Q2 and H1 FY'25 Earnings Conference Call Transcript

Moderator: Ladies and gentlemen, good day and welcome to the Jubilant FoodWorks Limited Q2 and H1 FY '25 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 this conference, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Lakshya Sharma. Thank you and over to you, sir.

Lakshya Sharma: Thank you, Darwin. Good evening, everyone. And welcome to Jubilant FoodWorks Limited's Q2 and H1 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 our Co-Chairman and turn to our CEO and MD to share his perspectives. After the opening remarks from the Management, the forum will be open to question-and-answer session.

A cautionary note, some of the statements made on today's call could be forward-looking in nature and the actual results could vary from the statement. We will also share the replay and transcript 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 views with you. Over to you, sir. Thank you.

Hari S. Bhartia: Thankyou Lakshya. Good evening, everyone, and thank you for joining us.

We're excited to build on the momentum from Q1 of FY25 as we move into Q2, despite facing a challenging demand environment in the foodservice and broader consumer space. Our commitment to convenience, innovation, and delivering unmatched value to consumers has positioned Jubilant FoodWorks (JFL) to gain market share and drive category growth. The results from both Q2 and H1 reflect the success of our strategy.

Our investments in direct-to-consumer apps, cutting-edge technology, and our unique commissary-based sourcing model have allowed us to excel in operational excellence. Additionally, our move to 20-minute delivery is not only enhancing customer experience but also reinforcing our commitment to quality service.

The dedicated team at JFL remains focused on delivering exceptional value to consumers and driving growth. We have maintained price stability over the last nine quarters, absorbing inflation through cost optimizations and productivity initiatives. On top of this, we have waived delivery fees. We have also accelerated new product launches, including the popular Cheese Volcano range and Cheesiken, each crafted to meet evolving consumer preferences and to drive order growth.

The shift from dine-in to delivery continues in India and abroad. With our own end-to-end delivery ecosystem—covering fleet, riders, and advanced delivery management systems—we are well-positioned to embrace this trend. We're doubling down on reducing delivery times from 30 minutes to 20 minutes and accelerating new store openings, expanding into new cities to capture growing demand.

Simultaneously, we're committed to delivering value to our dine-in customers. Through new, dine-in-only menus, we're seeing order growth during lunch hours—a promising shift that signals consumer preference for dining in with us.

In Turkey, our business is continuing to grow with margin improvement, and store expansion, all while navigating macroeconomic headwinds.

Across all markets and brands, JFL Group's system sales for H1 reached Rs. 45.1 billion. We've added 139 net new stores, bringing our network to 3,130 stores.

Over all we are pleased with our growth and increased profitability of the JFL group which benefits from the corporate owned setup in India and largely franchised network in turkey.

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

Sameer Khetarpal: Thank you, Mr. Bhartia. Warm welcome to all our call participants today.

Our strategy of doubling down on Domino's is working. To recap, we increased investment in brand building, stepped up pace up product innovation (e.g., volcano pizza, Cheesiken), reduced span of control by adding 3 regions, increased density of stores to enable 20-min delivery and relentless investments in customer facing technology. This has resulted in momentum build-up from Q1 into Q2, with August-24 as our highest month in sales. We are seeing this carry forward into Q3, driven by new customer growth and >20% order growth YoY.

Domino's India scaled new record with highest orders, highest app traffic, highest conversion and highest volumetric throughput per store.

Let me now share our performance summary for the quarter, help you with growth composition along with update on India and Turkey segment.

Performance Summary

Consolidated revenue stood at Rs. 19.6 billion, up 42.8% year-over-year. The growth composition is as under. DPEU revenue contributed 33.7% to the overall growth with 9.1% being the organic growth from existing business.

EBITDA margin came in at 20.4%, up by 14 bps yoy and 57 bps qoq.

The Group Store network is now 3,130 stores strong with 73 net additions qoq.

- In Domino's we added 61 stores with 50 stores in India, 6 in Turkey and 5 in Bangladesh.
- In Coffy and Popeyes we added 11 and 4 stores respectively.

