



### Transcript of the Q4 FY17 Conference call for Investors & Analysts

**Call Duration** : 01 hour 38 mins

**Management Speakers**

: Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks  
Mr. Pratik Pota – CEO of Jubilant FoodWorks  
Mr. Sachin Sharma – President & CFO of Jubilant FoodWorks

**Participants who asked questions**

Mr. Amit Sinha - Macquarie.  
Mr Prasad Deshmukh - Bank of America-ML  
Mr. Abneesh Roy - Edelweiss  
Mr. Nillai Shah - Morgan Stanley.  
Mr. Aditya Soman - Goldman Sachs  
Mr. Vivek Maheshwari - CLSA.  
Mr. Manoj Gori - Equirus Securities  
Mr. Arnab Mitra - Credit Suisse.  
Mr. Abhishek Ranganathan - Ambit Capital  
Ms Latika Chopra- JP Morgan  
Mr. Sanjay Singh - Axis Capital  
Mr. Manish Poddar - Religare Capital Markets  
Mr. Mayur Gathani - OHM Group  
Mr. Amnish Aggarwal - Prabhudas Lilladher  
Mr. Ankit Babel - Subhkam Ventures  
Mr. Avi Mehta - IIFL Mr.  
Mr. Richard Liu - JM Financial.  
Mr. Aditya Iyer - Dimensional Securities

**Moderator** Ladies and gentlemen, good day and welcome to the Jubilant FoodWorks Q4 FY17 Earnings 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 entering \* then 0 on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Urvashi Butani from CDR India. Thank you and over to you.

**Urvashi Butani** Thanks, Melissa. Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for the Q4 & FY17. We have the senior management on the call with us, including Mr. Hari Bhartia – Co- Chairman of Jubilant FoodWorks, Mr. Pratik Pota - CEO and Mr. Sachin Sharma – CFO

We will initiate with key thoughts from Mr. Hari Bhartia and follow that with the operating and financial discussion with Mr. Pratik Pota and Mr. Sachin Sharma. After that the management will be happy to respond to 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 statements and the actual results may vary significantly from the forward looking statements made. A detailed statement in this regard is available in JFL's Q4 FY2017 release & presentation which are available on the company's website, under the investors section.

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

**Hari Bhartia:** Thank you and a very warm welcome to all of you. We opened the Q4 FY17 with the continued impact of demonetization. The impact was highest in January and February and it started to normalize by March. While the company took major initiatives to bring in digital payment systems, delivery was severely impacted whereas Dine in sales were the least effected. We feel we have started the first quarter of the new financial year with normalisation of sales.

Last three years have seen almost flat same store growth. It was important that the company makes strong effort to bring growth back. Let me elaborate on the initiatives taken by the company. In the last three years we have opened over 400 stores. In FY18, we will focus on improving profitability by driving same-store sales of our existing stores, while opening new stores selectively. As we expanded our stores, our costs too

grew proportionately and therefore we did not get operating leverage. In the last few months, we have taken a hard look at all our costs and have initiated steps to rationalize them. The results of these will start reflecting progressively from Q1FY18. This has been a major company-wide initiative.

High inflation has been a reality for us in the Food Service Industry. This has seen our Value for Money perception come under pressure. We are conscious of this and in April this year introduced “Every day value offer” on medium sized pizzas aimed at attracting families and groups of friends. It has got off to a very encouraging start and the company will continue to make strong efforts to bring value back to all segments of customers.

We continue to invest in upgrading our technology in all aspects of the company operation and digital experience for our customers. Use of smart phones will continue to drive online sales.

At Dunkin’ we are committed to reduce losses to half in the FY 18, and close stores early where we do not see profitability in the next two years. Renewed efforts are being made to improve beverage and donut sales, while we continue to bring value offerings to our food range.

To conclude, I wish to reiterate our focus on driving profitability and increase margins through rationalization of cost. In this endeavor our company will be lead by our new CEO, Pratik Pota. Pratik comes to us with a rich experience of 25 years and a proven track record of leading large businesses and teams. He joined us in end February and has been deeply involved in putting together our plans for the new financial year. We on behalf of all would like to welcome him and wish him all the success. Our team remains enthused and driven to take on new opportunities whilst managing short term challenges. We believe we are in a high growth business, world class brands and the right team and are well placed to leverage the profitable opportunities that lie ahead for us.

On that note, I will now request Pratik to take this call forward and provide you with his insights on the performance for the previous quarter.

**Pratik Pota:**

Thank you Mr. Bhartia. It is my pleasure to participate in my first call today, and I look forward to interacting with you in the future. At the outset, I would like to thank the JFL Board for placing their confidence in me and for the warm welcome. While it has been only two months into my new role, I am confident about the prospects that lie ahead for the company based on what I have seen in these two months and I am enthused by the opportunity to lead our company into its next phase of profitable growth.

I will start with the results for Q4 and for FY17. Our total revenues for the quarter stood at Rs.6,128 mn (a degrowth of -0.9%), EBITDA was Rs.605 mn (9.9% of Operating Revenue) and the PAT stood at Rs.67 mn (at 1.1% of Operating Revenue). Excluding exceptional items, PAT for Q4 stood at Rs.189 mn (3.1% of Operating Revenue).

The exceptional items as also other details that will be shared by Sachin later in the call.

On a FY basis, our revenues were Rs.25,461 mn (a growth of 5.6%), EBITDA was Rs.2,466 mn (at 9.7% of Operating Revenue) and PAT stood at Rs.673 mn (at 2.6 % of Operating Revenue). Without exceptional items, PAT was Rs.794 mn (at 3.1% of Operating Revenue).

A few factors that influenced our performance during the last quarter were:

- The challenging post-demonetization environment for the first part of the quarter as mentioned by Mr. Bhartia
- Our decision to withdraw deep discounts such as the Buy One Pizza, Get One Free - our internal evaluations showed that the incremental impact of the BOGO offer was reducing
- Our effort to improve efficiencies by shutting down some unprofitable stores - we closed 8 Domino's restaurants and 13 Dunkin' Donuts restaurants.
- As part of our efforts towards improving efficiencies, we engaged in a manpower optimization exercise wherein we identified and eliminated a few roles that had become redundant. There was consequently a one-off cost related to separation.

While these impacted our performance last quarter, they were without doubt the right thing to do strategically as they helped strengthen the foundations of our business.

In Q4 we continued to invest in profitable opportunities by opening 18 Domino's and 3 Dunkin' Donuts restaurants. Our total network as of March 31 was 1117 Domino's Pizza and 63 Dunkin' Donuts restaurants.

Additionally, we have been constantly evolving and upgrading our technology. Frequent users amongst you would have noticed our upgraded web interface and mobile app, which has enabled us to improve our customers Online Ordering experience. In Q4 our average OLO contribution to delivery sales increased to a healthy 51%, compared to 49% in Q3. Within this, contribution from mobile phones increased to 68% of our OLO sales, a robust growth from 56% in Q3.

Coming to our Sri Lanka operations, we are executing as per our plan and in Q4 have delivered SSG of 11%. For FY 17 SSG was 20%. The total number of restaurants stood at 23 as on 31 March 2017.

Before I conclude, given that this is my first interaction with you, I thought it would be appropriate to share some of my thoughts and strategic priorities for the future. The Food Service Industry in India is enjoying what are likely to be sustained tailwinds, and is in an exciting phase of growth and innovation. Jubilant Foodworks as India's pre-eminent QSR player, is well placed to participate in and indeed lead this growth.

