the new stores versus mature stores is going only adverse because we are accelerating the stores opening. Now the second factor SG&A. SG&A typically gives leverage. It has been giving leverage in the past, and so far it has been giving leverage, now this quarter specifically we have accelerated the marketing expenses because the economy was not playing pretty well and the second reason I shared with you that we wanted to launch new brand positioning. So the marketing for this year has not given any leverage but in a longer

timeframe when you have large size they start giving you leverage automatically.

**Pritesh Chheda:** You gave a target on Dunkin' Donuts of about 100 stores in the next five years, when do you think the EBITDA breakeven in this model would come at what level?

**Ravi Gupta:** See again Pritesh, it depends on actually on our roll out. Whether we want to limit ourselves to one city, then breakeven can happen faster, or whether we go rapidly to multiple cities, we are modeling right now, we are formulating various scenarios, trying out that what is best possible for Dunkin' brand to expand in the future. So, in one city may be end of the year we become positive, but if you go to five to six cities probably it will take more time.

**Pritesh Chheda:** But when you do a 100 stores, obviously you will be in more than five to six cities, you cannot be holding 100 stores in a single city.

**Ravi Gupta:** We will be working out various permutations Pritesh right now. We are looking at things like whether this commissary can be used to operate restaurants outside NCR. We are looking at new technologies, which have not been tried right now in the Dunkin' model, but we are partnering with them and we will see whether we can leverage this commissary itself to supply ... say in Jaipur!

**Pritesh Chheda:** So have you all at least chalked out that you want to try Dunkin' Donuts only in the North currently. Have any of those plans chalked out?

**Ravi Gupta:** Pritesh, we would like to say that as of now we have not decided to move out of NCR, or outside the North region let me say, as and when we decide things that we will go to the next cities, we will be able to share with you.

**Pritesh Chheda:** Sir, just one clarification I wanted, on the franchise agreement, if you could recap the franchise agreement and the 3.4% of sales which we pay out as franchise fee, is this number fixed for certain years, is there a change here, and how is the franchise agreement. Does it have a threshold change?

**Ravi Gupta:** This agreement is 3% franchise fee for dominos, not 3.4. And why, because 3.4, there is a service tax of 36% on 3%, so that is how it becomes 3.4% and all. This agreement is valid till December 2024 for Domino's Pizza, and during this period this figure cannot change. But in December 2024, when it comes up for renewal where we have first right of renewal for another 10 years, at that point in time commercials may get renegotiated. In fact there is no past record of Domino's having increased the franchise, whether in future they will be do or not, it is very difficult to say at this point in time.

**Pritesh Chheda:** Could you share the same thoughts for Dunkin' Donuts?

**Ravi Gupta:** Dunkin' we are bound by the agreement terms, we are not able to share, but the structure of the fees is not very distinct and the fees will remain the same for the first 15 years..

**Pritesh Chheda:** Lastly, if you could tell me the CAPEX figures for fiscal 2013 for Dunkin' and for Domino's?

**Ravi Gupta:** See for Dunkin', for this year we will be spending about Rs. 15 crore, for Domino's we will spend about Rs.140 to 150 crore.

**Pritesh Chheda:** Have we changed anything here?

**Ravi Gupta:** There is no significant change other than the opening of the 20 additional stores. In the beginning of the year we had indicated that overall CAPEX for the year will be in excess of Rs. 150 crore, so right now since we have increased 20 more stores therefore the excess amount of Rs. 160 or 165 crore or something like that.

**Pritesh Chheda:** So Rs.140 crore for those 110 stores.

**Ravi Gupta:** No, not only for that, but for three commissaries which are under the various stages of execution, plus additional equipment as replacement of equipment for the existing store, all of that lead to this number.

**Pritesh Chheda:** And the Rs. 15 crore for Dunkin, is for how many stores and commissaries?

**Ravi Gupta:** For about 10 stores and additional equipment in one commissary which we had established.

**Moderator:** Thank you. Our next question is from Girish Achhipalia of Morgan Stanley. Please go ahead.

**Girish Achhipalia:** Just a quick question on gross margins, just wondering, we had a 3% hike in June and followed by November, the margin dip of about 30 basis points at gross level, has it got to do with the Dunkin' business, or is there something else to it?

**Ravi Gupta:** I think this year we started with lower gross margins on higher food cost. This is a year where we are coming out of high inflation last year. If you look at our food cost and raw material cost it was at 26.6% in Q1 if I remember correctly . It came down and consistently it is coming down and it is around 25.7% right now. There are two reasons for this when we are coming with a high inflation last year and the second reason is a little bit of higher promotion this year so far. In Q1 the promotions were very high, it

has come down definitely now compared to the Q1 levels, but it continues to be higher. Higher than last year, Dunkin' has no major role actually to play in the higher food cost.

