Q1 FY25 Earnings Conference Call Transcript

Date: August 9, 2024

Moderator: Ladies and gentlemen, good day, and welcome to the Jubilant FoodWorks Limited Q1 FY '25 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 pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Deepak Jajodia, thank you, and over to you, sir.

Deepak Jajodia: Good evening, everyone, and welcome to Jubilant FoodWorks Limited's Q1 FY '25 earnings call for investors and analysts. We are joined today by senior members of the management team, including our Chairman, Mr. Shyam S. Bhartia; our Co-Chairman, Mr. Hari S. Bhartia; our CEO and MD, Mr. Sameer Khetarpal; our CEO of Turkey Business Mr. Aslan Saranga, our CFO, Ms. Suman Hegde. We will commence with key thoughts from Mr. Hari S. Bhartia and then turn to our CEO and MD to start the webcast.

After the opening remarks from the management, the forum will be open for the question-and-answer session. A cautionary note, some of the statements made on today's webcast and call could be forward-looking in nature, and the actual results could vary from the statement. We will share the replay of the call on the company's website under the Investor Relations section.

I would now like to invite Mr. Hari S. Bhartia to share his view with you. Thank you, and over to you, sir.

Hari S. Bhartia: Thank you, Deepak, and Good Evening, everyone. Welcome to our earnings call.

The quarter gone by was truly special as JFL has reached a significant milestone of 3,000-store network across five brands and six countries. We also celebrated the opening the 2000th Domino’s store in India, taking India’s contribution to overall Domino’s network at ~10%. With 2,029 stores, we are now serving consumers across 427 cities in India, we are humbled by the journey traversed together with support and trust from all stakeholders.

We are excited about the vast opportunity for our brands and have ambitious plans for all brands and markets in which we operate. And through commensurate ahead-of-the-curve investments in supply chain and technology, building on consumer love, we are confident that we will achieve newer records and milestones in the future.

We are very enthusiastic with the potential of brands like COFFY and Popeyes. Crossing 100 COFFY stores in Turkey and 50 Popeyes stores in India is a step to realize our multi-brand multi-country growth strategy.

This quarter is particularly important in our growth journey, we were able to achieve 8.5% y-o-y growth in Domino's India, driven by 3% LFL growth. While there was no major improvement in the underlying demand improvement, our sharp focus on delivering value to the consumers helped us register this growth. Product innovation, Free Delivery Campaign, operational excellence through decentralized leadership team, technology integration to aid operations and supply chain are some of the initiatives that aided in delivering value to our consumers.

Notably, while navigating through record inflation that affected consumers' spending choices, we didn't take any price increase since the last eight quarters and absorbed cost inflation through internal cost optimization and productivity enhancement program – Vijay. Delivery continues to scale new record, even on high base, delivery LFL recorded a growth of 12.1%. Through targeted initiatives, we were also able to grow the dine-in revenue by 4.6% qoq and +1.7% LFL qoq.

The quarter also, for the first time, reflects consolidation of DP Eurasia account for all three months. We are pleased to report a solid start to FY 2025 with elevated growth and profitability trajectory. We also stepped up the pace of menu innovation, across all markets which have been met with great enthusiasm from consumers. In terms of network expansion, we reaffirm our network guidance and you will see ramp up in pace of network expansion in the upcoming quarters.

With that, I request Sameer to share the quarterly update and his perspectives.

Sameer Khetarpal: Thankyou Mr. Bhartia and a warm welcome to all our conference call participants today. As always, we appreciate your interest in our Company. For context, in this quarter, we are consolidating the books for DPEU for the full three months. However, it is not in the base calculation for the quarter last year.

Overall Performance

It is indeed a 'milestone-quarter'. JFL delivered a strong quarter across all business lines, expansion in store network and improvement in margin trajectory. Personally for me, quality of growth is the biggest news, as the growth is order-led, and the company acquired new customers at highest-ever rate, beating the industry trend, thus, indicating the belief in our core strategy of being customer first and data-and-technology-forward.

System sales for the JFL group across brands and markets, which you may be aware includes end-customer sales of corporate as well as franchise stores came in at Rs. 22.4 billion, up by 13.5% on constant currency terms at current quarter closing rate.

Consolidated Revenue came in at Rs. 19.3 billion, up by 44.8% yoy.

EBITDA margins was at 19.8%, lower by 85 bps yoy and higher by 8 bps qoq. The PAT margin at 3.1% was higher by 98 bps yoy and 68 bps qoq.

The Group Store network is now 3,057 stores strong +66 stores qoq.

