



Transcript of the Q4 FY16 Conference call for Investors & Analysts

Call Duration : 1 hour 32 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
Mr. Manoj Menon - Deutsche Bank
Mr. Prasad Deshmukh - Bank of America
Mr. Naveen Kulkarni - PhillipCapital
Mr. Nillai Shah - Morgan Stanley
Mr. Abneesh Roy- Edelweiss
Mr. Latika Chopra - JP Morgan.
Mr. Chandrashekhar Sridhar - Fidelity Investments.
Mr. Amit Sachdeva - HSBC.
Mr. Nishit Raj - CWC Advisors
Mr. Varun Khadelwal - Bullero Capital
Mr. Manish Jain -Nomura.
Mr. Abhishek Ranganathan - Ambit Capital
Mr. Manish Poddar - Religare
Mr. Rohit Kadam - Credit Suisse
Mr. Pankaj Murarka- Axis Mutual Fund.

Urvashi Butani: Thank you and Good Evening, everybody and thanks for joining us on this concall today.

We have with us the senior management of Jubilant FoodWorks Limited, Mr. Hari Bhartia -- Co-Chairman; Mr. Ajay Kaul -- CEO; and Mr. Ravi Gupta -- President and CFO. We will initiate the call with key thoughts from Mr. Bhartia followed by Mr. Ajay Kaul and Mr. Ravi Gupta post that, the floor will be open for any questions that you may have.

Just to state our standard disclaimer, certain statements that may be made or discussed on the conference call today may be forward looking in nature and we have stated a note to that effect.

I would now like to request Mr. Hari Bhartia to share his perspectives with you. Over to you, sir.

Hari S. Bhartia: Thank you and a warm welcome to all present on this call today.

Fiscal year 2015-16 was a landmark year for the Company, having completed twenty fascinating years since our first restaurant in India in 1996. A spirit of celebration and accomplishment also permeated our entire eco-system with the opening of our 1,000th Domino's Pizza restaurant in India. Today, Domino's Pizza and Dunkin' Donuts are well-entrenched brands, capturing the hearts and minds of consumers across the country and making Jubilant FoodWorks Limited a leader in the food service industry.

While FY16 marked great achievements for us, it was laced by a testing operating environment; however I am pleased to announce that we have successfully leveraged our business model, brand strength, national footprint and our well established connect with consumers to deliver growth.

We have grown our brands with the secular aim of customer satisfaction, to create value for our shareholders and stay true to our long term growth vision.

I would like to reiterate that we have, over the years, invested in our business and continued to do so this year too, with the agenda of securing healthy and profitable long term growth. Continuous upgradations and investments, are imperative for driving performance. So while we are expanding restaurants, we are also strengthening our backend with the new state of art commissary at Greater Noida. We are also enhancing our systems with latest technology for not only online ordering but also to support internal functions. We are implementing SAP ERP across the organization.

As we grow, key focus areas such as food safety and quality assurance have always remained a priority for us. This is a function that we take very seriously and have been constantly investing and upgrading our standards across our ecosystem, in order to ensure our customers get served with only the best. Initiatives like training programs, implementation of various guidelines, regular food quality and safety assessments, strict parameters for our vendors and other stringent internal norms, form a part of our everyday operations and are embedded in our organization.

Parallely we are also committed to nurturing high standards of Corporate Governance. Apart from adopting recent changes in Corporate Laws and Accounting Standards, we have revisited and redesigned our Enterprise Risk Management to safeguard interest of our all stockholders.

We are happy to be part of such a dynamic industry where we can innovate, evolve and offer new varieties to our audience. We are truly passionate about this and believe we are in the right industry with the right infrastructure and of course the right people to deliver on our strategies and drive value to our stakeholders.

I would now request our CEO - Ajay Kaul to take this call forward and provide you with greater insights on the quarter.

Ajay Kaul:

Thank you and welcome once again.

On today's call I would quickly recap our strategies and initiatives we have adopted through the year. One of key areas that I would like to focus on is the investments that we are making for sustainable growth. We are not just investing in physical infrastructure for restaurants and commissaries. Our investments are holistic in nature and encompass all our support functions, human resources, internal systems & processes. We believe this gives us the ability to not only grow but to be agile and ride out unfavorable external influences which have a bearing on our business.

Hence even in a year where markets were rigid, we have maintained a systematic approach to expansion. But again, important to note that all investments complement our growth agenda and are fully compliant of the strict internal norms that we have.

Before we move on to discuss performance related areas, I would like to take this opportunity to provide clarity with respect to recent news in the media on presence of Potassium Bromate and Potassium Iodate in breads. I

would like to inform you that we DO NOT USE Potassium Bromate or Potassium Iodate as an ingredient or additive in any of our products, and neither do our suppliers in ingredients supplied to us. We conduct extensive tests regularly on our input raw materials and finished products from FSSAI approved NABL accredited labs. All test reports have shown that our products are free of these materials. Offering safe food to our guests is our key priority and will always be.

Moving on to some thoughts on our performance. During the year, we took our brands to several new cities as well and enhanced penetration in existing ones. Our coverage as of date stands at 1039 restaurants for Domino's pizza and 74 Dunkin Donuts. With respect to Domino's we are on track and have successfully achieved our target of opening 150 restaurants during the fiscal. With regards to Dunkin I would like to mention that we have decommissioned 3 of our restaurants. These 3 formed part of the many iterative formats or restaurant models that we were trying out, it being still early days in its evolution. Having now formulated and sort of crystalized what works best, we deemed it appropriate to take such step at this stage as they were deviating from our standards and parameters for returns.

On the back of an expanding customer base, innovation in menu, enhanced online orderings sales, we have increased our topline by 14% in Q4. SSG during the quarter stood at 2.9% and 3.2% for the year. While this is a positive for us, we believe the on ground situation remains rather unchanged with no profound movements over the last quarter.

To quickly touch upon our innovations. During the fiscal, we truly believe our innovation in our menu has helped us attract new customers, reinvigorate interest and drive repeat orders. We have received exceptional response to items such as the Chef's range of exotic Italian pizzas, zingy parcel and double crunch pizzas. The latest to this list is the Pizza mania extremes, which is an extension of our very popular Pizza Mania brand. Through this launch our aim is to give value conscious pizza lovers, a new culinary experience as this range provides not only new flavors but also economical price points. Though this has been launched over the past few days, it is getting high levels of appreciation. In Dunkin, focus was on innovation across all day part items, and so we saw introduction of Big Joy Burger and new range of donuts.

Our operating approach is underpinned by our zest for finding new ways to reach our customers and combine that with convenience. We have extended Domino's Pizza delivery on trains and are now catering to over 135 stations across India. This is something which is still nascent, but as a company our agenda is to constantly scout for new ideas and initiatives which we can then build and derive value from.

On technology we are systematically broadening OLO reach and today our online ordering sales stood at 41% of delivery sales, which is a marked improvement from 36% in the preceding quarter.

On the whole we believe while this year was challenging surely, however it has during the course driven us to better leverage our expertise, utilize our competencies and further build on our systems which will help strengthen our position on the growth curve.

I will request Ravi – our President and CFO to guide you through the financials.

Ravi Gupta

Thank you Ajay. Our Q4 & FY16 results I believe show the Company's ability to remain true to its execution and business strategies to deliver results which are achieved over a background of a tough industry operating scenario. We reported 14% increase in revenues in Q4 FY16 to stand at Rs 6,180 million and for the full year this increased by 16% to Rs 24,102 million. This is attributable to our initiatives for growth with not only our existing customers and also by expanding our offering to serve new customers, new channels and in new geographies. Thus we were keenly driving out marketing and promotional events initiatives along with menu additions.

