



Transcript of the Q3 & 9M 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. Puneet Jain - Goldman Sachs
Mr. Avi Mehta - IIFL
Mr. Amit Sachdeva - HSBC
Mr. Prasad Deshmukh - Bank of America
Mr. Rahul Arora - Nirmal Bang
Mr. Nillai Shah - Morgan Stanley
Mr. Ajit Surana - Dimensional Securities
Mr. Gaurav Bhatia - Deutsche Bank
Mr. Naveen Kulkarni - Phillip Capital
Mr. Rohit Gajre - UTI Asset Management Company
Mr. Deepak Prasad - Unilazer Ventures
Mr. Arnab Mitra Arnab Mitra - Credit Suisse
Ms. Rajasa Kakulavarapu - Jeffries
Mr. Manjeet Guwaria - Athena Divite
Mr. Giriraj Daga - SKS Capital
Mr. Ami Javeri - B&K Securities
Mr. Amnish Aggarwal - Prabhudas Lilladher
Mr. Sunny Agarwal - Aditya Birla Money

Urvashi Butani: Thank you. Thank you for joining us on Jubilant FoodWorks' Con-Call where we shall discuss the financial and operating highlights for the quarter and nine months ended December 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 opening remarks from Mr. Bhartia followed by Mr. Kaul and Mr. Ravi Gupta and post that the floor will be open for a question-and-answer session. Just to state a standard disclaimer, certain statements made on the call today may be forward looking in nature and a note to that that was stated in release sent out to you earlier. I would now request Mr. Hari Bhartia to share his perspectives with you. Over to you Sir.

Hari Bhartia: Thank you very much. Good afternoon and welcome to this call.

Q3 was an important quarter for us where our persistent efforts to focus and execute core business strategies helped JFL to build positive momentum in sales and report profitability growth. In tough operating scenarios, we remained grounded and driven towards making necessary investments. This approach was with the singular aim to become even better equipped to cater our customers and leverage our industry-leading capabilities.

We are committed to enhance our engagement through a combination of exciting offerings, expanding restaurant network, digital media interaction and targeted marketing initiatives.

The future holds a lot of promise for both Dunkin' Donuts and Domino's Pizza and we will continue to be guided with the imperative to connect more effectively with our customers. With that I would like Ajay and Ravi to take you through our strategies and financial performance in detail.

Ajay Kaul: Thank you Sir. Good evening and thank you for joining us today to discuss our performance in Q3FY15. Our performance in Q3 has reinforced our core beliefs. During the year we faced a tough macro-economic environment. As planned we continued a steady pace of expansion that was value accretive and invested in building capacities for future. We have harnessed innovation in menu, store formats, customer engagement, communication and ambience with the objective to ensure that we are well prepared to take advantage of the potential that we see in the future and of course to try and delight our target customers.

Having said that I am pleased to highlight that in Q3FY15, total revenue witnessed a growth of 21% to Rs. 5544 million with PAT of Rs 350 million. We also witnessed a positive growth in SSG which was reported at 1.9% in the quarter. We believe this is a combined result of our drive to expand, innovate, serve the customer with new varieties, while also increasing advertising & promotion support for our brands. I shall quickly touch on the key elements of our impactful strategy and then Ravi will provide you detailed update on the numbers.

Network expansion was a central focus of the team and we were successful in opening 41 new Domino's Pizza restaurants and 9 new Dunkin Donuts restaurants in the quarter. As of date total number of Domino's Pizza restaurants stands at 844 and Dunkin' Donuts at 50 restaurants. Our total spread to 185 cities with respect to Domino's and 18 for Dunkin' as of today has enabled us to make our brands more

accessible to our customers and give them a tailor-made differentiated experience. Our 360 degree marketing initiatives across the board- from national level to store level and through the online platform have helped us to motivate customers to engage with us more often. The online platform infact is also one of the key areas for us where we are constantly upgrading our infra to better facilitate the ordering process. When we look at the growth in this segment we have our eyes set on the scope that this space has to offer and are confident of leveraging this medium to our benefit, being an early mover in OLO.

To consistently win consumers' satisfaction across price tiers and preferences our menu is constantly undergoing innovation, development and improvements. With the aim to delight customers and to meet the evolving preferences, Q3 witnessed the launch of the cheesy wonder pizza and extension of the cheese burst to regular size pizza, which was done on the back of extremely positive feedback and on popular demand from our customers. We have also introduced new side items such as Subwich, and crispy chicken wings.

Over the past few quarters, we have also invested time and money to develop and plan the next phase of JFL's growth. So a quick update on the commissaries. We have commenced operations at our new Nagpur commissary whereas the upcoming ones at Guwahati and Hyderabad expected to start operations soon. And lastly on the Greater Noida commissary- which will be a mega facility equipped to cater to a wider swathe of geographies and customers, we will be starting the construction activity very soon.

As we move forward our goal is to undertake meaningful activities which are in conjunction with our passion, have underlying economic sense and take us a step closer to our long term objectives. Thus whether it's opening a new restaurant, adding a new offering to our menu or entering a new city we will remain prudent in our decision making.

We are confident of delivering on our restaurant opening target of 150 restaurants for Domino's Pizza and 30 new restaurants for Dunkin', of this I'm pleased to highlight that we have successfully opened 118 Domino's and 24 Dunkin restaurants till date. To conclude, I would like to mention that we are tuned to economic environment changes and while we will not be able to hazard a guess on what exactly the immediate future holds, but are optimistic of the long term potential. We are confident that our model gives us the agility and flexibility to respond to short term industry scenarios as well as to take advantage of new growth opportunities

With that I shall hand over the call to Ravi. Thank you.

Ravi Gupta: Thank you Ajay and warm welcome to all of you. I would briefly discuss JFL's performance for the third quarter and nine months ended 31 December 2014.

