



Transcript of the Q3 FY17 Conference call for Investors & Analysts

Call Duration : 01 hour 26 mins

Management Speakers

: Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks
Mr. Ajay Kaul – CEO of Jubilant FoodWorks
Mr. Sachin Sharma – President & CFO of Jubilant FoodWorks
Mr. Arvind Vats – Chief Investor Relations Officer of Jubilant FoodWorks

Participants who asked questions

Mr. Aditya Soman - Goldman Sachs
Mr. Kunal Vora- BNP Paribas
Mr. Abneesh Roy - Edelweiss
Mr. Nisarg Vakharia - Lucky Investment Managers
Mr. Vivek Maheshwari - CLSA.
Ms Latika Chopra- JP Morgan
Mr. Ankit Babel - Subhkam Ventures
Mr. Avi Mehta - IIFL
Mr. Manoj Menon - Deutsche Bank
Mr. Amit Sachdeva - HSBC
Mr. Anand Krishnan - Kotak Infina
Mr. Sanjay Singh - Axis Capital
Mr. Gaurav Jogani - Prabhudas Lilladher
Mr. Mayur Gathani - OHM Group
Mr. Abhishek Ranganathan from Ambit Capital

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jubilant FoodWorks Q3 FY17 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Urvashi Butani from CDR India. Thank you and over to you, ma'am.

Urvashi Butani: Thank you, Karuna. Thank you and Good Evening for joining us on Jubilant FoodWorks Conference Call where we shall discuss the Financial and share Operating Highlights for the Third Quarter ended December 2016. We have with us on the call today, Mr. Hari Bhartia -- Co-Chairman of Jubilant FoodWorks; Mr. Ajay Kaul -- CEO; Mr. Sachin Sharma -- President and CFO; and Mr. Arvind Vats -- Chief Investor Relations Officer. We will initiate this call with key thoughts from Mr. Bhartia followed by the Operating and Financial Performance by Mr. Ajay Kaul and Mr. Sachin Sharma, after that the floor will be open for any questions that you may have.

Just to state as a standard disclaimer, certain statements made today may be forward-looking in nature and a note to that effect has been stated in the release sent out to you earlier. I would now request Mr. Hari Bhartia to share his perspective on the company. Over to you, sir.

Hari S. Bhartia: Thank you and a very warm welcome to all of you. Q3 FY17 which typically corresponds to a busy festive quarter was dominated by the after effects of demonetization which has impacted consumer sentiment as well as spends adversely due to liquidity constraints. While our Q3 reported numbers are impacted by cash crunch due to demonetization, the investments made by us in technology to keep ourselves aligned with the fast changing consumer payment habits have helped us to minimize this impact. Also, we have completely revamped our Mobile App and WAP to further enhance customer experience. Though we believe that the demonetization impact is tapering down, we may continue witnessing headwinds in our cash on delivery business till it normalizes in this quarter.

We have reinforced our focus on profitable growth, and to this effect we have closed those restaurants under both Domino's and Dunkin' which were not meeting return norms and this principle will continue to drive our future network expansion plans also.

From margins expansion perspective, we are engaged to identify opportunities of cost rationalization and improvement in the operating leverage. We do expect gains from this in the coming years. We also believe that introduction of GST will have significant positive impact on our margins.

On Dunkin' operations, the strategy is to focus on bottom line and achieve operational breakeven in the coming two-to-three years.

Before I hand over the call, a quick announcement -- as most of you may be aware, we have appointed Pratik Pota as Chief Executive Officer-Designate. He will join the company by end of February 2017 and assume the role and responsibilities as CEO and Wholetime Director of the company w.e.f. April 01. Mr. Pota joins the company from PepsiCo India where he was Chief Operating Officer, Foods and Beverages. Prior to this, Pratik has held various leadership roles in FMCG and telecom industry. We welcome Pratik and we are very confident that with his rich experience, he along with senior management team will steer the company to achieve its long-term shareholder value goals.

Also I on behalf of the entire company, would like to thank Ajay who has played a stellar role in the stupendous growth of the company and we wish him all the luck for his future endeavors.

On that note, I would now request Ajay to take this call forward and provide you with greater insights on the quarter.

Ajay Kaul:

Thank you, Hari, and thanks very much for those kind words. Indeed I do realize that this is the last time in the capacity of the CEO I am addressing this august audience. I want to thank all of you for having supported us all this while and hopefully I will get a chance to meet you guys also in future. I am fortunate to have had this opportunity to be part of this dynamic and successful organization like Jubilant FoodWorks honestly. I would quickly take this opportunity to extend my gratitude to all our colleagues and their hard work and dedication as well as the investor community which I was just talking about for their support. I would like to extend a warm welcome to Pratik and will be working with him closely over the next few weeks as I pass on the baton to him.

Now coming to this quarter, Q3 was a challenging one for all companies across the board as we navigated through a situation which weighed down consumer spends due to liquidity crunch. As a result, Q3 performance stood moderated primarily attributable to below par performance of delivery business.

A quick highlight of our Q3 Performance: JFL reported 4% increase in revenues and SSG stands at (-3.3%); however, we feel that with all the requisite enablers in place such as product range, marketing engine, supply chain infrastructure, we expect an improved performance once the after effects of demonetization are over.

During the quarter, we opened 32 Domino's and 1 Dunkin' restaurant. In the current fiscal, we have opened 95 restaurants in Domino's and 11 in Dunkin'. Our total network as of today is 1,111 Domino's Pizza and 68 Dunkin' Donuts restaurants. We have also taken some measures and have closed stores which were not delivering profitable growth. During the nine months of this year, we have closed 6 Domino's and 7 Dunkin' restaurants. Further, our restaurant opening decisions will be even more focused on ROI parameters as well as to take into account the external operating environment. Thus we have revised our FY17 restaurant opening guidance to around 110 to 115 for Domino's and 15 Dunkin' restaurants. We however continue to believe that there is still lot of scope for opening margin-accretive, profitable new restaurants in the future.

In the quarter, we also had new product launches, namely the Quattro Formaggi Pizza and Choco Pizza. In Dunkin' also, we launched Chef's Favorite Paneer Burger and Munchkins. These new product launches have found a clear liking amongst our customer base and have enabled us to ignite interest and attract new customers.