While driving sales momentum was one focus area, we are equally dedicated towards enhancing business efficiency, utilizing various tools such a six sigma, developing strategic relationships with our suppliers to achieve the best support from them.

One initiative that I would like to highlight is our association with Wipro for their energy management services with the agenda to enhance energy efficiencies and reduce operational costs for our restaurants. We are seeing positive results from this program which will help us set better operational benchmarks supporting profitable growth.

Moving on to expenditure, in Q4 we saw an increase in Total Expenditure by 15% to Rs 5,430 million and by 17% to Rs 21,251 million in FY16. The rise in expenses has been predominantly aligned to the business growth that we have seen, mainly related to employee expenses and rentals.

With respect to earnings, in Q4FY16, EBITDA stood at Rs 750 million, up by 7.1 % and Rs 2,852 million for FY16 which is up 8.5 % y-o-y.

PAT in the quarter stood at Rs 295 million and Rs 1,146 million in FY16. PAT during the period also reflect the influence of higher tax on account of investment allowance benefit for 2 years last year, versus for a year this

time along with higher depreciation witnessed on the back of commissioning of new commissaries.

In conclusion, we continue to make strategic progress towards our driving long term value. We have equipped ourselves with requisite infrastructure and we plan to leverage these investments to capture market share in this growing category. In terms of opening new restaurants we are at present targeting the launch of 130 -140 new Domino's Pizza restaurants and around 20 Dunkin Donuts in FY17.

On that note I hand over the call to the moderator for the question and answer session.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the Question-and-Answer Session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and Gentlemen, we will wait for a moment while the question queue assembles. Thank you. First question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: So the question was on the promoter stake, given that there has been a reduction in the promoter stake, I wanted to understand is there change in the thought of how much the promoters would like to hold and if there is or whatever is the rate, if you could share any update on that sir? And there has been creation of pledge also if you could highlight your prospect on that as well, sir.

Hari S. Bhartia: Firstly, let me assure there is no basic change of strategy we are long-term investor and we have stayed like that for last 20 years and I have said in the past also we will remain in the 40's and we are in the mid-40's right now. So, here there is no major change in our strategy as far as promoters are concerned. We will stay invested in the long-run and we hope the pledges will come down in the coming year.

Avi Mehta: And the second part sir, I want to get a sense on the demand front, trying to understand if there are any signs of change in the underlying demand and trying to see if there is anything that you suggest a pick-up in the last quarter because yes, there is a base element as well which you would have made on our same stores sales growth in this quarter. So, if you could your perspective on that, sir?

Ajay Kaul: Okay, see as far as demand is concerned, honestly what we have been saying for some time that seems to be continuing which means more of the same. While our same store growth at 3% also is kind of not too dissimilar from what we have seen in the previous quarter and the quarter before

that, but more importantly qualitatively when we look at our consumers, what they tell us, to various researches that we conduct and so on. The sentiment has not changed much, not significantly I would say it is minor for us to even report it. So, it is more of the same and that would be my long and short answer to your question.

Avi Mehta: Sir, because I am connecting the dots you have reduce your store addition guidance, you have indicated earlier also that if demand you know deteriorate further we will do so, I am just trying to say if there are deterioration and trying to get adequate also on this side you will not see that?

Ajay Kaul: As far as the full year is concerned we have opened 150 new stores and we have done that for three years in succession. We have said it in the past that our store opening will always be in the same zone so, even when we are giving a forecast for this year or for the coming year which is like the year which is just started we are seeing we will open at least 130 stores to 140 stores. To me it is number which is kind of in the same zone. We are not talking about numbers which are like 100-110. We believe that making prudent usage of our shareholder's money so that our returns are not compromised upon is most paramount in our mind. So maybe there is an element of caution there when we give a number which is not 150 but may be is shade lower it is just about five stores - ten stores less than that. Do not read too much into that. We believe that the sentiment by in large is at the same level. Yes, we always keep hoping that it improves, in the heart of the heart we are hopeful that the sentiment should change and improve because it has been too protracted a period where the sentiment has been lying at the same level but we are optimists. So we always hope that something will turn around soon.

Avi Mehta: Okay, sir. And sir, last if I may is there an IND-AS impact in this quarter and if not what is the expected impact. That is all from my side, thank you very much, sir.

Ravi Gupta: See IND-AS impact will start coming from the next quarter onwards so, there is no impact of IND-AS in the last quarter.

Avi Mehta: And could you share what is the expected impact that you have preliminary worked on or no, you still time on that, sir?

Ravi Gupta: Yes, there are two or three areas where the impact will come in. One area is that security deposit will keep for the premises, there will be discounting on that so some impact will come due to that. Actually there is a negative impact and a positive one. It is with reference to the lease straight lining and which we normally do. Under IND AS we don't have to implement lease straight lining because if the increase in the rental is in line with the

inflation then you need not do straight lining method. So, net of these two there will be a marginal impact, very marginal impact. The third impact is regarding ESOP, ESOP has to be valued at fair value so that impact will come in. So these three areas you can say impact which will come, two negative and one positive. It is not a very large impact.

Moderator: Thank you. We take the next question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon: Just a couple of questions. One, when I go through the presentation and the press release particularly on the management views comment you know from the Chairman as well as from Ajay. So there is a comment this time which talks about in terms of eating out ordering options today, the choices have increased. Now, I am actually picking up one line recently because this is the first time we have actually commented about this while as a consumer we would have actually seen that so, anything you have done some industry work or anything seen which had actually made you comment about this options for the consumer specifically?

Ajay Kaul: No, I mean see research is an ongoing part of our jobs and we do various types of research syndicated as well as you know qualitative quantitative and so on, we have other ways of getting consumer feedback which jumps into several lakhs of responses. There is no specific study which we are referring to but what we realize is that there are moments of upheaval even in the aggregator business. One day they claim to make so many deliveries and in the next day some of these companies just fold out. What we realize is that in general as we have said it in the past also that options have increased which is good at the life stage in which in the food service industry in India is, we need more and more options, consumers need and more and more choices and to that extent we welcome this and we genuinely need it. Similarly on the delivery side with all these delivery aggregators and these deliveries companies coming in, the delivery piece of the business is growing faster and in the short run while it may seem that it may have hurt some people you will be surprised that even for us our delivery business is growing faster than our dining business. So despite all this new player and these delivery companies and all that so, we are optimistic actually about you know all of us collectively only growing this business more. There are enough indicators which shows that India in the life stage in which it is should be far-far bigger in size you know as a food service consumed out of home when you compare it with us say a Thailand or a China or an Indonesia and so on. So it is more positive than anything else.

Manoj Menon: Understood, very clear. Now is there any difference in growth rates between the top cities and the other Tier-II, Tier-II, Tier-IV?

Ajay Kaul: Actually you know why they are not identical and we do these kind of analytics very rigorously, there isn't statistically significant differences between them. So what basically it means that by in large they are all behaving in the same fashion. So the impact of consumer demand or call it whatever, it is there all across the country.

Manoj Menon: Understood. Just one second question on the cost front. Your company has grown a multi fold in the last seven years - eight year and obviously when I look at the cost structure you know it also would have grown. I mean obviously you will do a lot of cost optimization measures etc. but getting some external parties having a hard look at it, the context I am trying to say is when I look at your company Rs. 2,400 crore revenue you know if I take out gross margins a part of it and the EBITDA margin so, there is an Rs. 1,800 crore of cost sitting there, which is a huge number. While I understand there will be ongoing processes improvements etc.. Is there anything specific which you are actually doing from a cost reduction measures?

