



Transcript of the Q2 & H1 FY15 Conference call for Investors & Analysts

Call Duration : 1 hour 12 mins

Management Speakers : Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks
Mr. Ajay Kaul – CEO of Jubilant FoodWorks
Mr. Ravi Gupta – President & CFO of Jubilant FoodWorks

Participants who asked questions

Mr. Avi Mehta – IIFL
Ms. Latika Chopra- JP Morgan
Mr. Varun Lochab - CIMB
Mr. Abneesh Roy - Edelweiss
Mr. Rakshit Ranjan - Ambit Capital
Mr. Amit Sachdeva - HSBC
Mr. Rohit Gajre - UTI Asset Management Company
Mr. Mayur Gathani - OHM Group
Mr. Vivek Maheshwari - CLSA
Mr. Riken Gopani - Infina Finance
Mr. Vishal Gupta from India Infoline
Mr. Sunny Agarwal from Aditya Birla Money
Mr. Jinal Seth - Multi Act
Mr. Pulkit Singhal from Treeline

Siddharth 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 and half year ended September 2014. We have the senior management on the call with us including Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Ajay Kaul – CEO and Mr. Ravi Gupta – President and CFO.

We initiate this call with key thoughts from Mr. Hari Bhartia and follow that with an operating and financial discussion with Mr. Ajay Kaul and Mr. Ravi Gupta, after that the management will be happy to respond to any question that you may have. Just to state our standard disclaimer, certain statements that may be made or discussed on the conference call today's may be forward looking statements and the actual results may vary significantly from the forward-looking statements made. A detailed statement in this regard is available in JFL's Q2 and H1 FY2015 release and presentation which are available on the company's website under the Investor section. I would now request Mr. Bhartia to share his perspectives with you

Hari Bhartia: Good afternoon to all of you who are present on this call. In the first half of financial year 2015, Jubilant FoodWorks Limited has advanced its strategic growth initiatives with a fundamental commitment to create unique experiences for our customers. We believe that the key to our commitment is to make the requisite investment in our brands and systems on a continuous basis. Hence in the period marked by really testing industry dynamics, we challenged ourselves and continued with our growth momentum by making needed investments which enabled our business to have that driving force for capitalizing future potential. As a result we have successfully expanded networks for both the brands Domino's Pizza and Dunkin' Donuts and simultaneously progressed well on the development of our new commissaries.

Going ahead, we are confident about the potential of the industry and the strength of our brands. In fact we anticipate India soon to become the biggest market for Domino's Pizza outside the United States. Hence, we continue to approach the future with the same gusto and with a strong sense of focus on our business imperatives. We are optimistic that with our strong fundamentals, solid infrastructure and iconic brands, we are on the right path to achieve our long-term goals. Thanks to all of you and over to you Ajay.

Ajay Kaul: Thanks for joining us everybody. I shall quickly discuss our performance and give you an update on our plans. In Q2 FY15, total revenue witnessed a growth of 15% to Rs 5012 million with PAT of Rs 290 million..

In Q2 FY15 we increased the network strength for both Domino's Pizza and Dunkin' Donuts.

First highlighting Domino's Pizza, we opened 36 new restaurants pan India in Q2 and entered in 13 new cities where we took Domino's Pizza to our customers for the first time. This is exciting for us especially in an environment which is still shedding off the remnants of tough macro conditions, wherein we continued to grow our market share and reach out to wider audience. Our total network as of September 2014 was 797 Domino's restaurant and as we speak it stands at 806 restaurants across 170 cities for Domino's and 38 restaurants in 13 cities for Dunkin'.

Even as we build our network, online ordering has become an integral part of our growth strategy and shows tremendous promise. We have been consistently increasing our online sales. In the month of September we have achieved new heights of OLO sales, OLO contributing to 30% of the total delivery sales and around 40,000 orders on a single day coming from OLO. Such numbers make us believe that there is immense scope for us to leverage this platform to better serve our consumers and maximize our growth potential.

Coming to our menu, we are making great strides in our menu addition. We have built a culture of innovation and are combining this with our food expertise to design new experiences. The recent past has seen exciting additions in terms of both pizzas and side offerings. We have launched two new side products such as Taco Mexicana and Subwich. Subwich is an exciting addition to our menu, it is oven baked and serves as a perfect lunch option. This launch, though very recent has been an instant hit with customers. And important mention that I would like to make is on the flexibility we are offering to our customers with respect to ordering. Consumers will be able to order non-pizza items from outlets without the mandatory purchase of a pizza, any order of Rs.400 will not require the compulsory purchase of a pizza.

We have always been confident of the potential in this industry and have striven to stay ahead of the curve with this guiding vision. We are focused on efforts to invest in our capabilities which will position us well for future. Construction work on our new commissaries is progressing well which reflects our intense emphasis on investing effectively in our brands. For FY 15 our target is to open 150 new dominos restaurants and of this we have successfully opened 80 restaurants so far. For the remainder of the year we will continue leveraging our position as the leading player in the industry to create success stories of tomorrow.

Lastly, a quick update on Dunkin' Donuts, our strategy continues to focus on the all-day part menu. We have launched several new items such as the Tough Guy Brute burger both in veg and non-veg and along with two new flavors in our popular Dunkaccino coffee, Moca Chip and Jamaican Rum & Almonds. We have our growth map with us which entails continual growth of Dunkin' Donuts restaurants in steady and systematic fashion. Confident of our offerings, we have stepped into new cities. Our entry into Bangalore saw an enthusiastic response and we remain geared to roll out faster in South India. Having launched 38 restaurants thus far, we have increased our target to 30 new Dunkin' Donuts restaurants in FY 15 from our earlier guidance of 25.

In summary, we believe there is a great deal of potential in the industry and JFL has the right mix of brands driven by innovation and placed with the right infrastructure to tap these opportunities. With our strong foundation and expertise we are well poised to drive our long-term growth agenda. I would now request Ravi Gupta our CFO to give us a brief on our financials.

