



Jubilant FoodWorks Limited

Investor/Analyst Conference Call Transcript

May 9, 2013

Urvashi Butani

Thank you for joining us on Jubilant FoodWorks Conference Call where we shall discuss the financial and operating performance for the quarter ended March 31st, 2013. We have with us today on the call the senior management team including Mr. Hari Bhartia – Chairman of Jubilant FoodWorks, Mr. Ajay Kaul – CEO and Mr. Ravi Gupta – CFO. We will initiate the call with opening remarks from Mr. Hari Bhartia followed by Mr. Ajay Kaul and Mr. Ravi Gupta. After that the management will be happy to respond to any queries that you may have. Just to state as a standard disclaimer, certain statements made on the call today may be forward looking in nature and a note to that in fact was sent out to you earlier. I would now request Mr. Bhartia to share his perspectives for the quarter and year ended March 31st, 2013. Over to you sir.

Hari Bhartia

Thank you for joining us today to discuss the Jubilant FoodWorks performance. Financial year 2013 has been a year where our strength and business philosophies were challenged by the testing economic conditions. However I must say we have delivered in the face of those challenges, in fact we have done better. Our passion for business and the growth that we have accomplished demonstrates our drive to succeed. Jubilant FoodWorks is a strong company with solid fundamentals built over years which will continue to have a competitive advantage in the future. We take pride in our consistent execution and our ability to evolve and respond to the changing needs of our customers and the business environment at large. Our market leading brands Domino's Pizza and Dunkin' Donuts are gaining traction in a systematic and sustainable manner driven by network expansion and menu innovation. While we are cognizant of the industry dynamics we believe the potential to grow remains significant and we will continue to work hard to unlock the opportunities available. Most important, I believe it is a privilege for me to work with so many loyal and dedicated employees to share a common set of values and commitment to building our brands, building our people and

rewarding our shareholders. I would now request my colleague Ajay and Ravi to continue with the presentation.

Ajay Kaul

Thank you Hari. Every year it is our endeavor to grow bigger and stronger in the food service industry and ensure that JFL grows over the long term and I am confident that we have what it takes to do that. At the end of this fiscal, I believe we have been successful in not only extending our brands but also in creating valuable returns for our investors and stakeholders. The economic environment has been challenging. Nonetheless we have remained committed to capitalize on the growth potential. The volatile economy demanded even more financial strength, flexibility and disciplined execution and we have delivered on those. We have continued to invest systematically in our business to offer our consumers wider options of the menu and superior accessibility to our brands. We have extended Domino's Pizza to 123 cities across India with a store network of 576 stores as of 31st March, 2013. Mid FY 2013, we had revised our target to open 110 Domino's Pizza stores and it is my privilege and pleasure to announce that we successfully launched 111 new stores during the fiscal. With respect to Dunkin' Donuts the journey through this fiscal has truly been amazing. We introduced this brand to the Indian markets this year and today we have launched 10 restaurants already, primarily in the Delhi-NCR region.

We increased our total revenues by 29% in Q4 FY 2013 and 38% for the full year. Our efforts to increase penetration and provide greater access of both our brands has translated in increased revenues. Key drivers that we have been discussing with you continue to command our focused efforts. Our experience has demonstrated that making consumers aware of our innovation and motivating them to try our new products is the key to long-term success and hence innovation is the pillar we have built our business on and we are supporting our innovation program with strong levels of marketing investments. Thus when it comes to keeping our customers happy, our commitment is to stay ahead of what they want.

New product launches such as Taco Indiana, Cheesy Boloroni Pizza, combined with our new positioning "Yeh Hai Rishto Ka Time" has enabled us to deepen our connect with consumers across the country. Besides our store network we wish to keep consumers connected by helping them access our brands from wherever they are and whatever device they are using. We can offer our consumers a truly seamless experience that empowers them to place an order for Domino's Pizza the way most convenient for them anywhere anytime. Today when we are moving towards the world of e Commerce you would find that we have already invested and progressed into using digital and mobile platforms. While the results are truly encouraging, we are just beginning to leverage the potential of the mobile and internet revolution to accelerate growth and our efforts are being well appreciated too. To quickly mention here JFL was feted at the Indian e-Retail

Commerce Awards 2013 in the following categories for the best Quick service food delivery of e-retailer of the year:

- for best utilizing social media,
- for the best site optimization and design, and
- lastly for the marketing campaign of the year.

Another accolade to our merit was the award for the “Retail Online platform of the Year” at the Retailer Technology Awards 2013. That is why we believe we are at the forefront with regards to the technology. This is another area we have invested our resources as we know that it is one of the key drivers for growth at present and in the future.

On the infrastructure side I am pleased to say that we commissioned two new commissaries or call them factories, one in Mumbai and the other at Mohali at a cost of around Rs. 30 crore. The Mohali commissary will cater to our stores as of now and also our future stores in upper North India. You may recall that in the beginning of the financial year 2013 we had invested around Rs 8 crore for a new state of art commissary at Kolkata. At JFL we believe in increasing the infrastructure for future growth.

On Dunkin’ Donuts we are progressing well and as you may be aware we have successfully completed the target set for ourselves. We have launched 9 restaurants in Delhi-NCR and one restaurant in Chandigarh and the response received thus far is highly positive. Backed by these encouraging response we wish to extend the Dunkin’ experience to consumers’ homes to make it available at just a phone call. We started our home delivery service for Dunkin’ Donuts in January this year and I am happy with the response received thus far and the initial signs are definitely encouraging. Further, we have always maintained we will continue to invest in development of Dunkin’ Donuts and take advantage of the synergistic benefits with Domino’s Pizza to the extent possible in common infrastructure like commissaries, people, training structure etc.

I would like to say that we have a terrific team of talented and committed employees and we are excited about the opportunities ahead and I am confident in our ability to make the most of them. We will continue to strengthen our systems and processes to better equip ourselves to handle unfavorable economic situation and market scenarios. I would now request my colleague Ravi to continue with the presentation.

Ravi Gupta

Thank you Ajay. We exited fiscal 2013 as a fundamentally better business. We have shown improvements in our revenues, operating income and profitability. We have enhanced our brand building initiatives and supply chain infrastructure.