**Girish Achhipalia:** So at a gross level they are not contributing.

**Ravi Gupta:** It is marginally, it is a very insignificant kind.

**Moderator:** Thank you. Our next question is from Varun Lohchab of Religare Capital. Please go ahead.

**Varun Lohchab:** Sir, my first question was on the same store sales growth, if you could give some split in terms of the number of orders versus average transaction price, where are we tracking on that?

**Ravi Gupta:** Transaction size is growing in line to the price itself and less the number of products.

**Varun Lohchab:** Okay, so you are not seeing any sort of down trading per services with the portfolio?

**Ravi Gupta:** No, for this quarter definitely not.

**Varun Lohchab:** In terms of the slowdown that we are seeing, you would have analyzed it, is it more due to say lesser pace of new customer acquisition or the frequency of ordering is dropping?

**Ravi Gupta:** Actually I would say the growth which used to be there in terms of growth in frequency or growth in customer addition, the slope of that growth has reduced. It is not that it is negative, the extent of the growth which used to happen, is lower. Suppose we used to add 100 customers or say 10% new customers, may be we are adding 8% or 6% or 4%. Similarly for frequency, frequency has not been growing, it is kind of stagnant.

**Varun Lohchab:** My second question was on the Dunkin' Donuts format, as you said, obviously it would be loss making in the beginning due to SG&A and all, but if you could give some color at a store level, is it capable of getting margins somewhere close to what Domino's does?

**Ravi Gupta:** See, the right way of comparison will be the age of both the brands. Now comparing a brand which is 17-year young, with a brand which is 6 months old will not be a right comparison. We are confident that with in a longer timeframe, both the brands have capability to generate the returns which we are expecting, in the sense that they will have payback of 3 years or lesser. So now compare the new stores versus the new stores of Dunkin', we are confident that after 1 - 1.5 years and some of this initial trial period,

where we are trying all kinds of store models, Dunkin will start generating a payback of 3 years or lesser. **Varun Lohchab:** In the current environment when the food inflation has stopped a bit in terms of the extent of hike, due you anticipate lesser price hikes going forward, say in the next 6 to 9 months?

**Ravi Gupta:** Difficult to say, and next year being an election year, , we expect inflation would continue. The diesel price increase we all know about and diesel impacts everyone. So we are not very confident that whether inflation will come down in the future or will remain stagnant. There could be an inflation in the milk price in the year to come because again milk prices in some of our states are driven by some other factors than by pure economics. So, if the inflation is down, probably yes, definitely we can look at lesser price increases than what we have done before.

**Varun Lohchab:** But even in the current, say consumer environment you would still go ahead with price hikes and probably advertise a lot more that would be the strategy to counter slowdown rather than just keeping prices constant and taking some hit on gross margins?

**Ravi Gupta:** It is very difficult to respond actually, Last year also we have reviewed and deferred the price increase from April to June. At this point in time sitting in the very first week of Feb saying whether we will take a price increase next year, which we typically will take in April or June, very difficult for me to answer because we will continue to keep on reviewing the situation, how the market is behaving, and at that point of time we will take a call how the inflation is panning out and how the consumer is behaving. At that point in time we will be able to take a call about it.

**Moderator:** Thank you. Our next question is from Nilesh Gandhi of Destimoney Securities. Please go ahead.

**Nilesh Gandhi:** I just have one question, looking at the current performance, do you feel in Tier-I cities we are out of expansion opportunities.

**Ravi Gupta:** I explained earlier that about 50% of the stores, we are opening in the top 10 cities.

**Nilesh Gandhi:** Do you feel that this opportunity is now over. I mean further expansion in these cities is possible?

**Ravi Gupta:** Yes, definitely, I am talking about last three to four years also. About 50% of the stores were opened in the top 10 cities. There is a huge amount of potential in each of the top 10 cities even as we speak. So in future also this strategy of ours to expand in the existing cities is not going to change. Look at last quarter, out of 37 stores we had just entered six new cities, which

means about 6 new stores we opened in other than existing cities, which means 31 stores came in existing cities.

**Nilesh Gandhi:** Okay, so does it not cater to a lower same stores sales growth in future if we open more stores in the top 10 cities and then cannibalization impact becoming worse?