The next area that I would like to discuss briefly is "Technology" which I believe has played an extremely crucial role in these challenging business environment times due to currency demonetization. We were able to accept non-cash payments as well as handle the increase in traffic on the digital platform. We significantly enhanced our Online Ordering experience with a better user interface and new features in both our Mobile App as well as Mobile Websites. While most of you must be aware, JFL was amongst the pioneers in food space to introduce cost concepts such as OLO and Mobile Ordering. It is an area that has seen continuous investments, which have today made these tools our competitive edge. Also to mention here that "Domino's eCommerce" is Rated the Seventh Largest Transacted Brand in India as reported by The Hindu Business Line." With the impetus of government on 'Digitalization', we are well poised to take advantage of this opportunity. In Q3, the Online Ordering sales contribution to delivery sales stands at 49% and Mobile Ordering sales contribution to overall OLO is as high as 56%. However, this increase in OLO business has only partially offset the adverse impact of cash on delivery business due to demonetization and thereby negative SSG, which we have reported in this quarter. In Sri Lanka, we continue to make progress well and have registered same-store growth of 16% for the quarter and 23% for the nine months of this year.

To conclude, we will continue to strengthen our brand with the aim of generating a sustainable growth in line with the opportunities at hand. We will also expand our reach through conservatively to ensure alignment with our ROI norms. We continue to invest and implement initiatives to

deliver long-term growth for our business, while closely managing the short-term events which influence performance.

On that note, I would request Sachin Sharma -- our CFO, to guide you through the "Financials."

Sachin Sharma:

Thank you Ajay, I shall quickly brief on the financial performance of the Company. All financial reporting in discussion has been done in accordance to IND-AS.

Our revenue has grown by 4% y-o-y in Q3 to Rs 6,588 million on the back of restaurant expansion, new product launches and marketing initiatives. We witnessed impact of demonetization and the subsequent stress on consumption patterns. Coming to expenditure, total expenses in Q3 increased by 6% y-o-y. Increase in network of Domino's and Dunkin and pre-determined rental increases have resulted in the increase in rent during the quarter. The employee expenses increased compared to same quarter last year because of annual salary hike and restaurant expansion. The increase was partly offset by reduction in employee cost driven by implementation of Six Sigma and higher use of technology in the form of online and mobile ordering, which eventually led to reduction in requirement of employees per restaurant. Moving on to our earnings profile. EBITDA for the quarter stood at Rs 641 million which is 9.7% of revenue and net profit at Rs. 200 million i.e. 3% of revenue.

While revenue growth remains at the forefront of our strategy, however, we are also working relentlessly to bring our costs down and driving efficiencies throughout the organization. Our state of the art Gr. Noida commissary, entailing a capex spend of Rs 1350 mn, is going to be operational by the end of this fiscal. This commissary has capacity to service more than 600 restaurants in northern India. This commissary would also be producing some of the raw material which hitherto was being sourced from external vendors and hence will bring in cost efficiencies.

We will also be closely monitoring the industry dynamics and suitably align our near to medium term strategy to ensure that we continue to maintain our leadership position. 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. The first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman:

My first question is can you break up the same-store sales trends into sort of monthly trends, even if you can give us some directional color because

you seem to have had a very strong October and December on a comparative basis, would this be right?

Ajay Kaul:

We do not share granular monthly numbers, we have never done it in the past, but to kind of give you some qualitatively answer; October was going on reasonably well, November things obviously tanked post November 08; in December things started becoming better, I would not say that they became normal; however, because we had launched some very exciting products in December like the Quattro Formaggi and the Choco Pizza, cosmetically the numbers started looking very good. But the moment you black out the new product launches, we realized that the demonitization effect was still there, and the demon effect has continued even in January. We believe it will take us a few months for the demonitization effect to get neutralized totally. Let me use this opportunity to also tell the whole group as to how the demonitization seems to have affected us probably a bit more than some of the other players. Since we are the leaders in delivery, a sizable portion of our business comes through delivery orders through the telephone where the households call and then we go and deliver to the home. Now since this is not online, this is kind of a phone call made to a Domino's restaurant, cash has significantly impacted this business. In the beginning in November when this happened, I would say there was a significant drop in business here, although it did get compensated by incremental business on dine in, which means people come to our store where we accept cards and we accept other forms of payment, and even our Online business grew significantly. But progressively this number started reducing even for let us say delivery business ordered through the telephone line, but it is still nowhere close to becoming normal. In the meantime, Online Ordering has only been increasing, the Dine in business is also kind of coming back to normalcy, in fact, it is kind of doing well; but they do not compensate fully the loss because of this delivery business. Now if you look around, the delivery contribution to overall business for other brands is far-far lower and probably thereby their impact of demonetization is far lower, in our case, it tends to be slightly higher.

But having said that, I want to finish by making a positive looking statement that obviously we have realized that demonitization is something which we have to live with. So we have to work around demonetization and find ways of working alongside it. So, firstly, we have capitalized or accelerated acceptance of cards even while booking from home even as cash situation is continuously improving, to make sure that you can book through the card even while sitting at home although there are now those card accepting machines and so on. We are also working aggressively with some card accepting machines with companies who started giving us, I would say not heavy duty, but fairly manageable smaller devices which we can take to the doorsteps of customers. So we are hopeful in the next few months we should be able to obviate all the impact

of demonetization by virtue of these either purely I would say digital solutions or hardware led solutions to accept card.

Aditya Soman: But the reason I asked the breakup is because obviously it seems that November and probably towards the end of the quarter sales were probably significantly stronger because some of the data we were getting from say store level enquiries seem to suggest that and like you mentioned were very sharp fall immediately after demonetization, and in that context, 3% decline in same-store sales actually seems very-very strong. But just a second question in terms of your raw materials, was there any issue in any of the sourcing of raw materials during the quarter because of the potential impact on some of your suppliers or you did not face any of that?

Ajay Kaul: Actually no, we are hearing such a question for the first time honestly because not even an iota of a challenge came from any of our vendors, whether big or small, irrespective of the commodity, which may have become a challenge for us in terms of continuing with that SKU or that product or having challenges of giving a complete product because on a pizza as you would know, there are multiple toppings and multiple ingredients which go on a pizza. So, nothing like that was witnessed.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: On the employee costs, the number has dropped significantly. To what extent, is it being driven by weak same-store sales growth, to what extent, would you attribute it to technology investments and shift to Online Ordering?

Sachin Sharma: So the improvement in the employee efficiency is primarily attributable to our Online Ordering platform and also the Six Sigma techniques which we have now implemented across the board on all our stores. So, that has resulted in almost 2.0 to 2.5 employees reduction per store. There is also minor impact of one-time expense hit in the last quarter same year of bonus, which does not exist in this quarter. So, two reasons put together keeps our employee cost line almost flattish in this quarter.

Ajay Kaul: If I may just add to that especially this employee productivity piece is not one-time structural change, which we have made and it may kind of come back, but these are efficiencies in the system, which are also going to be with us over the next several quarters.

Kunal Vora: So, how should we expect employee costs going forward for let us say next few quarters, any further gains which we can see in this line?

Sachin Sharma: Employee efficiency is going to continue on our agenda, and as our Chairman said, we have also embarked journey of cost rationalization. We will continue to focus on the employee efficiency and we hope to reap benefits further on this count.