As an organization, our vision is to improve customer experience and deliver shareholder returns. Despite less than ideal economic conditions JFL reported 29% increase in revenues in Q4 FY13 to stand at Rs. 3658 million and a 38% increase for the full year to Rs. 14076 million. The key factors driving growth for us were increase in our store network. We opened 24 Domino's store this quarter taking our total to 576 crores across 123 cities. Our same store sales growth for the quarter was at 7.7% and for the full year it stood at 16.2%. As mentioned earlier we witnessed the impact of wavering economic conditions on our same store sales performance. Nonetheless we believe the potential to growth remains intact and we want to continue investing in our business to generate higher returns as and when the scenario normalizes.

Our EBITDA in Q4 FY13 was at Rs. 612 million as compared to Rs. 523 million in the same period last year, which was resultant of our network expansion and innovative menu offerings and a strong financial discipline across business levels. JFL is very disciplined about cash management and cost reduction and consistently we are strengthening this discipline with the culture that simplifies the way we work and increase the productivity. For the full year EBITDA stood at Rs. 2444 million. Moving ahead with profitability, PAT reported at Rs. 327 million in Q4 FY13 and Rs. 1351 million for FY13. As a philosophy we constantly are pursuing every avenue to control expenses and improve processes. We always prioritize investments which will help capitalize on our growth opportunities. We have and will continue to leverage our scale and best practices to create competitive advantages. We will also remain committed to leveraging operating expenses and finding additional ways to benefit from our expertise to best progress with the development of both of our brands. All this has ensured we maintain our financial strength and protect consumers' interests when economic conditions are volatile.

Coming now to the future and our outlook for financial year 2014. Business potential in our view continues to be strong and while challenges led by economic condition will remain, our strategic agenda is sound and showing a good promise. As we look ahead our basic principles of systematic extensions and innovations will dominate our plans going forward too. We will increase Domino's Pizza leadership position in the market. To this end, we have programs in place that capitalize on the strength within our brand equities. We plan to open 125 new Domino's Pizza stores next year, take the brand to many more new cities and customers. With respect to Dunkin' Donuts the agenda will be to open 18 new restaurants in this coming fiscal while continuing development of the brand at all levels.

We will leverage our core competencies and innovate constantly as the market place is changing rapidly and we will evolve our offerings to capitalize on these new opportunities. With this in mind I would like to conclude my remarks and request the moderator to open the floor for questions. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Sanath Sudarsan of Morgan Stanley. Please go ahead.

Sanath Sudarsan Firstly, gross profit margins are down year on year even though you have taken about 2 price increases during the year. And we have seen some kind of an input cost moderation. Is this largely driven by increased promotions when you had offers which had one pizza free for every one you bought and all those kind of things running this quarter? Is it largely due to that?

Ajay Kaul The answer to the question is yes. We have been able to control our ingredient cost and thereby food costs very well but we have been saying this for a long time that we could see a bit of a downturn which is very-very visible in the last quarter, it was coming and if you have been a regular attendant at our conference calls you would have noticed this in our statement. So as a result, we had to in some ways make inducements or throw a lot of stimuli into the market, keeping still within control so that consumers respond to it. And as a result we did see an excellent response from consumers in response to this stimuli. So we still sustained during the first three quarters a good, even going up to 22% same store growth although it came down to around 16% same store growth in quarter 3 but by the time we hit quarter 4, we realized that the downturn actually had kind of set in. People were limiting their discretionary spends on categories like ours and we managed only 7.7% same store growth.

Sanath Sudarsan Sir would it be possible to quantify the kind of impact promotions have had on the gross margins?

Ajay Kaul I do not think so we will be able to do that to quantify the impact, however I would say that they have given us positive impact for the first three quarters of the year despite of marginal drop in margins because of this.

Sanath Sudarsan Sir secondly, just curious to see that your employee count is down nearly 5% this quarter. Is this some sort of rationalization or what is the trend we should expect going forward both in employee counts and employee cost?

Ravi Gupta This is in relation with variable incentive which employees have not fully earned in this quarter because of the same store growth being lower and that is the reason a rationalization apparently appears on the personnel cost. Our number of employees also depends on volume of businesses, when the business is down typically our recruitment also gets slowdown. It is not that we exit the employee; we just reduce the fresh recruitment at that point of time. Since the sales level were lower, like they were 5% lower vis a vis Q3, despite higher number of stores, so we have spread out those employees. And that is the reason there is a bit of rationalization which appears like that.

Sanath Sudarsan There seems to be on a like to like basis moderation in your operating expenses as a percentage of sales can you please share with us what is being done over there? Is it that your ad spends have been cut?

Ravi Gupta Typically in Q4 our ad spends are lower and if you remember in Q3 we specifically mentioned that we have spent extra because we had a new brand positioning “Yeh hai Riston ka Time” . In Q3 we have spent higher amounts on advertising and we have specifically overspent beyond what we normally spend. Hence, compared to Q3 you are right, that operating expenses are down and at the same time some of the variable costs also reduced and we have an strong cost control discipline within the organization. All the discretionary costs are also not incurred and that is the reason it looks like there is a reduction of those costs.

Ajay Kaul I would only add to that by saying that one of our old philosophies is and which is bears testament because even when the time four-five years back when the Lehman Brothers thing had happened, we believed that was the best time to put your money behind the brand. Last quarter happened to be coincidental that we were launching a new positioning but we did spend a bit more marketing money to put some energy behind the brands, the new positioning because the philosophy being as you come out of an eminent downturn, the return skews are far-far higher. So whether it is the brand, the philosophy holds true for even people brand and I can talk about that also at some stage as to how we are putting money behind that and as importantly behind creating infrastructure. Because we can easily go a bit shy again in a toughish kind of year, especially when you see an eminent downturn you want to cut down on capital expenditure. In fact, on the contrary we were going gung ho on that and I can share some numbers with you on that. So it is just exemplify what I was saying, we created a new infrastructure in Mumbai and Mohali which totally costed around Rs 30 odd crore. The one in Kolkata also cost us around Rs8 crore.. All this was basically looking at the future. And even when we go into next year and we will talk about next year in detail in a moment, we are planning to invest in at least 3 to 4 new factories/ commissaries next year. All this is basically looking at the big growth potential that we believe India has and the kind of growth which Domino’s Pizza can see in the country and as a result the investment for future.

Moderator We will take our next question from Kalpesh Makwana of Quant Capital, please go ahead.

Kalpesh Makwana Sir what is your reading on the ground situation? Has it changed or consumer sentiment still remains muted?