Ravi Gupta: Thank you Ajay and a warm welcome to all of you. I would like to briefly discuss JFL's performance for the second quarter and half year ended 30th September 2014. Our total revenues in Q2 stood at Rs.5,012 million registering an increase of 15% y-o-y. The growth is driven by our efforts to maintain positive momentum with respect to expansion of restaurant coverage for both Domino's Pizza and Dunkin' Donuts. Also driving our topline growth was the introduction of new and varied items on our menu. This was also supported by advertising and marketing programs that speak directly to our consumers and help strengthen our connect with them.

Economic parameters are yet to witness a turnaround. Bearing that in mind, in H1 we saw same store growth at subdued levels of negative 3.9% and this continued to impact our revenues in Q2. Total expenditure in Q2 FY15 increased by 19% and stood at Rs.4,401 million which was led by increased personnel expenses on account of annual increments in salary and also an increase in minimum wages for our team members.

As we grow our brand, we remain focused on managing costs and improving efficiencies to optimize profitability. For us, this is a regular mindset which helps us to embrace productivity at each level of business. As a result we were able to limit the decline in EBITDA to a certain extent for the quarter to stand at Rs.610 million reflecting the impact of the expenses I just mentioned plus the increase in the

scale of operations and the impact of general inflation along with a negative same store sale. Correspondingly, PAT stood at Rs.290 million for Q2 FY15.

To finally summarize – the corresponding value in H1 FY15 top line increased by 17% to Rs.9,780 million, EBITDA stood at Rs.1,200 million and PAT was at Rs.567 million.

To conclude I would like to highlight that in all the investment that we make, we follow a disciplined approach and to deliver financial returns and we are confident that these along with our brand building and innovation initiatives have distinctly strengthened our position in the industry. We are geared up to be at the forefront to capture and embrace growth opportunities which of course track well with our long-term goal of sustainable growth and profitability. With that, I would now request the moderator to open the question-and-answer forum. Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, I understand that the environment the way it is, but I was just trying to get some light on the trend across the regions in the recent months which will help us kind of get a sense on whether pick up or any signs of that are visible?

Ajay Kaul: If I read your question right, are you saying that whether across the month and across regions there is any variability as far as performance is concerned?

Avi Mehta: Yes.

Ajay Kaul: The answer to that is, across regions we do not see any difference which means this downturn or call it the dip in the sentiment which has been coming from the past continues almost equally in all the regions. As far as months are concerned, again what we see is that we are comparing months July-August-September with months last year when we had run the "Buy One Get One Free (BOGO)" promotion for our consumers. At that time because of these deep discount offers our orders obviously had climbed up quite a bit although they come at a certain cost and when you compare this year when we have not given that kind of scheme and our discounts obviously are that much lower, the same store numbers do not measure about, they do not look good. So without commenting whether July was better than August and whether September was worse than August, I think all the months were kind of equally affected.

Avi Mehta: Okay. And sir the second part, would you be able to share any kind of indication, are you seeing any signs of there being a pickup or do you think it is too really to call to share information on that

Ajay Kaul: In terms of manifestation of customer behavior which means actual sale or orders, across customer segment groups, across regions, unfortunately the story is that we do not see a pick up. However, when anecdotally we look at these confidence reports and consumer sentiment reports which various people or agencies from time to time publish, they seem to be indicating that customer is expecting the environment to improve to change but it is not manifesting in the behavior which means more orders, more sale and so on. We believe it will still take couple of quarters for the numbers to clearly climb into the high single digit positive same store territory and obviously that much longer for it to get into a decent zone. Let's say four to eight quarters to get into a decent high single digit number.

Avi Mehta: Okay. Sir then the second was on the Dunkin' part, you did share the highlights of- but what kind of performance has been according to expectation, would you be able to kind of now share details on your supply chain, how was the expansion, was it large store primarily, is most of the preparation likely

to be at the commissaries level, would it require more commissaries. Any of that kind of information would you be able to share now or is it too early for that?

Ajay Kaul: We can share because as it is over the last couple of quarters I have been sharing that how we are trying to draw immense synergies between the two brands. After we built our first so called commissary, actually in Dunkin' it's called CML- Centralized Manufacturing Location. After we did that in Delhi which was a separate facility we realized that we could draw immense synergies starting with infrastructure, where in an existing Domino's commissaries we could carve out a small portion which could be used for Dunkin' also at a significantly reduced capital costs and also significantly reduced running cost which is the rental, electricity and also the labor. And so in Bangalore where we are already present we are actually running the Dunkin' manufacturing operation out of a Domino's facility and we intend doing that even in places like Hyderabad and Chandigarh. In any case we are doing it so we intend doing it even as we move forward so we would not be investing more and more in commissaries.

As we penetrate into the hinterland and we go into let's say Pune and the Chennai's of the world, we are looking at some hybrid models which are not capital intensive for sure and which obviously will also bring our running cost down significantly so that we are able to run good operations in these kind of cities. So there are synergies, at an infra level, at a running cost level, and at a labor level which the two brands are synergizing and keeping the cost under and obviously Dunkin' is the beneficiary of that.

Avi Mehta: It's a fair point. What I was trying to get to is, if you look at Dunkin' all day menu versus Domino's which is not necessarily in the same league and my understanding was Dunkin' will require a larger support from a commissary versus a Domino's which has a larger kitchen per say and the pizza is made at the store level which is not the case with Dunkin'. So if you could explain whether my understanding is correct and if it is correct then would you need more commissaries, because now it's in initial stage but you would have probably thought from a two year or a three year perspective and how you are looking at it.

Ajay Kaul: No, we would not require more commissaries, as I said we have a good number of stores in Delhi NCR but we are managing them out of one commissary. The last mile value add which happens inside the store whether it is with regards to donuts or whether it's regards to burgers, wraps, coffee and everything, I think there is a certain decently sized operational area that we need in both the brands. So there isn't something extra which makes the store size unfeasible or too unwieldy, so we do not foresee this as a challenge, as you seem to be kind of articulating. So I hope I have answered your question.