Kunal Vora: Second question is on rentals. Post demonetization has there been any change in the prevailing rental levels based on your interactions in the market, has your bargaining power increased or nothing much has changed on the rentals?

Sachin Sharma: No, there is a perceptible change in the rentals especially in Dunkin' operations, we have been able to renegotiate with the landlords to a very large extent and also in Domino's we have started discussing with the landlords and we expect that this renegotiation will give us benefit in the form of rent reductions or the sales percentage sharing coming to a lower number than what has been agreed to. Also, I would like to take this opportunity to tell that we have hired a consultant of international repute for the cost control exercise and they are going to help us in reducing the cost on all lines including the rentals.

Kunal Vora: Is there a change in strategy going forward regarding store expansion, would you focus on profitability instead of store additions, you lowered the guidance for store additions meaningfully over the last few quarters, so how do we look at FY18 and moving forward?

Ajay Kaul: Look, we must admit it and we have said it in the past also that the medium-to-long-term outlook towards how consumerism will evolve in the country and what implications it will have thereby on the number of stores and all that we can open, I think our confidence is still very-very high, it has probably not changed from whatever we have been saying in the past. So let us say over 5-6-years period, can we be hoping to have around 1800 Domino's restaurants in India? I think the answer to that is still 'yes'. However, we are absolutely prudent in terms of how many profitable Domino's and Dunkin' restaurants we can open in India. Now, 3-years we opened around 150, and this year we had started and saying 135 because we realized that there were headwinds and progressively as we are saying things are probably not opening up as much as we had expected. It is getting a bit protracted no doubt and demonetization probably has been a bit of a dampener and as a result we were forthright enough to go and talk to our team and we realized that probably 110 to 115 profitable Domino's restaurants and similarly on the Dunkin' side a much smaller number is the number we would be gunning for this year. I cannot tell you right now since we are in the middle of our budgetary process as to what this number for next year is going to be, but to my mind it is not going to be clearly in the 130-150 zone, it will be more around what probably we will end up doing this year or there about. But wait for the budget numbers to

come as and when we freeze them or as and when we kind of share them with you. Look, the theme very clearly as told by Hari in his speech, as Sachin was saying a little while back, and I am only reiterating that, profitable growth for both the brands is what we have embarked upon. The engagement of this consultancy which specializes in cost efficiency is going to be also focusing on that. So that is going to give us, we believe, substantial gains. In the meantime, the environment should improve. I would say as importantly adding to all this is the impact of GST which we are significantly gung ho about because we believe without quoting any specific number, it should give us substantial gains over the next year, year-and-a-half... of course after it gets implemented and we believe 1st July is when it should start getting implemented and so on. We are totally gearing ourselves up as an organization and with our vendor ecosystem to address this opportunity. I know it is a long and winding answer I have given you, but hopefully it gives you a comprehensive idea as to what we are trying to do.

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

Abneesh Roy: If I see McDonald's SSG, it has been higher since the past few quarters. So obviously affordability in their case is something which is there. So, my question is how has Burger Pizza done this quarter, and similarly in your Dunkin Donuts' you are focusing lot on burgers, I see Rs.55 kind of pricing also. So how has that done versus the burger chains which are listed and what is the impact on margins in terms of Dunkin Donuts' this quarter?

Ajay Kaul: Let me try to address everything that you are saying; first and foremost, we have honestly lot of appreciation and respect for the other brands which you mentioned, it is a good global brand, but you need to see things in perspective. Without being disrespectful to them, we have had a good quarter and 5% is a good number to do, you also need to see what is it measuring against over maybe 2-3-year period and then you will realize that even that brand had got nearly 7-8-quarters run in the past where they were showing negative same-store growth numbers and during that period we were still positive. So, sometimes numbers may not tell you the full story, although they have done a good job may be this quarter. Now let me tell you about ourselves; our Dine-in business, which is nearly 50% of our business consumed on our premises, even during the demonetization period actually did quite well, in fact it was growing even at the same-store comparison level, so was our Online Ordering business, which in fact was growing significantly during that period. But the delivery component of our business which I was saying earlier also is far-far more than any other brand including the brand which you have just mentioned. As a result, they must have also felt the impact of delivery business at doorstep; but because the contribution of that is so low for them, it probably overall did

not have a significant contribution or impact. In our case the impact has been higher and being a market leader, we are obviously the biggest and obviously that impacts us the most. But having said that, we have found technological solutions as I was telling you that is helping us to bridge the gap pretty fast. There is lot of conversion happening from conventional offline ordering into online ordering, so that is also leading to lot of conversion. Our impetus on increasing our Online Ordering business from the present 49%, 50% levels to 60% and 70% going forward in the next I would say one-odd year is very-very high and you will see some programs kind of unfolding even in the next few days and similarly trying to promote our ordering through mobile phone, you also see lot of impetus coming on that. So, I would say with all respect to the other brands, which you mentioned, we believe that if seen in the right perspective, our performance is as good, and we believe that as we find these solutions for bridging these technological gaps for bringing the delivery card acceptance at home, we should be able to also demonstrate good growth going forward.

Abneesh Roy: Sir, are you disclosing what is the Burger Pizza contribution and how burgers have done well in Dunkin Donuts'?

Ajay Kaul: Burger Pizza when it was launched it did exceedingly well, after which we have obviously launched some other products also, so it sits on our menu, it is a respectable percentage contribution to our revenue and it has got that good role to play, there are some very loyal customers of Burger Pizza now, and it will continue doing that. At some stage, we may want to refresh by launching some new variants of Burger Pizza which probably we will do during the course of the coming financial year, but it is a successful product and we are quite happy with it.

Abneesh Roy: Sir, my second question is you are using Swiggy for Dunkin Donuts' delivery. Have you evaluated third-party delivery even for Domino's? Of course, can you try it for example in new cities or new stores in existing cities, what is the thought process on that?

Ajay Kaul: We are doing trials of all types. In the case of Dunkin' you are right we are using a third-party for delivery because the numbers are quite small still, it is predominantly a dine-in brand. As far as Domino's is concerned, there are multiple trials which are going on to figure out that at peak moments only or in some smaller cities are there opportunities which we can look through these delivery companies. One needs to realize one thing that the experience which we can give to our consumers at the doorstep when the product arrives in around 20-odd minutes and there is a great experience through our well-trained, what we call our delivery executives, cannot be compensated by a third-party who will arrive in any shape and size at a time which is not within our control. So we realize those challenges, but

still as a company, we are always experimenting, we always keep trying out new things as much as we are doing trials in this area. So as the results of these trials come, we will be able to take any action.

Moderator: Thank you. The next question is from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: You mentioned that you hired a consultant for cost rationalization. Can you give us a rough estimate or quantify as to what would be the absolute savings that you can make with this consultant on your EBITDA margins?