Ajay Kaul Without trying to give any guidance for this quarter or for what is likely to be the manifestation in terms of numbers, we believe that customers sentiment is still down. There is an eminent downturn but the optimistic part of Jubilant

FoodWorks tells us that the economy will show signs of revival probably in the next few months. We are also kind of getting ready with a lot of interventions for the consumers which we believe will also change the scenario for Jubilant FoodWorks or Domino's Pizza and Dunkin' Donuts put together in the coming months and we believe that as we get into the second half of this year we should be witnessing positive economic environment which should take our same store growth numbers back into double digits.

Kalpesh Makwana

Are you now sharing any official guidance for FY14 SSG or EBITDA margins? In the media I read somewhere 10% SSG is what you are guiding and 16.5% EBITDA margin. Any new commissaries is being planned?

Ajay Kaul

Let me at this juncture share all this guidance. We have full year guidance numbers. We plan to open at least 125 new stores in Domino's Pizza. Last year, you would recall, we opened totally 111 stores. We had actually started the year with a guidance of 90 stores but as the year was progressing well we went upto 100 and then eventually we revised that to 110 and our full year number ended up at 111 new stores. This year our guidance is to open at least 125 Domino's Pizza stores and at least 18 Dunkin' Donuts stores. As far as same store sales growth is concerned, given that we are coming out of a quarter where we have done only 7.7% in store growth, we believe on a full year basis we should be able to achieve at least 8-10% same store sales growth and as far as EBITDA - return on sale is concerned, we believe we should be able to deliver at least 16.5% return and talking about investments which you said just to kind of put things in perspective last year our total capital expenditure was in the vicinity of around Rs. 188 crore, of which around 60% went into new stores, and a good sizeable Rs 40 odd crore went into creating those new commissaries which I spoke a little while back. Next year we believe our capital expenditure will be in excess of 250 crores and let us say around Rs. 150 odd crore out of that will go into new stores and a good Rs 70-75 crore should go into creating these new commissaries. And you know why I am saying this with a bit of punch there is because we are building a business for future. There will be temporary blips in the economy which are clearly visible right now and beyond our control but the larger picture of India is in the growth story for future so we are investing in these factories, which are build to cater to own stores over the next 5 to 10 years and that is where we will end up spending around Rs 75 crore. We plan to build new factories. Somewhere one in Central India, probably Nagpur, one somewhere in South India probably Hyderabad, one somewhere around Guwahati and also a large new facility which we plan to bring up in Noida because that is the kind of potential we see coming up in North India.

Kalpesh Makwana

The last bookkeeping question from me, what was the impact of Dunkin' Donuts on EBITDA margin this quarter?

- Ravi Gupta** See the EBITDA impact of Dunkin' Donuts remains around about 80-90 basis points. So this has remained around a similar range for the whole year.
- Moderator** Our next question is from Gautam Chhaochharia of UBS, please go ahead.
- Gautam Chhaochharia** How has this service tax impacted your reported SSGN growth numbers and how do you see that panning out in the next year? Secondly, on the rent side, clearly the rent expenses seem to be indicating the splitting of store in terms of new store opening up in the same locations, how do you see that panning out in FY14?
- Ravi Gupta** As far service tax is concerned, service tax is applicable from April 1st. So there is no impact of service tax on same store growth last year, i.e Q4 FY13. So the implication for service tax will starts from 1st April for this year and what we have done in terms to service tax is that we have passed on the entire service tax to the consumer. You will see a separate line item in the bill, similar to value added tax , so there is an additional tax on the consumer which is levied by the government and so we have fully passed it to the consumers. Will it have impact on the same store growth and so; as far as the consumer is concerned, this is kind of a price increase or extra money that customer is paying, so there could be an impact on the consumer for this. How much is it going to impact that only time will tell.
- Gautam Chhaochharia** Basically how do you then look at the price increase given your history of 5-6% price increase every year, how do you see that in the context of the service tax for FY14?
- Ajay Kaul** It is unfortunate that a tax like this is something which is beyond anybody's control as it does not do anything to how your costs are moving up in terms of ingredients and so on. So like we do every year we did two price increases in two tranches around 2.5% to 3% each. Right now our thinking is that given that there will be inflationary pressures on food even in 2013-14, we may end up taking both these price increases of around 2.5-3% at two times of the year. So there is no change basically to that thinking as of now.
- Gautam Chhaochharia** When was the last price hike taken?
- Ajay Kaul** In November we took our last price increase.
- Gautam Chhaochharia** The rent expenses has gone up more than revenue growth as obviously more stores were opened up at the same location, how do you see that trend panning out in FY14?
- Ravi Gupta** See as far as Q4 is concerned there are two kind of increases which are there, one is that there are more number of stores and second is that overall where the sale has not grown and in fact from the Q3 level the sales are about 5% lower despite

high number of stores. Thus in terms of percentage, obviously the rent increases. There is another factor also for the rental increases. In fact as Ajay mentioned in his opening remarks, there are two new commissaries which have become operational during the last quarter, Mumbai and Mohali. So their expenses have started registering. These are large commissaries – one is 40,000 sq. ft. and another is 20,000 sq. ft. while not a huge rental expense but space is large, and their rental also gets added to this cost. As far as the future guidance is concerned about the rental we did not have specific guidance, but what generic I can say that same store basis there is an efficiency generated. Efficiency is limited to how much the same store growth we are planning to have or we finally achieve. If the inflation level in the economy is lower than the same store growth, obviously efficiency will be generated by the existing stores. Now coming to the new stores, new stores typically open at about 70-80% of the system level sales and resultant their operating expenses are higher as a percentage and their margins being lower. Since their margins are lower and the existing stores if they are generating efficiency, in a case of their efficiency becomes higher than the inefficiency of the new stores, then obviously overall margin can grow and similar analogy will apply for the rentals also. If the rental efficiency generated by the existing store is higher than the inefficiency generated by the new stores, obviously the rentals can reduce. Otherwise the rentals will increase.

Moderator Our next question is from Aditya Soman of Goldman Sachs, please go ahead.

Aditya Soman First question with regards to your same store sales. Because of all these offers would it be safe to say that your effective price increases for this quarter have actually been sort of zero or even negative on a year on year basis?