**Ravi Gupta:** Even if we open new stores at a similar level, it will have similar level of impact but if we accelerate the store opening, definitely we will have more impact on the same store growth. Like this year, we have accelerated the store opening specifically in Q3 we have accelerated in 37 stores, although most of the stores were opened in November and December they have lesser impact in this quarter and maybe they may have more impact in the next quarter, but if we accelerate the store openings, definitely it will have an impact on the same store growth.

**Nilesh Gandhi:** In that case what is the benchmark that you set for the same stores sales growth in bigger cities as such?

**Ravi Gupta:** There is guidance typically being in the beginning of the year discussing the same store growth that we are expecting for the year. We do not split and give a separate benchmark for bigger cities and smaller cities.

**Nilesh Gandhi:** I am not talking from a quarterly perspective; I am talking for say 2 to 3 years what is your benchmark? What should be the growth that is considered an optimal growth in top 10 cities or where the main chunk of business comes from?

**Ravi Gupta:** I don't know how to answer, optimum growth or something like that, because there is a factor of economy, you know how the economy is panning out, it is very difficult because it has to be calculated year-on-year basis seeing how the economy behaves in that year, what are your plans for that year and that year when you can estimate saying this is the growth which we can anticipate. Having said that we are not expecting a single digit growth on a yearly basis, as on quarter to quarter basis it can vary. We are definitely not expecting a single digit growth in the years to come, in the next couple of years. Now not in single digits does not mean that it can be 99%, it can definitely hover between 10 to 20%, where exactly, since it is a huge range, somebody can argue, exactly how much it will be, whether it will be 11% or 19%, or 18%, very difficult to state at this moment.

**Moderator:** Thank you very much. Our next question is from Gaurav Bhatia of Deutsche Bank. Please go ahead.

**Gaurav Bhatia:** My question was answered in the previous one where you said that the same store sales growth cannot slip to the single digit for the full year next



year, but the guidance that you have given for this year 17% implies roughly about 10 to 11% growth in the last quarter, can you solve that particular thing for us. What gives you the confidence that next year it might not slip to single digit because high base store splitting, low sentiment probably will continue for the next year as well?

**Ravi Gupta:** Gaurav, we are in the environment where the inflation remains at a high single digit number, so about 6 to 7% typically comes out of inflation itself and balance at least you will expect from the orders to increase. So that is the reason our confidence and definitely not in single digits, but on a quarter-to-quarter basis can it vary? Yes, it can vary. Definitely it can go in single digit in quarter-to-quarter basis, but on a year-to-year basis we are confident as of now saying that, looking at the state of economy, the initiatives that the Government has taken, all those initiatives will take some time to see action on the ground, in the meantime the situation can go down further but we are confident due to this inflation pattern of 6 to 7% which will continue, we are expecting it to continue like in this economy and then order growth definitely which cannot be lower than like 3 to 4%.

**Gaurav Bhatia:** What is the broad plan in terms of future new store openings is it still going to be 50:50 between top 10 cities versus the rest?

**Ravi Gupta:** Potential in the top 10 cities is still huge. Definitely for next year the 50-50 situation will continue and our confidence stays even for a couple of years it can continue like that.

**Gaurav Bhatia:** What stops you from opening 150 to 170 stores a year in case your growth starts to slip a little?

**Hari Bhartia:** We are constantly every year increasing the number of store openings and I think, this year will be our highest level and going forward we are hoping to increase these numbers year-on-year. At what level we will take it up to, will be determined overall by the market but we don't see a problem in increasing the number of stores openings in the future.

**Ravi Gupta:** See we believe in a profitable growth, we are not in a number game per se saying let us open 120, 150, 160 stores in all. Our mandate is very clear that all the stores need to be profitable and have pay back of less than 3 Years. If we believe that we can open those number of stores profitably we will just go ahead and open it.

**Gaurav Bhatia:** Do you think there is a potential for 150 to 170 profitable new store openings in the next year?

**Ravi Gupta:** Potential in the India economy, the way we look at is as of now 1000 plus stores and we have on the ground 552 stores, so theoretically we have the

potential of 450 stores. You need to execute all of them profitably. It is not that stores will not be profitable, those locations would be profitable definitely. But can you execute them profitably?

**Moderator:** Thank you. Our next question is from Hemant Patel of Axis Capital. Please go ahead.

**Hemant Patel:** One on cannibalization, can you give us an indication of which particular state or cities are you actually having this impact and is it largely because you are opening more stores closer to yours or is it more of an impact just coming in from other food formats which are actually opening up around these areas?