Our Strategy will be built on some clear pillars.

- Driving Product Improvement and Product Innovation based on evolving customer expectations
- Improving Value-For-Money offering to our customers (our every day value offer in April is an example of this)
- Enhancing Customer experience while Ordering, in Delivery and in Dine-In
- Investing in Technology and in upgrading our end-to-end Digital Experience
- Bringing a maniacal focus on improving operating efficiencies and creating a culture of ownership and cost-consciousness
- Doing a calibrated store expansion– we plan to add 40-50 Domino's stores and 5 Dunkin' Donuts stores in FY17-18. Equally, we will be clinical about closing stores where we do not see a line of sight to acceptable profitability

Finally, we will continue to strengthen our organization, nurture talent and build deep capability. This will make JFL a future-ready organization, equipped to take on the exciting challenge of driving sustained, profitable growth.

With that, I request Sachin to please take you through our financial highlights.

**Sachin Sharma**

A very good evening to all of you and thank you, Pratik. I shall quickly brief on the financial performance of the Company. All financial reporting in discussion has been done in accordance to IND-AS.

Revenues in the quarter stood at Rs 6,128 mn. The performance is reflective of the Company's efforts to expand reach via restaurant expansion and online orderings. The wide menu range of offerings along with targeted marketing efforts have also contributed positively to topline. SSG stood at negative 7.5% in the quarter and for the full year it stood at negative 2.4%

Total Expenditure --for Q4 FY17 stood at Rs. 5,522 mn, up 1% over Q4 FY16. This was primarily on account of expansion in operations due to addition of new restaurants and inflationary increase in some of the cost lines. The EBITDA for Q4 FY17 was at Rs. 605 mn. During the quarter the company incurred a cost of Rs.121 mn towards one time separation cost as part of the manpower rationalization exercise. The same has been shown as the exceptional item in the financials. Depreciation for the quarter witnessed an increase due to accelerated depreciation for closed restaurants and network expansion. The Profit after Tax for Q4 FY17 stood at Rs 67 mn.

For FY17 we did a capex of Rs. 1,617 mn towards opening of new restaurants, replacement of assets in existing restaurants, SAP and other facilities. Further, the Greater Noida commissary is going to be operational soon. For FY18 we have outlined a capex of around Rs 1,300 mn. We are also constantly seeking methods to improve our systems, processes and supply chain functions. Our operations team is committed to looking at means that will allow us to achieve greater sustained levels of efficiency

On the GST front we want to re assure all our stakeholders that we are completely ready for a seamless migration to the GST regime.

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

**Moderator**

Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Amit Sinha from Macquarie. Please go ahead.

**Amit Sinha**

Sir in the last concall, you had highlighted that December had seen a significant improvement and there was a recovery in terms of the demonetization overall. However, this quarter number suggests something else. So did things worsen in Jan-Feb and also on the similar point, what are the other factors which are impacting our SSG growth?

- Pratik Pota** The impact that we saw in January and February was the continuing spillover of the impact from the preceding quarter. In November and in December, we have seen some recovery especially in dine-in on account of innovations that we have done. But on an ongoing basis, we saw the impact of demonetization continue until February and it was only in March that we saw normalcy return.
- Hari Bhartia** And the impact was much more on the delivery side.
- Amit Sinha** Sure. So what do you mean to say the third quarter was partly offset by better dine-in numbers, which we did not see in fourth quarter?
- Hari Bhartia** No, I think what Pratik means is that the third quarter we had launched new products Quattro Formaggi and Choco Pizza. So I think that helped because there were new trials of these products happening and a big promotion was going on. So to that extent, it helped us to reduce the impact and as you know in that quarter, the impact was really one and half months effectively and a very festive quarter also. So to that extent, so in the numbers we did not see that much of impact. But I would say that January and February, the impact was quite high.
- Amit Sinha** Sir, also related question. We also withdrew some of the offers in fourth quarter. So did that also impact our SSG in fourth quarter?
- Pratik Pota** Absolutely. I think the fact that we took a well-considered call to reduce our deep discounts did in the short-term impact our same-store growth both vis-à-vis same time last year as also vis-à-vis the preceding quarter. However, we believe that we are now on a path of offering consumers every day value which does not depend on occasional deep discounting days which is a much more sustainable way of delivering value. To answer your question, withdrawal of the discounts did impact same-store growth, I mentioned in my opening remarks. But we believe we are now on a much better way of driving same-store growth. And if I can just add to this, the reasons why we took a call to withdraw the deep discounts, there were three primary reasons. Firstly, we saw that the incremental impact of these deep offers was becoming lesser and lesser. Secondly, it was diluting our brand equity and thirdly, it was hurting our margins and profitability as well. So those three reasons led us to discontinue the deep discounts in Q4.
- Amit Sinha** Sure sir. My last question is on everyday value offer which you have launched in April. Now just wanted to understand what is the traction which you are getting in that overall offer and how much of gross margin will it shave off because again this will be dilutive on our gross margin. Thank you.

- Pratik Pota** I would like to repeat what we said in our opening remarks regarding the everyday value that the early response has been encouraging. Beyond that, I would not like to offer any opinion and reserve feedback for Q1. It would be suffice to say that the everyday value offer will not be margin dilutive.
- Moderator** Thank you. We have the next question from the line of Prasad Deshmukh from Bank of America-ML. Please go ahead.
- Prasad Deshmukh** Sir, couple of questions. Firstly, from this everyday value, you are saying it is not margin dilutive. Is it possible to quantify the kind of improvement that could be there like-to-like versus say buy one get one. I understand buy one get one though was just once a week, most of the sales used to happen on the day of buy one get one. So if you compare this week to week, how much would be the difference?
- Sachin Sharma** So, we have just launched this and we are measuring the efficacy and the performance of this offer. For us to do a maths and share it with the public at large, I think it is going to take some more time; however, as Pratik said, from an economics perspective, it is value accretive proposition and it should augment our volume significantly.
- Prasad Deshmukh** And secondly you mentioned there were some lay-offs. Which area specifically were these lay-offs in and what are the alternative arrangements for those functions?
- Pratik Pota** The manpower optimization exercise that we did was an outcome of improved efficiencies, use of technology in our operations and eliminating those that are redundant. Bulk of that optimization happens in our corporate office with our stores being least impacted. The exercise was completed discretely, sensitively, empathetically and of course the cost of that has been incorporated in the P&L as an exceptional item.
- Prasad Deshmukh** And last question to Mr. Pratik Pota. What would be your top 2 or 3 priorities in the current year especially given demand does not seem to be visible at least as far as Jubilant numbers are concerned for quite some time now.
- Pratik Pota** So, three priorities for driving topline. The first one is ensuring that we continue to drive product improvement, innovation, listen to our customers very closely and respond to the changing expectations and changing needs. Number two, value for money given that we need to get transaction growth back in the business, incremental value for money across all parts of our business, all parts of the customer segment will be a big driver of growth. Number three, enhanced customer experience across our business whether it is in dine-in, delivery or whether it is online. So those will be the three big growth drivers as far as topline is concerned.