Ravi Gupta The answer to that is no. We are very discreet and obviously very scientific about the way we go about offering these promotional prices and these are very time-bound offers, they are sometimes operational only for one day and some of them are for shorter time durations. So once they have a marginal impact but they would not erode substantial part of the price increases. So we would say that 80-90% of the price increase still stays.

Aditya Soman And my second question is on Dunkin' Donuts sales, now that you have been running some of the stores for almost a year, would you quantify what the sales amount from Dunkin' has been and what as we can take as a benchmark for the average sales per store from the Dunkin' outlet?

Ajay Kaul We will not be able to share this with you because some of the stores are still in state of flux. There is a euphoric start which always gives a part of joy and then they tend to stabilize at a certain level and since we have been opening almost one store a month so we are in various stages of evolution. But what we can say is that they will always play a small brother to the big brother which is Domino's.

Their sales contribution is insignificant small single digits and as Ravi said a little while back their EBITDA contribution, they take away around 80 or 90 basis points away from our overall EBITDA when it comes to consolidating a JFL level. But still small and insignificant, not high.

Monitor Our next question is from Pritesh Chheda of Emkay Global, please go ahead.

Pritesh Chheda I just want to check on one thing, the SSG growth number which you shared at about 10% and considering the price hike and also for the quarter 4, is it that absolutely on the ticket side or on the volume side there is absolutely no growth? And I am just wondering why are we so lowering the SSG number to up to 10% where virtually there is no volume growth seen?

Ajay Kaul The difference between our revenue growth and order growth has not changed in quarter 4 or for that matter we don't believe that it will change even in this financial year. So as I said there is a marginal difference between the two. Why have we given a 10% guidance for the whole of this year is because we are coming out of the quarter where we have done 7.7% and in the past we have never done this kind of number. Sentiment as we are seeing right now has not changed significantly compared to quarter 4. It is at an overall consumer sentiment level, we believe it will take a few months. The Government, we believe, is also taking some action, which is bringing in investment hopefully, even the job creation we need more money in disposable income in people hands. So as the kind of whole year spans out we believe the weighted average same store growth for the full year should be 8-10%. That is what our foundation right now is.

Pritesh Chheda Do you believe that based on situations that you are reading currently there is a chance that the number can only be revised upwards and not downwards as of now?

Ajay Kaul I would not offer any comment there. All I would say is that we have a certain track record of the past and keeping that in mind you can reach over some conclusion. I would not want to add anything else to that.

Pritesh Chheda My second question is versus the SKU selection of product offerings, do we have certain internal benchmarks where a certain product SKU offering typically should have a threshold or gross margin?

Ajay Kaul Definitely, Pritesh. This is an amazing point, here the product cost is looked at by the marketing department. I practically play an opposite role at times typically asking them why don't you reduce the price here but marketing team says we cannot afford. We need to maintain the overall gross margins. So it is a happy situation where in marketing is in charge of the product cost and all of the new

products pricing is in fact is kept in such a way there is no impact on our gross margin.

Pritesh Chheda My last question is we had an agenda of dividend in this particular board meeting, so have we announced a dividend?

Ajay Kaul No, we have not. Let me also add that we believe that the kind of situation we are in right now, which I would say is a solid growth phase and the investment number which I spoke about a little while back - at least Rs 250 crore we plan to spend on capital expenditure. A lot of it which is going into creating new stores, as I said at least 125 new stores in Domino's Pizza, 18 new stores in Dunkin' Donuts and also three to four more factories whose work will start during the course of the year. All looking at future, all looking at the event growth potential. We believe that the money is being put into the right bucket, which is growth.

Moderator Our next question is from Vivek Maheshwari of CLSA, please go ahead.

Vivek Maheshwari My first question is on the EBITDA margin. Fiscal 2012 we had ended with 18.7%, fiscal 2013 - 17.4% and now you are talking about 16.5%. Is it just because of Dunkin' impact or is it that the new stores are incrementally dilutive on the margins?

Ravi Gupta There are 2-3 factors. First factor is obviously Dunkin' Donuts' 80-90 basis points impact. Second is what we have been speaking about for a few quarters is the impact of the increase in service tax and excise which happened in the beginning of this year. It has taken about 40 to 50 basis points. On the whole, if you look at EBITDA margins from 18.7% down to 17.4%, the differential is about 130 basis points. So these two factors alone kind of explain this decline. And third factor is obviously what I mentioned earlier, the efficiency created by the same stores or existing stores has to be higher than the inefficiencies of the new stores. New stores have lesser margins and by this I am not giving an impression that new stores are non-profitable. New stores are profitable, they are giving good payback. Payback internal guidelines have not changed over the years. Less than 3 years payback has to be there for the new stores and the new stores have been delivering that kind of payback and even better payback. But as a percentage margin they are lower and therefore it is margin dilutive.

Vivek Maheshwari And what is the reason for another 80 basis points, 16.5% essentially for fiscal 2014, why that guidance?

Ravi Gupta See for the next year we believe that the same store growth about 8-10% is what we would be able to achieve. Now inflation in the market we believe will be higher than 10%, which means the existing stores will not be able to give

efficiency sufficient enough, that the in-efficiency is generated by the new stores and will dilute **the margins**

Vivek Maheshwari And would Dunkin' impact be again 80 basis point in the next year as well?

Ravi Gupta It will marginally increase about 10 to 20 basis points.

Vivek Maheshwari So 100 basis points in fiscal 14. And lastly the ramp up time you mentioned for the new store typically, it is 70-80% of the existing store in the first year, is that correct?

Ravi Gupta The sales are at around 70-80% of the system level average sales.

Vivek Maheshwari And this is irrespective of whether it is in the top 5-6 cities or it is in a new location?

Ravi Gupta See this is a national average number which I gave, although for locations it will keep on varying because when you enter new cities it can vary from super performance to an average performance. Hence the average number is better.

Moderator Our next question is from Latika Chopra of J P Morgan. Please go ahead.

Latika Chopra My first question is on the same store sales growth, how different was the same store sales growth between the top-10 cities and the tier-2, tier-3 cities sales and would you like to maintain your strategy of opening about 50% of incremental 125 stores in top-10 cities?

Ajay Kaul The answer to the first question is it is in a similar zone, statistically there is no significant difference. You will take few percentage point here or there, so they are similar zone. Answer to question 2 is yes. Our growth strategy would be not too different from last year. There would be stores coming from the top-4 metros, there would be stores also coming from the next set of cities. We would also be entering to my mind at least 15 to 20 brand new cities during the course of the year. So it is an overall growth strategy coming from all parts of the country and coming from all buckets that we have.- - big cities, Tier-1, tier 2 cities and also brand new cities.