Next, let me describe how this performance played out across India and Turkey segment.

India Segment

In India, the revenue at Rs. 14.4 billion was up by 9.9% yoy. EBITDA margins at 19.3% while was lower by 178 bps yoy, it was sequentially up 22 bps.

Domino's growth came in at 8.5% led by record high orders, registering 16% growth yoy with LFL at +3%. Domino's Mature Store ADS for 1,644 stores at ~Rs. 80,000 was also the highest in last five quarters. Network expanded by 34 stores and the brand entered 6 new cities. I will provide more color on progress of our strategic-initiatives.

- Transitioning from a 4 region to 7 region structure and 35 circles below, with each region ready to scale to a Rs. 1000-cr region and each circle led by a 'market-maker'. We are witnessing strong uptick in underlying customer metrics and there is more to achieve.

- This quarter we fully completed the movement to a 'micro-services' based architecture for the customer-app. We witnessed record high MAU at 12.1 million which was up by 17.5% yoy.

- The brand-refresh It Happens Only with Pizza helped us significantly improve our brand scores and is helping us win occasions and improve brand share.

- In Delivery, we saw growth of 15.7% YoY, order growth of 29.5% YoY and LFL growth of 12.1%.

- We increased the pace of new product introduction to drive in-store growth during lunch hours by introducing the 'best value' that a QSR chain offers i.e a Lunch Thali, a four-course meal at Rs. 99. To improve attachment of beverages, we launched a range of Chillrz. For customers looking for indulgence, we launched the globally acclaimed Domino's Cheese Volcano pizza range meant for cheese lovers, creating an excitement in the category.

Business in Turkey

We operate two brands in Turkey i.e. Domino’s and COFFY and store network of 707 and 105 respectively. We added 4 and 8 stores this quarter for the two brands, respectively. 88% of the Turkey store network is franchisee-operated, which makes the model asset-lite and hence it is important to look at both system-sales and the revenue that the business earns by serving the franchisees.

Domino’s Turkey system sales came in at Rs. 7 billion and LFL was 10.3%. COFFY system sales came in at Rs. 656 million and LFL was 8.7%.

The Revenue from DPEU came in at Rs. 4.6 billion, higher by 15.4% yoy at current currency rate. EBITDA margin came in at 25% (+871 bps YoY and -150 bps QoQ). PAT margin was strong and accretive to Indian business, at 9.2% (+660 bps YoY and +300 bps QoQ), in line with the core thesis of acquiring the business.

Key Highlights from our Emerging Brands

In Popeyes, we crossed the 50-store milestone and are now serving guests across 21 cities. We filled an important gap in our offering with the launch of Popeyes Baskets. We continue to remain bullish on store expansion, customer feedback, sales and margin improvement of the business.

In Dunkin’, we added five net stores. The launch of Bubble Teas during the quarter helped us enhance the beverage mix and dialing up occasion led shares through Doughnuts is helping us improve Dunkin’ performance and its path towards positive restaurant profitability.

In Hong’s Kitchen, we added five new stores taking its network to 33 stores now. The successful Hong Kong Wrap range was further bolstered with the introduction of three new wraps. The range now starts at Rs. 99.

In Coffy, we surpassed the 100-store milestone and the network is now 105 store strong. The franchised store count is now 80 stores spread over 19 cities in Turkey with strong demand from franchise partners.

Progress on Business Outlook

I had shared with you the business outlook for FY’25 in the prior call. We are making progress on driving growth across brands and geographies, and are equally focused on driving margin expansion in India.

It is important to emphasize here that its now 8th straight quarter of no price increase in Domino's and by waiving off delivery fee we have significantly enhanced value quotient for our consumers further. The consumers are in turn reciprocating their brand love and appreciating the outstanding value along with quality service. Equally, on margins, we are keeping a 'hawk-eye' and pushing to get the leverage in the P&L. As indicated, we expect the margins to improve from the lows of Q4-2024.

There is no change in our network guidance as indicated at the start of the year.

In closing, I would like to thank my team across all geographies, for making progress and executing in a challenging demand environment. We will stay focused on our core strategy across four pillars, outlined last quarter.

With that, I would request moderator to initiate the Q&A session.

Moderator: We will take our first question from the line of Nihal Mahesh Jham from Ambit.

Nihal Mahesh Jham: I have 3 questions. The first was what is, in your opinion, the reason of such a stark difference in the delivery and dine-in growth that we are seeing? And did the INR99 lunch menu launch have any significant impact on the dine-in performance in terms of a positive performance impact?