We made good headway in Q3 FY15 performance, with total revenue in Q3 at Rs 5544 million which is 21% increase over the corresponding period. The growth is largely attributable to our sustained efforts to increase our presence through our restaurant network and through online and mobile ordering. We have been consistently innovating our offerings to make them exciting and aligned to what the customers wants, this combined with higher level of initiatives in marketing have enabled us to deliver this healthy growth. We also benefitted from around 3% price increase that we took in November 2014. SSG growth in Q3 stood at 1.9%

Total Expenditure in Q3 FY15 increased by 24% and stood at Rs 4817 million. This increase is in sync with our overall growth. Growth in employee expenses were a result of inflation in salaries coupled with a higher employee base. Rental costs also were on a rise; again this was in line with our expansion along with scheduled escalations. Over a period of time we have recognized identified areas where we can

leverage our scale and experience and as we progress in our business, we have remained true to our basic pursuit of efficient cost management. Having said that, Operating profit for the quarter was at Rs 727 million an increase of 8%. PAT stood at Rs 350 million for Q3 FY15, which was 4.2% increase over last year. With regards to nine month results, total revenues were up 19% to Rs15,324 million, EBITDA stood at Rs 1927 million and PAT was at Rs 918 million

Looking ahead, for the remainder of the fiscal year, we are aiming towards continued improvement of our operating and financial performance. We see tremendous opportunity to bring expand our brands and penetrate into untapped regions. We are also excited about the potential of e-commerce in relation with our brands and look forward to add many more customers to our family. With that I would now request the moderator to open the question and answer forum.

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 Puneet Jain from Goldman Sachs. Please go ahead.

Puneet Jain: Sir my first question is actually with respect to consumer sentiment and consumer behavior. So have you witnessed any changes in consumer behavior on a quarter-on-quarter basis which has resulted in this positive same store growth or would you attribute it primarily to base effect?

Ajay Kaul: Our number at 1.9% same store growth, we believe, look cosmetically better than what some of our previous quarters have been. But we believe the primary reason for this is the comparison being made with exactly a year back when we had registered a negative same store growth. So we believe that it is more cosmetic than some definite change in consumer sentiments in the market.

Puneet Jain: Okay. And within that if you look at the quarter between October, November, December, are there any trends which one can call out for. Like is the exit rate of growth better than the entry rate of growth or vise-versa?

Ajay Kaul: We will not be able to comment on that but to us it looks kind of neutral right now.

Puneet Jain: Okay. And also with respect to now, lot more stores are being opened in smaller cities, so is there some difference in terms of consumption patterns as well as the amount of throughput per store in smaller cities vis-à-vis larger cities and what will the difference be?

Ajay Kaul: No, actually there is no statistical significant difference between what we are noticing now or what we have noticed in the past. We must admit that a lot of new cities do surprise us positively so there is that lot of pent up demand there; for whatever reasons they probably are waiting for Domino's to open their first store in those cities but it is by and large no different from what we have seen in the past also whenever entered new cities.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, what I wanted to understand is on two specific comments that you have made for kind of, sorry harping on the question that was taken earlier, you have highlighted that there have been sustained efforts; this growth has come from sustained efforts to grow aided by positives in the macro

environment. But now you said that it is just to do with the base and the reason I am requesting again the clarification is because the competition is giving -10% as growth which means that you are gaining market share. If you could just clarify on that point Sir because that kind of gives us sense.

And my second question was Sir on the other expenses. Would it be fair to assume that if this growth remains at the current levels we should be able to maintain the margin trajectory or are there any one offs that we should be kind of be aware of?

Ajay Kaul: See on your first question, needless to say that if our honorable opposition is reporting a -10% number and we have a 1.9% positive number then we would have market share gains. Although market share gain is not an objective that we chase, what we chase is our own objectives and if in the process it is also giving us market share gains well and good. Now, we have no reason to offer as to why competition or our opposition is at -10%, but we know for sure that 1.9% compared to let's say the last four quarters where we have generally been reporting a negative figure looks good and we are again making this submission that we are not seeing statistically significant shifts of the needle which are giving conclusive evidence that the consumer sentiment is changing or changing dramatically, it is more cosmetic than anything else right now. As we move along, we will be probably in a couple of months' time be able to give a more qualified answer on that.

Ravi Gupta: Avi, on the second question regarding other expenses, there are two questions actually interlinked together. Other expenses and the ability to maintain the margins. Now, on other expenses if you remember in last year Q3 concall we had indicated that one of the business partner contributions has moved from other expenses to food cost, the raw material cost. The impact in this quarter for that movement is about 47 basis points. So although the other expenses look similar to last quarter but in fact actually they have reduced vis-à-vis last year.

Second part of the question, do you have ability to maintain the margins. Now ability to maintain margins is very closely linked to the same store growth and in past also we have discussed that if the same store growth is higher than or equal to the inflation what we are having on a same store basis, in that case on the same store basis we can have stable margins. However, new stores are margin dilutive, although 90% to 95% stores are profitable from very first month of operation and they have three year pay backs. Despite that they have a lesser profitability because the sales is about 70% to 80% of the systems average sale and in view therefore new stores tend to be margin dilutive. So it is the equation between same store growth and the inflation numbers.

Avi Mehta: Okay. Sir if I may just have a small clarification, so if obviously this is a big if, if we assume that SS growth remains broadly similar to current levels, I mean probably here and there given the base, what can mean margins could possibly fall or what could given that the additions would probably be; you have given the target additions, so that also gives us a sense of the dilution impact. But SS growth is at current levels, 13% number is a reasonable estimate to build in, was there anything that can go against that statement is what I am trying to understand Sir?

Ravi Gupta: Yes. What we have to read actually Avi about the same store growth is the inflation number, if the inflation also remains benign, where practically we have kind of negative inflation in some of the

ingredients like petrol and diesel and all that and related cost also coming down and overall inflation levels in the economy has come down, if the inflation remains at this kind of level definitely we can say that our margins can remain at those levels which you are mentioning.

