Transcript of the Q4 & FY14 Conference call for Investors & Analysts

Call Duration	:	**1 hours 11 mins**
Management Speakers	:	**Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks** **Mr. Ajay Kaul – CEO of Jubilant FoodWorks** **Mr. Ravi Gupta – President& CFO of Jubilant FoodWorks**
Participants	:	**Mr. Aditya Soman – Goldman Sachs** **Mr. Nillai Shah- Morgan Stanley** **Ms. Latika Chopra- JP Morgan** **Mr. Sanjay Singh - Standard Chartered** **Mr. Aditya Mathur- Citigroup** **Mr. Avi Mehta – IIFL** **Mr. Abneesh Roy - Edelweiss** **Mr. Vivek Maheshwari - CLSA** **Mr. Ankit Babel - Subhkam Ventures** **Ms. Shilpa Samant – Cogencis** **Mr. Gaurav Bhatia - Deutsche Bank** **Mr. Arnab Mitra - Credit Suisse** **Mr. Binoy Jariwala - Sunidhi Securities** **Mr. Pulkit Singhal – Tree Line Investments** **Mr. Riken Gopani - Infina Finance**

Urvashi Butani: Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for the quarter and year ended March 2014.

We have the senior management on the call with us, including Mr. Hari Bhartia –Co-Chairman of Jubilant FoodWorks, Mr. Ajay Kaul - CEO and Mr. Ravi Gupta – CFO. We will initiate with key thoughts from Mr. Hari Bhartia and follow that with the operating and financial discussion with Mr. Ajay Kaul and Mr. Ravi Gupta. 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 & FY2014 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

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Hari Bhartia:

A very good evening to all joining us on this call.

Building brands which are robust, generate value and above all which have a direct connect with consumers is what forms the core of our company and we are truly passionate about it. As a result of our mission to aim for sustainable long-term success, we are focused on areas such as consumer research, innovation in our products as well as distribution. For example the use of internet media in order to discover new ways of engaging with our customers.

As you may be aware, the past year was a challenging one for all, especially for those of us in the consumer space. The macro economic factors had a lingering impact on our performance throughout the fiscal. However we did strive harder and have confronted the challenges to make our brands stronger and more relevant.

As we enter the new fiscal backed by the investments we made in FY14, we stand confident of our growth chart. Our additional infrastructure base will give us the ability to pursue the potential in the food service industry. Our plan is to capitalize on our investments, brands and our leadership position to capture a greater share of the QSR market.

Moving ahead, I truly believe that our brands, infrastructure and people are our greatest assets and we are committed to keep on evolving to generate a sustainable and profitable future for the company.

Thank you and over to you Ajay.

Ajay Kaul: Good evening to all of you. I shall quickly take you through the highlights of our performance for the past fiscal and then take you through our plan and strategies for the coming year.

Our topline growth during FY 14 was at Rs. 17,235 million which is a 22% increase over the last year. PAT stood at Rs. 1,258 million.

The last quarter of the fiscal, continued to be a challenging one on account of economic stress which translated into cautious consumer spending. However at JFL we believe that a successful company is able to demonstrate its ability to manage through challenging times and deliver on its promises regardless.

An important fact to highlight is that our target for growth goes well beyond quarter-over-quarter and year-over-year performance. Our vision is aimed at leading growth in the Food service industry and increasing our leadership while maintaining high levels of customer satisfaction.

Our formula for sustained growth for our brands is simple. It is anchored by key elements such as steady strengthening of network expansion, innovation in product as well as behind the scene in operations, an effective marketing program that is responsive to the pulse of our customer.

We set out in FY14 with a target of opening 125 Domino's Pizza restaurants, which we then revised to 145 restaurants. And today I'm glad to state that we have been successful in achieving our set target and launched 150 new Domino's Pizza restaurants across the country in FY14. As of today Domino's restaurant count stands at 749 spread across 152 cities. We have been consistently targeting new tier 2 and 3 cities along with efforts to penetrate further in existing markets where we are present. In Q4 we entered new cities namely Vellore, Nanital, Karad, Durg, Katra, Davangere, Manesarand, and Rajnandgaon.