Sameer Khetarpal: Yes, I think the first question, what's causing the divergence? Number 1, Delivery and Domino's are synonymous in terms of customer memory structures. We have doubled down on delivery, as you know, that we have always pushing the boundary. Nearly 70% of our orders are now delivered in under 20 minutes.

And the free delivery campaign that we tried during the IPL only told us how much upside that is there on delivery. So a combination of brand proposition, excellence on operations, free delivery. And in general, as you would notice, world over and across all QSRs, delivery as a mix is growing. So there is also a consumer trend that we are riding on. So that's one reason.

And on the dine-in and takeaway, I actually see it as an opportunity versus a weakness. And we are beginning to capture a part of that consumer cohort by launching INR99 lunch feast, which to me actually is a breakthrough innovation from giving value to the consumers in store. So that has helped in quarter-on-quarter trajectory. There is actually growth of 1.7%, like-for-like sales quarter-on-quarter, if I just look at dine-in and take away. So very focused on both delivery and dine-in.

Nihal Mahesh Jham: Sure, Sameer. The second question was when you speak of improvement, ideally Q4 to Q1, we do see an improvement if I look at historical seasonal terms. If I have to look at it on a Y-o-Y basis or the like-for-like trajectory, is that also seeing a decent improvement when you're looking at, say, the first month of Q2?

Sameer Khetarpal: Actually, see, as an operator, I think of the world as improving week-on-week, month-on-month. That's how we run the business. See, for the last 4 quarters, there has been a decline in our dine-in weekly orders. Now from Q4, we have started going upwards. And my take is the trajectory, if we execute and give value to consumers for dine-in, continue to reiterate on the menu side, we should see the growth. And plus, we have refurbished quite a few stores. That is also playing out. Any store refurbish at least sees 10% to 12% growth in dine-in.

Nihal Mahesh Jham: Got that. Just 1 final question from my side would be that ideally, for our margins, we've been looking at 21%, 22%. I just wanted to check if that is the range we are looking at for this year for the stand-alone business?

Sameer Khetarpal: I think it's a good push. For the moment, I want to make sure we capture the growth, acquire new customers and serve them well. I do have that number in my mind, and we are focused on it, but I don't think it is going to be achieved in the coming quarters, for sure.

Moderator: Next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Congratulations for the good recovery. Starting from what we understand, most of the staple companies are trying and there is a challenge people have seen heat wave and other issues around. But that it since that past is behind, and we are now on a good wicket, so whatever strategic actions we have taken and started delivering a good fruit.

My bigger question is that when I look on Slide 20, you have said that the monthly active users has moved from 10.3 million to 12 million, which is almost 2 million customers we have added. Can you qualitatively speak something because when I see the delivery part, which has fuelled the growth of 12.1%, but ADS has not grown to that level? So maybe if you can give some colour how we should read this number?

Sameer Khetarpal: Shirishji Thank-you for the question. This is how I read it. For context, there is, of course, a demand slowdown and consumers are conserving their pockets. And we saw this 4 or 5 quarters ago when we saw larger pizzas being downgraded to medium and medium downgraded to regular. We have called that out. Now in this environment, the most important piece is to provide value to consumers acquire new consumers and retain our existing consumers.

So therefore, it should show in our new customer acquisition and total customer base. So this nearly 15% increase in monthly active users, the result is in the sales of our mature store, which is at an all-time high in the last five quarters.

Now in terms of quality of consumers, I generally believe consumers will go where they see great pace and outstanding value. So of course, it is early how this will pan out. We don't know. But I'm very confident that these consumers are not just deal seeking seeking consumers and who will not value great service like 20-minute delivery or pizzas like Volcano Pizza. So I'm quite confident they will say it is not that we are attracting consumers who are very poor in kind of their life cycle quality.

Shirish Pardeshi: Okay. Just one follow-up. If Domino's India would have grown 8.2%. Is the value, which is coming down and volume is going up, that's the presumption, which I had?

Sameer Khetarpal: That is correct and that is by design, right? And because free delivery, we brought the threshold for free delivery is INR150, right? So from that perspective, it is giving great value to consumers. And therefore somebody who once had INR150, INR155 in pocket, get like a couple of pizzas and get a free delivery versus like during COVID, when it was free delivery, the threshold used to be INR350.

Shirish Pardeshi: Okay. My second question on Domino's Cheesy Reward. Now cumulative membership has now reached almost 25 million. Would you have any numbers to say how many people have enrolled second time, third time, fourth time or maybe what was the redemption or conversion which people have reached to 6 pizzas?