Avi Mehta: Okay. And Sir if I may, the gross margins should be compared YoY or QoQ, what would be the best?

Ravi Gupta: I think it is better to compare Q-on-Q because on Y-on-Y there are two reasons, last year Q3 we had a buy-one-get-one scheme for two months, October and November, so discount levels were higher and second impact I indicated saying the contribution from the business partner has moved from other expenses to the raw material.

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

Amit Sachdeva: Sir first question is on coming back to same store again, was there any price increases this quarter?

Ajay Kaul: Yes, there was a price increase of about 3% in the month of November.

Amit Sachdeva: Okay. And Sir considering the price increase and considering the tepid demand environment and considering the competition was also quite intense and there was propensity to give one-on-one, was it plausible to take price increase and do you see that similar price increases are possible even in the coming quarters or as you take twice a year may be price increase as I know. So how do you see pricing environment, your ability there given the environment, how do we see this?

Ajay Kaul: See, we normally take, as you probably must be aware, two price increases of 2.5% - 3% each spaced out by around 6 months. Somewhere around the middle of the year we take a price increase and somewhere around November is when we take the second price increase. Having said that, we do believe that over the last couple of years due to inflationary pressures and also some government strictures like the service tax of nearly 5% which came in, our net effective price from a consumers perspective has gone up substantially and this is not only true for us, this is true for the whole industry and to some extent that has also affected consumption to be honest. We do believe that from a value for money perspective which we have said in the past also, there are challenges. Which as a result have emerged and we as a team are constantly doing research, we are constantly looking at all our product portfolio, the mix and what the consumers are saying and are constantly trying to see how we can improve our value for money perception. I am not making a comment right now that we may not take price increases but if there is a way out for us to obviate some of the obvious price increases we would be looking at those kind of options, also in future, provided the inflation actually comes down and there are clear cut opportunities sitting there.

Amit Sachdeva: I remember Ravi making comments in the past as well that the cumulative price increases of two years have impaired demand to some extent, which obviously you would like to avoid and in this environment I would assume that commodity cost are actually benign, where you see that most of the ingredient costs are not that high barring cheese maybe, but if you could comment about how your

commodity environment looks like may be going to this quarter or the next, how do you see that sort of panning out especially now that petrol and diesel prices are down, that should also give you some amount of easing if not too much given the delivery model and things. So how do you sort of see those tail winds also helping you to sort of combat those needs to take price increases and perhaps propel demand?

Ajay Kaul: Coming from the past and let me give you a bit of history, over the last so many years we believe that in a steady state environment nominal price increases of 2.5% - 3% taken twice a year is something which the consumer is ready to take and we have not seen adverse reaction at all whenever we have done this and there is enough research evidence we have with us. But as we said earlier anything more and specially when there is a history of two years of having taken much higher price increases and also the government 5% service tax which they have levied has kind of made the whole industry including Domino's Pizza a bit more expensive, or should I call it from a value for money perspective a bit more bad.

Now coming to ingredients, clearly the worst time is behind us, we believe the kind of pressures which we saw in the last one year or so are not there anymore but there will always be challenges in a growing economy, as consumption will start going up there will be inflationary pressures, sometimes it eases of on cheese but right now for example it is coming in the shape of vegetables. Vegetables prices for whatever reason are going through the sky, which never happens in winter time. So there will be challenges which will continue but to give a short answer to your question it is what we believe inflationary pressures will not be as bad as we have seen in the last year, year and a half.

Amit Sachdeva: And Sir just very quickly on the employee cost, I noticed this obviously is because the base employee number have gone up and new stores have opened but I noticed that if I very crudely calculate your salary cost per employee basis is up 21% which has been pretty flattish or single-digit in the last few quarters, looks like there has been some strange one off there or maybe large increases in salaries that happen this quarter.

Amit Sachdeva: In July I remember, that's where you do the correction.

Ravi Gupta: Most of the salary increase happens in the second quarter Now there are two ways to compare this personnel cost, one we compare to the last quarter, last quarter the personnel cost was around 21.3% and this quarter we did 20.8%, so 50 basis points reduction. But how they are if we compare with Q3 last year, Q3 last year it was 18.5% and now it is 20.8%, there are few factors now if you compare with last year, because if you compare with the previous quarters they have come down. Last year Q3 was the first quarter where we had a negative same store growth that was around the start of the era of the negative same store growth and this year Q3 is an era where we are probably ending the negative same store growth. I say 'probably' because market sentiment is yet to be proven. Now in that context last year we perceived that we will not be able to achieve the yearly budget and as a result we reversed some provision for the incentives. And this year it looks like reverse has happened, exactly the reverse has happened.

Amit Sachdeva: Okay, so you have provided more which you didn't provide. Because it seems to me, I not going to revenue numbers in same store I am just looking at the expense YoY and per employee cost just

to very-very absolute comparison and just see that very stark jump per employee. But you are right that there some has been provision extra which was not there last year so it is more of a base effect.

Moderator: Thank you. Our next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Sir Two questions, firstly in terms of SSSG, would it be possible to qualitatively differentiate how it has trended in say tier-II, III cities versus that in the metros?

Ajay Kaul: As we said earlier, we are not seeing any big statistically different performance across the various tiers which are there, so it is by and large in the same zone. It is not that a specific pocket is outperforming or a specific pocket is under performing.

Prasad Deshmukh: Okay. I think earlier you spoke about ramp up in new stores, not same store as well, so you are saying same stores sales growth also is more or less similar across cities?

Ravi Gupta: That is right.

Prasad Deshmukh: Okay. Secondly, at least for this online or the mobile ordering, it seems the discounting has gone up sharply in the current month so is there any reason, I mean is it just linked to sentiment or is it just for the online channel that you have been aggressively providing the discounts?