Sachin Sharma: So we have just hired them and their process is on and the diagnostic study is underway. So it is too premature to commit a number at this stage, maybe in the next investor call, we would be able to have some sense.

Ajay Kaul: But we believe it is going to be a significant impact.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is you mentioned about demonetization. With the liquidity improving in general in urban India and given that you are an urban focused company, why should there be an impact now that liquidity has largely eased?

Ajay Kaul: Look, in fact, over the last 3-months now let us say because November 9th is when it all started, we are clearly seeing a decline in the impact, no doubt. But, if you were to break it down into pockets, the rural and semi-urban is where the 100th and 150th city and 250th city where we have gone to, there the impact was far more and that is where we are seeing it coming back to normalcy that much slower. In the metro locations, the so-called getting back to normalcy is faster, but overall we still believe it will take us a few months for this impact to get obviated or negated 100%.

Vivek Maheshwari: On that point, I just want to find out, in the second quarter you indicated that the improvement of the positive SSG is more optical and uncertainty prevails. Why are you so sure then this is only because of demonetization, underlying trend has turned or are you trying to say both demonetization as well as underlying trend is going to keep SSG under pressure in the foreseeable future?

Ajay Kaul: If you want us to make a statement independently on the consumer sentiment whether that has shown some significant jumps, honestly, the demonetization experiment was so powerful, it has camouflaged lot of things underneath it. Even if the consumer sentiment on its own in the

meantime was kind of let us say showing some sort of resurgency, the demonitization effect has clearly obviated all that. So, we will not be able to comment whether the consumer sentiment has returned. However, our personal belief is that given what we have said also in the past with the positive impacts of the Seventh Pay Commission and everything that the government has done trying to create and bring monies into people's hands and also a better monsoon which we all witnessed last year, we believe that the day is not far when the consumer sentiment would clearly show positivity and consumer brands would start doing well, and brands like ours, which are fairly discretionary would start seeing a positive impact of that.

Vivek Maheshwari: Second clarification on staff expenses again. The expense is flattish. Would there not be benefit of demonetization on the staff line given that you also fine tune your employee base based on the requirement that you have or the throughputs at the store level? Basically why you have commented that this will be sustainable, but I just want to be doubly sure that my understanding on this is correct?

Sachin Sharma: Your understanding is correct. The improvement in the staff efficiency is structural in nature and this is based on the various techniques which we have employed. So, the reduction of the headcounts for a store is going to continue which may improve further.

Vivek Maheshwari: You mentioned about GST benefit being quite significant. You may not quantify, but qualitatively which areas are the ones where we will see GST benefit in your case?

Sachin Sharma: So, as of now we are not able to take advantage of the input credit completely and part of the input credit becomes our cost. Once the GST comes in, the entire input credit would be available to us and that is going to give us that benefit.

Vivek Maheshwari: Which inputs are you referring to here?

Sachin Sharma: The input credit on the service tax, which we pay on most of our expense lines; be it rent, be it our operating expenses, be it housekeeping, be it all the internet bandwidth. The service tax which we pay, the input credit of that against the output service tax, we are not able to absorb fully, so part of it gets debited to our P&L. So that will not be there once the GST comes in.

Vivek Maheshwari: But with GST rates itself being higher for services, there will be obviously a negative impact to that extent any which ways, right?

Sachin Sharma: So, as of now also we charge almost 20% on our invoices. So as long as it is going to be 20%, it is going to be neutral from the customer perspective.

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

Latika Chopra: My first question is on your gross margins. You are clocking close to 75% now. Could you comment on the level of promotional intensity now versus the previous quarter, and is this a new normal for gross margins one should look at? Also, any thoughts on the raw material inflation, what are you witnessing on that front?

Ajay Kaul: As far as promotional activity is concerned, our focused targeted promotional activities would continue, which means our precision marketing and stuff like that, our CRM would clearly continue in a fairly aggressive fashion, but finely targeted. Things like “Buy One, Get One” kind of offers are clearly going to be few and far between. As a result, yes, our promotional expenses or call it, discounting, is going to reduce. So whatever you saw in the quarter, we believe that is the zone in which we would operate even going forward or that would be clearly our endeavor to keep it in that zone and focus more on targeted marketing as opposed to mass. We are not giving a BOGO kind of an offer. So that should keep some of our promotional expenses a bit in control unlike probably what had happened in a few quarters. We have managed last one year you must have seen our food cost line or our ingredient cost line at a fairly good level and that has been primarily driven on two to three counts. One, of course, there is a bit of help from the environment also, only on a few commodities there was pressure coming from the external world. But more importantly our sourcing team has also done a great job in terms of leveraging our size and our leadership status and the volumes which we pick especially on cheese and so on which has helped. Third is deployment of Six Sigma. In some cases we worked along with our business partners where we deployed Six Sigma at their end and whatever gains which they get, we are also beneficiaries because part of their stuff is what we buy from them. Going forward, we believe there is going to be pressure on some commodities for sure; milk for one being most certainly because as it is some of the biggest milk buyers in the country, already they have increased the retail prices of milk because of milk procurement prices going up. So, we believe there will be a pressure if not on anything else, but definitely on cheese prices, which is a significant portion of our buying portfolio, which is going to put pressure obviously on our ingredient cost also.

Latika Chopra: The recent price increase you took, was that undertaken to sort of mitigate this to some extent?

- Ajay Kaul:** Not at all, we did not take any price increase for almost more than a year, and the recent price increase which you may argue was taken was more to do with some pricing corrections as opposed to a conventional price increase. You may have seen that some of our entry level Pizza Mania portfolios where we had increased a bit of our price, but we also brought down prices on some of our SKUs. The idea was to smartly do something which does not change the price perception, but at the same time it is not at the archetypal price increase, which last time we took was more than a year back.
- Latika Chopra:** So if the raw material inflation further strengthens, do you think withdrawal of promotions or less promotional intensity would be able to offset that or you would need some more price increases?
- Ajay Kaul:** We want to stay away from price increases as much as possible, that is our internal thinking. Sometimes despite best intentions, circumstantially you have to take some measures. But our intent is to improve our value scores and thereby try to take as less price increases as possible or probably not take any price increases at all. We want to use targeted offerings to the right audience rather than give mass offers and so on which will again means offering the right stimuli to the right kind of audience to get the right response from them. However, we will probably intensify our brand building exercise, which is basically through more of advertising, more of money being spent on the online media, through social media where we will probably build our brand through all that and that rub off is again going to translate into sales.
- Latika Chopra:** Were there any meaningful one-offs related to the store closures that we saw for Domino's in the quarter or...?
- Ajay Kaul:** You are referring to the few store closures. In the Domino's history, yes, this is the first time in the last maybe 8-10-years that we have taken a call on these six stores which we have closed. 3 of them were actually these metro stores which are emerging new opportunities, these were along the metro line in Mumbai where we had opened around 8-9 stores and we realized because of traffic reasons more than anything else, and these are few experiments which we are doing, 3 of them were not viable. So we realized and we have closed them down. Other than that, amongst the conventional stores we realized that a couple of them needed to be shut down despite all the efforts we made to turn them around. So, the message in the process is while 6 is a small number and we believe those numbers are never going to be large, but the message is that we would not shy away from closing stores when we realize that they are not going to generate profits at the store level or they are EBITDA-accretive obviously and they are also diluting our ROC because those are of primary

importance for us, because that is how our investors look at us and that is how our board also evaluates us.