For Dunkin' Donuts we have again a very methodic approach to expand. We believe we are still early in the learning curve and are using our experiences and findings to better our agenda for the upcoming openings. Dunkin' Donuts as of 31 March has 26 restaurants concentrated in the areas of Delhi, NCR, Punjab, Chandigarh and Uttarakhand. A multi-tiered approach adds a new dimension to growth in mid – long term as we benefit from apparent urbanization much before a tier 3 city metamorphoses into a mini metro and later into a major metropolitan area. As of today our restaurant count of Dunkin' Donuts stood at 29. This includes the very recent entry in Mumbai with 2 restaurants, which have recorded good appreciation by consumers in Mumbai.

Our confidence for opening new restaurants with profitable execution stems from 2 main factors – a well-researched demand potential and our infrastructure. As we aim for higher levels of openings and execution in the future, FY14 saw us implementing our plans to fortify our backend systems and supply chains and hence our disciplined investment towards commissaries. To give you a quick recap, in addition to our existing commissaries in Noida, Mumbai, Kolkatta, Bengaluru, and Mohali we are progressing well on our three new commissaries at Nagpur, Guwahati and Hyderabad. We also plan to relocate our existing Noida commissary to a bigger facility in Greater Noida. We are leveraging our existing commissary at Mumbai for supply chain of Dunkin' Donuts.

When we talk about innovation, at JFL this is one tool that is applied to all areas of business, whether its innovation to improve productivity, menu offerings, customer service or financial matrices. We believe this not only enables us to enhance our current stance but also gives us the ability to face external challenges and forge ahead on identifying new opportunities for sustainable growth.

In a consumer centric business, innovation is an important lever. At JFL we dive deep in to consumer psyche to understand emerging consumer needs and market dynamics and then utilize this knowledge to build a unique pipeline of offerings. We have been thus able to continuously enhance the relevance and appeal of our products. During FY14 we launched several new products on our menu such as the Fresh pan pizza and side orders such as the Calzone Pockets, Lebanese rolls and Spicy Baked Chicken. This has helped us in reinforcing our relationships with the millions of loyal consumers as well as create an opportunity for reaching out to new consumers. Another feather to our success is the Pizza Theatre model which has now been widely launched across the country, to add some numbers- we have 69 pizza theatre restaurants across the country. This model is helping us in building a closer connect with our consumers by letting them observe into the process of pizza making at close quarters.

Another area which has been an exciting journey in our business is the online ordering. This segment since its launch has been consistently on the rise. The shift towards digitization is transforming how consumers engage with us. For us this is a value accretive platform as it gives us the opportunity to make ourselves more accessible and drives our top priority of delighting our loyal consumers and when it ends up attracting an entirely new breed of customers – we are most pleased. Our numbers for online ordering are only indicative that we are on the right path. Our average OLO contribution to delivery sales in Q4FY14 was around 18%. OLO thus is something that we continue to invest in and has now become an important differentiator for Domino's Pizza India and a driver of our competitiveness. Mobile phone ordering at 16% of the internet ordering is an excellent development.

Coming to Dunkin' Donuts, as most of you may be aware our business strategies over the many years has been a systematic one and our execution for Dunkin' Donuts in India is no exception. Having said that we are maintaining healthy progress with our roll out plan. We have also launched Dunkin' in Mumbai early this month.

For Dunkin' Donuts too, our strategy of innovation is strong. Our new positioning 'Get your Mojo back' has been a success and continues to attract new consumers. The menu offering, as many of you know, consists of all day part food, encompassing a wide range right from donuts to beverages to burgers, sandwiches and salads. Here too our focus on innovation remain strong and we are continuously expanding our range of offerings. Very recently we have added a range of wraps and ice teas to our menu.