Ajay Kaul: It is more of the latter. Honestly, while our online order as a percentage of total delivery orders is standing at around 27% today and mobile ordering as a subset of that is around 21%. But this is also an area where we are also doing apart from building all the science that we can, a bit of hidden trialing also. So I will admit or we will admit that there is a bit of discounting that happens because one it's trying multiple things at the same time, not knowing which all will work very clearly and which all may not. So it may appear to you that there are a bit more of discounts given, honestly, we are iterating and we are moving towards or we will move eventually towards those methods which we believe are the most cost efficient in terms of acquiring customers, retaining customers, and getting more frequency from established existing customers.

Moderator: Thank you. The next question is from the line of Rahul Arora from Nirmal Bang. Please go ahead.

Rahul Arora: I had two questions, one is on the overall competitive landscape, how do you see that from here on given the ramp up you see both with respect to product innovation that you would have to and what increase that you would have to take perhaps on advertising given people like Pizza Hut etc are ramping up. And the second question I had was on Dunkin' Donuts, at this point in time how much is it eating into the current financials and margins and when do you see that being a significant contributor rather than a drag on the numbers. Thanks.

Ajay Kaul: See, as far as competition is concerned, honestly while our eyes are clearly set on them and they are on our radar screen but they don't necessarily guide our actions largely. And with all modesty we follow our own strategy, plan and if they are also taking care of obviating competition and what

competition is doing, well and good. Now in this case as you may have noticed that our honorable opposition's numbers have not kind of worked out too well last quarter, so what we are basically trying to say is as far as product innovation is concerned, as far as store innovation is concerned, store expansion is concerned, investing in infrastructure is concerned and something which is more internal that is our people practices and so on we will keep going as per our own plan. And in the process if it keeps building more and more differentiators in the consumers mind vis-à-vis competition, well and good. If competition is trying to do more of advertising or trying to build more stores, well and good, and we welcome that because we need more and more players and more and more options and more and more I would say competition honestly at a very-very generic level especially given the evolutionary phase of this industry we need more and more options for the consumers.

Ravi Gupta: Your question number two was if I remember with regards to what is the DD impact and when the DD will breakeven. The DD impact for this year is about 150 to 160 basis points, that is the current year impact whatever it will fluctuate between the period but this is the overall impact which will be there for full year. It is likely that the new brand Dunkin' Donuts will become breakeven when we have about 125 to 150 restaurants.

Rahul Arora: By when do you hope to have those many stores?

Ajay Kaul: I think by sixth year of its operations or we can estimate another at least two-three years from hereon.

Moderator: Thank you. Our next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Thank you. My first question is on the other expenses Sir, last two quarters we have seen you maintain a very tight lid on the other expenses, so what line items have actually contributed to this very modest only 20% increase when your space addition also has been much more than that?

Ravi Gupta: See, the bigger line item in this is marketing expense, power and fuel, repairs, telecom expense, these are the top expenses under this which are there, legal and professional is also a part of it. So efficient cost management is a key for this line item because we have spread across 184 cities and if the efficient cost management is not ensured, practically the business can go in the negative direction. And that is the reason we have been consistently monitoring the cost very effectively and that is the reason we have been able to monitor this cost or control these costs very effectively.

Nillai Shah: So Sir how should I look at this going forward, would you be in ballpark same region in terms of percentage of sales or should I just look at this in terms of YoY growth?

Ravi Gupta: I think it is very difficult to look at percentage of sales growth and percentage numbers because the various limitations in this. Like I explained one head out of this, power and fuel. Now power and fuel has three sub components, one of them electricity, second is petrol and third is diesel. Now electricity rates are only going up, because inflation is still unabated there. Now as far diesel and petrol is concerned we all know there is a deflation so they are giving positive you can say they are giving some

respite right now. But as far as the electricity is concerned that is not giving a respite. Now similarly packaging, it is giving little bit respite, packaging also fits in this head. But it depends on the inflation level in the economy, tomorrow if the inflation goes back again then maybe the packaging which is giving a little respite this year may not give a respite in the next year. So it becomes very-very difficult to look at things whether it is percentage of sales, whether it is linked to, I will say overall it is linked to the overall inflation level in the economy and growth in business.

Nillai Shah: Okay. And as per you right now for the business as a whole, what is the inflation level that you are currently running at, is it sub 6%?

Ravi Gupta: See, Q3 exact numbers we have not worked out but Q2 number was around 7%.

Nillai Shah: 7%, okay. And in terms of the gross margins going forward, given that there could be some respite on raw material costs, would you be keen to maintain the current gross margin trends or are you okay to take some benefit of the gross margin expansion and flow down to the EBITDA line?

Ravi Gupta: Actually, our gross margin if you look at Y-on-Y basis it is almost stable, the reduction in the gross margin which has happened by about 150 basis points is because of the two factors, first factor is discounting reduction and second if reclassification of cost.

Nillai Shah: No Sir, I meant going forward, I understand what has happened this quarter but going forward if you believe that some of the raw material prices will come down, what is your view on gross margins in terms of strategic outlay?

Ravi Gupta: Yes gross margin, historically gross margin is around 74% to 76% and it will keep on hovering depending on the what is the level of inflation in the economy and depending on our ability to pass on this to the consumers because when the inflation is very high we absorb some part of inflation in the raw material cost, we have not passed the whole of the impact to the consumer despite that we reduce the impact of inflation by leveraging our volumes and all that. So it will keep on fluctuating in the future also in this range, you can assume raw material cost will hover between maybe 24% to 26% range.

Nillai Shah: Understood Sir. And last year you had given some insights on when you expect to reach double-digit SSG, has that changed towards the course of this quarter?

Ravi Gupta: As of now it does not seem to be. As Ajay has said that it is more cosmetic, we cannot see a net positive consumer sentiment. So it will be too early to say whether there is a change in the statement probably we should stand by the statement as of now.