And within that, digital of course will be a big part as we mentioned earlier. As far as the bottomline is concerned, I talked about the need to continue and indeed increase our focus on cost and extracting efficiency from every part of our value chain and again from organization point of view, I think making sure our teams are ready investing in capability and sitting with culture of ownership is something that I would believe. So I would say three priorities for growing topline, cost focus and focus on investment in creating a capable organization.

**Moderator** Thank you. We have the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy** Sir, in terms of separation cost, is it largely because of the closed store, is it also having any payment to the earlier CEO?

**Sachin Sharma** No, this cost does not relate to the closed stores, neither it relates to the exiting CEO. This relates to the people who have separated from the company.

**Abneesh Roy** And sir is this related to any findings from the A.T. Kearney project which you are doing. Has it already come out or that is still awaited?

**Hari Bhartia** No, this is part of an overall exercise and as Pratik said that we continue to look at cost optimization, so that is going on. So the results of that you will see progressively quarter-on-quarter.

**Abneesh Roy** Sir in the last con-call you had said you will give us more details on the cost saving initiatives that you are running through A.T. Kearney. Could you give us the timelines now and what is the savings you are looking at, potential savings?

**Hari Bhartia** I do not think we had promised that we will give you details of the savings, but in our view the savings have started from last quarter itself. So where all you see improvement in productivity or rationalization of cost or removal of unproductive cost, it is part of an overall initiative and which includes A.T. Kearney and that exercise normally is over a year's time. So quarter-on-quarter as and when we implement the conclusions of this exercise, we will start seeing the impact and all that will be margin accretive.

**Abneesh Roy** Sir and my second and last question is on store closure. Dunkin' Donuts 13 store closures, you have exited quite a few cities, around 23 cities you are down to 16 cities. So which means you have exited 7 cities. So what is the plan here for FY18 and similarly in Domino's again the store closure has picked up. So just take us through that also. Where are these store closures happening?

- Pratik Pota** Let me first talk about the Dunkin' store closures and your question about the go forward plans. The Dunkin' Donuts priority for FY17-18 is going to be for us to validate and to strengthen the core business model of Dunkin'. We are looking at store level profitability very closely and working out various pilots and experiments to arrive at the right business model. In other words, the combination of store size, store format, product portfolio and marketing support which allows us to get through same-store profitability. Having got the right model identified, we will use that template to then get back to adding stores and scaling up. In the case of Domino's, the store closures were a combination of external factors not linked to our business, like mall closure or other reasons and a combination of our own under performance. Going forward again, while we make every single effort to get growth back and to ensure store profitability, equally we will be clinical about closing stores where we do not expect the profit to be delivered.
- Abneesh Roy** Sir, which are the 7 cities where you have exited in the Dunkin'?
- Pratik Pota** We will just tell you, Abneesh.
- Abneesh Roy** And sir meanwhile, so you are saying there is no store number you are sharing with us as of now in terms of expansion?
- Pratik Pota** For Expansion for 17-18, our current prognosis is to add between 40 to 50 Dominos stores and around 5 Dunkin' Donuts stores. The 5 Dunkin' Donuts stores are going to be essentially pilot stores in line with my earlier comment about trying to arrive at the right business model for Dunkin'. So the current outlook is 40 to 50 Domino's Pizza and around 5 Dunkin' stores.
- Abneesh Roy** Sir this 40-50 is much lower than the last average and the store openings in FY17 is also much lower than your initial forecast, so 105 opened. So this 40-50, are you completely confident or there could be some risk here also?
- Pratik Pota** We believe this number of 40-50 restaurants does not have element of risk. Our own plan for opening lower numbers than earlier years has incorporated what we believe are the risks to growth. However, 40-50 is the number that we believe we will be able to deliver this year.
- Moderator** Thank you. We have the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.
- Nillai Shah** Pratik, the first question is for you. You spoke about product innovation and improvement. Can you speak a little bit more about that and in that context, why would you believe that your job is not to fix a business model which is effectively broken versus just incremental innovation that needs to be done. Just your thoughts on that please.

- Pratik Pota** In response to your first question Nillai, innovation on product would be about looking at how customers are expecting our delivery to change, what they expect us to deliver by way of different products and responding to that. This includes innovating on a current menu as also extending menu into other contiguous spaces. That is my first response. On your second question and your allusion to the business model, we believe that if we address these 3 or 4 areas which are value for money, improved product, improved customer experience enabled by technology and a very sharp focus on cost management, these four will help strengthen and fortify the core business model for Jubilant FoodWorks. We believe these are the essential work streams and that is what we get us to the back on the part of profitable sustained growth.
- Nillai Shah** Okay, got it. The second question is on gross margins. You have spoken about value for money many times on this call. Why 75% or 77% gross margins, why can't be like materially lower than these levels, why not 60% gross margins for instance? What gives you comfort that this is a right gross margin to work with given that you have had the opportunity to look at this business model fresh?
- Pratik Pota** As we look at giving our customers improved value for money, overtime we see a marginal downward pressure on our gross margins. However, we intend to compensate for that by bringing in sharply increased efficiencies and keeping a tight watch on our fixed costs and variable costs. So yes, we will be investing a little of the food costs back into driving and giving customer value. So yes as we endeavor to give incremental value for money towards consumers, we will see a downward marginal pressure on our gross margins. We intend to compensate for that by bringing a very sharp focus on improving efficiencies and tightly controlling costs so that overall margins are delivered.
- Nillai Shah** Noted. And the last question is for Sachin actually. Could you quantify the impact of GST on this business going forward? Thanks.
- Sachin Sharma** For our services, the GST is 18% as against the 20% tax which we were charging on our invoices. So to that extent, there is a benefit of 2% to the consumers. On the input tax credit which is going to be available to us, we are going to pass on the entire benefit to our customers. So from an overall perspective, whatever benefits will accrue to us from GST are going to be passed on to the customers.
- Nillai Shah** How much would this be approximately?
- Sachin Sharma** So, 2% on the output tax side and input tax side, we are working out that number.

- Moderator** Thank you. We have the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman** Two questions. First again in the product innovation, you said you are expanding menu in contiguous spaces, can you give us more specific details of what you plan to do sort of could this be extension into sort of pizzas or more extension into sides? And the second question is in terms of your store expansions. You have reduced your overall store guidance. Does it mean that there are fewer cities that you are expanding into or would it just mean fewer new stores in existing cities?
- Pratik Pota** So to respond your first question, we are looking at like I said expanding our menu, one example of that is the launch of a chicken range that we have done earlier this month which is now present in the South, East, and in parts of the North and will go national very soon. That will help us increase our market share of the chicken segment. We have similar such plans lined up which I would not be able to elaborate on for obvious competitive reasons, but innovating around the menu and strengthening the product delivery will be a top priority item for us going forward. So that is number one. Number two, on the store expansion, our store expansion plans of 40 and 50 will reflect both lower number of stores opening in existing towns as also us going at a lower pace into new markets. It will be a combination of the two of them.
- Aditya Soman** But can you give us more details of how the mix shapes up because historically I would think that in terms of same-store sales, it was sort of expansion into the same cities that would impact same-store sales because you would cannibalize your existing stores to an extent whereas in the new city obviously that impact is not there?
- Pratik Pota** So within this number of 40 and 50, there will be a slightly higher bias for us entering new markets like we just said. And we will be more watchful about adding stores in existing markets for Domino's.
- Aditya Soman** And just a followup on that again. You said that CAPEX for next year will be about Rs. 1.3 billion and this seems quite high for about 50 stores. So is there any sort of incremental CAPEX towards commissaries or something of that sort as well?
- Sachin Sharma** So in addition to the opening of new stores, we are going to reimage around 100 stores. There is going to be some relocations of the existing stores. We would be doing the maintenance CAPEX for our existing stores and some bit on the commissaries also. We are going to invest some more money into the technologies also and the process automation. So that is how this money is going to be spent.