Sameer Khetarpal: Yes. So what we look at is cohorts of how many customers have redeemed 1 pizza, how many customers have 2 pies, 3 pies, 4 pies and the overall frequency. While the overall frequency has not materially changed, but the cohort of high-frequency customers who order almost 15x in a year, that base has materially grown.

So it has provided a lot of stickiness and the churn rates or customers who would probably go to some other platform, It has definitely dented that and that was the core thesis of this launching this program - to give stickiness to consumers, and that is what it is doing.

Shirish Pardeshi: To my long memory, I think somewhere I picked up the Cheesy Reward customers were contributing around 45% of the business. Is that number has changed significantly now?

Sameer Khetarpal: It's more than 50%, right? So that number is obviously inching up, increasing and consumers are noticing. And once you get a free pizza, Shirishji, then it becomes like a self-fulfilling kind of a cycle where they know that this works, I'm getting a pizza, and when you have to make a choice from ordering from outside, then this becomes top of the mind. And we are seeing that in our numbers.

Shirish Pardeshi: Okay. That's wonderful. Just last question on the DP Eurasia. Though you have given that INR461-odd crores you have delivered in this quarter, which has grown almost strong double digit. But if we need to model this number because, obviously, we'll take 4 quarters to build the numbers. But if you can directly say that what is the quality of growth, what is the number of stores you are expanding? And maybe some direction on the same-store sales growth or LFL growth in that country?

Sameer Khetarpal: So the LFL growth rate is 10.3% for Domino's, and it is 8.7% for COFFY. The quality of growth is very strong. And in fact, as a market, having now visiting every quarter, I see the strong consumer pool, young population and habit of eating out. So clearly, it is a very vibrant economy. If this was in the base, then this number, the growth would be 15.4 year-on-year. So the true base to base comparison is 15.4% growth, which is very healthy.

Shirish Pardeshi: But is there any seasonality quarter 1, quarter 3 is better or quarter 4 is going to be stronger? I mean, I would understand the seasonality is also going to be there.

Sameer Khetarpal: H2 is typically higher again. But when you are looking at Q1 and Q2, there could be because there was Ramadan, which was in different quarters. But I will not read, on that too much into it. And this 15.4% is a fairly representative number actually.

Moderator: Next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: For the stand-alone business, would you be able to tell us the adjusted EBITDA margin for political contributions, if any?

Suman Hegde: Percy, if you look at our standalone business, result of 19.3%, so adjusted EBITDA could have been ~19.8%.

Percy Panthaki: Okay. Understood. Secondly, I wanted to understand for Popeyes, would you be able to give us some idea now in terms of what do you see the shape of financials for the stores which have been open for more than 2 years in terms of what is the ADS and what is the restaurant operating margin that they generate for the cohort as a whole? So that we get an idea as to, I mean, how the format is performing for stores more than 2 years old.

Sameer Khetarpal: Percy, we definitely want to build it. We are bullish about it. We see customer traction. And for those reasons, Percy, we are refraining from giving any guidance till we hit a store count of 100, and that's been kind of our stated position for the last couple of quarters. But in terms of quality, we are seeing very strong uptick in orders, in our delivery growth. The baskets and the new flavour that we have launched on Hot and Messy, all of that are actually very positive.

We have worked materially hard to reduce the cost of goods sold. So in fact, our gross margins are now very healthy when we look versus competition. And we have brought down the store size and capex to suite, to fit into Indian kitchens. So very confident how this has been panning out. It's been just 2 years in the system, and we know it takes some time to build a strong brand. But from a team management bandwidth, capital, we are fully invested behind growing this brand.

Percy Panthaki: Sure. But for us, as financial market participants and when we are giving SOTP or a separate value to the format, would we be right in assuming that in the medium term, this format would be able to do restaurant operating margins similar to that of Domino's?

Sameer Khetarpal: It's a different business. We should compare this to more chicken and burgers as a category, right, because the input cost is different the cost in a pizza is different versus let's say, bone-in chicken. So therefore it has different dynamics, right, from an industry structure standpoint or category structure standpoint but it should mimic peers adjusted for scale.

Percy Panthaki: Understood. And finally, just wanted to understand if you can give some store guidance for Domino's India store openings for this year and next year?

Sameer Khetarpal: So this year I think we have stated we are targeting 180 stores opening. And I think, at the moment, we feel confident we'll increase pace in Q2.

Moderator: We have the next question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: Many congratulations on a good delivery performance in Domino's India and a strong sequential pickup in DP Eurasia. Sir, the Domino's India volume growth is about 16%, but value growth is about 8.5%, which is almost a 7.5% decline in bill size for us in Q1. So what is the reason for this since we introduced the packaging charge as well?