Moderator: Thank you. Our next question is from the line of Ajit Surana from Dimensional Securities. Please go ahead.

Ajit Surana: I have a few fundamental questions. The first one is what will be the impact of GST, if it is fixed at 20% - 22%, how will you pass on that to the consumer there is going to be a steep rise?

Ravi Gupta: See, right now our tax base is about 19%; 14% is VAT and about 5% is service tax and 19% that portion is already being paid by the consumer. And on top of it about 1.5% - 2% is the tax which we absorb, which we are not able to take a set off. So net-net you can say 21% is the impact already there in the business.

Ajit Surana: Okay. And the second question was about the competition, what share of the QSR market is pizza and do you think the other non-pizza food is catching up, they will get a larger percentage of the total food market in the segment?

Ajay Kaul: See, in terms of giving you granularly percentage...

Ajit Surana: No, approximately your feel, I mean I don't need the exact percentages, do you think pizza as a percentage of total food in the segment will reduce going forward, I mean do you see a trend over the next few years because a lot of QSR is coming in other non-pizza segment?

Ajay Kaul: See, I think it is an easy guess that pizza as a component of the total food service offering will be limited to that extent because there are so many other categories which are not there or which are still yet to come and so on. But we believe that even if we leave all that aside the current proportion of pizza and pasta as a percentage of the total call it food service business is still minuscule and going by example or experience from other countries it is only said to kind of improve from hereon or increase from here on. If we also go by experience from some other countries of how pizza has evolved, I think there is still tremendous headroom whether it is in terms of frequency, whether it is in terms of also penetration as we get into the hinterland more and more. So there is still a lot of headroom to proceed, I would say that there is no concern in our minds honestly in the space in which you seem to alluding to or referring to, it is more question of the sentiment improving and all categories will grow in the process.

Ajit Surana: Okay and the final question, in terms of price growth if inflation comes down to 4% after a year, what kind of price increases you can have? I mean give me a figure over the next five years, if inflation comes down to 3% - 4%.

Ajay Kaul: See, our estimate is that we are not in a utopian environment, we believe that sooner or later as GDP growth starts climbing back and consumption continues, these are main stay or the corner stone of the story, there will be inflation inherently as a part of the economy and as the result a minimal as we said in the past 2% to 3% increases twice a year is something which we will be able to take and also the consumer we believe will be able to pay. But having said that let me start with the premise that giving a price increase is one of our last resorts, while it may seem like they have become customary by now but given a choice if we are able to obviate price increases we want to do that but somehow it never happens that way because there is a constant inflationary factor which plays along.

Ajit Surana: No, no, I will ask you the question again, if assume inflation is at 4%, will you be able to pass 4% annually or you will be able to pass less?

Ajay Kaul: No, it is hypothetical question.

Ajit Surana: Hypothetical question, because we believe that inflation rates are going to come down and globally there is deflation, so I think in India also inflation rates should come down maybe with gap of 1-1.5 years.

Ajay Kaul: Without giving any hypothetical answer, all I will say is that giving price increases to consumers is one of the last options when we are in the strategy war room.

Moderator: Thank you. Our next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

Gaurav Bhatia: We used to open 50% of the new stores in the top 10 cities, I think you mentioned in the last quarter that this strategy could be changed temporarily. Has this change in strategy resulted in lower cannibalization and therefore SSG number which is an optically higher number and not a reflection of consumer sentiment improvement?

Ajay Kaul: Answer to the question is partly yes, part of it is the strategy-led, when we realized that there was an element of cannibalization which was becoming pronounced by virtue of populating existing cities a bit more, we did consciously and we have said this also in our previous conference calls where we have tried to limit or restrict or reduce our splitting of stores or call it opening stores in catchment areas of earlier existing stores. So there is a marginal impact of that, I would say it is a very-very low single-digit probably almost decimal level impact which it may have given to our like store growth or same store growth number.

Gaurav Bhatia: Sir, a follow-up question on that, have we changed this strategy only temporarily or we think that the top 10 cities are now more or less saturated?

Ajay Kaul: No, I mean clearly they are far from saturated, the answer to the question is a big no, we believe there is still tremendous potential in the top 10 cities, in fact their opportunity to grow is still probably as much as there as second store in an existing city kind of thing, it is a temporary shift there, we have been entering a lot of new cities and interestingly enough we have been having some outstanding performance coming from these new cities which we have been entering. So going forward if the same store growth we have to improve, we may change our strategy or call it plan a tactically a little bit here or there but it will all depend on how the like store growth pans out.

Gaurav Bhatia: Sir one bookkeeping question. Are the new stores still opening at 70% of system average?

Ravi Gupta: Yes, we are seeing new store opening at 70% to 80% system average sales.

Moderator: Thank you. Our next question is from the line of Naveen Kulkarni from Phillip Capital. Please go ahead.

Naveen Kulkarni: I have three questions, my first question is on Dunkin' Donuts, could you tell us what is the same store sales growth for Dunkin' Donuts? My second question is on the new store openings for FY16, if you have done the business planning for that could you give us the breakup on Domino's as well as Dunkin'? And third is on the CAPEX for FY16.

Ajay Kaul: Let me go in the reverse order, CAPEX for FY16 is not yet finalized and new store openings next year for both Dunkin' and Domino's not yet finalized but we are in the midst of closing our budgets for next year, so probably in couple of months' time we should be in a position to share some guidance with you as to what are we expecting next year. Our guidance number for this year which you may have already read somewhere is 150 new Domino's stores and 30 new Dunkin' Donuts stores by the closure of this year.

Now coming to your first question which was Dunkin' Donuts as to what is the same store growth in Dunkin' Donuts, that is something which we will not be able to share with you primarily because the base of such stores is so small it will not give you any indication of the direction in which the business is going, in fact the numbers may look very good but that is not how new brands should be looked at. I think in some couple of quarters should we be in a position to share with you more meaningfully statistics about Dunkin' which will reflect on the real health of the Dunkin' business.