Ajay Kaul: See you know the interesting thing is that in the last couple of years from the time when our growth numbers were not as high or as you know call it crazy as they have been in the past, it has given us an opportunity to strictly look at our businesses inwards, look at cost lines, see wherever a flag was being probably created and you probably be aware that we are probably the only company in the food service business who engage in six sigma across the company basis and that leads to a lot of cost savings. We have a lot of other internal ways of bringing efficiency productivity and so on. But having said that you know we have realized that probably this is a reason for us to also see some external benchmarks which we normally do on our own so, we are trying to engage with some external companies. It is at a stage where we are still evaluating whether it is worthwhile letting a company from outside or consultants gets all the information about us and then adds only a marginal value because we believe internally also we have some astute ways of managing costs. So we are looking at in both ways. I cannot commit that we will go ahead with some consultant but we are definitely looking into that area and evaluating whether it is worthwhile going along with some consultants.

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

Prasad Deshmukh: Two questions, firstly, have there been any store closures in Domino's as well in this quarter?

Ravi Gupta: No closures in the Domino's. Only three closures are there in Dunkin'. The second point is we keep on reviewing all of the restaurants which are not operating up to the benchmark and we keep on reviewing the performance

and we also look at our initiatives being taken around that to revive growth and we have seen that store after store we are able to revive them back. In Dunkin' case also we tried our best but finally we took a call as they were not reacting and hence we just closed them then.

Prasad Deshmukh: Yes sir, the question was about these two parameter average order size as well as total number of orders, so have we seen any decline in trend in fourth quarter and these two parameters?

Ravi Gupta: See we have not seen any decline in as such as far as transaction size is concerned, as far as number of transactions is concerned when the overall sales itself is lower than Q3 obviously number of transactions have reduced per restaurant but there has been the trend in last year's Q4 also. Q3 typically is the highest quarter we have in terms of sales per restaurants. So last year also you see that between Q3 to Q4 there was a decline and now also there is a Q3 to Q4 decline despite last Q4 we had a very good same store growth 6.6%. It is in line with in terms of a little bit of seasonality. Although there is no seasonality in our business but typically December is a month which is a very big month with Christmas and New Year around.

Prasad Deshmukh: So, if we compare the FY'16 versus FY'15 then the number of transactions has gone down or it is like there is no trend visible there?

Ravi Gupta From 2015 to 2016 the transactions have come down and it is visible very clearly because you have taken the price increase of about 7%-8% in this year and overall same store growth is just 3.2%. So yes, overall the numbers of transactions have gone down, but not the transaction size.

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

Naveen Kulkarni: Sir, if I look at this quarter, will it be safe to assume that this quarter the promotional activity would have been higher than the last quarter and with this kind of promotional activity the same stores sales that we have delivered I think do we see that it is flattening out or it is not improving at the rate that we would have liked it to be?

Ajay Kaul: No, look the promotional activity I do not know what exactly you mean by that, but I am reading it as sum total of all the various marketing consumer facing initiatives which we do on discounting or some new products and everything. I think it is similar to last quarter there is no big difference.

Ravi Gupta: Except that one activity which we did for three weeks on the occasion of opening 1000 restaurants. Now that was an exceptional activity but other than that it is all same what we have done in Q3.

Naveen Kulkarni: Okay. So in that scenario the same store sales growth at around 2.9%, do you think that that is flattening out that is not improving at the rate at which or is it only a function of the market activity what exactly do, we attribute this number which is kind of sticky at 2% to 3% kind of number.

Ajay Kaul: See if you are asking us to take a guess at what will be the number for this quarter...

Naveen Kulkarni: No, I am not asking you to take, I am trying to figure out the reasons why...

Ravi Gupta: Just to say when you are going to we do large kind of discount offering, like this three-week discount offer, they typically do not add much to the top-line. Now this offer is specifically designed not for anything else, but we wanted to really thank our customers from the bottom of heart as they have supported us in the 1000 stores journey and we are also completing 20 years. Also we were simultaneously doing an experiment to see how long will this kind of discount offer work in this market? So let us not say that three weeks discounting should have to led to higher same store growth, if that is the interpretation that despite this discounting the same store growth was not higher, you can say such long discount offers we believe that somehow the consumers do not take very positively in terms of increasing frequency for longer duration, that is what our experiment tells us about sales during this time.

Moderator: Thank you. Next question is from the line of Nilay Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My first question is related to Mr. Hari Bhartia's comments at the start he spoke about Enterprise Risk Management in the vein of corporate governance. What was he talking about? I do not know if he is on the call right now.

Ravi Gupta: See what happens is that from enterprise risk mitigation perspective we have done an exercise about four years - five years back and it was a statutory requirement also. Recently we have overhauled it completely and did it again. We have updated all the enterprise risks in the view of what happened in Nestle case also, which was more relevant to us. so we went back and took a look again to asses if there are any new risks which are emerging although it is continuous exercise and we keep on doing it every three months to six months. But this time we under took a major overhaul of this library what we had and created a new mitigation plan for each of them and that what Mr. Bhartia was referring to in his remarks.

Hari S. Bhartia: Ravi has explained it correctly. This is process that we follow at the board level to look at what are the long-term risks for sustainability of the business and we create mitigation around it. And then, this is what our

board members also demand that we should continuously evaluate risk and that could relate to food safety that could relate to raw material availability depends on whatever the risk that we are dealing with at that particular point of time.

Nillai Shah: Sure. And sorry to drive second question but whatever are the issues which are causing the promoter stake sell down any commentary around where those issues near term at least are behind us?

Hari S. Bhartia: I do not think there are any major issues, you know that we have been an investor for last 20 years and as I promised right in the beginning that we have no change of strategy as far as that is concerned. And sometimes at the promoter level we do have other investments to look at so, it is really a slight change in terms of shareholding and we have committed to stay here for the long-term.

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

Abneesh Roy: My question is on Dunkin' Donuts, compared to say one year back how is the confidence level, why I am asking this is one quarter back the opening was downscaled from 30 opening to 20 to 22 and we did on the lower end? Second is three stores decommissioned, so if you could tell us what has been the impact on margins also? So overall Dunkin' Donuts how do you see and delivery you have started in Delhi so, is that panning as per expectation?

Ajay Kaul: Okay. You know I will take them in random order because smaller questions I will address immediately. The delivery is not only in Delhi, the delivery is being done all India. But the delivery part of the business is still quite small but growing very fast. So that is one question. As far as the overall model is concerned, our confidence in the model is still very much intact. A closure of store in fact to my mind should be seen as a decisive action by the company when it realizes that the shareholders' objectives are not being met. As we have always said, you know at any given point of time even as we speak right now, we are as far as the store modeling or the store type or the store you know location is concerned, we are trying various options, there are at least 5-10 different options that are being worked out whether it is high street, whether it will be mall whether it will be food court, you know it should a neighborhood store and so on and it is iterative phase, the faster we do these iteration and come to conclusion that what works and what does not work, what role does neighborhoods have to play? What role does the mall have to play? What should be the ideal size so, there is a payback period is just right, I think we are in that phase and closure of stores yeah, we have closed three. In the Domino's history given our track record no closure in the last 10 years against that,

you may wonder that what is it, but you need to just look around and see some established brands whom we have a lot of respect for without naming them and including some companies which have come to India in the last three years - four years and are again formidable brands, all of them close stores. So closure of three should not be seen in any other light and as kind of extend that to whether we have we lost confidence from the model, the answer is resounding no, we have full confidence in the model, we are still by the way iterating, not only on store types but also a bit on the menu or a bit on our pricing strategy. We believe that 80%-90% solutions have emerged from most of these axes but you know it is, it is always an iterating game even in Domino's for example today we keep iterating so Dunkin' is still a new brand. We believe we are getting there, one concluding statement I would like to leave with you is that even today as much it will be probably five years from now the rate of pace at which Domino's is going to grow and what Dunkin' is going to grow Dunkin' will always remain one small brother probably contributing at best 5% to 10% of revenue and in EBITDA terms probably just about 5% or so because Domino's is that much more evolved. So that is the role which Dunkin' will play even when we will have 300 stores of Dunkin' by which time probably Domino's will be at god knows 2,000 stores. So please see it in that light, but our endeavor always is to make Dunkin' as successful as Domino's and that is my concluding statement.