India Segment

- In India, Revenue at Rs. 14.7 billion was up by 9.1% yoy. Domino's growth came in at 8.1%. LFL came in at 2.8% led by Domino's Delivery LFL at 11.4%.
- At channel level, Delivery grew by 15.9% led by record order growth of 32.3%. This is the highest delivery volume per store. We have 36,400 riders on our rolls (platform)
- Despite rains, we saw sequential growth in dine-in orders
- ADS for mature stores stood at Rs. 80.2 thousand (highest in the last 6 quarters)
- Gross Margin and EBITDA margins at 76.1% and 19.4% were largely flat qoq.
- App traffic grew by 18.5% YoY, to 12.8 million MAU and material improvement in app-conversion; with 27.8 million loyal members.
- Domino's Network is now 2,079 stores strong serving consumers across 447 cities. You will notice, that we have increased the pace of store expansion qoq (50 vs 34 last quarter) and have also entered 26 new cities in H1. As guided earlier, we continue to tap on the whitespaces with new stores and formats at university campuses, highways and airports.
- In the last quarter we introduced volcano pizza, Cheesiken in South and Rs. 77 menu during August. All three interventions exceeded internal plans.

Turkey Segment

In Turkey, last year same quarter, on account of minimum wage hikes mandated by Government, consumption saw a huge surge and hence the business is lapping a very strong base. Also, with central bank's focus on bringing down inflation, there will be a transient impact, as anticipated, on demand in the near term.

Overall System sales came in at Rs. 7.7 billion.

Within it, Domino's Turkey System Sales was Rs. 6.9 billion. Domino's Turkey LFL growth came in at -6% on the base of 52.6% LFL in Q2FY'24.

I am pleased to share with you that Domino's was awarded the recognition of being Turkey's Lovemark for the second consecutive year and for the 3rd time overall. For context, Lovemarks is a survey conducted by Ipsos to find out the brands consumers are absolutely in love with in a given category. We are humbled with the recognition which reflects deeply the brand love and support that we receive from our consumers.

COFFY's System Sales came in at Rs. 651 million. COFFY LFL growth came in at -3.9% on the base of 35.3% LFL in Q2FY'24. All new stores opened in the quarter were franchise owned and the franchise mix is now at 78.4%.

The Revenue from DPEU came in at Rs. 4.6 billion, flat qoq. Margins expanded with EBITDA margin at 26.1%(+110 bps qoq). PAT margin was also strong and accretive to Indian business, at 10.5%(+130 bps QoQ).

Closing Remark

In closing, with six weeks into Q3, in Domino's India, we see the growth momentum accelerate, on network, we have crossed 2,100 store milestone and are maniacally focused on operations excellence to make big days bigger, increasing our investments in marketing, launching new products, making our app work harder and partnering with aggregators.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Nihal Mahesh Jham from Ambit Capital. Please go ahead.

Nihal Mahesh Jham: Sir, my first question was on the dine-in side if you look at the growth, it's a little negative similar to what it was in Q1. Just wanted to get your thoughts that the Rs. 99 menu launch has that not seen an activation in some traffic and maybe you would have expected a sequential improvement there on back of that intervention?

Sameer Khetarpal: `See, let's step back and view how is Rs. 99 dine-in menu helping. So, firstly, it is an investment to draw customers into the stores during lunch hours, i.e. 11:00 AM to 3:00 PM. When I look at that window, it has obviously increased our orders for sure, in the last quarter it also increased the sales in that period. So, it was a specific intervention when our store sales are low, our fixed cost, manpower, electricity, everything is running. So, we believe it is the right thing. Having said that, see the movement towards delivery is far higher in the market in terms of consumers. And therefore, that continues to grow faster. But what we are focused on is driving growth during lunch hours, that piece is working at Rs. 99. So, we are seeing order growth in our stores during lunch hours.

Nihal Mahesh Jham: Understood. But maybe the time post 3:00 PM is where the drop is higher and it's in a way not compensating for the increase in traffic from 11:00 PM to 3:00 PM.

Sameer Khetarpal: See, we want to successfully focus on lunch hours and we are doing more initiatives to increase that. Post that, anyway in our business we start seeing traffic increase after 3:00 PM. So, that's not an intervention we have at the moment.