Ravi Gupta: See, Avi we are already present in 13 cities and we are managing all this from the existing four commissaries, although one of the commissaries was new one, and is a separate commissary in Delhi because we did not have space in the existing one and that is the reason the first CML we opened separately. All the other commissaries are co-located right now and the only item made in the commissary is donuts, rest of the items are basically ingredients which are assembled at the commissary; so our commissary just works as a warehouse and the final work is done at the store level, like final assembly for burgers, for wraps, and for all the items is done at the store level.

Avi Mehta: Okay. That clears my doubt.

Moderator: Thank you very much. The next question is from the line of Latika Chopra of JP Morgan. Please go ahead.

Latika Chopra The share of online ordering has been moving up steadily for you, would you be able to give us some sense on profitability for this channel, does it tend to be better than the delivery model or in other words when could it start contributing meaningfully to the margins?

Ajay Kaul: See the experience of online ordering from countries which are more matured, let's say the US, the western world, Australia and a few other Japan, Korea and so on, is on a steady state basis which means when this online ordering is at a far more substantial level and has been around for a longer duration tends to be marginally more profitable than your conventional business. However, when the business, for example in India online ordering for us is only 2.5 years old and we have already reached let's say 30% levels, you know there are a lot of running costs in terms of acquiring customers, the monies which you spend on various media to kind of get people hooked on to online ordering and so on, so it will not be fair for us to right now say that are we already deriving all those benefits. As of now profitability is similar. Probably not as we speak but surely at some stage based on evidence from other countries it should start giving us some positive trickle even on the profitability, but when, I will not answer.

Latika Chopra: Okay. Secondly, we understand that challenging macro is one reason for subdued growth but do you think that there is a price issue also which is significant, pizzas have seen meaningful price increases over past two years and is that in your view driving consumers out of pizza category or leading to more down trading within the pizza offerings. And obviously a related question would be just to check on what are the levels of discounting or promotions that you are witnessing both across your offerings in particular and overall pizza industry in general. Your thoughts would be appreciated.

Ajay Kaul: Sure. Let me take the questions in the reverse order so that it will flow a bit logically. One, what we have realized is that obviously extra discounting which comes at a certain price, while on one hand it may invigorate customers a little bit in the short-run but they have also obviously a negative impact on the margins and we as a company over the last so many years but more definitely in the last one year have reached some conclusions based on having offered all sorts of discounts starting with "Buy one get one free" which we did for a good three four months last year. We continuously keep analyzing them against control groups to see which are more EBITDA accretive than others. And today we believe, our philosophy or the way we are managing our discounts and offerings to our consumers over various mediums and over various tools that we have, it is a good optimum mix of a balance between ensuring that your revenue also is intact and you get a certain incremental revenue but more importantly it also is not EBITDA decreative or it does not take EBITDA out of your system because it comes at a cost.

Going back to logically on this question that as a result if discounts are at a certain level what is happening to competition. We have also realized that being the leader in the industry where we have a formidable around 70% share of the pizza market but I would not restrict myself to pizza here because it is in the organized food service that there is enhanced competition. We are also the number one or the leader in the food service market today with a good 12%-13% share so we are also competing with the other brands which are not necessarily in the pizza space. Now what we realize is that as a leader a lot of things that we do also drive the market in that fashion so there is a certain responsible position that we have. And we also realize that smaller players for lack of imagination or any other tools available to them, they become desperate and then they probably go a bit crazy. Is it impacting us? We have tried to calculate impacts but they are very-very marginal because these players are far too small to impact us.

Coming back to the question of pricing, your point is absolutely valid. Over the last 18-20 months we have had almost an overall price increase and this is not just for Domino's, I am talking about pizza brands, food service brands because of excessive food inflation, the net price for the consumer has gone up by nearly 18%-20%. And I must admit that when we do across the industry studies or we do it only for Domino's Pizza, clearly consumers are saying that these categories are becoming a bit expensive, the

value for money scores are actually coming down a little bit and part of it is also driven by for example some slapping of 5% service tax which came in last year from the government and wherein the net-net consumer had to pay that 5% more. So we are cognizant of this and as a result we are trying to make sure that how do we maintain a balance between the food inflation, work with our business partners, engage aggressively in six sigma techniques, deploying them in our company so that we are not passing on these price increases to our customers as ruthlessly as they were happening in the past. So this year, for example, we believe a nominal 2.5%-3% price increase taken twice a year should be palatable from a customer's perspective and even going forward we do not want to take some crazy price increases and hopefully our value for money perception will start coming back. But call it interesting or call it something which is prevalent across the industry, the value for money score across this industry is actually coming down because of the same reason which I was just telling. So it is not just a Domino's phenomena. People are saying, consumers are saying that they are going back to home food rather than any other option to a street food.

Ravi Gupta: But the core-reason for that also is that discretionary income of the consumer has got impacted because of the inflation growing faster than the income.

Moderator: The next question is from the line of Varun Lochab of CIMB. Please go ahead.

Varun Lochab: Sir just taking forward on the previous question, a lot of other discretionary category we have started seeing some pick up even say big tickets like your automobiles and all. How come in this industry we are yet to see any signs at all of pickup? So is it pure sort of affordability issue or you think people are moving back to home food more because it is considered to be more healthy and QSR or eating out, the negative health perception risk is increasing. Any other issues you think are there from the affordability part?

Ajay Kaul: Not at all. I mean health while it is an item which has got its place but it is too early in the evolution of QSR in India, we are watching that space very-very closely but clearly any kind of research which we do and with a kind of low per capita or call it frequency of consumption which consumers have, consumers vehemently tell us that, if I am eating pizza on an average once in 3-4 months and that is the kind of frequency they have, then at that time I am not bothered about any health issues or any such guilt things and so on. So it is definitely not health, it is to some extent the price increases and thereby a bit of erosion of value for money perception. And consumers are clearly saying that they are going back to home food but it is also predominantly, it is not something new, even in the past we sometimes have had high inflation and so on. We are very hopeful that as soon as the inflation starts coming into reasonable zone, and people have more real income in their hands as opposed to not, we believe as more jobs get created there are obviously productivity gains which again leads to higher income in people's hand, we are hopeful that on low ticket purchases like ours where the total outlay is probably Rs.300-Rs.400 it should spring back. Unlike the automobile example which you gave, although here is an aberration in the month of September which came up recently but automobile is like a personal capital expenditure and it is a thought through decision how far more involved in the consumer's mind as opposed to being fairly impulse which our category is at the end of the day.