**Ravi Gupta:** When you talk about cannibalization, the word cannibalization typically means that you are cannibalizing your own sales. It means in the same delivery area, you open another store where from the neighboring area has got split and is being served by new stores. So that is what is meant by splitting or cannibalization. Now having said that, you have also brought another factor, which is the competition. Yes, definitely the competition also is a factor for same store growth, but between both of them you look at saying, which one has a bigger impact, cannibalization or splitting of the store has a bigger impact than competition. We have seen store after store where the competition opens a store next to us, there is an impact on the sales, but that impact stays for six to nine months and then both the brands start growing. But whenever you split the stores, and impact depends on extent of splitting, it takes a comparatively longer to recover.

**Hemant Patel:** Which are these cities where you are actually seeing this in a large way, especially in the Tier-I?

**Ravi Gupta:** Out of the 37 stores which we opened, only six cities which are rather new cities. All the 31 cities where we opened the stores, have some level of impact of splitting on others. Now do you want me to give you city wise breakup of this?

**Hemant Patel:** No. My objective was just to understand among the top 10 cities that we are present in, are we seeing this kind of an impact in larger cities like Mumbai and Bangalore, and Delhi. That is what I really wanted to understand.

**Ravi Gupta:** Even in the large cities, what happens is, practically most of the cities, not all the cities actually, are already covered by some stores or other, so when we go with another store in those cities, the impact of the splitting can happen to multiple stores, like one store you open in the middle of three stores, it can impact the sale of all the three stores. Whereas, when you open a store in Tier-IV city, where there is one store, and you try to open a

second store, the impact of the splitting could be lower, because the city is big, you can open a store far apart, and maybe there is a very little overlap in the delivery area. So the impact of the splitting is always greater in the bigger city as compared to the smaller city.

**Hemant Patel:** So, effectively meaning, same store sales growth in especially Tier-I cities would be lower than the baseline number which you had given, the average number.

**Ravi Gupta:** Earlier also I told you, it is definitely that way, but is it significant? Because we have to also look at the base in the bigger cities, because bigger cities have higher base, so when you look at it along with the base impact and splitting impact, then it does not become very significant.

**Hemant Patel:** In terms of returns on investments, if I were to put stores which are over 3 years old, which are fairly matured and broken even, are they similar in Tier-I versus the other cities?

**Ravi Gupta:** Yes. More or less similar when you look at age wise.

**Hemant Patel:** One final question in terms of cost inflation, if I were to take on same store basis, what kind of level of cost inflation on a system wise basis are we looking at when going into the next year?

**Ravi Gupta:** See in the beginning of this year, we are looking at a high kind of single digit inflation number and it is coming pretty close that. Next year also looks like, it will be around that number.

**Hemant Patel:** If we exclude the raw material cost, I mean to say, if I were to include only the other overheads. Do you think it is higher single digits in the next year?

**Ravi Gupta:** Practically, it is higher single digit number kind of number. Out of this labour is growing even faster. Labor is growing at maybe 15%. Other costs are growing slightly slower, rent would be lower but labour is the highest.

**Moderator:** Thank you. Our next question is from Sanjay Singh of Standard Chartered. Please go ahead.

**Sanjay Singh:** We just wanted to know the rental costs have been increasing much higher YOY, and even if we do on a per store basis, the rental costs are up around 20%, now if you take rental inflation of 10%, it still means a 10% higher rate. Now we know that some of the new stores are much larger, but if we do the math, some of the new stores could be as high in terms of size, higher by 40 to 50%, 60% in terms of square feet area, just wanted to know are the new stores that big or what exactly is happening to this rental costs apart from inflation?

**Ravi Gupta:** What happens Sanjay, one is definitely the area that you said has some impact, but the bigger areas is typically in smaller cities, Tier-IV, Tier-V cities and all that, where we are opening the store where typically rentals are not that high. So, the bigger size of the stores typically does not have much impact. It does have impact, I am not saying it does not have an impact. Now, let's look at why the rental as a percentage is going up. First and foremost, as I shared with you, the reason is the Dunkin' Donuts as a business. The Dunkin' Donuts business has a higher rental, so the Dunkin' Donuts is getting added to the financial, that is an impact of higher rental. The second factor I shared with you, is the service tax impact going up from 10% to 12%, which is about 9-10 basis points impact. Third factor, when you are opening the stores at this aggressive pace like the 87 stores we are opening this year. Last year also we opened 72 stores. So look at the last four years, store openings, it is close to around 300 stores we have opening in the last four years compared to around 250 stores, which are more than 4 years old. The new store rental as percentage is higher compared to the old stores. The reason I can explain, newer stores typically start at about 70 to 80% sales of the system and the rental being the current. Rental is market price, and the sales are lower. So that is the reason as a percentage, the rental is higher. Now in the past why this was not visible to because the efficiency coming out of the same store was much higher. Because when you are growing at 30% same store basis, whereas the inefficiency due to the new stores was lower. Now efficiency at the same store level has come down, because the same store growth has come down to 16%. That is the reason the rental as a percentage is looking slightly higher. So these are three to four factors where the rental percentage is looking higher.