Nihal Mahesh Jham: The second question is in terms of the store addition, this quarter we see a lot of new format stores at the university campuses. Is it fair to believe that in the future the ADS profile of the incremental set of stores would be say similar, lower or higher, just that these are some new formats that are coming along?

Sameer Khetarpal: Yes. In fact, our throughput per new stores have also increased and we keep a track on it. I think what I have gone on record in saying that the opportunity to expand in India is very large. So, for example, there are 1,000 campuses with more than 5,000 students. There are about 40 airport terminals that matter where our presence is low, during the quarter, therefore we opened stores in three airport-terminals. So, these stores are all in terms of ADS, either similar or accretive. So, we are not going to pockets with dilutive areas. So, we are very focused on getting the right ROI and payback period, and we are seeing that. So, no reason to believe these are dilutive. In fact, some of these stores in campuses become the captive or the only place to go to for dine-in for students. So, very happy with the progress, it is not dilutive at all.

Nihal Mahesh Jham: Quickly one clarification, you said that the India growth momentum had accelerated in Q3 for the first 40 days, if we heard that right.

Sameer Khetarpal: That's correct. So, I think we are seeing the momentum carrying through from Q1 to Q2 to Q3, led by delivery. That is correct.

Moderator: Thank you. We have the next question from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: I have a question on your order growth. Clearly in the last six months since you have waived-off delivery, it has picked up very strongly. And it's 2x your revenue growth, especially for the delivery channel. So, when you look at the numbers internally, are these new orders and new business? Or are these numbers also influenced by some shift from take away to delivery?

And the second question is that there's a delivery waiver. How has it shaped up for you versus your own expectations on SSSG front, on order growth front, and on profitability front? That's it from my side. Thank you.

Sameer Khetarpal: Yes. Jay, firstly, great questions, both of them. Of course, let me say that when you do free delivery, the incentive to go to a store and opt for takeaways is minimal. And with our focus on 20-minute delivery, the incentive is even lesser. So, we do see a decline in takeaways. And if you were to take on-premise sale in some ways, right, like it's a dine-in plus take away, with our new store design dine-in is actually growing, right, it's the take away business which is moving to delivery. So, you are right, there is a share shift. But overall delivery is growing far, far bigger than or greater than the loss in take-away.

Now, how does it pan out? I think we are very positively surprised on two dimensions, the amount of order growth that we are seeing in our, like I told you two quarters ago that we had experimented in a few stores for almost six months before we came to this conclusion. So, when I look at that experiment, the order growth is much higher than we anticipated. Also, the new customer growth is much higher than we anticipated. And both these counts are actually very positive stories for us because new customers we know ultimately repeat at almost three, so the compounding will happen, or we are beginning to see in few areas. Our network is poised to deliver to customers in 20 minutes, and therefore this doubling down on order growth only increases productivity inside the store, our rider productivity and customers get better experience. So, it allows us to expand more number of stores. So, it is very positive on this account.

Yes, are we paying in the form of margins? Yes, you can see we are paying in the form of margins. But to me it is a matter of time, as growth momentum picks up, we will get that margin. Also, I will give credit to the team, this would have dragged almost 150 to 170 basis point, but you do not see that drag on the P&L because we have worked on internal efficiencies to recover almost two third of it. So, I would say, very positive on new customer order growth. And on margin dilution, through internal efficiencies we have been able to shave off almost two third of the margin dilution.

Jay Doshi: That is very helpful. Just one more question, please. 1Q to 2Q the SSSG trend was broadly similar. Are you expecting some uptick going into 3Q, 4Q? What's the outlook based on the last 40 days of the current quarter?

Sameer Khetarpal: Yes. See, again, we always refrain from giving guidance. But given that five weeks have passed, and the big days of Diwali are behind us, we are seeing actually momentum accelerate from Q2 to Q3.

Moderator: Thank you. The next question is from the line of Tejas Shah from Avendus Spark institutional equities. Please go ahead.

Tejas Shah: Sir, first question is, on most operational parameters or even in our commentary, we seem relatively positive versus the larger basket of consumption, not even only QSR that we would have heard this quarter. So, would you say this optimism is primarily driven by the positive response that we are seeing to our interventions? Or our read on the demand sentiment itself is different from what the broader street has?