- Aditya Soman** Understand. Sir this cost CAPEX per store would not increase right from about sort of Rs. 9 to Rs. 10 million.
- Sachin Sharma** No, it will absolutely remain the same.
- Moderator** Thank you. We have the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari** My first question is continuing from the previous one like the CAPEX number is quite high. You are going to reimaging the old stores and you are starting with 100 stores. One comment that you made I found quite concerning was on Dunkin' Donuts where having this format for 5 years, if you are piloting and trying to establish the business model, how long do you think that will take, because for us at least it was always a growth story. Of course for the last couple of years, growth was eluding, but for how long do you think all these things will continue, when do you come back on track? How quickly or do you have any visibility at this point of time?
- Hari Bhartia** No, the business model what Pratik alluded to was really about sometimes we look at the size of stores in different formats whether it is in the mall, we did not try kiosks which is very much used in US. So while the store formats are not changing much, we are adding some new formats and when we add these new formats, we want to see the return on capital of new format. And it is not that all our stores are unprofitable, we already have profitable stores also and what we are driving towards is more sale of our beverages and donuts, the product mix. So we are also trying to see how we can achieve quickly the store level profitability at an early stage.
- Vivek Maheshwari** And a followup to that, you always maintained in the past that there is tight 3-year payback for Domino's stores and suddenly the number of stores that you have closed is a bit surprising. Are you done with whatever you had to close in terms of store viability, exercise and all or there can be more closures next year or as in this year FY18?
- Hari Bhartia** As Pratik pointed out, some store closures are because of real estate issues where if a mall closes down, we have to close the store or we find that at a particular location we do not have the statutory approvals, sometimes those stores have to be closed out. But if you overall look at as a percentage of closed stores of our large network is a very small one. Now what we have done is to really critically look at every store and if we believe that these stores cannot be brought to profit in the next 2 years, then we are deciding to close the stores. And so it is more towards being sharper rather than continuously trying to bring profit to the stores. We felt it is better to close and find newer locations. So it is I would say more rigor in terms of existing stores, more rigor in terms of where we open new

stores. And when I say that we apply rigor now is not that we did not apply the rigor in the past. What has happened is we have now almost last 10 years of learning in different locations. So we are also using that to understand and predict the performance of the store in the future.

**Vivek Maheshwari** The fact that there is a sudden big scale back also on expansion is just making us a bit concerned about the growth story itself, but anyways my second question to Pratik is you mentioned about three steps in revenues and the costs, but how do you intend to balance growth versus margins given that both are quite at critical level the fact that SSG is down quite a bit and margins are at almost record low. How do you think about this balancing the two?

**Pratik Pota** I think earlier we spoke about having a culture that looks very sharply at all elements of costs and which looks at improving efficiencies. I believe that we have a lot of room and a lot of opportunity and a lot of effort and concerted work streams that are going on aimed at improving our efficiencies, improving productivities, cutting costs and using that enhanced efficiency to be able to deliver the twin objectives of improving growth as also delivering healthy bottomline.

**Vivek Maheshwari** Okay. And just a small bit on this. So do you envisage first half goes into taking stock of these things and putting this in the market place and second half we should start seeing the numbers and the benefits.

**Hari Bhartia** I think our first initiative to launch everyday value offer we started from early April and the cost initiatives started from last quarter. So I believe and that we will start seeing impact progressively as we have said earlier in all the quarters. From quarter-on-quarter, you will see the impact of same-store growth as well as expansion of margins. Now, you asked a question about why we are opening only 40 to 50 stores? The team felt that in this large network of stores, we have opportunity this year to expand ourselves from the existing stores. So the idea was to really focus on bringing higher sales, improve margins from the existing stores this year and keep our store expansion to 40 to 50 stores. And it is not that we cannot open 100 stores or we do not have location for 100 stores, but we felt it is important first to expand sales from our existing stores than look at larger expansion in terms of number of stores.

**Moderator** Thank you. We have the next question from the line of Manoj Gori from Equirus Securities. Please go ahead.

**Manoj Gori** Sir firstly I would like to understand, when we talk about the strategy now being much more focused on profitability. So if we look at in quarter 2, we were focusing to generate higher revenues at the cost of profitability. From Q3 onwards, we started focusing more on profitability and at the cost of

revenues. Just when we are saying that right now the strategies are based on cost efficiencies and to improve profitability rather than going for higher sales at all. So for the next 2 years, this should be the focus of the company?

**Hari Bhartia** No, I would state that while we are looking at cost optimization, we are certainly looking at expansion of sales or same-store growth from the existing stores and the new stores that we opened. So it is both and we are hopeful that in the coming years, we would be able to increase our expansion of stores.

**Manoj Gori** Sir, now we have always maintained that Dunkin' Donuts has dragged off around 225 basis points on total EBITDA margin of Jubilant FoodWorks. So when we say that we are going to shut down few stores of Dunkin' Donuts. So what could be the impact in FY18 from Dunkin' Donuts on Jubilant FoodWorks margins?

**Hari Bhartia** As I mentioned in my opening remarks, we expect to reduce the impact to half this year.

**Manoj Gori** And sir also at the ground level when I had an interaction with few of the Domino's customers also, so when we say about enhancing customer experience. So right now in fact few of the loyal customers of Domino's have been actually facing some issues regarding the product offerings. So when we say they had few complaints and they have been disappointed with the product quality when we look at the cheese content and everything, so like when we talk about experience like enhancing customer experience. This should be the focus, we should look at some compromise on the gross margin may be from 77 to 75 and look at customer satisfaction of the key priority.

**Pratik Pota** Two or three parts to my answer. The first part is that continuously improving product quality is going to be a key priority for us, I put that as one of my top priorities when I made my remarks. Number two, our own customer satisfaction track does not show us a huge problem on product quality, but certainly what has happened is that given the growth in competitive space in pizzas, we are seeing a lot more competitors offered different expressions of pizzas and therefore the benchmark for a great pizza is not only Domino's now, there is more competition. So it is critical for us to once again become the benchmark and to invest and improving product quality and delivering the great customer experience on the product. So that clearly is a key priority for us going forward.

**Manoj Gori** So finally just to sum up, in this year we did around single digit EBITDA margin. So should we expect to be at least in the double digit next year when we say about the cost optimization measures?