Sameer Khetarpal: See, we obviously are putting INR40 per order back in customers' hands or wallets. Packing charges where we have introduced are limited and does not cover even 50% of what we were charging the customers. Second is we have reduced the threshold of free delivery to INR150. So customers today can make a cart of INR170, INR180 and checkout, which is increasing the volume, which is increasing the new customer rates.

We believe that will also result in repeats, because we're now having different group sizes at different occasions, whether you're ordering for a family or yourself, you get free delivery. So that is where I think we are seeing the growth. And this cycle starts playing into repeat customers and starts compounding. So that is the thesis behind that. And that is why you are seeing a higher ~INR25, INR30 drop in order ticket size. And it is by design, and we had experimented it for 6 months.

Devanshu Bansal: Right. So I mean, and they should continue at least for the next 2 quarters also, right? So because Q4, I guess, we experimented, but for next 2 quarters, this decline should continue in bill size?

Sameer Khetarpal: Quarter-on-quarter, it should not, but I think year-on-year, it will continue.

Devanshu Bansal: Next question, I just wanted to understand the financials of DP Eurasia sort of better. There is a strong 40% kind of pickup sequentially, if we adjust for 3 month number that we gave in Q4. So is there a big seasonality between Q4 and Q1 there? What has driven the strong increase in DP Eurasia?

Suman Hegde: Yes. You are right. It's a bit of seasonality that does kick in. And like you said, from Q1 into Q2 into Q3, H2 is also higher than H1. There's a bit of that. And of course, there is also what I think from here relative on the movement between when Eid is and when the Ramzan period is on. So there is a factor of that also playing out between Q1 and Q2, which sees the uptick in DPEU coming?

Devanshu Bansal: Got it. And likewise, gross margins have actually fallen sequentially, and it's a big fall from about 75% to 62% if we look at only the subsidiary gross margin. So what explains that?

Suman Hegde: So there are two things here and I think it's good as we also understand DP Eurasia business. Gross margins of the DP Eurasia business structurally, because of the franchisee-driven business will be lower than JFL standalone Gross Margin. And that's also because a lot of their income comes from a cost markup or whatever they do with recovery from franchisees, which would be there in the cost, but the income wouldn't be a commensurate amount when you sell to normal customers.

So fundamentally, this business averaging a gross margin of ~64% versus what you would see in at JFL at about 76%. Now coming to your question on why sequentially there is a drop. Sequentially, actually there is no drop in the business as intrinsic gross margin. In the first 2 months of integration, basis the way Turkey reports its number and how they conclude gross margin versus how the India requirement on how gross margin as reported, there were some mapping changes which had to be done, which we have done and corrected for. So it was more a mapping issue, which happened in the first quarter of our integration in more in terms of understanding their ways of accounting versus ours.

But if you look at an EBITDA level, it kind of square off, right? So long story short, I wouldn't worry too much about the gross margin. There's no decline in the gross margin intrinsically of the Turkey business. It's more a correction that we have done versus what we reported in Q4 for the quarter, EBITDA being at where they are.

Devanshu Bansal: Understood. Suman, and then last, just a small follow-up on debt reduction, which is expected for DP Eurasia. Can you sort of highlight the time line for that?

Suman Hegde: I wouldn't give you a firm timeline on that. I don't think I should try to give any forward outlook. But yes, it's a big focus area. A lot of the debt also of DP Eurasia, within the Turkey DP Eurasia business per se is driven on short term and how they manage the economy on the ongoing way. It's not long-term debt. It's work more on their working capital management, given the franchise model. And also given the higher inflation what we invest back into inventory to give the benefit as P&L.

In the long term, we do see and from Q1, we have brought the debt down in Q2, and we see this trajectory going in as we exit this calendar year and into next year. The plan is that we should start getting dividends out of this business sometime maybe by mid or early next calendar year.

Moderator: We have our next question from the line of Latika Chopra from JPMorgan.

Latika Chopra: Okay. My first question was on demand. Same-store sales growth trends at 3%. Could you give us some flavour of how sequentially through the quarter, these really played out I heard you talking about the broader market remains challenging, and it's your own initiatives, which have kind of helping you outperform the category growth rates.

And I'm just trying to understand, did we see an improvement gradually through the quarter, how the exit SSG numbers were like? And in your view, would you require price increases to improve this SSG? Or you still feel that the initiatives that you've taken still have more to deliver assuming the broader market remains the way it is. So just trying to sense check whether this 3% SSG can it improve towards 5-7% as we progress through the year?