Sameer Khetarpal: Tejas, thanks for asking that question. I am no economist to correlate to that, I will definitely firstly give credit to my team who have worked on five different elements to bring it together.

Number one is, our investment in technology. So, like I said in my last few earning calls that we have doubled down on our app, microservices based architecture, removing defects. So, that was one piece on our app. Second was, we moved from four regions to seven regions, therefore, we have tighter control over stores, and the service quality has improved.

Number three was, three quarters ago we launched a new campaign, *It Happens Only With Pizza*, so we have increased our investments in marketing. Through sharp data analysis, we learned that delivery fee is a big barrier, and therefore we very carefully waived-off delivery fees but recovered it partially in packaging charges, so that gave in set of new customers.

Number four, I would say that the sheer execution on big days and getting these riders onboarded through technology and the sheer will of the team, I think this is what is playing out.

Lastly, we have increased the pace of product innovation as seen in Cheesiken in South India and Volcano Pizza. So, all of this is coming together.

When I hear the commentary of QSR players or broader FMCG space, I think my guess is as good as yours, the sentiment is obviously quite different. So, therefore I am calibrated, but we are seeing positive momentum continue in Q3.

Tejas Shah: Sir, second question, the way all these food delivery companies have built up capacity and capability, both led by their quick commerce exposure in terms of faster delivery, and then we are seeing one of the quick commerce players is now kind of cross pollinating that in one of the food-delivery offering also as a 10-minute ready snack kind of delivery. How do you perceive this threat? And the 20-minute promise that we had started as a very discretionary fact, do you think that it will become a necessity to be competitive in the market?

Sameer Khetarpal: See, customers love free speed. I am always a very big believer of that. So, firstly, we have the network to boost the limits of speed, right, on a very large menu. Our philosophy on technology has been that we have to ride on all sorts of technology, whether it's aggregators, ONDC, our own apps we are present everywhere. So, any technological asset or a wave that we are in, as Jubilant and we are fully prepared to go and participate in it. I genuinely believe if somebody can actually deliver faster speed with the 2,100 stores network in about 450-odd cities, it is Domino's. So, I worry less about it. I love that challenge, Tejas. And we are evaluating it. There is no reason why we will not participate in it.

Tejas Shah: And Sir last one, if I may. In our store addition, Dunkin' seems to be subdued versus the rest of our portfolios, so any insights there?

Sameer Khetarpal: Yes, firstly, there is tremendous opportunity in Domino's, and we intend to double-down on it. Then I have said Popeyes is one area where we will accelerate and we are opening stores, very encouraged by the results, all our stores open at a new high, and we are very satisfied with that. For Hong's and Dunkin' I want to drive store economics and profitability, right. And once that model is proven, we will definitely expand. So, there is no reason why we will not do it. But at the moment the teams are focused on getting the margins, ADS' right. And again, no cost for alarm over there, all on track, but no expansion story there either.

Moderator: Thank you. The next question comes from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just one observation, over last one year we have entered into 50 new cities, and I am just trying to look at the slide which says that delivery channel revenue has grown up almost 15.9%. So, I have this question, specifically this 50-new cities, are we now getting into less than 1 lakh population, that's the growth area we have found out? And maybe if we can give how these new cities, the SSGs or LFL can happen like over next two to three quarters?

Sameer Khetarpal: Yes. So, firstly, Shirish ji, I think these new cities are still very large cities and sometimes when we look at it internally, we actually laugh, for example we were not there in Ayodhya before, Right now, looking at data, I think we can open four or five stores in Ayodhya, to be very honest, right. One of the smart cities in Gujarat is called Dahod, right, and we were not there. So, it's one of the 20 smart cities in India. Similarly, we were not there in Vrindavan and now we have opened a store there as well. These are all high footfall cities which are becoming bigger and expanding. And I believe we can actually add more stores in these cities, and these cities are more than 1 lakh population at the moment.

We not only get favorable rentals, but, these stores have higher dine-in proportion, and we are the go-to destination when it comes to international cuisine experience. On LFL, we continue to see slightly higher LFL because we had some different pricing in these cities. So, we are very, very happy with it. We will continue to expand into new cities.