- Pratik Pota** I think you should wait on quarter-on-quarter and you will be able to see the results of our work. I do not think we will commit on a number right now to you.
- Moderator** Thank you. We have the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari** Couple of more things sir. First on Dunkin' Donuts, can you just elaborate on the exact drag that you are alluding to so. When you are saying that the impact would be half, what exactly you refer to in terms of numbers if you can give precise number?
- Hari Bhartia** Whatever has been the impact of losses on Dunkin' Donuts on the overall company's results, we expect that to bring it to half next year.
- Vivek Maheshwari** In terms of EBITDA margin drag basically?
- Hari Bhartia** Yes, absolutely.
- Vivek Maheshwari** And you used to give employee staff count number in the presentation in the past, can we have this for fourth quarter?
- Pratik Pota** The total employee count as on 31<sup>st</sup> March 2017 was 26,604. This was a reduction of 4% over the last year when we had 27,719 employees as on 31<sup>st</sup> March 2016. So this was a 4% drop versus 13% increase in store days.
- Hari Bhartia** And we have much larger number of stores.
- Pratik Pota** And we have much larger number of stores absolutely and the store headcount per store has reduced from 25 to 22.
- Moderator** Thank you. We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra** Firstly on your withdrawal of these deep discounting promotions impacting sales, so I just wanted to understand can this keep impacting significantly going ahead also because there is also competitive context of competitors who might still be deep discounting. So one is if you could help us tell what kind of competitive intensity you are seeing and are you reasonably sure based on what you have seen in March that things are normalizing to at least a flat or a positive number on SSG.
- Pratik Pota** Our own experience with deep discounting over the last 3 or 4 quarters has shown that at an aggregate level, deep discounting is not a sustainable way of delivering growth because of two or three reasons; a) it lumps consumption occasions on days when you deep discounting and you have



lag happening on other days, number one. Number two, brand equity suffers significantly, consumers think of the brand as a discounted brand and number three, of course it erodes margins. So we have seen that deep discounting is not a sustainable way of driving growth. In contrast, we believe that giving consumers everyday value without them having to wait for a particular day for that offer is a much better way and much more certain way of driving consumption and driving behavior change and driving frequency and like we mentioned earlier, the very early response to everyday value is indeed encouraging. So we do not believe that our competitors experience would be too different from what we have been through. So we are not overtly worried and concerned about the competitive pressures coming from their deep discounting.

**Arnab Mitra**

Sure. I completely get the point you are making on deep discounting, not being sustainable thing, but what I wanted to understand is in the meanwhile if your competitors continue with that, do you see a scenario where there is this adjustment period where your SSG continues to suffer till that the customers recognized the everyday value. I am just trying to get a sense that can this be a prolonged few quarters of pain in that sense?

**Pratik Pota**

Consumers look at discount and your pricing and promotions as only one of the variables which they use to decide to buy. The other variables that they navigate by a) product quality, b) customer experience in terms of delivery, in terms of ease of ordering, and c) of course overall brand equity and we believe that what we said earlier about our investments in offering a better product, innovating more, offering a better customer experience whether it is in dine-in, whether it is in delivery, whether it is in through digital online ordering, all of these would collectively help us ensure that we remain the preferred pizza brand and the preferred food brand in this space.

**Moderator**

Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

**Abhishek R.**

So I have two questions here for Pratik, particularly. You mentioned value for money as a key deliverable or a key strategic pillar. What would be the definition of value for money from Jubilant's perspective and is there any benchmark that you would keep in mind for value for money?

**Pratik Pota**

Value for money defined in one way which is offering every different segment of customer that right product perception, compared to the pricing that we charge in. In other words, ensuring that every customer feels he has got a great deal by consuming our product. That consumer could be the entry level consumer or it could be the high-end consumer who has had very high frequency customer. So for every segment of this

population for different consumer segment, we will ensure that we are offering the right value for money proposition.

**Abhishek R.**

Right. When you talk about innovation on the product and also the fact that everyday value. I would presume that there would be a cost input inflation on that side as well as reduction in the selling price. So structurally speaking in that case, I think this question was asked earlier, I am just getting for some more clarity is that structurally in that case what we would look at is the lower gross margin profile which possibly could be in the early 70s or maybe possibly the late 60s, but point is that it will structurally repay the margin downwards and it will be a structural feature. In that context, you mentioned that employee cost or rather the cost reduction is the way you would be looking to make up for it. I wanted to get your view on how much is the focus on SSG in this perspective because if you want to remain or if you want to use value for money as a tool for driving profitability and margins, would you see SSG as the one which will make up for this cost reduction or rather for the gross margin reduction or do you see the other costs or over reduction as the main margin driver?

**Pratik Pota**

Our endeavor to deliver superior value for money would mean that we will have to work to absorb inflation within tolerable limits and compensate for that by driving improved productivities and cutting cost, number one. Number two, offering lower discounts that we talked about earlier which is already part of our plans that would mean yes, as I mentioned earlier as well a slightly lower gross margin profile, but we intend to compensate for that by improved productivities. The same-store growth is a key objective we are going after and all the steps that I mentioned earlier whether it is improved value for money, whether it is improved product and increased innovation, whether it is customer experience, all of that the singular objective is to stock same-store sales growth back again.

**Abhishek R.**

Right. Would it be fair to say that for you same-store growth is more of a priority than just the immediate margins?

**Pratik Pota**

I think unambiguously yes, we recognize that we are in a growth industry. We recognize that we as market leaders have to play a huge role in driving growth. So our levers that I have talked about, all the three that I have talked about are absolutely oriented towards getting same-store sales growth back. How will we fund for the aggressive growth initiatives would be by ensuring we have the right efficiencies, the right levers of cost consciousness in order to make sure that we have margins protected. So you are right it would be absolutely fair to say the most important objective for us would be to get growth back and get same-store sales growth back.

- Abhishek R.** I just have one more, it is on rent. Could you please share the rent cost for the quarter please because it is almost 10% of our revenues and it is not reflected in our numbers.
- Sachin Sharma** So the rent cost as a percentage of net sales has increased slightly that is because of the contracted increase in the rents every year which happens and given a lower SSG, we have not been able to leverage the rent that much. So that is why the rent cost as a percentage of net sales is slightly higher.
- Pratik Pota** And also opening of new restaurants.
- Sachin Sharma** And we also have opened new stores and that has contributed to the increase in the rent cost.
- 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 technology investments. You planned to increase those, does that imply that you would be ready to take some of that from Domino's Pizza International and could that lead to higher payouts to them or much of these investments will be done at your own end itself?
- Pratik Pota** The investments that we are talking about in technology will be made in India. These will be developed basis our requirements and it would not have an implication or impact on arrangements with Domino's International.
- Latika Chopra** Okay. The second one is again on Dunkin' losses. Can you please quantify the losses that you saw in FY17. I think FY16, it was an impact of 200 odd basis points. What was the impact in FY17?
- Hari Bhartia** Our impact has remained in a similar range as the last year, and we hope to reduce that to half this year.
- Latika Chopra** And just lastly what is the share of pizza versus non-pizza in your FY17 revenue mix and would you expect that to trend down considering you would extend more of non-pizza products in your menu?
- Pratik Pota** Our shares of pizza versus the other is about 75:25 and we expect the mix to remain more or less stable as we intend to drive both parts of the portfolio.
- Moderator** Thank you. We have the next question from the line of Sanjay Singh from Axis Capital. Please go ahead.