Varun Lochab: Okay. So sir, are things incrementally at least stabilizing because if that is the case given your second half base of same store sales growth is very favorable because last year in second half you went into negative territory straight from 5%-6% in first half. If things are incrementally not getting worse, if you are observing that then should we expect that second half at least should be better than first half in terms of SSG if everything else remaining same, just a sheer base.

Ravi Gupta: Varun, Ajay tried to answer this when Avi had asked a question that as of now we are not seeing any positive movement but all the consumer sentiment and all the related research that is coming now in the market, they are talking about the consumers' confidence improving and it is expected that consumer will come back to the categories like QSR and all the discretionary spends will come back.

Varun Lochab: Yes, so like improvement whenever that happens we need to see but I am saying say last two three months at least is the sentiment or the outspend, forget the sentiment maybe the actual spending, are you seeing it at least stabilizing at these lower levels or is it still getting worse every month?

Ravi Gupta: See, when you measure in terms of AWUS or what is the sales level per month for the stores, sales are levels are not getting any worse, but in terms of same store growth when we measure, because last year we had a same store growth which was 6.6% and arising out of the BOGO and hence when you measure in those terms then it looks like a negative one. So we are hoping that it should not go further from these levels.

Varun Lochab: Okay. And sir just, what was the Dunkin' Donut impact in Q2 if you could quantify that?

Ravi Gupta: We do not share the quarter wise number but the full year number overall impact will be about 150-160 basis points.

Varun Lochab: And first quarter I think you had shared it was close to I think this number only, so Q2 also...

Ravi Gupta: Yes, we shared only annual number actually, in this we do not share the quarter wise number, quarter wise numbers will vary. Like we have some expenses because of the Bangalore launch and in the first quarter we had the Mumbai launch so some extra expenses happen in those launches. But overall impact for the full year will be about 150-160 basis points.

Varun Lochab: Okay. And sir just lastly, coming back to that value for money and the price hike and that whole equation, but given even the current demand scenario you want to keep your gross margins in that band of 74%-75% and wait for demand to pick-up rather than say again stepping up promotion when working with a slightly lower gross margin to get the SSG. What is the thought process like if we don't see improvement in the sentiment for another three months, will you go back to again aggressive discounting or?

Ravi Gupta: See as we explained earlier and I will be repeating actually the whole thing, we analyze each of the offers, what kind of discounts we have been offering, what kind of discounts instigate the consumer behavior so that his purchasing increases. And at the point when we feel that an offer is not creating an incremental purchase or not generating any incremental EBITDA for us, at that point we may stop that offer. So we keep on continuously analyzing. Even now we are offering BOGO and every quarter we have a 50% discount week also and sometimes for the weeks together we are offering 50% discount. So we continuously keep on monitoring as to which offer instigates the consumer behavior, which offers are positive for our top line and bottom line and we keep on refining offers every month, actually this is a continuous affair for us.

Varun Lochab: But overall aggregate level of discounting or promotions is not going up like compared to say three six months back. You may be changing the form or promotions but at aggregate level if I have to see, would you say that your level of discounting of promotions has stabilized or is it increasing?

Ravi Gupta: It is almost stabilized but are they higher than what we offered two years back, then the answer is yes, it is higher.

Moderator: Thank you. Next question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: Sir, one question on online ordering. 27% - 30% is the new normal or this was high because of specific schemes?

Ravi Gupta: Actually the BOGO scheme which we have every month and 50% off is typically online offering and during this quarter we also had a TV campaign to promote the online offerings. So our intent is to continuously keep on increasing and stepping more energy into the online ordering because we believe in the long-term it is going to be margin accretive as Ajay mentioned earlier in the call. So we believe that online ordering should go up from these levels.

Abneesh Roy Sir you mentioned globally online has does have better margins but Indian consumer you see can have different habits, you have seen Flipkart, etc. How Indian consumer rushes to buy when discounts are high. So my question is can it be the reverse way that OLO in Indian can have lower margins than non-OLO because sir in phone what happens the phone operator suggests the higher margin etc., so you get swayed by that while in online you are making an informed decision or you are buying because of some discount. So in India can it not be the reverse way?

Ravi Gupta: Here you are comparing two different categories, one is retail where you are buying some goods which may be for immediate consumption or may not be for immediate consumption and most of the time it is not for immediate consumption, and the category of the food which is an impulse category and which is for immediate consumption. So those two categories cannot be compared together. If you are hungry you will order it now, but point is if you need a TV to be ordered you can wait for two months for TV to be ordered or you can skip on ordering TV for few months.

Abneesh Roy: Sir is it really that impulse because I have seen customers wait for your Friday or Thursday offering and they have earmarked that, okay we will have once per week and they wait for that offer. So is it really that much impulse, I don't think so sir.

Ravi Gupta: That is not a very large segment of the consumer which wait for the offers or something like that because we have seen that what kind of increase we get on those days and on which days actually the largest increase happens. So there could be some consumers who wait for that value offering from us for a buy one get one. But we have seen our trends of the sales across the days when we offer 50% off or buy one get one. So there will be some portion but it is not a significant portion.

Abneesh Roy: Sir why I am asking this, in Q2 last year you had said on such days the sales used to bump up so much that's why you discontinued, so now you are saying it was not that much of an incremental sale. So wanted to understand what was the real picture?

Ravi Gupta: Now let me clarify. When we started this offer in July - August, initially there were incremental sales which were larger than the incremental cost and as a result it was margin accretive. Over the period of time, it is not that sale was not increasing, sale was increasing but we were doubtful whether it is contributing to margins any more or not. Because if you will just chase on the top line without looking at the bottom line you may be getting a sales but you are buying a sale, , the example which you just gave where goods are being sold at below the cost. We are not in that game. So when we realized that buy one get one offer is not being margin accretive for us, we discontinued the offer at that

point of time. So initially it was contributing to the bottom line, top line it was always contributing by the way. Does it clarify?