Latika Chopra And just a quick question on are you also witnessing deterioration in your product mix, we can see more advertisements for your Pizza Mania, are you seeing consumer moving down to smaller pizzas or you are seeing reduction in the order size apart from the volume slowdown that you have seen?

Ajay Kaul To be honest, since last year when we for the first time started talking about this phenomenon of an eminent downturn, there is marginal shift I must admit which is happening towards Pizza Mania, so that is a reality. But it is not significant but

nonetheless it is there. Now you might be seeing a lot of advertisement right now is because during the part of the year every year we actually promote our Pizza Mania, so may be that is fresh in your mind, you are seeing some advertisements of ours, specially with results to that “pehli kamai” and all that which is basically centered around Pizza Mania, so that may be the reason that is covering thought, but as we will move into the year Pizza Mania we will run for a little while then we will do some new products that will get launched, it could be pizzas, it could be new side orders. So it is going to follow a trajectory which is what we follow every year, new product launches and new things happening and so on.

Moderator

Our next question is from Percy Panthaki of IIFL. Please go ahead.

Percy Panthaki

I would just like to touch upon the rentals once again. So if you look at your store expansion for Q4 on a YoY basis that is Q4 FY13 versus Q4 FY12, number of stores have increased by about 23% to 24%. Your rentals have increased 46% which means on a per store basis the inflation is about 17%. Now even if I remove the commissaries, etc., I think that 17% figure would still remain sort of in the low-teens kind of a number. So just wanted to understand how the inflation on a per store basis is so large?

Ravi Gupta

There are 2-3 factors as far as the rental inflation is concerned. First factor there is we should keep in mind that Dunkin’ Donuts is also a part of these numbers. I know you have included that number but rental in the Dunkin’ Donuts model is slightly higher because it is a foot-fall driven model. That is the first factor. Second factor is rent inflation. We have shared in the past that rental inflation in the agreement is 15% every three years which translates to about kind of 5% inflation. The third factor is that whenever a store completes its agreement term we need to renegotiate the rentals. At that point of time the rental can go up anywhere between 15% to upwards of 100%. In some cases we also relocate the store because the site has become not a very prominent site and we want to move our store to a very good location and all that. In that case also rental as a percentage goes up. However, the absolute figure also goes up. Our same store sales growth is averaging around 20% for last 5 years, to manage the growing sales results in taking additional space for the stores, may be the first floor, may be an adjoining shop or something like that. That also results in an additional rental payable for the same store operation. So all these factors together result in an increase in the rentals per store basis, which gets reflected in the inflation. So apart from commissaries which you rightly mentioned we have Dunkin’ Donuts, we have an additional space, we have relocation of stores, and we have extra pay for the renewal of the agreement also. So, all that together we need to add up to look at the rental inflation.

Percy Panthaki

So sir what kind of number of rental inflation on a per store basis should I take going ahead?

Ravi Gupta We will not be able to share that particular number with you. I will share with you the factors may be you try to extrapolate the past.

Percy Panthaki My second question is your raw material is not your major cost, it is only about 25% of sales. So 60% of your sales are non-raw material costs, be it employee or rent or whatever and that is a complex basket. So some of it will be fixed, some of it will be variable, some of it will be semi-variable. So in a situation where the economy is slowing down, consumption is slowing down and therefore your sales and same store sales growth slows down, what kind of levers do you have to control this 60% of the cost? And I am sure you will be thinking about this also. So have you given this some thought as to what you can do to sort of protect your margins when same store sales growth are falling?

Ravi Gupta I answered when I think Gautam had asked this question saying that why your operating expenses have reduced from Q3 to Q4, I explained saying that we have a strong operating discipline even at the ground level, and all discretionary kind of expenses automatically get **curtailed** because we have a very robust monitoring mechanism; as well as we have a variable incentive for the store manager, which hinges on achievement on the top-line as well as the bottom line. So our store manager -- who is the CEO of the store are glued to the bottom line, when they see that sales are not coming in, they will rationalize the number of employees, they will rationalize all other costs within their hands. And majority of the costs get controlled at that level. Because what is controlled at the corporate level is only G&A and the marketing to some extent. Otherwise majority costs are at the store level itself. Since we have this robust mechanism of review as well as the variable incentive program, the store manager truly acting as the CEO of the store, immediately applies the brakes and controls the expenses.

Percy Panthaki But sir in that case with a 10% same store sales growth, could you not keep your inflation of overheads within this 10% figure and your incremental EBITDA it could be only on account of that 20 basis points, etc., on Dunkin', so therefore sort of your EBITDA margins in FY14 be only 20 basis points lower than FY13. Why do they have to fall more than that?

Ravi Gupta We have to draw resources from the economy and when you draw the resources from the economy inflation is there. We try to optimize all this inflation impact on us. But if I have to hire the employees from market we need to pay the people the salaries which are there in the market. Yes, if the market inflation comes down in terms of salary, obviously we can have lesser salaries. So all those resources are coming from economy. So inflation level is not controlled by us. We can definitely optimize, like we do for our raw materials. We do typically for all the costs. Each of the cost is negotiated in the best possible manner so that the inflation impact is reduced. And in the slowing economy obviously the inflation level we expect to be lower. But I can't say how much will be the inflation level. We are expecting the

inflation level to be higher than 10% and that's one of the reasons for the guidance for what we have given. Our endeavor definitely will be to reduce this inflation impact further, how much we will be able to reduce only time will tell.