- Abneesh Roy:** And sir, impact on margin full year?
- Ravi Gupta:** Overall impact at the Dunkin' Donuts on the JFL margin is about 200 basis points.
- Abneesh Roy:** And this includes the cost of the three closures you would have to write-off from...
- Ravi Gupta:** Yes, all together basically the 200 basis points we have to think if you have to arrive at Domino's EBITDA, add 200 basis points and then that will become the EBITDA for the Domino's on the Domino's sales.
- Abneesh Roy:** Sir, my second question is on the staff cost this has been discussed many times earlier. If you see Flipkart and Snapdeal daily there is news that they are downsizing. So in that context thus the staff cost inflation which has been a key worry dose that start reversing because they were really taking a lot of the delivery guys. So what is your view on the staff cost in the light of what I said?
- Ravi Gupta:** See initially Flipkart there was a worry saying that it will add to the inflation. But I think after a six months to eight months that has actually died down completely. So there was no more negative impact of the Flipkart in last one year or I do not think that any negative impact of this or

any kind of impact will come now. Basically it is the inflation in the team member salaries because of the increase in minimum wages. And since we are paying close to the minimum wages that is why as and when the wages increase we will have to increase the salaries. But Flipkart and all have only in the very initial period added sometimes some pressure but later on nothing.

Ajay Kaul: Let me just add to what Ravi is saying even you know some of these delivery outfits or let us say the Flipkarts of the world you know we are putting some pressure. It was not putting inflationary pressure on our labor guys. It is just that we had to look for more and more employees but one interesting thing with us is that we offer a career to our people who join us as delivery boys. We have various examples of people joining as delivery people and becoming Vice President and Senior Vice Presidents in the company which none of these Flipkart's of the world are able to offer. So, when we did some internal kind of story building, employees did realize that yes, they have a career in Domino's rather than in any other such company. Temporarily they may be getting a bit more money and lot of such people have actually come back to us. In today's scenario where a lot of these companies are folding up, some of these are being retrenched, I think the story is very clear internally, we have hardly any pressure of losing such people to such companies. So it is not a worry any more.

Moderator: Thank you. We have the next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My first question was on your gross margins, we saw them moderating sequentially, was that on account of more promotions and what is your expectation going ahead?

Ravi Gupta: This quarter we have done a three-weeks' 50% off offer and that is the reason for slight moderation in the profit margin. But going forward we do not plan to have this kind of extended offers, long offers because we had done that for a different objective which I referred to earlier. So I think going forward what our Q3 margins are there in line with that close to that we can look at gross margins.

Latika Chopra: And just following up on the labor inflation question, your number of employees as of FY16 end, the increase was only about 600-odd, is this because share of part time employees is higher, any way to read that, in any sense is that any indication of any moderation on inflation on this cost front going forward?

Ravi Gupta: See Latika, there are two ways through which we keep on working, one is definitely productivity which is constant that we keep working on. And second is, as we had mentioned earlier saying that overall number of

orders per restaurants have also come down between FY15 and FY16. So the moment the orders come down the model is flexible enough to adjust the number of people. So we are working on at one side on productivity, on the other side we are working on saying that orders are lesser so that we have flexible manpower so we can adjust it. So all of these are working together and that is the reason only 600 increase in employees despite that 150 new restaurants that have been opened.

Latika Chopra: So do you still maintain this low double-digit labor cost inflation on a like-to-like basis?

Ravi Gupta: Not double-digit I will say but high single-digit or so.

Latika Chopra: And just a book keeping question on CAPEX and tax rate for FY17.

Ravi Gupta: For tax rate for FY17 we are in the similar range, 31% to 32% effective, because investment allowance continues in this year also, so ballpark it remains the same. CAPEX for restaurants also will remain the same, CAPEX has been about, actually in the beginning of the year we said the CAPEX will be Rs.1.1 crore but the actual CAPEX is less than Rs.1 crore, slightly lesser than Rs.1 crore. So you can say ballpark figure of about Rs.1 crore for restaurants will continue.

Latika Chopra: And anything related to commissaries, sir?

Ravi Gupta: Yes, we have started work on the Greater Noida Commissary, CAPEX will be incurred on the Greater Noida Commissary this year. So bulk of the CAPEX which we have deferred for last two three years will get incurred now for the Greater Noida Commissary. So net-net, across all of them including Greater Noida, we expect CAPEX will be around Rs.250 crore or so this year.

Moderator: Thank you. Our next question is from the line of Chandrashekhar Sridhar from Fidelity Investments. Please go ahead.

Chandrashekhar Sridhar: For FY16 could you just give us what your same store level inflation was and after 60 basis points sort of decline in margins how much is attributable to same stores and how much to new store expansion?

Ravi Gupta: Let me say for benefit of everyone, on the same store basis our margins have not declined in FY16 over FY15, the 724 restaurants in the same store definition, on a same store basis our margins are intact. So whole of the decline in the margins, in EBITDA margins of the company is only two factors, one is, 150 new restaurants which were opened in Domino's and I have always maintained that these restaurants are profitable but they are less profitable, in terms their margins are lower and then they bring down

the margins. And the second impact was Dunkin Donuts, the incremental impact of the Dunkin Donut. So these are only two factors for this decline, otherwise Domino's Pizza 724 restaurants, the margins are intact. Which means the impact of the inflation has been well managed by this 3.2% same store growth.

Chandrashekhhar Sridhar: Yes. Second question is, I am just trying to understand if you could just give out a number in terms of what your per delivery cost including fuel is, is it Rs.60, Rs.70, Rs.80, I am just trying to understand what your per delivery cost including fuel is?

Ravi Gupta: This is a granular information we will not be able to share, obviously.

Moderator: Thank you. Our next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.

Krishnan Sambamoorthy: Despite an increase in long-term loans and advances to the tune of Rs.22 crore - Rs.23 crore, Ravi, what is this on account of?

Ravi Gupta: Which line item you are saying?

Krishnan Sambamoorthy: Long-term loans and advances, Rs.127 crore to Rs.150 crore.

Ravi Gupta: These are the normal increase which happens because we have to sign about 150 new restaurants, there is security deposit for each of them, then some advances for commissary also because commissary construction has started. But mostly it is limited to the security deposit which we gave for the new restaurants for both Dunkin Donut as well as for Domino's Pizza.

Krishnan Sambamoorthy: And the other query is regarding the Noida super commissary, when is that likely to be operations?

Ajay Kaul: By March 2017.

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

Amit Sachdeva: So Ajay, I had perhaps asked in the past as well, when I look at the business model of say Domino's Pizza and or Dunkin, are we like constraining ourselves into formats which are just two of its kind and given where the western food has come to India through these two formats only roughly, but is it something that you are missing an opportunity by not looking at other options? And why I am saying so is because given that a lot of aggregators have started delivery, delivery aggregators, they are increasing choice for consumers, it may not be reflective in data that we see, and while time will tell but are we being too narrow in our thinking, why not we

are thinking of expanding very rapidly to much many formats rather than just sticking to these two?