Latika Chopra: But there are no meaningful expenses related to store closures in the quarter numbers that was...?

Ajay Kaul: That is right, because the impact probably does not seem like high because these were smallish stores, the amount of CAPEX investment also was far lower which probably had been fully depreciated already almost.

Latika Chopra: On Dunkin' losses for the year, you are still maintaining at about 250 basis points impact or in view of demonetization has that number changed?

Ajay Kaul: Yes, it is in the same zone, you are right.

Moderator: Thank you. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, did I hear correctly that you believe the Dunkin' would break even operationally in the next 2-3-years?

Ajay Kaul: Operationally, at a full level, our endeavor is that 3-years from now we should be probably close to doing that and already all this profitability drive which we just spoke about at length is to ensure that stores start becoming profitable at the store level itself in the first instance, and then how we are able to make them profitable even with all costs put into it including G&A and so on and eventually let us say in that timeframe which we just mentioned to make the whole business profitable. That is clearly our endeavor.

Ankit Babel: The cost reduction measures which you are adopting is for Domino's as well, it is not only for Dunkin', it is for the company as a whole?

Ajay Kaul: Even otherwise on both the brands given the circumstances, we are constantly looking for cost efficiency opportunities to start with, productivity enhancement opportunities, and in adverse cases cost reduction opportunities. By engaging this consultant which we spoke about, the idea is to bring down efficient and smart ways of reducing costs in both the brands across the company.

Ankit Babel: Sir, actually my question was that since you clearly mentioned that GST is beneficial to you, you are adopting cost reduction measures, your employee costs is getting rationalized, and over and above this Dunkin' is expected to get breakeven in the next 3-years. So, if I ask you three years down the line what would be the margin trajectory? Now we have fallen from 18% to 9% or 10%. Now, we as investors have no clue where it will

settle down a year from now or two years from now. I know times are volatile and there is a lot of uncertainty. But can you just give us a ballpark idea that 3-years down the line can we expect this to go back to like 14%, 15% or what level considering whatever measures you are taking goes through and you are successful in those measures, any ballpark idea?

Sachin Sharma: Sorry, we do not give the forward-looking statement and that too on areas like margin. All we can say as of now is that all these three exercises, whether it is the cost rationalization exercise, whether it is reducing the Dunkin' losses, and the GST, they all are pretty significant in the whole scheme of things.

Ankit Babel: Significant again is a qualitative, we can take it 500 basis points, we can take it 1,000 basis points. So give us some idea, some clue about it because every quarter we feel that the margins will improve, but ultimately it declines, so we have no clue where the margins are going to be, I am not asking you give me the next year number, but at least three year number, what are your targets to go to, give me that at least?

Ajay Kaul: Let me just mention one thing here. As a company, we believe whatever in we kind of commit and say, we should be able to at least deliver that, not at the expense of becoming seen as a conservative company, but that is not our values and philosophy and we want to stick to that, and I think we would only expect and urge you to respect that, and we have been consistent right from the time we went public and we want to maintain that. So some of our responses may seem qualitative like in this instance, but at appropriate times whatever extra information we can share with all of you, we would be more than happy to do that. But at this juncture, you have to fathom what can significant mean, it cannot be 1,000 basis points for sure, it never happens like that. But yes, significant means something and you will progressively see what that significant can mean given our track record where we were, where we are currently, and what can each one of these initiatives mean to us.

Ankit Babel: That is what I am saying, sir, you were at 18%, 19% margins. Now I agree that at that point of time, the same-store sales growth was 20% - 25% which anyways is not going to happen now, so that is why I was asking is 400 basis points, 500 basis points a reasonable assumption to take or not, that is what I need to know.

Ajay Kaul: You are a smart person, I can tell you that, but I am sorry, we will not be able to give you a quantitative answer to that question.

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

Avi Mehta: I am just trying to contrast the approaches and trying to understand the reason for the change. So you take back to 2009 or so when you had indicated that we would continue to invest in store expansions would be the prime focus because the belief was that demand uptick would be around the corner and now you are indicating that 110 or somewhere around that would be the similar number in FY'18, I understand FY17. But is there some sense on demand expectations that has changed versus say toward the start of FY17?

Ajay Kaul: Let me just rephrase the question, what you seem to be asking is that we were always optimistic about the number of restaurants we could open, but certainly because this number has shrunk to around 100, 115, is there also some consumer sentiment piece sitting in this which probably has not fathomed out in the way we were expecting?

We have tried to answer this question earlier on and let me just re-attempt again. The demonetization exercise or this demonetization event has camouflaged a lot of things. Now, if one has to look at this era of three months as one era of where consumer spending was impacted because of liquidity crunch, we are not able to see clearly whether the consumer sentiment in the meantime if demonetization had not happened, would it have started looking better on its own. Yes, we have been saying for three, four, five months now that given the Seventh Pay Commission fall out, the payouts were going to happen in September and then 1st January and all that, more cash would come in people's hands, a good monsoon in June, July would start having some cascading effect maybe more in the rural set up, but also having cascading effects on us somewhere in November, December, and all that. All that seems to have got somehow camouflaged by this demonetization effect. So we do not know what would this real situation have been, but right now we need to make sure that we get the demonetization impact on our business out of the way as fast as possible, I think in the next two or three months, we should be able to do that. That is our positivity. But in the meantime, we believe the consumer sentiment will start showing some positive signs irrespective of what demonetization did and it will start reflecting in consumer spending and discretionary categories like ours should clearly start seeing its impact.

Avi Mehta: Just two bookkeeping questions, if you could share the CAPEX for FY'17 that you are likely to end with and the tax rate guidance for FY'17?

Sachin Sharma: CAPEX for this fiscal year is going to be around Rs. 250 crore, which includes the stores, the commissary, the investment in SAP, and we have normal maintenance CAPEX. The tax rate is going to be in the range of around 32% effective.