Shirish Pardeshi: The reason I was asking, the addition of 50 new cities and if I look at the Y-o-Y addition of stores is 191. So, I was more curious that 50 new cities would have started with maybe one or two stores, that's the way we should look at, or more number of stores? Because you just alluded saying that in Ayodhya you have opened four stores.

Sameer Khetarpal: No, what I am saying is, sorry, maybe I was not clear. So, a new city is defined for us where earlier we have zero stores. So, whenever we open one store, that becomes an existing city. So, Ayodhya is a new city because we did not have a store over there. So, now if you open the second store, we will not count it as an existing city.

Shirish Pardeshi: My second question on the DP Eurasia. I think the system sales have been little muted and even LFL. So, how we should look at the second half for the year? And maybe some more color, because almost 89% of our stores are franchised-led, so maybe in terms of revenue projection and the margin performance for next half.

Sameer Khetarpal: Yes, we refrain from giving guidance, but let me give you some color. So, firstly, it continues to be a PAT accretive business as PAT margin was 10.5%. And as you see the teams continue to expand margins despite coordinated fiscal and monetary tightening by the Government. COFFY margins have also improved materially, and we are expanding stores also. So, now the quarter-on-quarter growth seems muted, largely because of higher base. I expect this to kind of change in a couple of quarters. So, there is no cause of alarm, because we could see Q2 of last quarter, last year, was a very high base for them. In fact, the average weekly throughput per store last year was very high and which was not the norm. So, again, happy with the performance. In terms of color, I would only say that the like for like should only improve from here and the team is on track to open new store, and the EBITDA margin should remain broadly in line and PAT around 10%.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Thanks for the opportunity and congratulations on growth acceleration in first few weeks of Q3. Sir, I wanted to check the delivery channel order count growth is at 30%, right. So, wanted to check your view on whether we are gaining share versus other participants in the online marketplace. So, if you could comment on that, please.

Sameer Khetarpal: I think if you look at even the value growth, volume growth or SSG, right, of all the listed players, right, and even the store growth, so definitely we are gaining share, Devanshu, all indicators are pointing to that, and also confirmed by our own internal research.

Moderator: Sir, Devanshu seems to have dropped from the queue. We have the next question from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Sir, just one question from me. I think in terms of ADS, when I compare the ADS of let's say 1Q '24 that you reported today versus the 1Q '24 that was reported earlier, there's a gap, and it's similar for preceding quarters. So, why is this happening? Why is the ADS for older stores reported today lower than what was reported earlier?

Lakshya Sharma: Aditya, we report ADS of mature stores. So, whenever an existing store – mother store - is unable to serve the consumer demand and is bursting at seams, its delivery area is split to open a new store(child store). We remove the mother store also from prior quarters in the base for like-to-like comparison on ADS trajectory and therefore we present a full series of prior quarter numbers as well to you. This is a recurring metric which we have been reporting for almost eight quarters now.

Moderator: The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir just one question, we are seeing a structural shift towards delivery from dine-in or take away. Do you think it's time to experiment with dark stores with only delivery channels? And would the unit economics of these stores be significantly better?

Sameer Khetarpal: Yes, I think that's a constant debate that we have and it's not that we have not done it. So, we have three multiple store formats. So, there are mall stores. Second, there are full high street stores, which is about 1,100 in metros and about 1,500 in Tier 3, Tier 4 cities. In the latter case, when we are entering into the city for the first time, we have larger dine-in space over there. Then what we have is a delivery and carry out store. So, the best payback period are in stores where there is not only just delivery, but where customers can walk in and carry out. So, these are 700, 800 square feet store and the kitchen size is about 400 square feet. So, what we do is we add maybe eight or 10 covers for somebody to sit and eat. Those are even more positive from an ROI standpoint. So, I think the brand power is so strong that it does not make sense for us to have dark stores. In fact, we experimented with few dark stores and in fact customer found that and walked up the stairs and said, why cannot I carry an order from here. So, we do get like some incremental sales from carry out, always good to have that in the mix.