- Moderator** Our next question is from Gaurav Bhatia of Deutsche Bank. Please go ahead.
- Gaurav Bhatia** Sir this Rs 150 crore CAPEX number, does it include Dunkin' Donuts store expenses as well?
- Ajay Kaul** Are you talking about capital expenditure for next year?
- Gaurav Bhatia** Absolutely sir.
- Ajay Kaul** Yes, around Rs 150 crore would include Dunkin' Donuts.
- Moderator** We will take our next question from Pratik Biyani of Standard Chartered Securities. Please go ahead.
- Pratik Biyani** My question was on the service tax issue, now the 5% service tax, does the regulation necessitate for us to apply that service tax even on home delivery sales?
- Ravi Gupta** There is no full clarity on this subject right now. We have made representation to the Ministry in March itself, immediately after the budget had come and asking the ministry to clarify whether it is applicable on the home delivery and takeaway. The legal view is that it should not be strictly applicable on the home delivery. However, our meeting with the officials at the ministry has indicated that it should be applicable on home delivery also. We are expecting a clarification on this, however, in the meantime we have started charging to the consumers because the impact would be very large.
- Pratik Biyani** So in case the decision is in your favor there can be some reversal at least in home delivery or takeaways?
- Ravi Gupta** Yes.
- Pratik Biyani** And sir on your same store sales growth guidance of 10%, when you say 10%, on top of that 5% service tax, so your consumer same store sales would be nearly 15% as compared to 16% in the previous year. So am I right in this?
- Ravi Gupta** You are right Pratik.
- Pratik Biyani** And sir just to carry forward the CAPEX question, out of the Rs.250 crore you mentioned that Rs. 150 crore is for new stores. Now this means that your CAPEX

per store has increased from Rs. 80-90 lakhs to let us say Rs 1 crore or Rs 1.10 crore per store for Domino's. Am I right in interpreting that?

Ajay Kaul There is a marginal increase. Basically that number of Rs. 150 crore is taking into account all Dunkin' as well as Domino's stores and as we said higher emphasis is on the fact that we will be spending around Rs.70-75 crore on building the new commissaries and that is where the larger story is because that is investment for future, for next may be 5 years or more.

Ravi Gupta CAPEX for the new stores has gone up and last year it was Rs. 9 million plus. It has gone up to about Rs. 10 million plus, that is what we are expecting for the next year.

Moderator Our next question is from Rakshit Ranjan of Ambit Capital. Please go ahead.

Rakshit Ranjan First of all, what is the typical length of a rental contract that you have on average?

Ravi Gupta It is around nine year typically, it can be longer.

Rakshit Ranjan So going by that, the number of renewals would have been a very small number because nine years ago the number of stores that you had was quite a small number compared to where you are today, in which case that argument where you were saying that the rental goes up because 50-100% hike whenever it comes up for renewal, you will apply to perhaps only 5 or 10 stores not more than that?

Ravi Gupta This is one of the factors, I am not saying this is the only factor. This is one of the factor where the renewal happens because there are 4 to 5 factors which I mentioned at that point of time. We may be taking up extra space in the existing stores because they are in the same location. They may or may not have been renewed but you may need additional space because sales have been growing pretty rapidly. Then at times you relocate the store also because you need to move to a better location, so there is not one factor actually, this is one of the factors.

Rakshit Ranjan And how many stores would have got relocated?

Ravi Gupta Last year I think there were 4 stores that got relocated.

Rakshit Ranjan 4 stores in this quarter?

Ravi Gupta Not in the quarter, for the full year.

Rakshit Ranjan And how many stores splits would've happened as in opening of a new store within the purview of an existing store?

Ajay Kaul It is quite a number, it is clearly a double digit number we will not be able to tell you exactly the number of stores because it is a dynamic number, so we had split and then after a certain period the rate does not fall into the territory but it is a good double digit number.

Ravi Gupta To give our rationale, whichever store you open in the existing city there could be some level of split except in cities where there is only one store or to 2 stores. Otherwise metro stores whenever you open a store, some kind of split will always be there.

Rakshit Ranjan Last question is on the 18 new Dunkin' Donuts stores, how many of them you plan to open in NCR and Chandigarh and how many in new cities?

Ajay Kaul We plan to enter at least one more metro city and may be a couple of more smaller cities. We will not be able to share right now with you which metro city we will get to because we are doing our research, we are doing our evaluations, so probably in the next few months we will be in a better position to share that with you. Needless to say having created our base, our factory in Delhi and also having set up a store in Chandigarh lot of these 18 restaurants will also come up in our Delhi NCR area.

Moderator Our next question is from Kirti Dalvi of Enam Asset Management. Please go ahead.

Kirti Dalvi If you could share Dunkin' Donuts details in terms of the contribution to sales or something like that?

Ajay Kaul Dunkin' Donuts while it takes a lot of our energy and we love that brand and it is giving some very positive response especially from consumers, since the time of launch which was almost a year back, it is a small single digit contribution to revenue and its impact on EBITDA right now is around 80 to 90 basis points reduction in the overall P&L of JFL and to my mind it will continue doing so and playing the small brother role because Domino's is only going to grow more and more and so on but still it gets our full attention and we have to kind of make this brand as successful as Domino's is.

Kirti Dalvi You mentioned that it made a dent of almost 80 to 90 bps for the year as a whole, so we expect for FY14 to be similar, right?

Ajay Kaul Yes, we may add another 10 - 20 basis points to that, that should be the impact for the next year.

Kirti Dalvi So when do we see Dunkin' Donuts becoming breakeven or positive to EBITDA?

Ajay Kaul In any such new business it takes a certain minimum number of years which is anything from 3 to 5 years, our aim obviously will be to kind of work harder and figure out how we can do that faster so that is all I can say right now.

Moderator Our next question is from Vishal Shah of Allard Partners. Please go ahead.

Vishal Shah Can you tell me the mix of delivery sales versus takeaway versus dine-in?

Ravi Gupta Our delivery is marginally better than takeaway and dining.

Vishal Shah You have mentioned that 17% of the delivery sales is online, are there any trends with respect to the average ticket size or average margins on online sales higher than the average margins of the entire company?

Ajay Kaul No, we will not be able to share anything with you right now and in any case the online model, while it contributes 17% of our total delivery sales and it is climbing, it is a dynamic state of flux here so once it stabilizes then we will be able to probably share something with you but right now I cannot share anything.

Vishal Shah You did mention the reason for this slower growth in the same store sales, one of the reason is economic environment but competition has anything to do with that or may be even cannibalization as a large part of stores are actually in the same cities?

Ajay Kaul We had competition last year also but I must admit that they are getting a bit more active, splitting of stores or cannibalization as we choose to call it also happened last year but it has got a role to play but let me put it like this, I would say probably 80 to 90% of this drop in same-store growth is because of economic led factors, so it is as substantial as that may be.

Vishal Shah And you do mention that next year you plan to open 125 new stores but do you also have any closure of stores because may be it is not in the right location or anything like that?