- Moderator:** Thank you. The next question is from the line of Mihir Shah from Deutsche Bank. Please go ahead.
- Manoj Menon:** One on the capacity piece, now with the Noida commissary being likely commissioned as we speak this month or next month, which in my understanding is mostly 1,700, 1,800 capacity it should have created. Would it be fair to assume that at least for the next 2-3-years, you do not really need any major CAPEX considering also that there is a change in thought process regarding expansion?
- Sachin Sharma:** So, let me just correct your number; the commissary which is coming up at Greater Noida has the capacity to serve around 600 stores not 1,500 - 1,600. To your second question, put together, these 9 commissaries should be able to serve the 1,600 to 1,700 stores.
- Manoj Menon:** So the question essentially was that given that you are coming off a very high CAPEX phase and higher depreciation as well, next 2-3-years let us say, do you need any major CAPEX investments for commissaries etc.,?
- Sachin Sharma:** No, we do not foresee that.
- Manoj Menon:** So would it be fair to say that it will be largely maintenance spends and some technology investments, I am talking about the medium-term from where we are today?
- Sachin Sharma:** Obviously, apart from the new stores, the CAPEX is going to be in the technology space and maintenance CAPEX.
- Manoj Menon:** Secondly, on the cost efficiency bit, I remember Ajay you were mentioning about creating a new team in April 2016, if I remember correctly, team of three to four people, and in the last call you had quantified the 5% productivity improvement at a store level in terms of employees etc., which the team has already delivered. Now I hear about the consultant of international repute as well coming in. So, could you just put into perspective in terms of is it all additional, what is this consultant thought process coming from just on the cost efficiency piece? The reason I am asking this because let us say at least in my coverage of 19 - 20 stocks, you actually are the company which is the highest gross margin and the lowest EBITDA, so there is significant cost efficiency measures theoretically when I look at an excel sheet which is feasible.
- Ajay Kaul:** Look, the exercise what we embarked on last year was not cost efficiency exercise. We brought in a Senior Vice President level who reports directly to me as Head of Innovation and Business Excellence. We want to address as to how do we take innovation quotient of the whole organization across brands far-far higher than where it is currently because we believe that

constant innovation will set us apart from people in the industry and even outside of the industry. We also got in a new Head of Technologies, CTO, last year, who again for the first time is reporting directly to me rather than to the CFO. The idea was that between technology and innovation, they are going to drive lot of what the future for Jubilant. If I may take a moment or two saying that we believe that over the next 3 to 5 to 10 years, the role of innovation and technology in progress of any organization is going to be significant and we are getting ready for that. So that is why these very senior people were brought into the company and they are already on that journey. Sidewise they would also be working a lot on process improvements and maybe to some extent on cost optimization, productivity, and all that. Part of which is already translated into the employee efficiency, we have been able to take out two or three employees per store and that is what Sachin was also referring to a little while back in his talk. Coming to this consultant which we are talking to, what we are trying to profess or what we are trying to achieve through them is looking at all aspects of our business and we have been doing a fairly good and efficient job, but as specialists in those areas, there will be some sitting opportunities which will further make us razor sharp or call it cut the flab out wherever little it may be still existing and that is the journey we are going to embark purely on cost optimization and cost cutting along with this outside consultancy. So I hope I have been able to tell you exactly what is the role of each one of these. Just to add needless to say that this innovation team in the business excellence part of their job are going to work very closely with this consultant.

Manoj Menon: On the Sri Lanka operations, good to see the revenue traction there. But if you could comment about the profit part of that business, how the nine months have tracked?

Ajay Kaul: The Sri Lankan operations also went through initially you may be aware of some travails, new country, the first few years went into kind of finding the right positioning in a marketplace where there are formidable competitors already sitting there and all that. The good news is that after all those iterations, finally over the last say 6-12 months and so on our same-store growth are very healthy, they are in the 20%, 25% kind of a zone and we have a footprint today of around 22 - 23 stores there. We believe it is fairly on the path to profitability and without quoting which quarter, when and so on, the stores are already a lot of them are profitable and we believe that the business should also become profitable in the foreseeable near future.

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

Amit Sachdeva: Sir, a question on the store closures. Ajay, you mentioned that while six is a little low number, I would say it's just too low considering you have 1,000 restaurants and you could find only six to close. Did I say that you are still too generous in assessing the profitability of the impact or is like you are giving too longer time for restaurants to prove themselves and then before you shutting down? This 110, 115 target I assume is a gross number, not the net number for the next year. Can you give some more color on that?

Ajay Kaul: Let me go in the reverse order; these are new openings, these are not taking into account store closures, so this year we would be opening 110 to 115 new stores and the closures will then net this off. When you talk of the next year number, I have not stated any number for next year, but as our budgetary process gets completed, we will be stating a number and that number as I had said earlier also is going to be fairly moderated and it will be aligned to our thinking of opening profitable stores only. Coming to this question about six, look in the past, our experience has been it is not that out of all the stores that we open that 100% of them are profitable from day one. We know that a fairly high number, which is in excess of 95% stores, do start making profits from day one of the very first month itself, but not all of them give us payback periods with an acceptable timeframe which is normally a three-year norm which we follow. Now, whenever we have identified such stores and even at the CEO level, which is my level I would know which those stores are, we actually go after them and more often than not we have been able to turn them around and made them profitable. So, that is the confidence which is in built. That is why in the last 11 years, I remember when I joined in the first one month, one store in Kochi got closed, after that for 11 years we have not closed even one store. You may argue that may be there is emotional attachment and there are those kind of factors. But the answer to that is no, it is not that. We think or we believe that we have the ability of turning around these stores and making sure that every store became profitable. But now given the external environment and some of the stores actually are not responding as well as we had expected them to and we realize that these stores are not going to be profitable, we have taken the tough decision of closing six. Now, is this number going to be more going forward? The answer is 'yes', the number will be there, it is not going to be zero for sure. We have identified a handful of stores again, which are going through again, I would say, similar travails and we would be working on them, and if we realize that in certain defined timeframes that they are not turning around, we may come back to you with a similar number maybe few months from now. So it is a dynamic number, but if you ask, "Will it become a big number of closures in future?" No, the answer is not yes to that.

Amit Sachdeva: My assumption was that statistically also in such a large organization and I am sure it is not just stores fault all the time, it is also the location and

some amount of demographics and things go wrong anyway. So it just looks that maybe the time is given too much and if there was more pressure to perform, might be things may work out much sooner, maybe it is a construct which is slightly more easy?

Ajay Kaul: Unlike the typical dine-in model, and you need to kind of understand this because our business model is delivery-centric, there is lot in our hands especially in new cities to create culture of delivery. It means to create a culture of making people habituated of consuming food at home; out of home, but at home not consuming home food. It is unlike the dine-in model where there is mall, there is a store, and you very soon get to realize that now I cannot increase footfalls to this mall and I am not even allowed to do a lot of things around the mall, so this store will not succeed. Maybe that is why you see that some of our opposition get to know about this faster and then they close those dine-in centric stores faster, because we have delivery and delivery is often based on how well are you doing a job of telling people around the store that there is some concept of delivery and we can deliver food at home. We have enough examples, where stores have made turnarounds, delivery business suddenly has grown by 20%, 30%, 40%, and the stores have become viable. It is that confidence which probably allows us to dwell on a store and work on a store for a bit longer period. But now we are realizing that we have to give that due time because there are turnaround times, but the environment being tough, we are also taking some tough calls a bit faster.