Ajay Kaul:

If I have understood your question right, it is obviously a strategic question, see both these brands are global brands and by virtue of what they are they do throw up some limitations in terms of what we can do and what we cannot do. Since we are married to both of them and without trying to be very explicit about what I am trying to say, they have a bit of do's and don'ts list. But having said that, you know there are opportunities which we can pursue. Have we limited ourselves for example not getting into some aggregator business and all that, without saying whether it is in the do's or don'ts list coming from let's say Domino's or Dunkin, we do not think so. We have been evaluating these options all along, we also have experienced from other countries where Domino's is already existing and what evolution it has gone through there. What we are more gung-ho about is brining maybe some other brand or creating one of our own brands at some stage, in fact we constantly keep evaluating these options. May be the last one or two years have not been so conducive to bring in such concepts immediately to India, or create one on your own but we are constantly evaluating them and at the appropriate time we will do it. We are also firm believers, and that is my concluding statement that with all this, I would not call it turmoil, but all this various options emerging, it is only good for the food service industry. Actually we always welcome more and more options, while some will survive, some will fail, some will collapse but overall the consumer will get more choice, as a result the habit of consuming food outside of home will only go up and that is what we are banking upon here.

Amit Sachdeva:

That is very helpful Ajay, but why I am asking this is that since you have observation of your main top 10 or top four cities, what is happening there which is perhaps on the leading edge of using all this social media and also ecommerce and things versus some of the Tier-II. Somebody asked this question as well, but while it may be still early but are you seeing some diversions in same store growth that you get in Tier-II in this macro environment versus you get in say top 10 cities or top two cities, three cities?

Ajay Kaul:

We gave the answer a little while back, it is not a statistically significant difference, in fact even then I made this statement, I am not saying that Tier-II cities are worse, they could sometimes be even better off. So we are not seeing anything, if there was we would have addressed it but we are not seeing that, even in terms of ageing of cities, even in terms of cities where we went 20 years back and some cities we may have gone five years back, we are not seeing statistically significant differences between these clusters which tells us that the consumer sentiment probably is affected

everywhere equally and ubiquitously and as a result such differences are not emerging.

Amit Sachdeva: Just one small bit, it is just an observation of last four quarters which is in the same year of course, FY16. I have seen if I look at sequentially, when I look at YOY store expansion growth and I look at same store growth and look at the reported growth, it seems to have that if I try to get a spread between the two like a reported growth and the sales growth and the same store, this gap has widened which means that underlying revenue has deteriorated even sequentially in the year, if not significantly but reasonably significantly. Is it a fair observation?

Ravi Gupta: That is not true actually, you are talking about only the new restaurants or you are talking about generic?

Amit Sachdeva: No, what I am saying is that at the top level, I look at the observation of the same store growth that you report and I look at the YoY expansion in the stores which obviously at the system, below system average and thing, that effect is already there, I presume is there in the base as well and there is a reported revenue growth. And I see bit of disconnect between the two lines and it has widened over time or last year.

Ravi Gupta: See, if you look at the first quarter SSG was 4.6%, second quarter 3.2%, third quarter 2% and fourth quarter 2.9%, that may give you an impression that it is going down. But every quarter has its own base, some quarters the weekly net sales increases, some quarter it does not increase and you have to look at it on a q-o-q basis. This year, as far as the new restaurants are concerned, the new restaurants opened lower than what they opened last year, so that is an impact and that impact is in continuation of the general theme overall weakness in the economy and all that. So that is breaking down the average, if you are saying that then it is right, but as far as the same stores are concerned, 724 restaurants, that statement saying that quarter-on-quarter decline, that is incorrect.

Amit Sachdeva: I got actually the same thing that it seems to be a more underlying deterioration on basically the new stores revenue that are fetching relative to the past that they were getting.

Ajay Kaul: Yes, new stores have lesser revenue as compared to the old ones, I think we have addressed in our previous concall also.

Amit Sachdeva: But then why, I mean I am surprised that you still have taken price increases because you have to protect the gross margins, but while you are perfecting the Dunkin model, is this the only way that you could deal with a throughput by just making sure that the costs are passed on and... I know you experiment sometime with price increases, but do you think that at

some stage pizza will become very expensive and this will impair the throughput that you potentially get? Why I am asking is because of the relative choices people have, is it something that on an average, I know some Pizza's are very cheap as well and some are more expensive, but on an average do you find that there is a bit of an issue here of pricing overall for pizzas?

Ajay Kaul:

The way we look at it is that coming out of a past, and not necessary last one year, last one year we had, as you may be aware, we had engaged with one top of the line consultant and we had done our price increase very-very scientifically, where intricate price elasticity study is done and as a result the impact on orders as a result of each price increases we thought would be minimal, and that is how it has turned out to be. But before that we have taken price increases which have been too high for the customer and the whole industry as I was saying was going through this food inflation cycle and so on. Going forward, we think that yes should not take price increases of the nature which we have taken in the past, and so this year for example our endeavor would be to probably take at best one price increase and too a small 2% to 3% because we do not actually want that. The way we want to play this game is that while we may take that one price increase but they will also be supplemented by our entry level pizzas and other products which will be coming at a lower price. For example, we have just launched the new variant of our Pizza Mania which is like the lower end of our Pizza range but we have upgraded that in terms of variety there, there are four different choices and already this was launched in April and already the consumers are giving a very good response to it. So that is the way we want to play this game strategically and I agree not necessarily take price increase at the pace at which we have taken in the past.

Moderator:

Thank you. Our next question is from the line of Nishit Rathi from CWC Advisors. Please go ahead.

Nishit Rathi:

Just a question, can you just share what would be the price increase net of discounts? So basically the assumption out here is, I just feel that the percentage of pizza discounted and the discounts given seem to be higher this year as compared to last year, specifically this quarter. So what would be the price increase net of the discount?

Ajay Kaul:

See, we cannot look at it like that, we have that information but we cannot share it with you, however it has to be seen differently. One, in this quarter, as Ravi was explaining earlier on, this was a quarter where we opened our thousandth store and thousandth means it was big deal for us, for whole Domino's because we are the first country in the Domino's setup globally who have reached the thousand milestone. We have completed 20 years of our existence in India, so we gave for a three, four week period we

ran on promotion as a thanks giving to our customer and that has probably shown our discount in a different light, that is not something which we are going to do every month, every quarter or every year because we do not reach such milestones every time. So that may be corrupting the number for that last quarter a little bit. Having said that, what we need to realize is that price increases could be given SKU wise whereas discounting in general could be done under mass discounting which is like a buy one get one free is done across. So to kind of equate the two and come out with a number is probably not the right approach. So I would urge you to look at it in that fashion rather than saying that how do you kind of take the discount out of the equation and then look at price, that is not the way consumer looks at it.

Nishit Rathi: Sir, the question was basically every pizza order which is not a pan-pizza you can get 20% through using coupons, so that is one. And secondly, with the discounts that you spoke about that BOGO offer that you did both for the celebration and BOGO offers that you have been doing. So these two combined with that, in spite of that the volume declined, so that is the reason why we were trying to understand because the volume declined people are assuming based on saying 7% price increase and the 2% is the same store sales growth, so that is their volume decline. So the question basically is, is there a volume decline despite of discounts?

Ajay Kaul: The answer is yes, that is what Ravi had said sometime back.

Nishit Rathi: And sir the second question is, on the go stores, could you just give us the number of stores that you have out there and some qualitative comment, how do you see that opportunity?