Abneesh Roy: Yes sir, that's very useful. Sir my last question is on the recent innovations in previous quarters like 10 New Pizza, Joy Box, etc. can you talk about what is the impact of that in Q2, are you happy with the impact it had because on SSG I am not seeing any impact whatsoever. So if you could clarify that part.

Ajay Kaul: See on parameters like likeability, recommending the product to your consumers and that's how you kind of do post-purchase feed-backing with consumers to understand whether they like it and all the scores are outstanding, for most of these launches, from Junior Joy Box to the 10 New Pizzas to Taco Mexicana, so all that is great. And when we compare this with some of the normative data we have coming out of other launches we have done, they would be as good as we have ever had with any product. However, as we have been saying for some time, translation of these into incremental orders which basically is manifestation of either bringing in new consumers or new users altogether or increase in frequency. Now, these obviously have slowed down which means the incremental orders if they are not coming too many it is affecting SS growth. What it also means is that people are not increasing their frequency, they are only shifting from A to B and from B to C and so on and so forth. So consumers are saying we still love Domino's Pizza and this is some qualitative research which we did two three months back, we still love the brand, we still love your positioning, we still believe it at an emotional level we are connected with it, "Yeh Hai Rishto Ka Time" and stuff like that but it's just that we have reduced our consumption, we are instead eating a bit more of home food and at the right moment we will come back to you and so on and so forth.

Abneesh Roy: Sir one last one, any loyalty program, any update on that? Because last time you had said you are considering that.

Ajay Kaul: No, we will not launch a loyalty program on our own, I don't know whether we told you last time but we believe that we can piggy ride on some interesting call it joint loyalty programs where there are multiple partners because we can be a very good burn option which means we can be a very good redemption option to consumers and we are talking to some interesting parties as we speak but nothing that I can share with you right now.

Ravi Gupta: Just to add to that, we are already there in quite a lot of burn options, quite a lot of banks are associated with us through third parties where one can redeem credit card points through Domino's voucher.

Moderator: Thank you. The next question is from the line of Rakshit Ranjan from Ambit capital. Please go ahead.

Rakshit Ranjan: Sir, I just had a couple of questions around the new store opening that you are doing. So after a couple of quarters of 45 or 47 stores being opened in each quarter, that's third quarter last year and fourth quarter, the past two quarters we are seeing 35-36 new stores being opened per quarter. First of all, what is the rationale behind that and is that a new normal for the foreseeable short-term future?

Ajay Kaul: Our guidance for the whole year which we said a little while back is at least 150 restaurants. So if you were to take out 71 out of that we have to open at least 79 restaurants in the next two quarters which means we are again talking about at least around 40 restaurants in each quarter. So this 34-35 there is nothing like a new normal and so on, we believe that anything upwards 30 going up to 45-50 is what we can open. At the starting of the year we always tend to be a bit slower but the momentum

comes in as we move along. Even last year if you remember in the first two quarter we had just about done 56 stores in two quarter but we did make by doing 47-47 each in the next two. So there is nothing like new normal, our space is still the same.

Ravi Gupta Just to add what Ajay said, we are not in a number race saying that we need to open X number of stores in a particular quarter, if we get good site, we get a good deal and our analysis is complete and we believe that if the restaurant will be profitable, we go ahead and open the restaurant. Because if we just do a number race that we have to open 47 restaurants because Q3 last year we opened 47, we might be opening some stores which are unprofitable and which is not acceptable to us as a management team.

Rakshit Ranjan: Right. A follow-up question on this, so if you look at the composition of this new store opening, till about a year-year and a half you were entering into four to five new cities in each quarter but more recently the number of city entered into in a particular quarter has gone up and in the second quarter FY15 it is as high as 13 new cities which is I think the highest so far in the quarter. Does that mean that the potential of stores in the existing cities is coming closer to saturation hence the mix is shifting more towards new city entry?

Ajay Kaul: Not at all, it is nothing like that, you are reading too much into all this. Basically, there is potential all across, in fact these new cities we are going, some of them may be actually towns rather than cities and are giving some outstanding results to us. As Ravi was rightly saying a little while back that it is of course our own estimate because before opening a store we only can work with an estimate of how profitable the store is going to be, whether it is going to give us the return of investment in a certain stipulated timeframe which is three years and less and once we are convinced with that and there is a multi-level approval which we internally do to open a store. And that is something which is sacrosanct and we will not compromise with that. However, one thing which we are doing this year consciously is that in order to dampen the impact of splitting of stores because when you start splitting too many stores, it does tend to eat away in to same store growth and so on. To kind of dampen them a little bit we are tilting the balance a bit more in favor of opening stores either in new cities or in those cities where there is only one and we would open one more there so that the impact on splitting is lower. That is the only reason. Other than that we believe there is enough potential in the large metros, in the next level of cities, the Pune, the Ahemdabad, the Kanpurs of the world going to Nagpur, Indore and then ultimately even to places like Jhumri Taliya.

Ravi Gupta: See, last 4-5 years we have been adding about 50% of the new stores in the top 10 cities. This year, because of the factors which Ajay mentioned, which is to reduce the cannibalization impact, this number will come down from 50% to may be around 40%. It means significant number of stores are still being opened in the top 10 cities as we go forward.

Rakshit Ranjan: Okay. And you expect this 40% to go back up to 50%-60% in future?

Ravi Gupta: Yes, once the consumer sentiment is back because there is a demand. Actually quite a lot of stores are ready for split, because of consumers are saying so but we are delaying those decisions because of the cannibalization impact.

Rakshit Ranjan: Okay. And sir what is the price hike that you have taken in the second quarter, in the presentation you mentioned.

Ajay Kaul: Around 2.5% to 3% is what we took in quarter one rather than quarter two, we did not take any price increases in quarter two.

Rakshit Ranjan Okay, fair enough. And just to recheck, I think the numbers that you gave on outlook were negative SSG to continue for a couple of more quarters and high single digits at best after the next four quarters, is that correct?