As we enter this fiscal, we are better equipped as an organization. As I mentioned at the start, our goals are long term and we foresee a great deal of potential in this industry. We are confident that the investments and resources dedicate d to expand our foundation will truly be an asset and a competitive edge for JFL in the coming future

Our anchors for our future strategy are well rooted. As in prior years, geographic expansion will remain a key to our growth strategy, and we continue to invest in both mature and under-penetrated markets. For Domino's Pizza, we intend to open 150new restaurants in FY15 whereas in case of Dunkin' Donuts our target is to open 25new restaurants in FY15.

We have from our past experience learnt that the key to success is to capture an opportunity at the right time, innovating and investing accordingly and running the business with rigor and discipline. Thus our plans will include a consistent roadmap for innovation in products which we believe is our forte. Innovation in terms of distribution which means investing more on the digital front will be a key agenda. Over and above this we will invest on our people who have always been at the center point of our success.

We believe FY14 was the year where though our financial performance was influenced with economic factors, we have invented new capabilities and a platform to lead the industry in the future.

On that note, I would now request Ravi – our President and CFO to take you through the financial details.

Ravi Gupta: Thank you Ajay, I shall now capture the highlights of the fourth quarter as well as the full year.

In FY14, JFL reported total revenues at Rs. 17,235 million as compared to Rs. 14,076 million in the last year. This revenue growth of 22% was largely driven by our focus on geographic expansion and innovations on the menu. With the seas anchors, we have endeavored to branch out further into existing markets as well as make inroads in new cities. As a result we today span over 749 Domino's Pizza restaurants spanning over 152 cities across India. In Q4 our total revenues stood at Rs. 4,337 million.

As you are aware, the operating scenario was presented with challenges driven by macro-economic factors and the industry witnessed a slowdown in consumer discretionary spends in FY14. Thus our efforts have been directed towards positing our strong brands with the necessary marketing plans coupled with expanded distribution and a successful launch of product extensions. With a subdued sentiment, our SSG for the year was at 1.63% and that during the quarter was (3.4)%. Further, our topline also reflects our efforts to expand Dunkin' brand. While we are in the initial stages of restaurant build up, the brand with its attractive all day part appeal is commanding positive response from consumers thereby contributing to overall growth.

A factor that has enabled us to confront to some extent the economic tests over the past year is our singular focus on cost efficiency and containment measures at every level from day one. We have over the years fine-tuned our financial and operating model to create business efficiencies and these learnings have enabled us to absorb inflationary pressures to a large extent.

Total Expenditure in Q4 FY14 increase 24% and stood at Rs. 3,781 million and FY14 witnessed 26% increase to Rs. 14,684 million. The drivers behind the increase were primarily related to food inflation and higher expenses related to advertising and ongoing marketing offers. The rise in total expenditure is also attributable to higher employee costs which is the result of minimum wage rate hike and network expansion.

Overall increase in expenses is also reflective of Dunkin’ Donuts development and operational expenses.

Our EBITDA during the quarter was at Rs. 557 million and Rs. 2,551 million in FY14 on the back of few main factors firstly, SSG which was far lower; secondly, our operating trend wherein the new restaurants typically open with 60-80% performance level of same stores; and third is the high inflationary trends witnessed through the year. EBITDA margin for Q4 FY14 stood at 12.8% and at 14.8% for FY14.

Profit after Tax in Q4 FY14 stood at Rs. 250 million and Rs. 1,258 million in FY14 which corresponds to the weaker consumer spends, tough macro-economic environment and higher tax surcharge.

As we enter the new fiscal, our blueprint is clearly outlined and cognizant of the external factors. Our obligation is to deliver a superior customer service experience in line with our vision and purpose. Our plan for the future thus mandates the kind of focus on dedication that we are showing presently on investments in our brands, network as well as commissaries. The intention is to fully leverage our expanded network of Domino’s Pizza restaurants and infrastructure to deliver accelerated performance in line with recovery in the macro environment.