Ravi Gupta: There are 14 such restaurants there, mostly in Mumbai, there is one Delhi also, which in terms of investment where the investment is I think less than half then the normal investment what they have. It is an experiment which we are doing saying that how can we make this successful, because the potential for this on the go is fairly huge. In the initial stages of the experimentation we will not be able to share much detail about the experimentation, some are doing good, some are not doing that good but we are trying to venture out that how can we make it work. So once we make it working there is a huge potential which can emerge on this.

Moderator: Thank you. Our next question is from the line of Varun Khadelwal from Bullero Capital. Please go ahead.

Varun Khadelwal: I also have a strategy question, my question is as follows, following-on from some earlier questions as well. You are finding same store growth very hard to come by and over a period of last five years you have increased your number of stores substantially whereas the net profitability of the

company has not really gone anywhere and now you have a lot of competition coming in from aggregators in terms of the overall home delivery model has expanded. So where something like a Domino's would have been a large chunk of home delivery earlier, that percentage may go back. So where as the market may expand you may not expand along with it, is that something that concerns you?

Ravi Gupta:

See, what you are saying is in short-term can happen, but long-term there are many options with the consumers and there might be varieties with the consumers, in terms of price also there is good value for money consumer gets, the market expands fairly rapidly. And the proof of pudding is, that despite that overall there is an impact on same store growth our delivery in same store growth has been higher than what is our annual same store growth, like if annual same store growth is 3.2%, our delivery same store growth is even higher. Otherwise typically you will assume that all these options are available in the delivery space, our delivery seems to get impacted. So basically we are fairly confident that long-term basis all those option availability, all this competition which is there it is fairly good for the industry and it will work out fairly positively for all the brands together.

Varun Khadelwal:

So just to follow-on that, to my understanding you have already saturated a lot of the metros, not only the metro I think the top 10 to 15 cities you have already saturated quite well and now you are expanding down to Tier-II, Tier-III cities, correct. So one would assume that the potential for your number of stores to expand and keep adding revenue on earning return on capital that you generate further on will be increasingly limited because the food aggregating services will also be going, they are already going on to Tier-II, Tier-III cities so this as a competition that will be there for you for good time to come. And since you have already saturated or at least tapped to a very large extent, the prime markets for home delivery, it would appear to me that going forward with the preset strategy, consistent growth and same store growth will be a little challenging.

Ravi Gupta:

As far as next year is concerned, out of 130 - 140 restaurants which we are planning to open, about half the restaurants will get opened in top 10 cities, despite the use of the term saturation we do not find any kind of saturation in these cities actually, we are expanding and ever expanding. Now last two years we have reduced deliberately and now we are saying that since we have delayed our diligence in opening in the bigger cities our restaurants, now there is a possibility that we can tilt back in favor of the bigger cities and our plan is that in next year, this in the current year, about half of the restaurant we will open in the top 10 cities so there is no kind of saturation in the cities and then the cities will keep on expanding. Second thing, we are very conscious of the payback period in our restaurants and even if we have to compromise number of our restaurant we do not mind compromising number our restaurants, but we are hell bent on achieving

the payback period for each and every restaurant what we have. So unless and until we are confident that we will achieve the payback period of three years or lesser, we will not open the restaurant. So that answers your other question saying that whether return on the Tier-II, Tier-III cities or the extra restaurant which we are opening in the bigger cities will be lower.

Varun Khadelwal: Okay, this is very interesting, so may be my understanding is not correct and may be you can correct me. See, as of now, say take Delhi for example, you would be presently addressing all the localities in Delhi, am I right?

Ravi Gupta: Yes, back to back mostly covered, but there will be some localities that are still not covered.

Varun Khadelwal: And you are finding same store growth very challenging in the present localities, correct. And now the new stores that you will open, will these now be there to address those localities in Delhi which we are not currently servicing or will this also share the catchment area with some of the existing stores?

Ravi Gupta: What happens is we actually call it split strategy for us, we open only those restaurant or around those restaurant which are struggling to keep up the promise or service promise to the customers. So where we are delivering at 28, 29, 30 minute and there is another catchment which has got developed in the meantime around those restaurants where we are not able to deliver. So we look at those such opportunities and some part of that it cannibalizes from the existing restaurant, some is new sales also which come in which we are not earlier delivering. So combined together, since our service to the consumer improves, as a result frequency of the consumer in that area improves and we are able to generate more sales from both the same stores combined together. On an incremental basis when we compute the ROIs from the new restaurant, it pays back in three years or lesser.

Varun Khadelwal: So you are saying that now there are lot of stores that you have in Tier-I or top 10 cities wherein your actually supply constrained and you get more orders than you can process because that is the only way you can make money from cannibalization.

Ravi Gupta: I would not say supply constraint, supply constraint we can manage actually, we can always expand the restaurant, but only one thing we cannot manage is delivery time to the customers. In the sense, you can produce may be double the pizzas from the same restaurant but we cannot make sure that we can deliver the customers in 30 minutes or not from that same restaurant because of traffic hazard, because of the new locality coming, loop diversion which happens, all of those reasons. Since our service starts suffering and that is the reason we need to split the

restaurant because we want to serve the consumer hot and fresh pizza in less than 30 minutes.

Moderator: Thank you. Our next question is from the line of Manish Jain from Nomura. Please go ahead.

Manish Jain: I had two questions. One is, when I am looking at your presentation for Q3 and then for Q4, I notice the number of employees have come down significantly on a Q-o-Q basis. As of 31st December there were more than 30,300 and now as of 31st March they stand at 20,700. Am I reading the numbers correctly?

Ravi Gupta: Yes, you are reading correctly and this is always true, for last five years when you will take the numbers they will be the same. Q3 as I mentioned earlier is the biggest quarter, especially in December, the number of employees goes up and then it contracts automatically.

Manish Jain: So they are like new employees which come in the third quarter...

Ravi Gupta: Yes,

Manish Jain: And second is sir, when would we be in a position to share Dunkin numbers separately?

Ajay Kaul: See, the Board is yet evaluating as to at what stage should we granularly share the Dunkin numbers. I think the decision should get taken probably in the next at best one month, so by the time we come for our next quarterly results we should be in a position to give away either granularly share more information or continue giving the combined information. But you will get to know in the next one month as well.

Moderator: Thank you. Our next question is from the line of Abhishek Ranghanathan from Ambit Capital. Please go ahead.

Abhishek Ranghanathan: On the delivery SSG I have a question here is that, you mentioned your delivery SSG is higher than the dine-in SSG. Would it be largely value driven?

Ajay Kaul: Sorry, we did not get the last part.

Abhishek Ranghanathan: Would this SSG be largely value driven, that is price driven. Because you mentioned you are down on volumes in FY16.

Ravi Gupta: Yes, overall we are down on volume marginally for small single-digit number, overall SSG you know is around 3%. So the delivery SSG is higher and the dine-in SSG as a result is lower than 3%.

Abhishek Ranghanathan: I got that, what I wanted to get a sense is that delivery SSG is largely value driven or volume driven?

Ravi Gupta: Is it driven by client, is that what you mean?

Abhishek Ranghanathan: I am saying is your delivery number of same store volumes or orders, is it...

Ajay Kaul: Delivery order growth is also higher than the dine-in order growth and that is what you will see.

Ravi Gupta: We are probably not able to understand your question, if your question is saying that whether price is the main reason for the growth of same store growth because volume is lower and all that, you may be right.

Abhishek Ranghanathan: Yes, this is particularly for delivery sales.

Ravi Gupta: No, but it is true for both delivery and dine-in, there is no different pricing we have for delivery and dine-in.

Abhishek Ranghanathan: No, I get that. So basically what I meant, the ticket size would differ, I presume?