Naveen Kulkarni: Just on Dunkin', sometime back Ravi alluded that Dunkin' will be profitable when we reach a scale of around 120 stores, so how does this work out as in does it depend on the back end or is it the front end aspect which matters more?

Ajay Kaul: See, it is a mix of a lot of factors, predominant among them is the average sale which each store is going to generate and as they start hitting a certain respectable number then how each store as a result starts becoming profitable and starts taking care of the fixed overheads that we have. Ravi had said that when we reach around 125 to 150 stores which may still take around 3 year or thereabouts for us to reach when such a thing will happen. But three years is a long time so in the meantime if lot of dynamics in the environment change we do not know how these equations are going to fathom out. But as we see from now those are the ways the numbers look like.

Naveen Kulkarni: Sure. And lastly, could you give us some ballpark number on the contribution of Dunkin' for this quarter?

Ravi Gupta: I have shared things that for the year it will be about 150 to 160 basis points impact.

Naveen Kulkarni: The negative EBITDA impact, right?

Ravi Gupta: Negative impact, yes.

Naveen Kulkarni: No, I am referring to the revenue contribution.

Ravi Gupta: It is single-digit contribution.

Moderator: Thank you. Our next question is from the line of Rohit Gajare from UTI Asset Management. Please go ahead.

Rohit Gajare: Sir one question on the back end CAPEX, with the new CAPEX one in commissaries and one in Nagpur and others, are these facilities now fully-equipped to service both Domino's Pizza and Dunkin' or is this how you have planned it out so that both the brands can leverage?

Ravi Gupta: We can leverage these for both brands but as of now Nagpur facility is supporting only Domino's because Dunkin' stores have not yet opened in the central region, once they open in central region the commissary will support Dunkin' as well. Our current commissary in Bangalore and Mumbai are supporting both the brands.

Rohit Gajare: Sir but going forward right now I think what I understand is we are doing almost 1 crore CAPEX per store approximately on the front-ends, but the back end CAPEX is essentially now basically fungible or would be designed in such a way that it is fungible for both formats of stores, that is the way we should look at?

Ravi Gupta: Yes.

Moderator: Thank you. The next question is from the line of Deepak Prasad from Unilazer Ventures. Please go ahead.

Deepak Prasad: I had one question. So we are predominantly delivery focused, so is there a split that you track and can disclose delivery versus take-away versus sit downs?

Ravi Gupta: We don't split into three but two, delivery and non-delivery, non-delivery includes take-away and dine-in both together. It is almost equal as of now.

Deepak Prasad: Almost equal, okay. And the other question was in terms of the new outlets, definitely since we are going away from the top 10 cities the strategy might be a little different. So what is the average store size that we end up opening and is it only delivery, so without a front-end wherein there are seating arrangements or is a full-fledged outlet so what is the average store size?

Ravi Gupta: See our average store national average for new stores is about 1700 to 1800 square feet, however in the smaller cities it can go a little higher, and the reason is in smaller cities the dine-in and take away percentage is higher than the national average. So on those cities delivery as a concept is not fully penetrated, in some of the cities when we enter the free delivery as a concept is unheard of because people have ample time, no traffic congestion, so people love to go out with family to the restaurants. And slowly we convert the sales to delivery sales.

Deepak Prasad: Rural areas you are saying it is the reverse wherein dine-in is more.

Ravi Gupta: Yes. We don't call them rural, we call them urban area because rural area we have not yet penetrated.

Deepak Prasad: Okay, got it. And just one last question which is with the expansion in capacity and these commissaries coming up, what is the steady state EBITDA that you expect for a fully operational outlet let's say two years three years steady state EBITDA percentage?

Ravi Gupta: We do not share this number.

Moderator: Thank you. Our next question is from the line of Arnab Mitra Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: On the SSG part, sorry to again go back to that, you said that it seems more cosmetic the YoY growth, but based on how the base is, are you at least confident now that there are low chances of you slipping back into negative territory there or is it too early to even call that out?

Ajay Kaul: We won't be able to comment on the negative territory but one thing we can, I think almost confidently, say is that probably the sentiment has bottomed out. So it is not going to get worse from here. But are we seeing statistically as I often say significant sifts of the needle? The answer to that is no. And as we said earlier it will probably take us two-three months at least to give you a more firm positive story if at all but hopeful. So you will have to wait till then.

Arnab Mitra: Right. And so basically things kind of area not getting worse given that last year things kept deteriorating through the year, does that give you reasonable confidence that you are broadly on an improving trend in terms of SSG even if it is a cosmetic kind of a base effect?

Ajay Kaul: Yes, I mean the answer to that is we believe we have bottomed out and going forward we believe that it will take us at least three to six quarters to reach as we have said always in the past, consistently to reach a high single-digit SSG growth number is what our submission would be right now.

Arnab Mitra: Right. The next question is on the store expansion, now you obviously increased the pace of expansion last few years but if I just compare your definition of the universe or the potential store count I think the last number was 1,200 of course that number keeps increasing but is there a situation where you expand so fast that you are almost at store potential and then the expansion becomes much slower than what you are doing right now in a couple of years?

Ajay Kaul: No, we don't think so. Even as we speak we believe there is, based on the Domino's model, room to open let's say around 1,300 stores in India. Now by any calculation it will take us a few years to reach there and we believe by the time we kind of reach there, it cannot happen overnight, the market would have expanded even further for it to throw open another 300-400 store opportunity. And you know we are talking about the years to come and we are honestly while in the short-run, we may not be seeing any change in consumer sentiment, but as a Company and as an individual both Ravi and me and Mr. Bhartia are very optimistic about how it is going to fathom out or span out the economy, it probably may take a few quarters but it is really going to throw up huge opportunity. So we don't believe that this store opening opportunity can become a limiting factor for us.