- Sanjay Singh** Is there any particular reason you have removed the rent line item from the reported numbers?
- Sachin Sharma** As per the clause 33 of SEBI format, it is not required to be shown separately and we have followed the format prescribed by the SEBI.
- Sanjay Singh** Was there a rule, maybe I am wrong, maybe the rules have changed that more than 10% of sales for any line item has to be shown or is it changed something?
- Sachin Sharma** No, it has changed now.
- Sanjay Singh** So any company can show any line item as per the rules or?
- Sachin Sharma** What we have shown is exactly as per the rules.
- Sanjay Singh** But is it possible to because you will be recurring this number in annual report right, if I am not wrong?
- Sachin Sharma** In our annual report you will get to see that number.
- Sanjay Singh** Is it possible for you to share quarterly because anywhere you are going to share it in the annual number and just help us to analyze it a little bit better. Is it possible?
- Sachin Sharma** I do not have that readily available with me.
- Sanjay Singh** But I am just asking for in the future if you can share it just because for you anyway giving a number annually, so there is nothing that it hurts you competitively because you have to give the number annually. So if we get it quarterly, it just helps a little bit more, that is it.
- Pratik Pota** I think your feedback is well taken. Allow us to discuss it internally and respond to that please.
- Sanjay Singh** And on the CAPEX, somebody answered so Rs 50-60 crore which is your new stores, what is the rest Rs 80 crore for, I just missed it probably.
- Sachin Sharma** So the rest 80 crore includes the expenses which were going to incur on 100 existing stores which are going to be reimaged. Apart from that, some of the stores are going to get relocated. So that would be another bit. We are going to incur the maintenance CAPEX of the existing restaurant assets and some more CAPEX in the commissary to keep them up and running. The other area is investment in technology where the thrust is going to improve the customer experience in the online ordering and the other process automations that we intend to do.

- Sanjay Singh** And what is the cost of reimagining the stores per store cost?
- Pratik Pota** The reimagining cost per store is about Rs 14 to 15 lakhs.
- Sanjay Singh** And lastly this is for Pratik. On the value for money equation, maybe I am getting it wrong and if you can just clarify. You said it is for value for everyday, every consumer all the time which is a perfect proposition to start with. I think it is still only on double pizzas and all right. If we want to order one pizza, the prices still remain largely the same. Am I wrong on this?
- Pratik Pota** You are absolutely right. The current proposition that you see that we have rolled out is for groups of 4 and above for families and groups of friends and it requires consumer to buy 2 medium-sized pizzas. I was talking about our value for money thrust which is a very coherent and a very deliberate strategy and therefore you would expect to see a lot more of this in the months to come.
- Sanjay Singh** So as of now it is only for to probably something you might look at something in the future.
- Pratik Pota** This is a key strategic plan for us. So yes, you will see more work along this in the future.
- Sanjay Singh** But it does not impact your gross margin line in this quarter. So is this something which will come in the future only or is it?
- Sachin Sharma** We have launched this in the beginning of this quarter. Beginning of 1<sup>st</sup> April.
- Sanjay Singh** Because I think last time when we had the call, it was told that we are withdrawing all the offers in March quarter itself, but it is somehow not reflecting in the gross margin numbers.
- Hari Bhartia** No, that was the BOGO offer that we withdrew yes.
- Pratik Pota** Our deep discounts and buy one get one offers were discontinued last quarter and as I mentioned earlier, they are not working for us for a number of reasons. We believe based on our experience that giving consumers value that they can turn to every day without waiting for special occasions will just help increase the purchase behavior and consumption behavior and help drive frequency. So therefore, it is a fairly different paradigm from what we had earlier.
- Moderator** Thank you. We have the next question from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

- Manish Poddar** Sir, could you give us the growth rate in dine-in versus delivery for FY17?
- Pratik Pota** I am afraid we would not be able to share those numbers. We have not done that in the past for competitive reasons. Directionally as you heard us earlier in the call on account of demonetization, we had a higher impact on delivery part of the business than in dine-in.
- Manish Poddar** And what is the absolute rent expense for FY17, if you could share that?
- Pratik Pota** We just discussed that we will internally discuss it and will get back to you. As of now, we have not disclosed that number.
- Manish Poddar** And in terms of employee per store, you mentioned that it is now come down to 22. Is this number going to go down more and what sort of inflation are you modeling in for staff cost let us say for FY18?
- Pratik Pota** On employee staff costs, there are two conflicting trends and two conflicting sort of pressures. One is on account of regular wage inflation. Number two, increase in minimum wages in many states in the country. Number three, increase competition and demand for talent especially in the delivery space. So those are the pressures that are taking the employee costs up; however, to compensate for that, we have got a very delivery program that we launched on looking at variable manpower models, looking at automation and other ways of improving our labor count and our efficiency in the store. So both we believe would sort of help compensate each other and we are looking at a very marginal inflation in terms of employee cost.
- Manish Poddar** Is there any minimum wage hike in this fiscal year, FY17 in any of the states?
- Sachin Sharma** Yes. Almost all states do a minimum wage hike, some states do twice a year, some states do once a year. So this is an annual trend which happens.
- Manish Poddar** But if you could quantify how much has been in the two months, it has happened I understand, but if you could quantify what is the minimum wage hike in your key states, any percentage or any range would be great?
- Sachin Sharma** So as of now we have not worked it out. But the state of Karnataka and Delhi have announced the minimum wage hike. In Delhi, it has been put on hold due to some litigations and in Karnataka, it has got implemented.
- Manish Poddar** And one final bit if I may, what was the price increase in FY17 and how are we looking at price increases in FY18?

- Sachin Sharma** So in FY17, we have not done a price increase. We did a menu rationalization where we increased the price of some of our SKUs and some of the SKUs were revised downwards. The overall impact of that was around 2% increase in our price.
- Manish Poddar** And that is in FY17 and how much do you envisage in FY18?
- Pratik Pota** For FY17-18, we are not planning for a price increase given our value for money strategy I talked about earlier. Any upside that would come would be on account of mix changes, but there is no price increase planned.
- Moderator** Thank you. We have the next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani** Can you quantify the one-off cost that you would have incurred for the closure of these stores Dunkin' as well as Domino's?
- Sachin Sharma** The one-off cost of the Dunkin' and Domino's store for the quarter is around Rs. 5 crore in for the quarter and around Rs. 8 crore for the full year.
- Mayur Gathani** And from April onwards you are saying things are back to normal, right? So there is no demon impact that you are seeing?
- Pratik Pota** Yes, absolutely. We are not seeing any impact of demonetization starting April.
- Mayur Gathani** Great. And on the new products, can you quantify what is the percentage contribution of the new products to your sales. Pizza is 75%, non-Pizza is 25%. But if I look at the new products, did you give how much...?
- Pratik Pota** I am afraid we won't be able to share that level of detail. We haven't done that in the past and again for competitive reasons we would refrain from offering more information.
- Mayur Gathani** Okay. And on the one-off cost, do we see any further one-off cost coming in the next year, let us say more employee rationalization etc. on the corporate office side?
- Pratik Pota** There is no further plan at doing employee rationalization in the head office and therefore there is no further one-off costs that's been planned for.
- Mayur Gathani** And the reimaging, should we assume that today you are doing for 100 stores gradually. All the stores will be reimaged?