Sameer Khetarpal: Yes, I think, that is the endeavour over here, right? I mean you are aware of the competition set and therefore, indicating the macro demand environment. Equally, the delivery is growing for all including the aggregators. So it's kind of a 2-faced market as I see it, right? And delivery comes at a cost to consumers. So they are actually willing to pay the cost for convenience.

So we need to first recognize the trend, organize ourselves and our resources to go behind delivery, and that's what we've done. Now clearly, 3% is higher than where the rest of the industry is landing. I think there is more juice to it, but of course, will require execution. This is not a natural tailwind in the industry and demand that is there. One has to find ways to give value to consumers, and make sure you deliver on the promise that hot pizza is delivered in 20 minutes. So I think definitely, I would agree there is more use, but it is more execution led and not necessarily macro led.

Latika Chopra: Sure. And then sequentially you have not seen any material trend changing through the quarter. Is that right to assume?

Sameer Khetarpal: So like I said in my last earnings call, we have begun to see increase in delivery growth rate, and we continue to see delivery growth rates in the positive LFL territories. That we continue to see as we enter this quarter. And despite rains, despite heat, whatever the weather conditions we are seeing an uptick in delivery, and that's what we are banking on.

Then on the dine-in side, we have gotten our act together and I have been a big vocal proponent of it for the last 5 or 6 quarters that store refurbishment, dine-in experience improvement and value through lunch feast. So in several places, we are beginning to do more experiments and learning from there. Some will definitely land. But I cannot say that this 3% will go to 5% the next quarter.

Latika Chopra: Sure. And within the delivery piece, has the salience of your own app contribution versus the aggregator contribution. Has the salience changed in any material way over the last 4 quarters?

Sameer Khetarpal: We don't give the exact share, but qualitatively, the Domino's app, like I said, you've seen the monthly active user growth rate I can very proudly say that we have delivered the best ever conversion in this quarter on the app, and we continue to acquire new customers mostly through our own app. So from that perspective, our digital strategy, our data and technology forward approach has played out in a free delivery context even more.

Latika Chopra: Understood. And the last bit, anything that you want to share on your operations in Bangladesh, any recent trends? That's the last question.

Sameer Khetarpal: Yes. So I think the quarter 1 was the best ever quarter for us in terms of profitability, the Bangladesh business turned profitable at operating level, and we saw same-store growth. It is too early. In fact, the situation has been better in the last couple of days stores have started opening. Our few stores also got opened. We believe it should normalize. So a little bit wait and watch. But I'm happy to say that our stores staff is safe and we have not incurred any material loss to our store and property. And it is less than 1% of our consolidated revenues.

Moderator: We'll take the next question from the line of Aditya Soman from CLSA.

Aditya Soman: Clearly, with free deliveries here, we seem to be incentivizing customers to shift from dine-in to delivery. Now would this lead to some level of margin impact? Because obviously, you're incurring a fixed cost at store and this delivery comes with delivery cost.

Sameer Khetarpal: Yes, for the same food size or ticket size for food, delivery is dilutive versus a customer coming and taking away the order from the store, right? So that is there, but it is also giving us positive same-store growth. So you are getting the leverage of that in the P&L. And that is what we are counting on. And as this compound and these new customers that we acquire, they start repeating, we get greater leverage in the stores.

So in the short term, yes, and if this were to compound, we will be able to negate the impact. Plus there are several initiatives, like I said, have been a big proponent of Project Vijay that helps us absorb cost pressure while enhancing internal efficiencies, but price increase is definitely not on the table as I've always been saying. So this is a time to give more value, gain more share versus the competition.

Aditya Soman: That's very clear. And then this MAU increase, right? So to a certain extent, the reduction in delivery threshold to 150 would also drive that conversion, right, from dine-in to delivery, because earlier people would walk into the store to get that delivery act of for a small ticket item. Now, maybe they are delivering. Would that explain some of the shift in MAU?

Sameer Khetarpal: Absolutely, we ran an experiment across 12 different cities for 6 months before we arrive scientifically what should be the delivery charge by City Tier and commensurate packaging charge -- so we did see when you do free delivery and a very low threshold for being eligible for delivery waiver, the first business that goes away is actually your takeaway business or carryout business. That's quite material -- because there is no incentive for the customer to go to the store and pick up the order. And the only friction that you have right now is packaging charge. So fully cognizant of it. And therefore, we have to work on the value leg for how to get more customers who come into the store whether dine-in on take away.