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

Latika Chopra: Two questions. The first one was, if you could talk a little about the cost trends for your business in terms of raw material, it seems gross margins have been fairly stable sequentially. And also on rentals and employee expenses, if you could give us some sense on any potential levers for margin improvement from current levels where we have been for the past three quarters other than, of course, the LFL improvement. And the second question was on Popeyes, you mentioned you would look to accelerate the business there.

Sameer Khetarpal: Latika, on the first one, the raw material price inflation overall has been benign and deflationary in some categories with the exception of vegetables where costs are elevated. Cost controls are also in place with Project Vijay, as has been called out to offset the impact. The rentals, I would say, with seven regions the teams are better positioned to scout for rentals and properties which are lower than the average for that region, so I feel good about how the teams are executing over there. But definitely wage inflation is high. And what we have done over there, we have increased our store productivity inside the store by almost 30%, 35% in the last four quarters. So, there's a concerted effort that went into it through technology, also partially aided by the increased throughput per store.

So, net, net, I think what you see the dilution in margins at an EBITDA level is largely on account of mix change to delivery, and we are waving off almost Rs. 40 per order. I think that's the only thing, rest everything we have been able to kind of manage through internal efficiencies. But I do expect raw material prices to kind of go up in Q4/Q1 timeframe. So, again we have to gear up for more tightening of the belt over there and we have to find efficiencies.

Popeyes, I think given that we are still in a nascent stage, we are looking at trends all over the world, Latika, how is Popeyes doing in Turkey to US, to all the other countries where they are opening. Popeyes in India stands for bold flavors and therefore a lot of new product launches and innovation around range of chicken wings, hot and messy range. And we continue to double down on it. We have also increased our pace of expansion in malls and in high-street, as we see the throughput for some of the competition, has very rapidly moved towards delivery. We are also reducing the store size so that the stores are more geared towards delivery.

Very happy to note improvements on three dimensions, number one being gross margin improvement at about 50-odd stores, we are actually very close to competition over there on gross margin. Second is our store CapEx has come down, because we have localized it a lot, we have fine-tuned the equipment, we have reduced the kitchen sizes and civil work, so that work has happened. And number three is our own delivery, right. So, a large part of Domino's strength is their own rider fleet and delivery capabilities. We have been able to replicate that, and in fact within the Popeyes world we do not even measure 30-minute delivery, we only measure 20-minute delivery.

Latika Chopra: Alright. Well, that's good to know. Just one follow-up on your comments on the cost structure, as you have mentioned that you expect inflation probably in Q4 and Q1. At a broader consumer industry level, we are starting to see pockets of inflation, companies trying to pass on some bit of pricing. Just trying to get comfort or better understanding that if inflation hardens, other than your cost saving measures, would you be open to consider pricing as a tool, considering the over the last now I think four to six quarters you have not seen any pricing, right, so any initial thoughts there?

Sameer Khetarpal: Yes, we have not taken a price hike since nine quarters. We have established a very sophisticated pricing center of excellence to look at pricing in various pockets. Lot of this learning actually comes from Domino's Turkey, which because of operating in a high inflation environment has to review pricing on a fortnightly basis. So, we are shamelessly copying from what Turkey team has built and building that capability in India. And there is no reason Latika, that if inflation is high and we see pockets where we can take price increase with increased throughput per store, we will take the call at the right time. But I think the message that you should take is, we will be relentless on growth.

Moderator: Thank you. The next question is from the line of Akshen from Fidelity. Please go ahead.

Akshen: Congratulations on relatively stable SSSG in this environment. My question was pertaining to margins. Now, as you have indicated, SSSG is sort of inching up a bit for you in the second half. How should we be thinking about margins? So, you are at 3.5% PAT margins today on standalone, close to 3.7% on consolidated. Your peak margins have been 7%-8%. Do we see margins go back over there second half, some handle on how do we think about margins? Because right now, frankly, it feels like orders are growing because you have cut delivery charges and the margins have come off because of that. So, we have seen better order growth in revenue, it's not translating into better profit growth. So, just some better understanding over there would be really helpful. Thanks.