Amit Sachdeva: Can you give us some split in SSG growth in the top-10 cities and the rest of the country, just directionally it is (-3.3%)?

Ajay Kaul: Normally, we are not giving any statistic or a piece of data that the difference between let us say metros and Tier-1 generally is statistically insignificant. It is not so different that we should either report it although we watch these numbers like hawks every single month and every single moment and so on. But in the last few months, I must tell you because of the demonetization effect, the Tier-2, Tier-3, Tier-4 cities have got impacted a bit more. So these may not be the natural reasons of growth, but this may be more led by an external factor like demonetization, which was not in anybody's control.

Moderator: Thank you. The next question is from the line of Anand Krishnan from Kotak Infina. Please go ahead.

Anand Krishnan: Sir, what would be the CAPEX with respect to a Tier-1 city, Tier-2 city, and Tier-3 city that you actually enter into for setting up a store?

- Sachin Sharma:** In each city, the size is standard and the CAPEX which we do is almost same, there is hardly any difference, the difference only comes in the rental and not in the store opening cost.
- Anand Krishnan:** With respect to the stores that you have already identified to close going ahead, so which category would they fall in -- will they be in Tier-1, Tier-2, or Tier-3, space?
- Sachin Sharma:** These are tier-agnostic, we just measure whether they are profitable or not, it could be Tier-1, Tier-2, Tier-3, Tier-4; it does not matter. So as Ajay said that in the six which we have closed, 3 are at the metro station. But our parameter is the profitability and the return on capital employed, not the tier-wise assessment of the store.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.
- Sanjay Singh:** I just wanted to know CAPEX per store now running cost, what it is?
- Sachin Sharma:** The CAPEX cost for a store now is in the range of Rs.95 lakhs.
- Sanjay Singh:** Even for the theater stores or whatever we do currently?
- Sachin Sharma:** Yes, pizza theatre.
- Sanjay Singh:** When you open a new store as of now, still you are talking about three-year breakeven because as of now the current maths does not support it?
- Ajay Kaul:** The norm has not changed at all and we still see that a lot of our stores give us that kind of payback period; however, there is the proportion of stores actually are going beyond three years also, but we make sure that they are not in some crazy zone, very clearly they may be a little bit over three years and our numbers are reflective of that. The only few and far between which actually are not generating profits are the ones which we go after and we make sure that we turn them around.
- Sanjay Singh:** But Ajay, if I do the current maths, you are making around if I divide the EBITDA by the average number of stores in FY'17 it comes to around Rs.24 lakhs which works to around 4-years for the current network to breakeven, these are like including old stores, etc., So even if the new store open 80% of the system average, then we are talking about 5-years plus. So either in your maths you are thinking that the current per store level will go up significantly because there could be few stores, but no way that a new store will be significantly higher than an existing store. So either your number of stores have to go down significantly, #1, or your new stores have to do much better than the existing store level or the overall same-

store increase significantly for you to get the three-year thing. So, where is the disconnect?

Ajay Kaul: The EBITDA which you are taking is the company level EBITDA, is that right?

Sanjay Singh: I am just dividing the company level, you should be able to doing around Rs.260, 270 crore EBITDA this year, which I divide by 1,010 whatever the average number of stores in FY'17, that works to Rs.24.5 lakhs per store, if you take Rs.96 lakhs, it is 4-years?

Ajay Kaul: The way we look at a new store inclusion into our system is we look at store level incremental cost which comes out of the CAPEX, and there is a running cost of that store only, for example, Ajay Kaul is not going to change because that store was created. So, we do not load it with typically the corporate G&A and so on. But after we take out all that and similarly, for example, our advertising cost is not going to change because of that one store and when we use this model on that incrementalized basis, clearly, our payback periods are falling in that zone. I do admit however and which we have said in the past also that progressively our weighted average payback period which were significantly lower than three years in the past, have gradually moved towards three years on a weighted average basis, and off late it is kind of getting into a little bit more than three-year zone. Of course, the result of this three plus years is that there are some stores which are far-far more than three and those are the stores I am talking about which we get after and try to turn them turnaround and if they do not, then we shut those stores. So, that is also the reason why we have brought down progressively our guidance of opening not 150 this year like we did last year, but only 110 - 115 stores as we speak.

Sanjay Singh: You talked about margin reduction and margin improvement. Is there any way you can reduce the CAPEX cost per store or it is optimal level?

Ajay Kaul: Actually no. I would say while we deploy all these Six Sigma techniques and everything, you probably would have realized that what used to cost us overall Rs.100 lakhs of last year, we have tried to bring it down despite the pizza theatre concept to around Rs.95 lakhs in the case of Domino's. In the case of Dunkin', this number is actually significantly lower than Rs.95 lakhs also which used to earlier be in the Rs.100 lakhs zone. So we are constantly trying to bring them down. We are also looking at models where we can actually either make the store size smaller or in the smaller cities where Domino's brand is going for the first time, can there be a version of Domino's brand which may not be pizza theater but which cost lesser. So, all this is under trialing and deployment as we speak. So, the long and short answer to your question is we are definitely having models and we are looking at reducing CAPEX cost with the same intent of getting return

on investments on the capital deployed in those three years and so on which is our overall overarching objective.

Sanjay Singh: This is related question. Just CAPEX for 100 stores will be next year just Rs.100 crore or there is more CAPEX than the store opening CAPEX?

Ajay Kaul: The CAPEX related to store opening depending on how many stores we eventually come out with as a budget for Domino's separately and Dunkin' separately multiplied by let us say a figure of about Rs.95, 100 should be the new store opening CAPEX for that year, then there will be other CAPEX coming from maintenance, from money spent on technology, and so on, which we would not share the numbers with you, but you can hazard some guess there. But as somebody asked earlier on, capital expenditure for creation of new commissaries would be minimal. So, that is something which we have enough infrastructures built now to see us through for the next 3-5 years at least.

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

Gaurav Jogani: Sir, I wanted to know what is the weighted average price increase that we have taken and like from when it is effective?

Ajay Kaul: For the last one year from somewhere around December of 2015 to December of 2016, we did not take any price increase. So, that is first data point. When we took off a bit of a price increase somewhere in December, it was more of correction exercise where we increased price of some and we decreased price of some of our SKUs, so the net price increase actually was very-very marginal... I do not want to share a number with you.