Ravi Gupta: As Ajay said, yes, four to eight quarters we can see high-single digit.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Ajay, if you could talk about the new format of QSR formats that you want to open over five years, could you share a little bit of thought process around that, what sort of ideas and opportunities are you evaluating and what is the context and the scope of it. Could you share some details around that then I have another question but if you could take this first one up.

Ajay Kaul: Is your question is with regards to a new brand and not this pizza theater concept of Domino's?

Amit Sachdeva: New brands actually, my question is entirely new brand.

Ajay Kaul: See, firstly while we are in discussion and we are keen that we need to bring more brands in or may be create our own brand at some stage, we are not in any tearing hurry to make one hasty announcement tomorrow or sign on a deal tomorrow. So it is not anywhere close right now to making an announcement. But yes, we are in discussion with, I would say some international brands, we are also doing some work to may be create our own brand. Now what space will it be in, it is fairly rudimentary or an initial stage where we can give you any indication of what these brands are and which categories are they operating, needless to say they are in food service, needless to say that they will be in the QSR or in that kind of zone mostly and not necessarily in the fine dining kind of environment but there is nothing more than that I can share with you right now.

Amit Sachdeva: Why I sort of asked this question is because considering newer entrepreneurs are entering into several categories and several new, so I see for example Jubilant having built capabilities across is perhaps more natural owners of tapping those opportunities and would it meant that delaying it too much might be just late or you have to think through a little bit more quickly.

Ajay Kaul: I don't think so at all, in fact the answer to that question is not at all, for multiple reasons. The foremost amongst them being that if you see a lot of these brands, these small-small fledgling companies and with due respect to them, they started with a good concept, they took it to a certain level, 10-15-20 stores but clearly now they are struggling. Environment of course is playing also a part there, it is not necessarily that the model was flawed but how to take it to the next level and obviously we are in a business of, the next opportunity is not something which offers us 50 stores and that will excite us, unless we do not have an opportunity of opening at least 300, 400, 500 stores over let's say a 10 years period, that will not excite us. So we don't think so there is delay because there is hardly any brand in the last three-four year which has come up or five years which has gone up to let's say 200, 300, 400 and has kind of been challenged or kind of consumed an opportunity which otherwise would have been hitting us between the eyes. We in fact to the contrary think that at an appropriate time if we have to buy one of these companies we could even do that, but right now there is nothing like that on our discussion table but we keep looking at opportunities and evaluating them.

Amit Sachdeva: My second question is on rent sir, I see the rent is obviously up 36% odd and I would guess that is large part of it is due to new stores opening which were significantly up both for Dunkin'. But if you could help us understand what is the rent index for the old store and how it has behaved and how the new stores compared to your system average rent in some sense will get an idea that how your

rentals inflations are actually panning out and how do we expect them to be. Although you have shared that in the past some amount of guidance on that but will be helpful to understand the situation a bit clearer.

Ravi Gupta: Rent has an inflation, inflation which is there in the agreement is 15% every three years. So you can average about 5% kind of inflation which is a built in that. Second inflation in the rental comes in the form of additional area which we have to take in some restaurants. To manage the volumes at times you need additional space in the restaurant, so that is an extra portion in the rental. It looks like inflation but actually it is not inflation, but an increase in the rentals. Third is when the lease expires you might have to renegotiate the rental because whatever rental inflation you have negotiated in the agreement is at artificial level, 15% every three years whereas actual inflation of the rental in the market is higher than that. So it has to go in line with overall inflation in the market which is definitely not at 5% level, it is much higher level because when the agreement comes for renewal after 9 years, 12 years, 15 years, we need to again pay close to the market rental. So this is also becomes a part of that.

Fourth factor is the Dunkin' rentals, Dunkin' rentals are comparatively higher than Domino's because the Dunkin' model is a footfall driven model, it is not a model like Domino's where the rentals are comparatively lower. And the last factor is, the new restaurants since we open at about 70% to 80% of the system average sales, in percentage terms, the rentals turn to be higher because of the reason that the sales are lower. So you can think about it, even if the rentals are same or similar levels, in percentage terms the rentals will be higher.

Amit Sachdeva: So if I am correct in understanding, rentals are high but I assume throughput is also higher because of all the dine-in. So my guess is about 1.5 times normal Domino throughput?

Ravi Gupta: Just look at the thing that the rentals are same and they are at 70% to 80% of sales obviously it comes to 1.5 at least.

Moderator: Next question is from the line of Rohit Gajre from UTI Asset Management Company. Please go ahead.

Rohit Gajre: Sir I have two questions. Sir you mentioned about the same store growth outlook, now my understanding is if the same store sales growth is not above a certain level, let's say above the inflation level, you would lose margins. So do you have any outlook on how the EBITDA margin of the company would be in the next year or two? Second question is on the CAPEX, how much CAPEX do we plan to do this year and next year and in which areas could this CAPEX be?

Ravi Gupta: In terms of same store growth you are right, that the sales have to grow at certain level which is equivalent to the increase in the cost for the margins to be stable and that equation is true for all the same stores, same store basically means a store which has worked 12 months last year and 12 months this year. However, as far as the new stores are concerned, since the new stores open at about 70% to 80% of the system average sale, the margin tends to be lower than the system average and as a result they are always margin dilutive. So theoretically if you have to stabilize margins at the company level, it means that same store has to give higher growth or some margin leverage should be created by the same store so that deleverage created by the new store can stabilize overall margins. Now that is about the same store, what kind of SSG can stabilize the margin.

Second is about the CAPEX. CAPEX, we will be spending in excess of about Rs.300 crores in this year and primarily this is for opening the restaurants and the commissaries. Restaurants CAPEX is about Rs.11 million for Domino's, for Dunkin' it's also similar ballpark range, slightly lower so we will be opening 150

Domino's and 30 Dunkin' Donuts in aggregating about 180 restaurants, so this will consume about Rs.200 crores of the CAPEX. In terms of commissaries we will be spending about Rs.100 crores including the land purchase which we have done for the fourth commissary. The work on the fourth commissary where we have purchased a land will start very soon but we would not have spent a big amount on that commissary because a majority of the spending will happen next year on that commissary.

Rohit Gajre: Okay. And any commissary CAPEX for next year that you can talk about?