Sameer Khetarpal: Definitely, I can talk and then Suman can share her understanding. See, off course we want margins to increase, right, it's not that we do not want margins to increase. So, when you look at PAT, there are two elements that have gone into PAT. One is, we had debt on our books, so there is an interest element. And second is, also we said that we were in a high CapEx cycle, so there is additional depreciation that comes in over there. Pre-IndAS-116 EBITDA is a relevant metric which we report to track progress on this front. But like I said, I do not want to lose the growth momentum at this stage. If we can gain market share, definitely. And LFL at some point will get into margins, so there is no reason why it will not, we are seeing that in pockets also.

Suman Hedge: Just to add to what Sameer said, Q4 FY '24, pre-IndAS-116 EBITDA was 10.9%. And we also said with the delivery charges being taken off, with all the investments that have gone, like Sameer said, on commissaries, on our front-end tech, on setting up a new regional structure, and the investment we did pre-cycle of momentum of growth coming back are now baked in. From there, if you see quarter-on-quarter, the last two quarters, there has been an improvement, albeit minute but still we are seeing modest expansion while we continue to keep our pricing under check.

I think in this environment, and we said in the last quarter as well, it is a growth to capture and consumers are looking for value proposition. And if we get that franchise going, in time the margins will follow. But I think our focus right now is growth. And of course, the absolute profits that this business will generate in a market like India where demand in currently muted. So, in the short term, if you ask us a point-blank answer, I think it's not about margin being on focus. Of course, we would like to maintain and maybe modestly keep improving it through internal productivity initiatives that we take. But the focus is on doubling down on growth and getting whatever demand is out there to take.

Akshen: Appreciate the answer. If I may be allowed just one follow-up. I get that prioritization of top line and growth is the right strategy at any stage in the cycle, especially now. I think where the disconnect is that when street looks at your numbers, people are thinking about a V-shaped recovery to 15%, 16% margin second half, next year, as it were. And from what you seem to be suggesting that we will be a little more gradual. I just wanted to be sure that the expectations are set right that that level of margins will come at a significantly higher ADS levels. Is that understanding fair?

Suman Hedge: Yes, it will be a gradual recovery on margins because we continue to invest behind the brands, yes.

Moderator: Thank you. The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: My first question was with respect to the new store format which we are opening. On an average, what would be the size of stores or what could be the range of store sizes with respect to our opening?

Sameer Khetarpal: Sheela, again, it's not that we have gone into a university first time, right. I think six quarters ago we have shared a picture from container store at IIT Bombay, right. And so that model once we experimented, now we have the confidence. These are container store and we can have multiples of containers depending upon the demand. So, each container is about 600- 700 sq ft about that in that range, right. Airports is largely a food court kind of a model, so whatever space you get, 450 to 600 square feet, that is the space. University campuses, some university campuses where we can actually build a full restaurant, whatever is available. We look at how many white spaces we have, what is the student count and the footfall. So, that is what we are more focused on. The economics are very positive on all of the formats. So, we keep a threshold of payback period, and then we try to fit in whatever space is available at the right rentals.

Sheela Rathi: Would it be fair to say, Sameer, that over a period of time the ADS numbers may look on the lower side, even though what we are trying to do is optimize in terms of store expansion?

Sameer Khetarpal: This is one way to look at it is if the management does not do any intervention, right. So, if we do interventions for lunch, for example, that's quite accretive. If we start selling chicken, right, and chicken as a percentage of sales for Domino's worldwide, it's quite material, right. And if you bring those, it will be increment. In fact, we had a very low share in the late night daypart, right, post 11:00 PM sales. So, now our stores are open from 11:00 PM to 3:00 AM. So, that is all incremental. So, I would like to challenge myself and my team, can we push the ADS up by having the right set of launches, right occasions, and of course making big days bigger, right. I mean, if you continue to do that, then the store ADS is only going to go up.

Sheela Rathi: Understood. My second question was, we have done a lot of interventions, and I concur with what Suman had to say with respect to the value offerings. Are there thoughts around more intervention going into 3Q? Because, obviously, the delivery LFL growth has been strong for us, but do we need to do more interventions at the right price point, anything on the beverage side, to ensure that we can see the growth coming back in a big way?