Arnab Mitra: Alright. And one more question if I may please, one is that on the Dunkin', now NCR at least has had bit of a background of having Dunkin' stores. So are you now reasonably confident of the model you have, the products you have, the menu and how does the NCR metric look? I am not looking at exact numbers but in comparison to Domino's how does the NCR numbers look in terms of whatever return ratios, sales store growth or whatever you want to look at.

Ajay Kaul: See, it is not a fair comparison to do between the two brands because there are different stages of evolution although they may be both in the food space. But we need to draw inferences of one onto the other as best practices or some other important inferences. Now, speaking about having been around in Delhi or let's say NCR for a good (+2) years now we do believe that on most of, should I say elements of what a good thriving model could be, that you are aware one is fairly clear about overall positioning, with the store design type, size, locations, the menu mix, the pricing strategy, and the people which is more internal but people strategy; I think we have got fairly confident answers to most of these questions, though it is always iterative model and we keep kind of iterating and evolving as we go along. So today we are confident that the new stores that we will open at say in NCR we can hope to get return on investments in such stores, in time frames which are not too different from the way we expect from Domino's Pizza.

Moderator: Thank you. Our next question is from the line of Rajasa Kakulavarapu from Jeffries. Please go ahead.

Rajasa Kakulavarapu: My first question is on when you had alluded to the fact that value for money proposition may have come off a bit in recent times and the last time we met you had also mentioned that you would take measures to correct that, so could you explain what exactly you are doing or you would plan to do to correct that?

Ajay Kaul: See, what we do there is that we look at each product category and within that we actually look at each SKU also and against that we are measuring our value for money satisfaction score, the score comes in through some qualified research. So that is helping us internally to go almost SKU-by-SKU or cluster-by-cluster to figure out what should be our price increase strategy going forward. And clearly there we believe that the elasticity is higher, we would not take price increases there or we will take marginal price increases there and go more into those categories where there is a bit more inelasticity available. And just to kind of say one more thing, as I said earlier price increases while have become a part of our lives, is internally one of the last resorts which we have, ideally if the inflation was in control we would not want or we don't desire to pass on any price increases to the customer but it so happens that in a consumption driven growth-led economy inflation will be there and as a result we are forced to take sometimes these nominal 2%- 3% hikes twice a year and so on. But ordinarily we would not want to do that.

Rajasa Kakulavarapu: Understood. So we are not really looking at price reductions or increase discounting, that is not part of your strategy?

Ajay Kaul: Well yes, I mean as far as discounting is concerned we are quite clear that we have to be very prudent in our discounting strategy and being a market leader having almost (+70%) share of the pizza space, being the largest food service player even larger than the burger people and some of the other players who are there, a lot of what we do almost becomes an industry norm. So we are very prudent and we want to be very prudent and judicious in the way we, pardon the use of word 'throw discounts' and similarly on the online medium, is that much more newer thereby we are a bit more flexible and iterative there. Even there we are measuring every such discount, call it cards that we play to make sure that we are getting the best return or the bang for the buck.

Rajasa Kakulavarapu: Right, understood. Sir my second question is on wages, as I understand last few years you have seen pretty sharp inflation especially on minimum wages, Sir could you recall if there was any particular year starting when you had seen a marked increase in minimum wages or has it been part of the business all through your experience?

Ravi Gupta: Actually the minimum wages which government has been increasing is in the double-digit, maybe across the year between 10% to 15% range. So that has been consistent, and going forward anyhow it depends on the overall consumer price index. So going forward where they will be depends on various factors but we believe that double-digit kind of minimum wages growth are expected in the future as well.

Moderator: We take the next question from the line of Manjeet Guwaria from Athena Divite. Please go ahead.

Manjeet Guwaria: My first question was if you could give me the average revenue per store for the mature stores in case of Domino's and say in case of NCR Dunkin' Donuts stores.

Ravi Gupta: We do not share the numbers separately for mature and non-mature, we don't use the definition of maturity at all. If you want to compute system average, you can take the quarterly revenue and have opening and closing restaurant, average them out and you can have a reasonable estimate of average revenue.

Manjeet Guwaria: Okay. And my second question was for Dunkin' Donuts, the format that it is would we see higher average sales per store in that format than Domino's?

Ajay Kaul: We are not sharing any information about Dunkin' Donuts other than that what is the impact on EBITDA, so we don't know actually when we will start publishing separate number for Dunkin' Donuts. Once we start publishing the separate number we will be glad to share those numbers with you.

Moderator: Thank you. The next question is from the line of Giriraj Daga from SKS Capital . Please go ahead.

Giriraj Daga: I have question on CAPEX, what is this year's CAPEX and how much we have done?

Ravi Gupta: Our estimate for this year is that we will do in excess of about Rs. 300 crore CAPEX that is what we have said right in the beginning of the year, we will be ballpark there around Rs. 300 crore.

Moderator: Thank you. Our next question is from the line of Ami Javeri from B&K Securities. Please go ahead.

Ami Javeri: I wanted to ask you that about milk prices, they have fallen down 20% to 25% over the last two years and cheese contributes to around 45% of the total raw material cost, so would we be seeing any impact with the falling milk prices?

Ajay Kaul: I don't know where your source of 25% fall in milk prices is coming from, but we wish that what you are saying actually comes out to be true because our belief is that it has not fallen, in fact most of the last two years it has been on the rise, in the last couple of months though there has been a bit of petering down but it does not have any much significant impact on the industrial levels milk purchases and thereby conversion to cheese prices and so on. But one good news is that the cheese prices are not going up as of now, they are kind of stagnant at the same levels. So honestly we don't know where your source of this milk price decrease by 25% is coming from.