Ravi Gupta: Yes, the commissary for the Greater Noida will get built during the next year, majority of the work will happen during the next year, the work would have started this year but quite a lot of work will happen next year. So that is the one which I can share right now, we have not yet planned for the next year CAPEX and I will be able to share, may be once the year close about what other CAPEX plans are there for the next year for the commissary.

Rohit Gajre: Going back to my first question, do you feel that vis-à-vis we could look at some more margin weakening if these current environments continue, is that the right interpretation or?

Ravi Gupta: Equation of the same store growth, we need to probably estimate what kind of same store growth will be there and based on the same store growth we need to estimate the margins.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir, just wanted to check on the next year's expansion plans considering that the last four quarters we have had negative same store sales growth so we continue the same expansion mode?

Ajay Kaul: When you say next year I presume you are talking about the next financial year because this year guidance is at least 150 Domino's restaurants and at least 30 Dunkin' Donut restaurants.

Mayur Gathani: Yes fine, I will talk about FY16 sir.

Ajay Kaul: Alright, rather talking about only the next year we believe that given that the potential of the country is large and we have our own estimates of how many stores we can open and so on, we do believe that opening at least these many that is at least 150 Domino's stores is doable for the next few year. As far as Dunkin' Donuts is concerned, the numbers should climb because they are in a growth phase.

Ravi Gupta: So basically what we are saying is we are confident about the medium-to long-term outlook and we do not foresee that a situation where we need rethink about our growth.

Mayur Gathani: Okay. So your cash flows should take care of their expansion, is that understanding correct?

Ajay Kaul: Yes, cash flows should take care of it most probably. We are not averse to borrowing a small amount if any need be.

Mayur Gathani: Okay. And just I get back to the discussion that we had before, the net price was up by 20% for the QSR category as a whole or it's only for the pizzas?

Ajay Kaul: It was by and large for the whole industry, people obviously took different prices but if you know it broadly was in the same range around 16% to 20% increase including the government slapped service tax over a 18-20 months' period across food service industry.

Ravi Gupta: The point to be noticed that we are talking about 18 to 20 months.

Moderator: Next question is from the line of Vivek Maheshwari of CLSA. Please go ahead.

Vivek Maheshwari: Firstly, sorry again I am coming back on the SSG outlook, but beginning of this year I remember you used to mention about the lower base or the negative base for the second half of last year which should be helping at least the comps in the second half of this year, are you being over cautious or conservative at this point of time which is why perhaps you are seeing about SSG not deteriorating from current level otherwise I mean with the base changing why should it not improve from this level?

Ravi Gupta: Vivek, we are not giving actually estimate for the next two quarters, what we are saying, is that if you have to look at the next four to eight quarters we are confident that it will go back to high-single digits, could be double-digit as well. How it will fair in next two quarters actually we would not hazard a guess.

Vivek Maheshwari: No, I understand but won't you at least consider the base which is moving from say (+6.5) to (-3), should that not play a role over here?

Ravi Gupta: It should play a role, like we are saying that "Buy One Get One" had positive same store growth last year and that's the reason on the top of it there was a negative same store growth this year, definitely the same logic, the negative last year should help in competition of the same store growth for the next two quarters, definitely it should help.

Vivek Maheshwari: Okay. And a small bit on the tax rate, what is the full year expectations are same like first half?

Ravi Gupta: I think it will be 27-28% kind of, it will fluctuate depending on how much plant and machinery finally we capitalize in the books, so around that number. You can take 28% although for this quarter it's 26.7%.

Moderator: Thank you. Next question is from the line of Riken Gopani of Infina Finance. Please go ahead.

Riken Gopani: Sir, one point that I wanted to clarify is if we look at the overall new store openings for the quarter, the total number of stores for the last four quarters would have added about 26% incremental stores for the quarter Y-on-Y. But your growth at 15% with a -5 SSG would still mean that your new stores have also seen some deterioration in terms of throughput. Just help me understand if that is correct or your thought process on the new store throughputs?

Ravi Gupta: New restaurants continue to open at about 70% to 80% of the system average sales even this year, so from that context there is no deterioration. However, at the same rate I mean to say that even systems average has reduced because of the negative same store growth. As a result, yes, new stores are opening at slightly lower levels than what they opened at last year. So far that has been the trend but we believe that second half would be better than the first half as per the new stores **AWUS** are concerned. So we believe that they should pick-up in the second half and the true indicator of this performance will be the year end saying that how dowe end the year as per the new store **AWUS** is concerned.

Riken Gopani: Okay. So just trying to understand this better, so even the new stores delivery in the fourth quarter is where it ramps up, is that what you are trying to say?

Ravi Gupta: No, typically December quarter is a big quarter for all the stores where the sales averages tend to be higher than the other quarters.

Riken Gopani: Okay. Basically I was just making a Y-on-Y comparison so it's not a seasonally strong quarter same quarter last year as well, but broadly what you are saying is that right now at least there has been some deterioration in new store throughputs as well?

Ravi Gupta: The answer is yes, vis-à-vis the last year there has been decline.

Moderator: Thank you. The next question is from the line of Vishal Gupta from India Infoline. Please go ahead.

Vishal Gupta: The online players like Flipkart and Amazon, they have been poaching a lot of delivery boys from the pizza chains, so have you seen any inflation in salaries for the delivery boys?

Ajay Kaul: No, not really. I mean while there is a bit of flurry in the market but what our people also realize that in Domino's Pizza and Dunkin' there is a career which we sell to them, you can start as a delivery person but as you become multi-skilled you can actually become even a regional manager, I mean we have examples like that. So while the salaries they get paid are higher there, they also realize that they cannot be the drivers or the delivery people for the next 10 years in their lives. So we do not foresee this as a major pain, but yes, in the short run it is causing a bit of grief and I will not deny that. The salary increases are not happening because of this reason, there are no such pressures. However, there are more pressures which are coming because of the minimum wages as they get they are increased in various states. We are forced to obviously, rightfully so, increase the minimum wages and that is constantly coming from almost all parts of the country.

Moderator: Next question is from the line of Latika Chopra of JP Morgan. Please go ahead.