Ravi Gupta: The ticket size different, ticket size for delivery is always higher than dine-in and the obvious reason is that in dine-in most of the times consumers split the orders, he orders limited ones and later on if the need be he orders again that is the reason ticket size typically is lower whereas in delivery you have 30 minutes bar, if you order lesser the next order will get delivered after 30 minutes, so they tend to over order.

Abhishek Ranghanathan: And the second piece is again related to the SSG and margins, you mentioned that the same store margins have remained there and despite the fact that you have seen almost a double-digit wage inflation this year and obviously rental cost going up. So would it be fair to say that there would be a significant gross margin expansion for you to maintain this, because 2.9% or 3.2% SSG and double-digit wage inflation, the benefits on gross margins would have been more than what is there. So for example if I were to say that it is about 150 basis points is what your gross margin expanded year-over-year, if I were to strip of Dunkin possibly, your Domino's gross margin would have growth further?

Ravi Gupta: I think we have never shared it is double digit inflation. Inflation this year has not been double digit at all. I have not shared in this con-call so far what is the actual inflation number has been. It is slightly higher than the same store growth what we have, but not double digit. I am talking about

net result of all the items together. In that context would you like to revise your question?

Abhishek Ranghanathan: The point I was trying to get is your margin which you have protected and you have maintained on the same store basis it would be largely on the basis of gross margin and there also it would be combination of price increase and raw material benefit both.

Ravi Gupta: Yes. You can say gross margin has increased year-on-year basis definitely and gross margin is increased because of two factors as you rightly mentioned – price increase for the sale of the material and decrease in the raw material prices also. If not decrease at least substance of that level so that has primarily helped us in maintaining those margins because there was cost pressure on other line item. You know last quarter the bonus impact had come in which is sustaining now and it will sustain in the future. Labor line item always at a high single-digit kind of inflation. Some years it had a double digit also. So net-net yes gross margin expansion has helped us to maintain the margin.

Abhishek Ranghanathan: And the inference here would be if I were to sustain these margins or to improve from hereon, what kind of SSG you would look at targeting given the pressure you which you face on cost line items?

Ravi Gupta: See we have been saying that typically the same store growth should be same or higher than the inflation impact of all the past and in that case you can maintain the margins and when I say maintain the margin, maintain margin at the same store level. If at the company level we have to maintain the margin obviously the same store growth should be definitely higher than the cost inflation which is there. So that whatever the dilution is there because of new restaurants is taken care by the existing restaurants itself. So this number will keep on changing from year to year. So I cannot give you one number particularly saying that the 5% is the magic number or 7% is the magic number because this number will depend on what kind of inflation you got impacted with.

Abhishek Ranghanathan: Just a last thing on employee cost, your employee cost is grown 26% year-on-year so the actual inflation you are saying is in single digits or you mentioned just now high single-digits.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: Can you just explain the positive impact of the straight lining of lease-rental as per IndAS. I did not understand that fully well.

- Ravi Gupta:** The accounting standard used to say something for last year that if your rental is increasing during the duration of agreement you have to straight line the rental in the sense suppose first three year rental is Rs. 100 and after three years it becomes Rs. 115, after that it becomes Rs. 130 so the whole duration is an agreement. You sum up the total rental payable and divide by it the duration of the agreement and that is how you come with the average rental payable. So the accounting standard required that you should straight line the rental and charge accordingly. And they have defined saying the rental to be straight line was only in relation to the building agreement not in the land portion. So that's what is meant by straight lining.
- Sanjay Singh:** So how does it positive impact of it because it is no longer there?
- Ravi Gupta:** It is no more required. What used to happen is about 50% of the restaurants are new restaurants so initial year of the agreement always the rent used to get inflated because in first three years instead of Rs. 100 you might be charging Rs. 115 to the P&L. Rs. 15 is the notional charge. But in the last three years of the agreement suppose it is a 9 years agreement even if you are getting benefit of those Rs. 15. But since our most of the restaurants are in the new stage in the sense first three years, five years stage and all that in our case there was a hit. Rental used to always get inflated by straight lining.
- Sanjay Singh:** This question is for Ajay, sir last four years the environment has been of course no doubt very troublesome but having said that good businesses survive troubled times and emerge stronger so four years you lost 700 bps margins, earning per share is almost flat where it used to be and there is nothing changing so that we can't say that next year SSG is going to be double digit or high single digit and given that what Ravi said that even to maintain margins we need SSG which is slightly more than inflation which is perfect mathematical way to look at it but then what do we do? If things don't improve from here margins will still get hit because that's how things are so is there anything that as an organization which you can do to reserve things or either drive top line by doing something about pricing, etc. or drive cost dramatically to improve margins? What we can do from here if things don't change?
- Ajay Kaul:** This is the question which deserves the 10-15 minutes answer and not just may be a minute or so but let me try to be as short as possible. Yes, last three years have been tough. SSGs have been under severe pressure and it is not something which we are thinking today. We have been thinking about this for the last two to three years. I have often said this that the kind of innovation, micro innovation on all our expenses whether it is product development, launches, promotions, even cost efficiency, productivity and all that engagement of Six Sigma more and more which

means attacking top line as well as bottom line pressure with equal vigor has been going on. We also in the past may have sounded a bit optimistic in terms of change in the economic sentiment or the call it the consumer sentiment and for whatever reason it has belied us and that is something which probably has pushed us more towards bringing in more, that's the also the reason why while in the past we were not engaging with consultants especially on the pricing front we did engage with consultant last year and they helped us to kind of take a price increases in the most scientific fashion without affecting our orders, growth significantly. We are also looking as I was saying earlier this year we are already in dilemma, we are not saying that we will go ahead with that because we have our reservations on the cost side but we are looking at some again marquee consultant, some boutique consultants also going through their presentation and so on to figure out that whether we need to do some seminal work on managing costs efficiency, productivity and so and so forth. Overall, I would say that if you look at Domino's business alone and leave the Dunkin's alone for a moment despite 3% same store growth we have been largely able to protect our margins on the Domino's business so despite SSG being only at 3% and normally cost increasing by at least 7-9% and thereby the needs to have SSG at a much higher level, we have still been able to protect our margins if you look even at a larger window which means going back even a couple of years. Dunkin' on the other hand is at stage where it is eroding our margins 200 basis points Ravi must have told you sometime back but that's also at sales where it will deserve that kind of attention and monies. So honestly we are not un-phased we are constantly working on this. We are constantly trying to see ways by which we can increase top line and also protect cost. Till now we were not focusing that much I would say on cost cutting per se because when you are still growing at 15-20% to 25% at a system level to send a message across the organization that we are cost cutting is a probably not a great message but this year we probably will even look at that and then how we can still bring in some cost cutting but more I would say popularly cost efficiency, productivity enhancement and so on is what we will focus on.

Moderator: Thank you. Our next question is from the line of Manish Poddar from Religare. Please go ahead.

Manish Poddar: Could you call out the impact of Dunkin' let us say for FY17 and '18? I believe you said 200 basis points for this year?

Ravi Gupta: It is actually in the similar ballpark range.

Manish Poddar: Just wanted to understand have we internally actually tried to work out a model wherein we can charge for delivery?