Ami Javeri: Okay. It is actually around 20% to 25% in the last one year, so they have come down to I think an all time low with the last four years, I think I have got my price data from Bloomberg. So yes, thank you that was just my question.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: My first question is regarding the commissaries, we have already commissioned a Nagpur commissary and two more commissaries are expected in the current quarter. So what would be the total amount of CAPEX in these two commissaries and how is the CAPEX plan for our bigger commissary at your Greater Noida?

Ravi Gupta: See, Nagpur commissary which is around Rs.15 crore CAPEX, has already started operations. The other two commissaries' combined CAPEX will be around Rs. 20 crore. Now with respect to the Greater Noida commissary it is a very-very large commissary, we already purchased the land, including registration and all it cost about Rs. 35 crore. We are yet to start work on it, it is in the design stage. Overall CAPEX for this commissary will run into more than Rs. 100 crore which will be spent over next two years.

Amnish Aggarwal: Okay. So it means that it includes the land cost?

Ravi Gupta: Yes.

Amnish Aggarwal: Which is around Rs. 35 crore?

Ravi Gupta: It will be actually much in excess of Rs. 100 crore because we build in stages, that is why it will get reflected over period of time.

Amnish Aggarwal: Okay. And do we have plans to set up more commissaries also next year excluding the Noida one?

Ravi Gupta: We are actually evaluating where to set up the next commissary, work may not start next year for the new commissaries but the discussions anyhow in identifying and maybe entering into agreement, can start in the next year itself.

Amnish Aggarwal: Okay. Sir my next question is on the tax rate, what could be a full year tax rate in FY15 and '16?

Ravi Gupta: For this year the tax rate is similar to whatever this quarter average is which is about 28% kind of. Next year it will be higher because this year as I mentioned in the last quarter also that we are getting benefit of the investment allowance for two years because last year this investment allowance clause had come in that if your investment in plant and machinery is more than Rs. 100 crore over two years you can claim 15% investment allowance. Last year we could not claim it because our investment were less than 100 crores and this year we are claiming for both the years. Next year onwards we can claim only for that year.

Amnish Aggarwal: Okay, so next year onwards we could be around about say 30% odd?

Ravi Gupta: Once we finalize actually our CAPEX plan and how much plant and machinery is there, it will be the best time for us to actually discuss what kind of tax rate will be there.

Amnish Aggarwal: Okay. Sir my final question is that sometime back you had stated that due to say the service tax or some of the inflation which was there in various raw materials over the past couple of years there has been some deterioration in the consumer price value equation for pizza and some of your products and you could actually be looking at restoring that to some extent. Now in the current scenario where some of your input costs are actually relatively benign and you, as we understand continue giving discounts and promotions from time to time but are you not contemplating to actually cut the prices of some of your products and won't send a better signal to the consumer that your prices have come down and it could have better impact on your same store sales growth?

Ravi Gupta: I think we have discussed this point actually because a couple of callers have asked the similar question about whether we will cut the prices in the future or how we will manage the value equation in the consumer minds. I don't think we have any more to add on further to that.

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

Sunny Agrawal: Thanks for the opportunity. Sir my question pertains to with the Cricket World Cup about to start from mid-February how we are planning to use this event for activating and bringing back consumer to our stores?

Ajay Kaul: Did you refer to the World Cup Cricket?

Sunny Agrawal: Yes Sir.

Ajay Kaul: Yes, during the cricket period and especially with the World Cup there we see an impact especially if the timings match with the consumption times in India. I think the World Cup is happening in Australia so the consumption times may not be actually be matching but we normally see that at dinner times if the matches are also on then it does have positive impact on off-take of pizzas. However what we have done is we have launched one general promotion revolving around cricket and not necessarily the World Cup, for the next two months we are going to give out one iPhone 6 every day and also we will fly three couples to Australia for some fun and so on and there are lots and lots of other prizes which will be

given out during these two months. So that promotion is already being launched and we believe, that that is going to at the consumer level create a lot of excitement.

Sunny Agrawal: Okay. And Sir my next question pertains to with number of commissaries growing can you give us a trend that what has been a distance I mean average distance travelled by our van from commissary to store, how that trend has been and how over the last four five years?

Ravi Gupta: Actually it is not a distance equation, it is an equation of how much cost is there depending on what kind of terrain it is and how much time it takes consequent to that because we have to look at the shelf life of the product, if the shelf life expires during the transit, it becomes a concern. Logistic cost adds to the cost of the restaurant and the restaurant may become unprofitable if we transport the material from a long distance. So it is not just a distance equation, it is also looking at the terrain and looking at how many states it is crossing and all that.

Sunny Agrawal: Okay. So Sir with number of commissaries increasing and well-spread across pan India, is it fair to say that the cost of servicing per store will reduce gradually?

Ravi Gupta: Yes, logistics cost to servicing the restaurant will lower because once you penetrate more and more with commissaries, commissaries will be closer to the restaurants, definitely it will reduce logistics cost. On the other side it also increases operating cost because you are operating at more locations.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir on that gross margin front I just had a clarification, in the fourth quarter when we started doing the reclassification so the fourth quarter number was a very low number, is there any product mix change that happens typically, is it promotion that reduce in that point which is why...

Ravi Gupta: You mean the last year fourth quarter?

Avi Mehta: Yes Sir.

Ravi Gupta: Yes. Actually the promotions buy-one-get-one were continuing till November end, so full impact of discount reduction was visible in March and other thing which I talked about contribution from business partners, that part fully reflected in the quarter it was partly in December but fully reflected in March.

Avi Mehta: Okay Sir. So there will be some element of that whatever 50-60 bps because of that reclassification?

Ravi Gupta: Yes, both factors combined together.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Ajay Kaul: Thank you to all of you for joining us today and being with us for the last hour and a half. Should you have any more queries you may get in touch with us and we will be more than happy to address you. Thank you and good night.

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.