**Sanjay Singh:** I was not looking at the percentage of sales, I was looking at more as an absolute rental increase YOY on a per store basis. Basically rent divided by the number of stores has increased 20% YOY, and if you take inflation of the 10%, still there is a 10% extra, which can be only justified either by Dunkin' thing, which you explained or by higher rents for new stores.

**Ravi Gupta:** There is also a commissary rental, office rental and the other rental also is part of it, so practically allocating all the rentals to the stores will not be correct in that.

**Sanjay Singh:** Now second is, 80 bps you said impact is for Dunkin' Donuts, which we are aware of now and hence YOY actually Dominos' EBITDA margin is flat, YOY, now next year if we need to work out numbers, do we take this 80 bps much lower, somewhat lower, positive, how do you see it?

**Ravi Gupta:** We will be able to share the next year numbers when we discuss the annual results in the month of May.

**Sanjay Singh:** But as a direction it should be coming now.

**Ravi Gupta:** See, it depends on our game plan, how we take the Dunkin' brand forward. If we decide, saying that we will go to 5 to 6 cities at one go, obviously the cost will go up. If we decide that we will go in one city than another, than obviously the efficiency will come in one city

**Sanjay Singh:** I understand that, but it is a function of how much you are willing to forgo current numbers. It is about future numbers, which is perfectly fine, but I just wanted to understand that thought, that how much you are willing to forgo current numbers for future numbers. As a direction will you take it down, or the direction, you are not bothered with that, it is fine if it stays there or goes up even because the future is more important, that is what I wanted to know.

**Ravi Gupta:** See, we are not looking at from this perspective. We are not compromising per se about the future. We are looking at saying that how can we make the brand profitable as fast as possible definitely but without any compromise on growth of the brand. So if it is required, that we have to take a hit in the P&L for some time, we are willing to take that. But we have not yet decided that when we will take this brand to the next city. So once the business plan is not in place for the next year, it will be very difficult for me to share exactly how the situation will be next year.

**Sanjay Singh:** But as now, you are satisfied or more than satisfied with your Dunkin' performance?

**Ravi Gupta:** Definitely. We are excited. The consumer response has been fairly positive. As we have shared with you it is a very first year, we have been very happy with the consumer response & execution of Dunkin Team.

**Sanjay Singh:** While we understand that the same store sale growth is a little lower and this is a function of what is happening in the economy, it is across the company's phenomena, but I wanted to know is, can you give, and this is not from your perspective, but more to understand what is happening to the economy in terms of numbers, so is there any difference in color between the same store sales growth versus top 10 metros versus non top 10 metros, any kind of zonal differences, anything which you can share which is not competitive in nature?

**Ravi Gupta:** There is no significant difference we are seeing in the same store growth between top 10 cities and other cities, subject to only one or two caveats which I said, if your extent to splitting in a particular city is higher, and the extent of competition activity is higher, obviously the impact is higher in those cities in terms of same store growth, subject to that there is no significant difference in the same store growth across cities and across the age of the stores.

- Sanjay Singh:** Okay, and lastly a question for Mr. Bhartia, sir your promoter shareholding has been coming down bit by bit over the last couple of years, and now it stands at 54.5 from 62% initially post IPO, just wanted to understand where exactly would you be comfortable to say that this is what I want and it cannot go beyond less than this. Any kind of number you would like to share on that?
- Hari Bhartia:** Normally, in almost all our companies we are maintaining around 50% or thereabouts. That range of shareholding and so I think Jubilant FoodWorks would be consistent in that line.
- Sanjay Singh:** Largely 51% is what you would look at, not less than that.
- Hari Bhartia:** Yes, I am just saying broadly, around 50% we have maintained in almost all our ventures. We have not gone much below that range.
- Moderator:** Ladies and gentlemen, that was the last question of the day. I would now like to hand the floor back to Mr. Ravi Gupta for closing comments.
- Ravi Gupta:** Thank you very much for joining us today. It has been a delight interacting with you on the call. In the event that we have not been able to address your particular query today, please do get in touch with us and we will be happy to respond to that.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Jubilant FoodWorks Limited, that concludes this conference call.