So therefore, this lunch feast, or thali as we call it was launched simultaneously on Dine-in when we launched the free delivery. So that's why it was a very thoughtful intervention, more of a plan, but very thoughtful one in how we execute it.

Aditya Soman: Absolutely, very clear. And maybe just 1 last follow-up on this. I mean the LFL versus SSG, is there any meaningful difference now given that the proportion of new stores adds has been coming down?

Sameer Khetarpal: Yes. I think SSG is positive. So it is now closer to 2%. I have said that we are reducing the number of split stores because if LFL was negative, then the need for split comes down. And I actually hope that cycle turns around, we have more LFL and therefore, there is greater need to split, and we expand further. But if you look at last 3 quarters, at least, our new city expansion has materially increased.

And because as part of our network expansion strategy, we are moving to more whitespaces because the LFL was negative, and that is willing to pay out in terms of payoff, in terms of the differential between LFL and SSG coming down.

Moderator: We'll take the next question from the line of Ashish Kanodia from Citi.

Ashish Kanodia: The first question was around the margins the delivery initiative, which you have taken. So there are a couple of for delivery fee waiver? And then secondly, your ticket size are also reducing. So at what point do you think the margins kind of start to improve? Because at least for the next 2, 3 quarters, things will remain subdued from a ticket size perspective. So first, apart from the project vijay cost initiative, is there like an LFL number, which will help you to improve the margin over the next 2, 3 quarters? That's the first question.

Sameer Khetarpal: Yes, Ashish, from a margin perspective, the way we are executing this are the following. In terms of our marketing campaigns, we are focused on indulgence and you'll see throughout this month, the world-renowned Volcano Pizza that we've launched. And that obviously is more cheese, higher in ticket size, and we are seeing very strong traction of that product. Therefore, we have now followed it up with a TV campaign, which got recently launched. So our endeavour is to increase the ticket size by offering greater cheese and more indulgence to consumers. At the same time, when the free delivery is there. So that's how we're tackling it.

I don't expect like a massive uptick in margin in the current quarter, but as this starts compounding, if frequency from 3 were to inch up then I will get far more leverage in my P&L, and that is what we are gunning towards plus Project Vijay.

Ashish Kanodia: Sure, Sameer. That's helpful. And second question on the Popeyes side, right, so if I compare what has happened between, say, 2Q to 1Q. There's almost 28 store addition, but at the same time, you have also entered into 16 new cities. So if you look at the next 1 to 2 years, are you looking at more in terms of getting into newer cities or the idea is to maybe double down on the existing cities because Popeyes is still scratching the surface. So I would like to get some sense on that.

Sameer Khetarpal: Yes, I think it is typically can be a little bit of a misnomer because you will include Faridabad, Gurgaon, Delhi, Ghaziabad and Noida as five different cities, right? So there is a bit of that over there. So I think we are looking at the right clusters, that's how internally we track it. So Delhi NCR is 1 cluster, right? Chandigarh, Mohali, Panchkula is 1 cluster, but there will be 3 different cities.

So we are focused on right locations and chicken eating markets. The number of cities are greater in South, and that's why whether it be it Mangalore or Mysore or Salem, in addition to Bangalore, Chennai and Hyderabad. So that is why you see greater footprint of cities, but these are cities with very large chicken eating population, where the brand is doing very well.

Ashish Kanodia: Sure. Fair point. And just lastly, again on Popeyes, just maybe from a qualitative perspective, when you look at delivery versus dine-in performance for, say, more than 1, 1.5-year-old stores. Any sense on how both these things are performing?

Sameer Khetarpal: Yes, I think we followed a bit of a Domino's playbook over here. We have stores in malls, which are 100% dine-in, right? We tend not to do delivery from there, and we use our high street locations to do deliveries. That is the approach we have taken. And we have a much larger mix of dine-in store. So therefore, our delivery share is lower and dine-in is higher at the moment.

Moderator: We'll take our next question from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: I have 2 questions. Sameer, on the basis of all the interventions, which we have made, both on delivery and dine-in side, it seems that on the delivery side, things are starting to look up for us, but not necessarily on the dining side. So is it fair to say that next few quarters, we'll continue to see delivery growth ahead of dining growth -- or there are other thoughts around it?

Sameer Khetarpal: The endeavour is to double down and capture the tailwind on our execution capabilities on the delivery side and flank dine-in and takeaway, right? So that it doesn't decline. So I would concur with the first statement that delivery should continue and will double down and there is more to do over there. And, Delivery is about 70% of our business. And on dine-in side, like I mentioned, we have at least from last quarter, arrested the decline, and we have more ideas to kind of bring consumers back into our stores.