- Ravi Gupta:** I think we debated actually, free delivery is our USP and that's the reason we are not charging for Domino's delivery. Although the Dunkin' you might have noticed that we are charging full amount for delivery. So we don't want to give up our USP at all. So Domino's as of now we don't have plan for any charring.
- Manish Poddar:** Could you actually give us how much would be the sales per store let's say in the stores which have opened roughly about three to four years back roughly about 400-500 of them
- Ravi Gupta:** That's the granular information, we will not be able to share.
- Moderator:** Our next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.
- Rohit Kadam:** Ajay one question to you is regarding your opening comments that demand trends continue to remain weak just one observation some of your competitors have at least indicated that there is some uptick trend in March quarter and some of their SSG numbers have also looked much better than in the past. So in that context how do you see this that your SSG in absolute term seems to be lower than some of the competitors which has not been the case in the pasts and their comment that there might be a little bit of pick up in market which is happening?
- Ajay Kaul:** Without disrespect meant to the people you are referring to and we have a lot of respect for them honestly. SSG numbers at the end of the day is a cosmetic number. You compare it with the number which is coming out of exactly the same quarter last year and the quarter exactly may be nine quarters back. Now if you look at you need to go back and do some analysis on how was the five quarter back number for these people and nine quarter back number for these and when you will realize that when you start coming out of some really rough quarters exactly a year back cosmetically a number may look good and I am not saying here they are not doing a good job or we don't have a respect for them. These are great companies and great brands and we love them. We like them and so you need to look at it not in isolation but with regards to that. As far as we are concerned our statement is a pretty straightforward statement that our SSG has kind of continued in the same range around 3% or so. And we are otherwise through all the research and anything that we do not seeing statistically significant shifts. There are some minor shifts may be happening but we are not seeing significant shifts. So we will stick to our stand.
- Rohit Kadam:** Just one more question on margins to Ravi, on the raw material side there is some food inflation which seems to be coming back so in your input basket are you still looking comfortable? And secondly, there was this

couple of measures announced for the government in terms of paying the employee pension scheme contribution to employees who earn less than 15,000 and some tax breaks for new hiring so any of that do you think is going to help you in FY17?

Ravi Gupta: This tax rebate is likely to help us. If I have to do a working for the last year we were eligible for that definitely. I think this year we will see how many employees will complete 240 days. So definitely, there is a wording in entire thing that you can't claim both of them. Either you can claim PF or claim taxation and our initial evaluation indicate that the taxation benefit may be better for us to claim than the PF one but we are still evaluating things that which one eventually we should claim. But actually we are eligible for both. We have to decide which one to claim.

Rohit Kadam: So this 31-32% of guidance of tax rate is excluding this benefit that you might get or that is the including?

Ravi Gupta: We are including that benefit.

Rohit Kadam: On the RM inflation, are you seeing any pockets of inflation on the foot side?

Ravi Gupta: It is not visible as of now but looking at what the market sentiment is and the news which is coming in a very small inflation for the full year we can think about. As of now nothing visible on the ground. But we are seeing the market in a way saying that over the next 12 months there could be marginal escalation there. Very marginal.

Moderator: Our next question is from the line of Amrita Basu from Axis Mutual Fund. Please go ahead.

Pankaj Murarka: This is Pankaj here. You just made a comment that Dunkin's losses will remain at similar about 200 basis. So when you say that this year the investment is about 50-odd crore and if I build in a 20% kind of revenue CAGR for the organization then you are saying that this losses will keep compounding at 20%, is that what you meant?

Ravi Gupta: No, the way we look at is that if you have to arrive at a Domino's margin, how much dilution it will have? That's how we look at this number, not at 200 basis multiply by the turnover of the company and all that. That doesn't means the losses are increasing by 30%. Our estimate is the losses may not increase at all in comparison with the **last year**. it will slightly come down.

Pankaj Murarka: So this absolute number is let us say 50 crore for FY16 the kind of losses?

- Ravi Gupta:** What is Rs 50 crore?
- Pankaj Murarka:** The impact of the Dunkin' at the EBITDA level for the company, if I take the 2% of the aggregate revenue?
- Ravi Gupta:** That is not the way actually, that is 200 bps we have to apply to that whatever EBITDA reported i.e 200 basis points you will get at Domino's EBITDA so actual Dunkin's loss will be lesser than that number what you are configure.
- Pankaj Murarka:** How do I arrive at the absolute number?
- Ravi Gupta:** Absolute number there is no way you can arrive at but if you just work out a little excel worksheet may be you can arrive at that number but 200 basis impact is that if you have to conclude Domino's EBITDA, add 200 basis points and apply and whatever number is there that is the Domino's EBITDA.
- Pankaj Murarka:** So is not that difference the loss of Dunkin' or there is something else between the two?
- Ravi Gupta:** It is the lesser than what number which you have indicated.
- Pankaj Murarka:** So when will this absolute amount of loss peak, which will be the peak year of loss for Dunkin'?
- Ravi Gupta:** I think it is almost peaked right now.
- Pankaj Murarka:** So incrementally going forward you are saying that the impact will be lower than 200 basis points?
- Ravi Gupta:** See what happens is the weight of the Dunkin' business keeps on increasing. Now we are taking an example actually, take say 5 years from now Dunkin' contributes 10% to the revenue and Domino's contributes 90% of the revenue I am taking the hypothetical example and Dunkin' is contributing (+5%) and Domino's is 20% margin. We will try to compute the weighted average for both of them, you will still find that there is a dilution of 150 basis points. So even that year I will say there is a dilution of 150 basis points does it mean the losses are expanding or there are losses in that business, answer is no. So, it is the way you work out the numbers that's why this looks like saying that okay the losses will continue or will peak out.
- Pankaj:** So the one influence I am drawing form the what you are saying FY16 was the year of peak losses for Dunkin', am I fair in drawing that influence?

- Ravi Gupta:** Yes.
- Pankaj:** Secondly then just to get a perspective meaning when do you think Dunkin' will achieve EBITDA level breakeven?
- Ravi Gupta:** Typically, I think another 2-3 years' time it should be able to achieve EBITDA breakeven because it is a bit protracted a little bit also because of the weaker consumer sentiment which you are saying in the last three years. Had that not been there probably we would have said may be it would have done much-much earlier.
- Pankaj:** So do you think we should recalibrate our expansion plan for Dunkin' in context of the consumer sentiment what you mentioned one and secondly is the CAPEX for the Dunkin' stores are the same as aggregate company or there is difference?
- Ajay Kaul:** It is kind of in a similar zone. In terms of recalibration if you remember we had earlier said for the last year also that we will probably open 30 Dunkin' Donut stores but in the end we finished at 20. And our guidance number for even this year is around 20. So we have recalibrated. We also realize that prudent spending of CAPEX ensuring that return on investment on whatever we do is very-very crucial so that is the reason. As Ravi was rightly saying it is the consumer sentiment had been a bit better may be that number would have been 30 and plus but we realize that we have to be a bit more prudent and cautious.
- Pankaj:** Just last one if I can squeeze in on Domino's margins, now we have seen a wide range of margins from where we were when we were getting 20-30% same store sales growth to where we are what our assessment or what the long term margin of the business could be or where that we would like to operate which is fair balance between volume and pricing and profitability.
- Ravi Gupta:** We are not giving an estimate for the future margins because we have stopped giving guidance about even next year and year after that and all that but having said that what we have spoken in earlier con-calls also, ultimate margins is a summary or a mix of or depends on what kind of same store growth you have. If the same store growth continued to be higher than the inflation in the economy or inflation in the cost element you have the margin will keep on expanding and new restaurants always are margin dilutive initially although extent to the new restaurant we will keep on declining. Right now we are saying last four years we opened 50% of the restaurant and the last four years has not been the best of the years in terms of the consumer sentiments but going forward when the weight reduces for the new restaurant that also could provide a better expansion in the margins.

Moderator: Thank you. That was the last question. I now hand the floor back to the management for closing comments.

Ajay Kaul: Thank you, ladies and gentlemen for taking the time and joining us on this call today. We hope, we have adequately answer your queries. Should you need any further information, please feel free to contact us. Thank you very much.

Moderator: Thank you very much sir. Ladies and Gentlemen, on behalf of Jubilant FoodWorks Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.