- Pratik Pota** Yes. You're right. We have 100 stores being planned for reimagining and that would happen progressively starting quarter one.
- Mayur Gathani** So the look and feel of the whole stores will change?
- Pratik Pota** This is not a complete overhaul, but yes, the whole objective is to make sure that the interiors, the basic furnishing of the store and the overall customer experience improves.
- Moderator** Thank you. We have the next question from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Aggarwal** I have a couple of questions. Sir, few minutes back you had remarked that we would like to place Domino's again as a benchmark for pizza, the new competition has commenced, so the entire market dynamics have changed. So can you throw some more light on the kind of dynamic changes which have happened in the pizza market and how is the overall market shaping up in that context?
- Pratik Pota** The overall market has expanded and is expanding on account of entry of new players, both organized QSR players which have been there for some time and also local neighborhood pizzerias that we believe is good for the category because it is helping create innovation and drive growth. As these other stores come in, we are seeing customers experience different kind of pizzas and we have to ensure at Domino's remains the most preferred pizza option in the repertoire. So that is the context and that is what I meant by talking about the changing landscape and customers experiencing different kinds of pizzas.
- Amnish Aggarwal** And sir when you are referring to say new kinds of Pizzas, so these are say the players like Sbarro which are having say totally different look and feel?
- Pratik Pota** Many of them. There are different players in different parts of the country, including smaller teams which are confined to specific markets and geographies. But they are all giving customers an experience to try pizzas and like I said earlier we believe it is good for the market because it is helping customer experience pizzas.
- Amnish Aggarwal** So my second and final question is that, now we have started journey to cut cost, have a totally different kind of a business model than we were having in the past few years which is a slightly lower gross margin and more control on cost. So when you are embarked on this journey, so what sort of target of EBITDA margins, say you are having say 3 years down the line. I am not looking at say next one quarter or two quarter or one year. So when you are embarking on it, because your margin used to be say 17%-18% there now, say half of what you were making earlier. Now you are



looking at reducing your losses in Dunkin' also. So what is the 3-year target you would like to give to investors?

**Hari Bhartia** It is a good question. We also debate it internally, but I would say that our objective is to definitely return towards high margin in the next 3-years. Now, should it come back to 17% or 18%, it is very difficult to say right now. I think we would be more wiser by end of the year when you will see what progressive work we do quarter-on-quarter. Certainly the market has changed. About 4 years back, we were in less number of cities. Now we have expanded in more number of cities. So what is the right margin profile 3-years from now. I think we can have that conversation probably end of the year.

**Moderator** Thank you. We have the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel** Sir, my first question is, in one of your corporate presentations you have mentioned that the QSR industry is expected to grow at the rate of 22% till 2021 and Mr. Pota had just mentioned in the initial remarks that Jubilant would lead the growth of the industry. So sir is it safe to assume that we can grow at 20%-25% at Jubilant level from FY18 onwards?

**Hari Bhartia** No. I do not think we expect to grow at 22%. And I think when probably this has been mentioned about the QSR market, this takes into account all parts of the categories and our objective would not be to grow at 22% in the coming year.

**Ankit Babel** So sir, the industry in which you are present, what could be the growth rate for that industry?

**Sachin Sharma** We expect mid teens to be the rate of growth. The same report you are talking about, talks about the overall market growing at 13%. So in that range is what we expect the category to grow by.

**Ankit Babel** And sir just an addition, I mean you mentioned that Dunkin'' is also going to reduce, but is there a scope for margin improvement in your Domino's business?

**Hari Bhartia** I think that is what Pratik detailed in his initial remarks, that both from growing same store sales as well as rationalizing cost and discounts, we do hope to increase margin in the coming quarters.

**Ankit Babel** Sir what was the sale of Dunkin' in FY17?

**Hari Bhartia** As you know, we have not given separate numbers last year.

- Ankit Babel** That is important for us to understand sir. How that business is growing and what could be the scalability of that business. We have no numbers of that business, sir.
- Hari Bhartia** It is a good question. If we decide to share the numbers next year, we will come back to you. But we are committed to reduce the impact by half.
- Ankit Babel** And so in 2 years, can we expect the full losses to become zero?
- Hari Bhartia** That is what our endeavor would be to prove year-on-year. So this year we took a target that we will reduce our losses to half or the impact of Dunkin' to be reduced to half. And we are working very hard to achieve that and end of the year I think we can share with you the next 2-years' plan because we are hopeful of achieving good results at store level profitability.
- Ankit Babel** But does Dunkin' have that kind of a margin potential which Domino's has?
- Hari Bhartia** We are very hopeful to crack the mix of products and the size of stores and the cost around it. We are hopeful and that is one reason we started this brand to bring it to same level of margin.
- Ankit Babel** And sir, lastly in the last 5 years, we have seen margins coming down from 18 to 10. So can we expect next 5 years it will be back to those levels. I know you have just answered this question. I need some more clarification from your side. Because sir, every quarter we have been positive and in last 5 years on a quarter-on-quarter basis the performance has just been deteriorating. Now we as investors have no clue that how to project your profitability going forward. So we would like to have some numbers or some quantitative data from your side which would help us to take an informed call on this talk sir.
- Hari Bhartia** I don't think we can share with you or commit to you what is our in the next 2 years margins...
- Ankit Babel** Sir, don't commit but at least give us your internal target sir, what you are targeting at least. I mean, you can achieve and you cannot achieve. But at least we should be aware that where the management is heading sir, in terms of profitability?
- Hari Bhartia** See, I can only say, you will progressively see the results of our work quarter-on-quarter this year. Tremendous amount of intensive work is going on both to increase same-store sales as well as improvement of margin. And as I mentioned too earlier, we should have this conversation end of this year.

- Ankit Babel** Okay, but when can we have a double digit same store-sales growth, how many years it will take? Can we have it in FY18 itself?
- Hari Bhartia** I am not going to answer this question.
- Pratik Pota** It is part of the same question, I guess is being answered again.
- Hari Bhartia** So, I'm just requesting you that we have really embarked on as Pratik stated a very concerted effort to bring growth back as well as to improve margins and we are very hopeful that we will be successful. So let us wait for this conversation in the later quarters.
- Ankit Babel** Can you share in the next quarter sir, that what will be the positive impact of GST on your input credit? You said that you are still working on it. And the service tax which you pay on rentals and all those, will you get a credit of that or not?
- Hari Bhartia** So we will come back to you after we discuss that internally.
- Moderator** Thank you. We have the next question from the line of Avi Mehta from India Infoline. Please go ahead.
- Avi Mehta** Sir just on the first part, you highlighted towards the effort taken in operating cost reduction and you would see the impact kind of flowing through in the next quarters. Could you highlight because I understand that employee rationalization should have flown through in this quarter. What are the other line items that we should progressively look at or look to see benefits accruing?
- Hari Bhartia** This is a company wide initiative. And I don't think we can give you line by line.
- Avi Mehta** This is not a number, but which line item you would be targeting, key line item?
- Hari Bhartia** No. We are looking at all cost and this we answered many times in this call. You will see the impact progressively quarter-on-quarter. I am not committing a number to you. That is all what I am doing. But you will see the impact quarter-on-quarter.
- Avi Mehta** Sir, progressively these costs or if I would just bunch all the employee plus other expenses, that cost should logically reduce quarter-on-quarter is what we should kind of hope for?