Ajay Kaul As we speak and we do not have any such stores on our radar because we have watched the stores like hawks, we have a merciless approach to kind of watching stores, turning them around making sure that they become profitable and so on, there is no such store on the radar today, so we do not believe we will close any store next year.

Vishal Shah When you relocate a store or split a store that is counted as a new store?

Ajay Kaul If it is in the same vicinity it is basically the same store because we are increasing space, we are doing all that when we relocate a store.

Moderator Our next question is from Rahul Bhangadia of Lucky Investment Managers. Please go ahead.

Rahul Bhangadia I just wanted to know what was deferred tax number that you had in the full year from what I understand in the balance sheet would be Rs. 13 to 14 crores something?

Ravi Gupta I do not have the ready numbers but I think while call going probably I look at this number and let you know.

Rahul Bhangadia I'm just taking it down from the balance sheet where the deferred tax liability number has been gone up by about Rs.13 crores what I wanted to understand is assuming a 30% tax rate that would mean that in the tax books you would have claimed about Rs. 40 crore extra depreciation over what you have reported in the account books, is that the correct understanding, that would mean you would have claimed about Rs. 95 crore depreciation in the tax books? Are their elements within the CAPEX bit which are allowed that much higher depreciation bids in that sense because your depreciation rate itself is I think Rs. 55 crore, so which elements are allowed faster, last year also your CAPEX is about Rs. 185 crore, this year you have claimed depreciation of Rs 95 crore last year too it was similar number something like that?

Ravi Gupta This is a leasehold improvement which we are spending on rental properties, this is the extent which is capitalizing the books and we claim as a revenue expenditure in the income tax, so that is the differential which gets created.

Rahul Bhangadia So the leasehold improvements are straightaway allowed as 100% depreciation, is that the current understanding?

Ravi Gupta That is what we have been claiming right now.

Rahul Bhangadia So that you claim as depreciation it is above the line, below the line or it does not make any sense?

Ravi Gupta It is not depreciation that we claim, we claim as revenue expenditure- as a repairs and maintenance expenditure.

Rahul Bhangadia But would that be such a big number the leasehold improvements or is it applicable for new stores as well?

Ravi Gupta It is applicable primarily for the new stores, the relocated stores as well as for the commissaries. Whatever expenditure you spend on the civil, electrical and plumbing, so long as it is not creating a new asset it goes and becomes a part of property of somebody else and it is not a moveable kind of thing, those are what we call as leasehold improvements like you create a false ceiling, flooring and other

things. Practically when you terminate the lease or the lease expires you cannot carry all of them, so all these are assets which are creating in someone else property and those are the expenses we are claiming as revenue expenditure.

Rahul Bhangadia This year out of the Rs. 185 crore leasehold improvement would be what, Rs. 90-95 crore to the whole leasehold improvement which you would have spent this year you have claimed in the tax books?

Ravi Gupta It is not Rs. 90-95 crore it is a bit lower but not all the leasehold improvement is claimed as revenue expenses because leasehold improvement also includes certain assets, so those assets are excluded out of it. So whatever gets **accounted** as leasehold improvement, it is not the 100% which will get claimed there but majority of that amount gets claimed as revenue expenditure; because leasehold improvement can also include like counter creation or some small furniture items and all those get capitalized correctly. So whatever expenditure goes in the stores, as I explained to you flooring, false ceiling or something like that, those kind of expenditures is in the repair and maintenance expenditure.

Rahul Bhangadia Similar trend should be expected next year as well out of your Rs. 250 odd crore CAPEX, something similar you would be claiming maybe another Rs. 60-70 crore extra tax depreciation or revenue expenditure in your books?

Ravi Gupta You are right.

Rahul Bhangadia Out of the Rs. 250 crore you said Rs. 150 odd crore will be for the stores both Dunkin' Donuts and Domino's and the remaining Rs. 100 odd crore would be on your commissaries or factories?

Ravi Gupta The whole of balance amount is not for commissaries, there is always an additional amount you need to spend on the existing stores as well. Two kind of expenditures happen on our existing stores, we may need additional equipment to manage the growth in the business, there may be additional buying of computers or may be **ovens, etc. also**, and second is replacement of certain assets which have lived their life, like bikes which have life of about five years and after five years we will replace them, air conditioners, which will have life of 7-8 years then after that you have to replace those too, similarly furniture will have to replace after five years, so there is a replacement CAPEX also which is there for the existing stores.

Rahul Bhangadia What would be the total amount you would have already spent on the commissaries over all till date, till the March '13?

Ravi Gupta The three commissaries which we have created last year we have spent about Rs. 38 crore and before that we already had two commissaries, so total we have five

commissaries. Typically for a 100-150 store commissaries it cost about Rs. 10 to 12 crore and when you create a commissary for 250 stores based on the current sales levels and all it will cost you about Rs. 20-25 crore, so that is the level of expenditure we need to incur on a commissary .

Rahul Bhangadia So Rs. 80-90 crore total on a commissaries would be a good number to go by, as of now, cumulative investment?

Ravi Gupta I need to check this number but I'm giving those benchmarks based on the size of the commissaries this is an approximate number.

Moderator Our next question is from Riken Gopani of Infina Finance. Please go ahead.

Riken Gopani Firstly would like to understand, what would have been our CAPEX in FY13?

Ravi Gupta Rs. 188 crore.

Riken Gopani So it would have meant that on a free cash generation it would have been quite minimal for FY13?

Ravi Gupta Yes.

Riken Gopani Just to confirm this number, next year full year CAPEX would be about Rs. 250 crore, is that what you are saying?

Ravi Gupta We think it would be around Rs. 250 crore, it could be in excess of Rs. 250 crore.

Riken Gopani One thing on the broad outlook, in the initial remarks you did mention that you are expecting the overall environment to change over a period of time. Just reading from there, so in the immediate future would the growth still be continuing at the current pace and the guidance hopes for some improvement in the second half?

Ravi Gupta Yes, I think in the current sentiment there is no improvement right now that we are seeing and the next couple of months definitely we are not seeing any kind of immediate improvement, although the Government having taking initiatives right now, once the investments we see on the ground and consequently those investments leading to employment generation and creation of the disposable income obviously they will be positive and as the economists are pointing out saying the second half will be better than the first half we are also hoping the similar way and maybe similar way our growth also should pan out.

Riken Gopani So broadly if there is say little improvement in the sentiments over the second half, this can be still be lowered from the current level in terms of the guidance for SSG, right?