Sameer Khetarpal: Absolutely. I think, Sheela, thanks for putting words in our mouth. I think everything is an opportunity, why stop at beverage, desserts are such a big opportunity. Then why stop at desserts, chicken, rice, snacking, lunch and many more, right? These are under works which are huge, huge opportunities. I think what we have learned is consumer at this stage are seeking an enormous amount of value. And for a given threshold experience, if the value is there, then you will start becoming first among equals. And that is what we are beginning to see in our data.

Sheela Rathi: And my last question, and just trying to verify, Sameer, you sounded more positive on 3Q with respect to the demand trends, or is this something to do with the base effect?

Sameer Khetarpal: See, I look at store ADS and store volume, right, that's the metric what I look at, right. And where I stand is where I sit, right, so I look at quarter-on-quarter. So, from that perspective, I am more bullish on the internal performance. And base to me does not matter, right. I mean, are we improving quarter-on-quarter, that is what I am most interested in, and the answer to that is yes.

Moderator: Thank you. Ladies and gentlemen, we will now take the last question, which will be from the line of Vishal Gutka from HDFC Securities. Please go ahead.

Vishal Gutka: My question is specifically on new launches. I think you have really pushed the pedestal on new launches, interesting launch have come up. I have one main question, then sub-questions. So, all the response overall for a new launch and the trajectory going forward given that you called a lot of white spaces. Two specific questions, one on Domino’s Cheese Volcano. So, what we have garnered from our checks is that, although the experience is excellent while dining-in, in case when you deliver at home there is some challenge that is there, how do you plan to address that? Otherwise, the product is an excellent product.

And the second question is on cheese burst. So, recently for your hero product you have brought in some new launches, three new flavors you have brought in. So, wanted to get a sense, how is the consumers' acceptance to those products? Thank you.

Sameer Khetarpal: So, thanks for the feedback, Vishal. If you do encounter any feedback in delivery, experience in delivery, let us know. Of course, this product is best experienced fresh out of the oven. But I will give credit to the teams to practice the delivery for this product for three months, right. We had to change lot of our bikes, train our workforce. Of course, there can be slippages. I am not saying there are none. So, I think, we look at the satisfaction. In fact, this is a product that has been launched in at least 10 countries. And the customer experience or customer satisfaction scores are actually highest in India, and it has continued. We thought this will be a limited time offering, but we are very surprised by the sales and the love that Gen-Zs have for this product, right, it is the most Instagramed product in our portfolio. And therefore, it has continued well beyond what we thought was the right life for it. So, we have grandfathered it on our menu. So, therefore, it has exceeded our expectation.

I think the consumer insight from the marketing team was that when customers think about Domino's, they think about craving, they think about cheese. And the Volcano launch proved that, and therefore we took that during Diwali and the festive period to most loved cheesy portfolio called Cheese Burst, and with Korean, Makhni and Fiery Cheese Burst flavors in pizzas, translated also to garlic bread. So, we have dramatically increased the pace of innovation giving more crave-worthy products and Instagram-worthy product to Gen-Zs. I think very happy to note, and that's why you see the confidence in our tone when we look at Q3 to-date performance.

Vishal Gutka: Sir, and any more, although you are working on new launches, I think lot of ground has been covered in what do you call last six months. So, any meaningful launch shall we expect on the core pizza, or now for time being I think you are done with it?

Sameer Khetarpal: I think, of course, we want to accelerate. So, these are all core pizzas, by the way, these are not Pizza Mania, these are all core pizzas. Cheese burst is type of a crust. We actually, again, through marketing insights the team realized that this is under indexed, it's a hidden jewel as we call it inside, therefore, we brought it up. So, it's again a core pizza, this is all high-quality cheese products that we are giving. And same way there is more in works, you will be surprised by the pace of the innovation.

Vishal Gutka: And just one last question, Cheesiken, I believe it was launched in Tamil Nadu and Kerala, which is the other state? Because you mentioned three states, I just wanted to check the other state where you have launched.

Sameer Khetarpal: Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, and Kerala. It was launched in East also last week.

Moderator: Thank you. Ladies and gentlemen, this brings us to the end of the question-and-answer session. On behalf of Jubilant FoodWorks Limited, that concludes this conference. Thank you all for joining us. 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.