- Hari Bhartia** Yes. Whatever we have done, the impact you will see in the next quarter and hopefully whatever other efforts that we are making, those impacts will also be seen.
- Avi Mehta** The rationalization that you have done, the entire impact has not come into this quarter and you will see that impact coming to the next quarter is what you are indicating. That is what I am asking sir.
- Hari Bhartia** Absolutely.
- Avi Mehta** Sir, secondly, I mean just on the SSS growth bit, you indicated that the 7.5% SSS declined has got to do with impact on suspension of offers and the demonetization impact. Would you be able to kind of give us a sense on what adjusted for these would it be. The reason why I ask is if I kind of progress next year, you are looking at single digit kind of, a 4% kind of probably employee store addition and in the sense on the SSS growth trajectory that we see suggest that next year looks to be a low single digit revenue growth. I mean, that is what we are kind of struggling with, if I may. So I am just trying to understand how, if you could kind of give me a sense on how this quarter adjusted with these one-offs?
- Pratik Pota** Yes. It would be hard to segregate the impact of both of these on our overall performance. We know and we have seen that both of them had a significant impact. But it is hard to tell them apart, number one. Number two, with respect to your question about the future, I want to build on what I have said earlier, which is that our single biggest priority is to get to growth and get same store growth back again. So the efforts we are taking, all the ones that we mentioned strategically speaking are efforts in that direction.
- Avi Mehta** And these were typically trying to flow through, would that be a fair estimate or do you start looking at these and it will take some few quarters for it to flow through or no? These are events that you can start aiding SSS growth as on the ground and they start running. Is that how does this work? I am just trying to kind of crystal gaze a bit, if you can?
- Pratik Pota** The benefits of these efforts will start progressively visible from quarter one itself.
- Moderator** Thank you. We have the next question from the line of Richard Liu from JM Financial. Please go ahead.
- Richard Liu** Sorry if I am repeating this VFM thing again. If you realize that deep discounting was an issue from a brand equity perspective and also coupling that with your remark that VFM is an essential proposition that you need to now inculcate into the portfolio, why does the brand still exist on keeping

MRP high and then giving a certain percentage off. Does that not still tantamount to giving a discount practice you mentioned by the passing that has resulted in the brand being called a discount brand. Isn't this somewhat again to some shirt brand saying that MRP of the shirt is Rs. 1000 but we are available at buy 2 get 5 free throughout the year?

**Pratik Pota** Our effort will be to offer value to every segment of consumers, consumers who come in groups and consumers who come individually. You will see us progressively taking efforts through the year in this direction.

**Richard Liu** No. I just wanted to understand, the reason behind you insisting on keeping the MRP at Rs 500 or 600 and saying that I will give you a certain percentage off, isn't it better to just cut the price. I mean, just take one cut, once and for all, that make it affordable to everybody at one go rather than saying that take a percentage of discount?

**Hari Bhartia** You know, we are not giving one off discounts. We are giving progressive discounts. That means customers who buy two or more pizzas they get obviously discounts, so that helps us because we are increasing our sales of volumes and a large number of customers of ours still buy on MRP. So the idea of giving discount is to progressively increase frequency or increase volume. So what we are trying to do is helping customers to decide that for their share of the stomach, they will eat more and more pizzas and more frequently. So it is not about keeping a low price for everyone. Even if you keep same low price for everyone, people who consume more expect a certain amount of discount. So this has been done with lot of thought and the idea is not to have a very high MRP also as well as give certain offers to consumers, certainly large families, large group of friends, or people who eat frequently.

**Pratik Pota** In addition to this, I would like to point out that we have a fairly powerful product that consumers love as the entry price point or pizza mania range starts at Rs. 59. So that even for individual customers is a very attractive price point to enter the category into.

**Richard Liu** Given the competitive dynamics that you were talking about in terms of the intensity etc., are you still pretty confident that the MRP that you are charging is going to be what the consumers would be happily willing to pay in sometime. Maybe when the macro gets better?

**Pratik Pota** Given that our strategy is going to be hinging on those 3 areas, giving a great product and improving product quality and product experience, number one. Number two, delivering improved value for money and number three of course an overall enhanced customer experience. We believe that these 3 put together would allow us to be competitive and continue to drive growth.

- Moderator** Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- Abhishek R.** Just one followup here. Is that, how old was the stores which we shut in Domino's?
- Pratik Pota** The stores that we shut range from 2001 opening, 2005, 2007 and 2014.
- Abhishek R.** And do we envisage any more closures now from here on and also any more serious numbers of renovation or reimaging as we call it, going ahead?
- Pratik Pota** Our reimaging number is 100 as we mentioned earlier.
- Hari Bhartia** I will explain you what reimaging is. See, once our store gets very old, it is still a well performing store. As you have seen, our brand image has changed over the last 20 years. Some of our stores are in the very old image and we need to bring them into the newer style and image in which the Domino's store operate. So we need to invest every year in certain number of stores to reimage it and we will continue to do that.
- Abhishek R.** Right sir. So sir because in that case since we have a lot of these stores which would be older than say 6-7-8-10 years old, would it be fair to say that you would have about 100 odd stores in the next few years which will lead to continuous reimage, every year incrementally?
- Hari Bhartia** I am not sure of that number, but it will be less than 100. We had a backlog of stores that we had not reimaged. So I think we are catching up. But going forward it will be a less number. May be in the next quarter, we can come back to you with the exact number on that.
- Abhishek R** In your last question you also said the headcount per store of 22 which you mentioned at the store level, there are two parts here. One is do you envisage that number going down, a) and second is with our ambition of SSG being a priority. Do you think that we will be able to sustain over a longer period of time with just 22 employees per store?
- Pratik Pota** The first part of the question, we have answered earlier in terms of what incrementally we are doing to ensure that we have productivity in the store. On your second part of the question, as same store sales growth comes back, we will look at variable labor model to ensure that we are able to service the incremental demand without adding commensurate cost.
- Abhishek R.** But to do an absolute basis, we will need more people to service the SSG, the cost line item will change from a fixed to a variable one, that is all.

- Hari Bhartia** Within a certain tolerance level, our current headcount per store would be adequate to service the growth. But if the same-store growth exceeds that boundary condition, then we would need to get additional headcount.
- Moderator** Thank you. We have the next question from the line of Aditya Iyer from Dimensional Securities. Please go ahead.
- Aditya Iyer** You had mentioned reimagining of 100 stores over the next year or so, so what would be the downtime of these stores, if you could mention?
- Sachin Sharma** So, typically there is no downtime for the reimagining exercise for these 100 restaurants
- Aditya Iyer** Okay and would it be done in like Q1 itself or would it be evenly spread throughout the year?
- Hari Bhartia** No, it is evenly spread throughout the year and the time required is, we are reducing the time required quite a bit.
- Aditya Iyer** Sure and is there any kind of target, post reimagining what would be aiming for from the same store, in terms of increased productivity from those individual stores because of the reimagining exercise.
- Hari Bhartia** See, there is not much change in terms of cost and productivity. But certainly from the customer experience point of view, it is a much better experience for dine-in customers. So we certainly expect dine-in to improve.
- Aditya Iyer** And sir we saw a very steep increase on number of mobile downloads, any particular driver behind that in Q4 versus say the first 3 quarters of the same year?
- Pratik Pota** We ran a campaign in Q4 aimed at promoting online ordering using our mobile app and we ran a TV campaign of this as well. That was one big driver. The second big driver was that, our app had an upgrade towards the beginning of quarter four which help improve the overall customer experience and therefore get more downloads going.
- Moderator** Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to the management for closing comments. Please go ahead.
- Hari Bhartia** Thank you for the participation and we look forward to our future interactions in the next quarter.

**Pratik Pota**

I would like to just end by reiterating our vision of this business. We are in a growth industry and we believe firmly that if we are able to address the strategic priorities we talked about, we will get back to driving sustainable and profitable growth. Thank you for your time.

**Moderator**

Thank you, gentlemen. Ladies and gentlemen, on behalf of Jubilant FoodWorks, that includes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.