Sheela Rathi: So how many quarters we would be away from seeing a similar kind of growth in both the channels?

Sameer Khetarpal: Sheela growth will be different. I think the decline in dine-in will not be there. That is what I'm saying. So I think delivery will continue to grow, that's a worldwide industry phenomenon. So I think for all QSRs in India and also outside and if you read the commentary of international brands, everybody is talking about higher proportion of business coming from delivery and carryout.

Sheela Rathi: Right. Just to follow-up here, what would be differentials in the average bill value for dine-in versus delivery now, say, where it was, say, a couple of years ago?

Sameer Khetarpal: Yes. So delivery has higher ticket size, even now and before. It's just that the INR40 has gone off due to delivery fee waiver so the differential has come down.

Sheela Rathi: Understood. And my second and final question was you talked about Popeyes strategy. Also observed that in Hong's Kitchen, we have almost doubled the number of stores. Even for Dunkin', last 2 quarters, we have been expanding the store count. I just wanted to hear your thoughts on what the strategy here is?

Sameer Khetarpal: That's I think the strategy is clear that we prioritized Domino's and Popeyes as our big growth factors. And we make sure that Hong's and Dunkin', they find the right customer value proposition and store economic model. And I can assure you, both are on track.

In fact, Dunkin is even like more on track to kind of achieving high store-level profitability. So that is the approach, un-constrain Domino's, expand rapidly in Popeyes. Drive profitability in Hong's and Dunkin before we further expand meaningfully.

Sheela Rathi: Just 1 follow-up here, Sameer. Do we have a store count target on these 2 formats for this year – Dunkin' and Hong's Kitchen?

Sameer Khetarpal: We have shared a guidance. So about Hong's we'll add 20 to 25 stores. But again, these are not like a number that we are chasing as a goal. Rather we are chasing customer satisfaction scores, store throughput in terms of revenue and the restaurant level profitability. So these are the goals. Once we see it, then we'll figure out what formats are working and those formats, we can always dial up and dial down. So it is not lack of team intent or capital. It is more finding the right economic model.

Moderator: We'll take our last question from the line of Manoj Gori from Equirus Capital.

Manoj Gori: Yes. So we have seen some improvement based on the efforts that we have taken, especially on the LFL side. Just want to understand that the entire positive impact has been based on the efforts that we have taken out, probably we are seeing some improvement in demand environment as well.

Sameer Khetarpal: So Manoj, I am a bit proponent of Domino's being ahead of the market through execution, and I think that is now playing out. And I personally don't fully understand the demand or macroeconomics, myself fully. So more focus on execution, what is in our control. I would like to believe, given how the other results have been that this is largely executing that.

Manoj Gori: Sir, secondly, on the other expenses side, we have seen roughly around 20% growth. Sorry, if I may have missed, but can you highlight like what are the key main line items where we have seen the increase or probably it is because of the waiver into delivery fees?

Suman Hegde: In other expenses, if you look at the increase that we've seen coming through, it's not really waiver of delivery fees, because that really more than sits on your gross margin. Predominantly, we have really invested ahead of the curve on a lot of areas. So 1 on our technology. Second, on when we decentralize from a 4 region to a 7 region structure. We have stepped up and called out in the previous quarter as well in the results that we heavily invested in advertising during the IPL and the World Cup season, which went in quarter 1. So there has been advertising spends also which have been stepped up. So there are a couple of expenses that we have increased intentionally, and our belief is and I'm just seeing that some of the growth coming through on that and as we go on, the levers should start coming through on these lines.

Manoj Gori: So these investments should continue in the coming quarters as well?

Suman Hegde: No, not so much. Like I said, some of them are investments; so technology investments, the decentralization of structure, those investments, of course, are now baked into the numbers, right? So it's not that -- we're not going to keep increasing that exponentially. Yes, is there expenses around marketing, and we have stepped up marketing and we keep calibrating that? There have been higher spend on that account.

Plus in quarter 1, we also had this time higher cost in some of the stores that we were running. We had very high peak summer season across most of the markets, and we did see electricity costs going up across the stores, which should moderate now as we move out of the peak summer season.

So the reason for this, of course, if you see quarter-on-quarter from a leverage perspective or other expenses, we have seen that leverage benefits come through as growth has come through. But on a year-on-year basis, of course, it is higher. We've noticed that. But they're also on the back of investments that we've made.

Moderator: Thank you members of the management team. On behalf of Jubilant FoodWorks Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.