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

Mayur Gathani: Sir, this is regarding the six Domino's stores that we shut down. So you said three of them were near metro stations and they were small stores. The other three, you would say were there by any chance cannibalizing or they were newer stores completely? Can you throw some more light on that because you have never done this in the last 11-years, this is little surprising that you have come back all of a sudden and said that we have shut down six Domino's stores, it is a good step taken, but just want to check on that?

Ajay Kaul: Without sharing the demographic details of these stores in detail, these were not stores which were opened in the last I would say one year and so on, they are a bit longer than that, but one of them for example was at the airport, suddenly the airport new norms came in and the rental sharing

and all that suddenly became astronomically higher than where it was currently. So, we realized that for the next few years we are lumped with a new rental rate and we knew what footfalls, what would happen to that airport store. So it was a no-brainer, we had to shut that down. Similarly, there are two more stores where again the writing was clearly on the wall, we could predict with finality, here nothing will happen because past 2-3-years it has gone for some adverse action that somebody had taken. So, we have closed down those stores.

Mayur Gathani: So by any means are we looking at the future stores that you are looking to shut down or restructuring, are they due to some extent due to cannibalization or you would not refer to that word?

Ajay Kaul: No, we would not refer to that word. I do not know which context you are using it. When we open new stores because of being a delivery-centric model, we are able to almost predict with reasonable amount of finality how much of sale will it cannibalize from some of the adjoining stores. We know fully well when we walk into opening a store unlike a typical dine-in model, that the moment you populate more and more, it starts eating differently in the sales of adjoining stores. We have that tension. So cannibalization you need to realize is not that serious a challenge in our business because each delivery area is defined, we know exactly how much are we carving out from the previous store. Is the previous store still viable, is the ROI of the combined entity of the split stores, are they still going to give us an ROI within the stipulated timeframe. We do all that maths before we jump into opening new stores.

Mayur Gathani: Regarding OLO, you said that ordering is around 49% today and you intend to take it to 70% over time?

Ajay Kaul: I am just throwing a number, I cannot tell you the timeframe, but yes, our endeavor is this number is going to become 60%, 70% 80% in the future, I can tell you that right now. If you look at how USA has gone for Domino's, how Australia has gone, UK has gone, Japan, Korea, they are all in the zone and we were even two years back when we embarked on this journey, we were at some 15% and 20%, look in two years from 20%, we have become 50%. So, can this number become 70% in the next 12 to 18-months? Most certainly and we would try to only accelerate this because there are tremendous gains from this. One is that the repeat purchase buying behavior of people who come through the online medium is far-far higher and as a result, they are far more lucrative and profitable customers. Even on a per transaction basis, they tend to be more profitable, and lot of these customers obviously have a age bias in them in terms of demographic; they are probably younger, they are typically the upwardly mobile, the tech bias is there a bit in this. So they are typically what our TG should be or we want our TG to be, so that we can in a more targeted

fashion approach them and give them offers. So, we are extremely happy and pleased if that number becomes 70% in what you said 1- 1.5-year, we will be very happy. Needless to say as Sachin was also saying earlier that when I talked of profitability in general, the fact that our employees which get engaged especially in picking up the phone and all that tends to continuously decrease because we do not need people picking up the phones.

- Mayur Gathani:** What is the split between Dining and Delivery today for you?
- Ajay Kaul:** It is kind of in the same zone, which we have been saying for some time; it is kind of 50-50 in that zone.
- Mayur Gathani:** Then why do we continue saying that this is quite a delivery-based model, sir, dining has improved from practically nothing to 50% today?
- Ajay Kaul:** Your argument to some extent is valid. What used to be 70%, 80% of our business maybe 4-5-7-years back has today become 50%-50%. So because we are the only heavily delivery based brand still which as you see a lot of our advertising is centered around delivery, our online medium is again whatever impetus we are giving there, our advertising and brand building money is getting polarized in that direction is again centered around delivery, and online, which is again delivery-oriented. So that is why we would still say that we are a delivery-centric company. But you are right that given that dining business also is significant. The emphasis on delivery probably is not as much.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- A Ranganathan:** Ajay, if I remember correctly, we had discussed in an earlier call also that when employees actually reduced significantly in the first quarter of this year that a lot of it was done and these number of employees per store would be sufficient enough to cater to the delivery or even for that matter rather it will be sufficient enough to cater to SSG of 6% to 7% or 8%? Now we are at almost something like about 25 employees per store, I am just dividing the number of employees by the stores there. Is this sufficient for us to grow at 6%, 7%, or 8% SSG? Can these number of employees take it because historically we have never had such a low headcount per store?
- Sachin Sharma:** These headcounts have come because of efficiency not because the business has reduced. So even if the SSG comes to be range of 6%, 7%, 8%, we do not foresee that we would be hiring more headcounts and making the expense line bloated up once again. So that is the way we look at it.

- A Ranganathan:** Could you please help us understand the efficiency part in this? I did not quite get that as to one is you mentioned is the OLO, because your delivery business has got hit this quarter? So that is one. But that apart, let us just look at sustainable basis is that having lesser number of employees, are you saying that these lesser number of employees can do actually more number of deliveries that were done earlier?
- Sachin Sharma:** That also is the case and the number of employees per store shop floor also have reduced, so put together, the entire store operations headcount has been restructured basis these studies which has been done through the Six Sigma and the other efficiency matrices.
- A Ranganathan:** The other question I have is pertains to the initiative with the consultant and OLO actually. So one is just taking one of the questions an earlier participant asked is that you said that the fact that delivery as a business today is at 50% for you and OLO can get to almost 70% to 80%. Are you implying that delivery should actually also become 60% to 70% business then in next whatever time you are looking at the OLO number to be held?
- Sachin Sharma:** What we said was that out of the delivery business, 60% to 70% of that business can be through OLO. So we did not say that delivery business is going to change significantly, it may over a period of time. But what Ajay was alluding to was the share of OLO in the Delivery business.
- A Ranganathan:** On the consultant, just one point I wanted to ask is that these initiatives how long would it last and would their exercise be thread bare right into every store level assessing the cost at every store level?
- Sachin Sharma:** So, this exercise covers all cost line items; it covers OPEX, it covers CAPEX. The duration would depend on the initial diagnosis which happens because then there would be the test runs and then there would be pilots, and then there would be actual implementation, so it hinges on lot of factors. As of now we cannot comment on what is actual duration likely to be, but the diagnostic stage has started and it is going to take some time before it gets over.
- Moderator:** Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.
- Ajay Kaul:** Thank you, ladies and gentlemen for taking the time in joining us on this call today. We hope that we have adequately answered your questions and queries. Should you need more information in future, please feel free to contact us. Thank you very much and good night.

Moderator:

Thank you very much, sir. 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.