Ravi Gupta We have given guidance for the full year to you right now, we are unable to give you guidance quarter wise.

Moderator Our next question is from Binoy Jariwala of Sunidhi Securities. Please go ahead.

Binoy Jariwala I want to understand at what level have we given wage hikes this particular year and what would be the percentage hike that we have given?

Ajay Kaul I'm sorry we have never shared such information and we are not keen to share this information. However, all I can say is that as far as wage increases for majority of our managers and the non-store people and the store managers and all that is concerned, it is fairly competitive and the averages are what you read in some of the reports which comes from **Hewitt** or any others such **comp & benefits** company. And far as team members is concerned clearly they are driven by some minimum wages and kind of policies, and we are always ahead of minimum wages in any case.

Binoy Jariwala Is it that we have given wage increments at a level beyond store managers or how was it like?

Ajay Kaul We give wage increases to store managers every year as these are good wage increases, competitive in line with what the industry does.

Ravi Gupta Every year in July is when the wage increase happens except for the team members, team members' increase can happen at any point of time but otherwise with regards generic increase which happens, you will see there is bump in Q2 always, so that is the generic increase if there is a bump else where it means team members salaries have got increased.

Binoy Jariwala So has it happened for the team members or no?

Ravi Gupta There are certain states where the minimum wages have got revised, typically it happens twice in a year, so those wages have got revised during last year also for the team members. We will be unable to share what is the total impact of that as Ajay mentioned earlier but we have been revising the salaries for the team members

Moderator Our next question is from Nikunj Doshi of Bay Capital. Please go ahead.

Nikunj Doshi just want to know how many restaurants offered dine-in as of last year and how many are offering now?

Ajay Kaul If your definition of dine-in is a place where consumers can go and sit down and eat. I would reckon close to 100% of our restaurants, even last year we were are offering dine-in and the same number continues this year but one thing which I

want to mention is that earlier our dine-in setups used to be small, when I'm saying earlier I'm talking of probably 4-5-6 years back. For off late the stores which we have been making whether it is metro or in new city or wherever, we give a reasonably big dine-in environment, anything from 20 to 40, 50, 60 covers also and as a result of a dine-in business has also being growing quite fast.

Nikunj Doshi In terms of sitting space say for more than 10 covers and all that how many stores were last year?

Ajay Kaul More than 95% are 10 seats and more.

Nikunj Doshi And in terms of the price increase there are two ways in which people takes price increase, one is direct price increase in the product and second is by reducing quantity, so what we are talking of is direct price increase or both ways we are talking of?

Ajay Kaul We are talking of only of direct price increase.

Nikunj Doshi No, because I'm consumer of Domino's Pizza and in the Pasta I found that quantity has been reducing, so I am just wondering?

Ajay Kaul You are absolutely mistaken, no quantities has been reduced, and I would want to personally understand from you a little bit more about it, there is no reduction in Pasta quantity, it is just the same. With due respect there has been no change in portion I can assure you of that but we need to clear this perception. You are our consumer at the end of the day and we accept that.

Nikunj Doshi Because my point was otherwise was value for money perception gets spoilt that is why?

Ajay Kaul Absolutely we are fully aligned on that, we fully agree with you.

Moderator Our next question is from Shreya Devalkar of BNP Paribas. Please go ahead.

Vinay I would like to understand one thing on one side you still sense that the consumer sentiment is down and on another end we want to take two price hikes, normally we take around 2.5% so which will be around say 5% or 6% in a year but with the increase in service tax, the entire impact of service tax is also around 4% to 5%, so do you think in such a challenging scenario we will be able to take two price hikes about say 2.5% without getting impacted on the volumes?

Ajay Kaul I do understand your question and this 5% kind of comes as a bolt from the blue but we have no recourse, we just can't do anything about it. We do believe that during the course of the year there will be some cost increases on food or ingredients that we take and so on. As of now, our thinking is that we would be

taking two price increases of 2.5% to 3% each. The timing is not too clear. In normal years we have seen that it has got no impact, these two increases of 2.5% to 3%, each increase doesn't have any impact or I would say whatsoever on the consumer off take or call it demand. With this additional 5% will there be some impact? Honestly the answer I don't have but yes, is going to be a bit tougher that's all I can say.

Moderator Our next question is from Saurabh Pant of SBI Mutual Fund. Please go ahead.

Saurabh Pant The presentation talks about Dunkin' Donuts foray into home delivery, just got a couple of questions around that. The first one is, correct me if I'm wrong, the agreement with Domino's did limit or did restrict you from getting into a home delivery for any other format that you take on, is that right? The second question was what is the size of opportunity or are you excited about this opportunities and what could this opportunity do to kind of per consumption of Dunkin' Donuts and the products that you sell under that format? And the third one, does it make economic sense considering that the ticket size of the Dunkin' Donuts which I assume would be much lower than Domino's?

Ajay Kaul Let me do the reverse order, it does make economic sense firstly. Secondly while we have just about started this delivery trial as a concept, it is giving us reasonably good results but delivery is nowhere compared to numbers which we get at Domino's, so it started in a humble fashion but it is promising. We can't share any numbers with you, contribution is still small but it is promising. As far as having some bearing on Domino's contracts and is there any violation there, there is no such violation there because it is predominantly not a delivery company, it is basically and predominantly a takeaway or a dine-in or a footfall driven model.

Saurabh Pant So did the agreement restrict you for any kind of delivery or it didn't?

Ajay Kaul Predominantly a delivery company is what restricts us .

Ravi Gupta What restrict us is that we cannot sign a brand which is predominantly delivery centric but when we look at the market other than the Pizza category there is no delivery centric brand elsewhere. So practically we are doing incremental basis delivery in the brand so practically that will be out of the ambit of the contract.

Saurabh Pant So if you get a burger franchise, some XYZ burger franchise in India where the parent does not kind of do delivery or it is not a delivery model but you can kind of deliver the goods, you can do home delivery in that format?

Ravi Gupta Can do, yes.

Moderator Due to time constraints that was our last question. I would now like to hand the floor back to the management for the closing comments.

Ajay Kaul Thank you very much for joining us today. It has been a delight interacting with you all in this call. In the event that we have been not able to address your particular queries today please do get in touch with us and we would be happy to respond to that.

Moderator Thank you very much sir. Ladies and gentlemen on the half of Jubilant FoodWorks Ltd. that concludes this conference.