Latika Chopra: My question pertains to the comment that you made in the beginning, if you could clarify that you are not allowing to order non-pizza orders exclusively, I just missed that part.

Ajay Kaul: See, earlier we used to put a stipulation that every order should have at least one pizza sitting there. And now we realize that in our portfolio there are enough exciting side orders, although they still do not form a substantial portion, Pizza is what is still substantial which means I am talking of 60%- 70% and more of our total portfolio is still pizzas. We allowing consumers to order side orders provided the total values of the order is more than Rs.400. So you do not have to include a pizza in it, if you just want to order garlic bread or you want to order Taco Mexicana or some chicken items or stuff like that you can go ahead and do that.

Ravi Gupta: It is basically for delivery, in delivery orders it was a condition that you need to have a pizza, the condition is now removed.

Latika Chopra: Okay. So it's sort of basically trying to diversify more into all-day part if I may want to just use the term a bit more.

Ravi Gupta: Right.

Latika Chopra: Okay, all right. And then secondly just on that Dunkin' impact on earnings, I think you mentioned 150 to 160 basis points so that's just like 10- 20 basis points more than what you were guiding earlier, is that right and that's to do with...

Ravi Gupta: Around 150 basis point I think you can take for the full year.

Moderator: Thank you. Next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

Sunny Agarwal: Sir, my question pertains to this side item home delivery without pizza, will it be fair to say that all these products are slightly higher as far as gross margins are concern and going forward have we allowed this to be ordered without a pizza it's proportion will increase significantly over the period of time.

Ravi Gupta We don't believe that proportion will increase significantly, this is done based on the consumer's request. we used to get a lot of consumer feedback asking why don't we deliver our exciting side products also when they are placing a large order for them. So we just opened a window for them to facilitate the consumers saying that they can order offerings other than pizza also for delivery.

Sunny Agarwal: Okay. And sir do they come at a slightly higher margin when compared to Pizza, side items?

Ravi Gupta: We will not be able to share that granular information whether their margins are high or lower, but we have a kind of stable margin all across categories.

Moderator: Thank you. Next question is from the line of Jinal Seth from Multi Act. Please go ahead.

Jinal Seth: You mentioned earlier that the food service segment comprises of around 16% to 17%, now is that the total delivery market or how do you define food service segment?

Ajay Kaul: Total food service is basically a chain organized where for example people like us, McDonalds, KFC, and Pizza Hut are a part of and also some of the other, even Haldiram would be a part of that. So it's the organized players, chained players and this is as per the Euro Monitor latest report where we have a share of nearly 13% in the chained food market, which makes us the number one, the largest player in this industry.

Jinal Seth: And where would that number be five years back just a rough idea?

Ajay Kaul: I mean last year we were #2 at 14%, five years back we were probably at 6%-7%.

Jinal Seth: Okay. So this number would I understand is that the pizza as a category or basically Domino's?

Ajay Kaul: No pizza is a category, these are various players in the market and we are one of those players and of the total aggregated value of the market, we are 16%-17% of that, it includes pizzas, burgers and everything else.

Jinal Seth: Okay. And do we see that there is an opportunity to increase this share further or we would see that stabilize that these levels?

Ajay Kaul: See, I would put it like this, we are on a certain strategy and a path where we believe we have to grow, if that gives us more market share, well and good. Market share is not the starting point for us. So is there room to grow? Most certainly, if we keep growing at this space adding more stores and even getting better SS growth then what our opposition does which we have been doing, we believe this market share will grow on its own.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Treeline. Please go ahead.

Pulkit Singhal: On the rental expenses, you mentioned that the contract is renewed every nine years or is it every three years, how does it happen?

Ravi Gupta: See, contracts may range from any period from 9 to 15 years. So some contracts are 9, some are 12, it could be 15 years also or even higher.

Pulkit Singhal: So it is not like in three years?

Ravi Gupta: No, it is not, we generally do not enter into 3 year contract at all. But there is inflation built in in the agreement where every three years typically we increase the rental by about 15%.

Pulkit Singhal: Every three years 15%. So it's 5% annual?

Ravi Gupta: Yes.

Pulkit Singhal: Okay. And what is the kind of attrition you are seeing in your employees?

Ravi Gupta: Attrition continues to be higher, I mean it is nothing new actually, the attrition is about 10% every month at the team member level. As we go upwards, the attrition keeps on declining. The number if you have to go at store manager level the attrition will be just 3% every month which transpires to about 30% to 36% for the full year which is in line with the market. But if we go further up at the middle management and the senior management level, the attrition even further comes down.

Pulkit Singhal: I mean given that the QSR space is flush with capital, are you seeing that the renewal of rental contract is becoming tougher or you have to pay much higher because of the same?

Ravi Gupta: Typically because of our brand saliency, our track record in the market, we get the deals which are at lower rental than the market. We have to pay close to the market rental whenever the renewal happens but still because of our long-term relationship and our market standing, typically our rentals are lower than the market.

Pulkit Singhal: Got it. And lastly, is it fair to say that you add stores on 15% to 18% of the existing stores every year, is it fair to say you need at least 12% to 14% same store sales to start expanding EBITDA margins?

Ravi Gupta: Pulkit I will try to explain the equation that on same store basis we need to grow at certain level which is above the increase in costs so that the dilution in the margins because of the new restaurants is also taken care of. Now this number will keep on varying from year-to-year depending on inflation levels. So in some years it could be 12%, some years it could be 20% also depending on what kind of inflation you had in that year. So there is no one particular number I can share with you.

Pulkit Singhal: Right. No I was just saying for an average inflation, I mean currently it is obviously very high but it is coming down.

Ravi Gupta: It will be a range, yes.

Moderator: Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

Ajay Kaul: Well friends, it was great talking to all of you, thank you for joining us all for today's call. Should you have more queries you may get in touch with us and we would be more than glad to address them. Thank you very much. Good day.

Moderator Thank you very much members of the management. Ladies and Gentlemen, on behalf of Jubilant FoodWorks that concludes this conference call. Thank you for joining us and you may now disconnect your lines.