With this I would now request the moderator to take the call ahead and open the forum for a Q&A session

Moderator: Thank you very much, sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: My first question is on the consumer sentiment; you mentioned that the consumer sentiment was weak in Q4 leading to decline in same-store sales. Have you seen any improvement in the sentiment in the two months since the end of Q4, and what is your expectation for Same Store Growth (SSG) and consumer sentiment in the near term, at least may be over the next 2 quarters?

Ajay Kaul: We do not normally give guidance in terms of numbers, but what we believe is that when you do micro analysis, big trends are still not emerging honestly. The political outcome of the elections which happened a couple of days back do bring in a sense or call it reassurance, call it optimism, but it is still not reflecting in numbers obviously. But having said that we do believe that in Q4, the (SSG) number which we delivered (-3.4%) we should definitely do better than that during the course of the coming year.

Aditya Soman: In terms of your impact on margins, what impact did Dunkin' Donuts have or what do you expect? I think you had mentioned of 100 to 110 basis points previously but now with it opening in Mumbai as well, a high impact?

Ajay Kaul: During the course of the next year, we believe this number should go more than 120 basis points, but for the year gone by, I think that is the ballpark in which it is, 120-125 basis points.

Ravi Gupta: For next year we expect it to be little higher about 30 basis points than the last year. So we will be around 150 basis points.

Aditya Soman: On advertising spends, can you quantify what was the A&P spends as a proportion of sales, because in FY13 for example, in annual report you get about 4.7%. Would it be roughly similar or significantly higher?

Ravi Gupta: It is marginally higher. Because of the subdued environment, to basically let the consumer come back to us, we need to spend a little higher amount. So in percentage terms it is a little higher; it is slightly above 5%but in absolute term it has grown in line with the business.

Moderator: Thank you. We have the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: The first question just to clarify, the Dunkin' Donuts' impact for fiscal '15 will be about 20-30 basis points for the full year, right?

Ravi Gupta: No, 30 basis points higher than the last year, so last year it was about 120 basis points, next year will be about 150 points.

Nillai Shah: So it is incremental 150 basis points down on Y-o-Y basis?

Ravi Gupta: Not for the quarter, for the full year FY15.

Nillai Shah: For the full year incremental 150 basis points of impact is that correct?

Ravi Gupta: Incremental is 30 basis points, total impact is 150 basis points.

Nillai Shah: The gross margin seems to have recovered partly because of the price increases that you have taken over the last few months, but over the longer-term would you say that you would be okay to let go some gross margins if you are assured of higher growth, or do you believe that gross margins are very-very important for you to maintain at these levels?

Ajay Kaul: Gross margins are no doubt important to keep them at a certain level, but at the same time one has to keep before everything else the customer in mind. As we have always maintained, our business starts and ends with customer and I am not trying to be clichéd here, we mean it. In the last one year including the 4.96% service tax which came into the play, the consumer has ended up paying a good 10-15% more than he used to pay previously, which is high by any standards, and given the state of consumption even otherwise in that environment it looks even tough. We believe that we have to work closely internally on efficiencies which we are doing constantly such as engaging 'Six Sigma' into our processes. We also believe in working with our business partners and vendors to ensure that economies of scale benefits are passed on to us and thereby to customer. At the end of the day, we are still the fastest growing food service company in the country. We are still growing at a systemic level around 20-25% and this is only this year, before that we were growing at 30, 40, 50% also. So they owe their allegiance to us. We are able to leverage lot of this, call it growth, so that the effect on us or the increases for us are not in line or sync with what is happening otherwise in the marketplace which is visible to our retail customer, but having said that I think as we always say two price increases- nominal of around 3% each taken 6 months apart in the year is something which the consumer should be able to absorb. That would be my long and short answer to your question.

Nillai Shah: Are input costs coming down as you see in the last quarter I am not talking about going forward?

Ajay Kaul: What we believe is that the worst of input cost - the tail is actually behind us; last year was really a tough year and that is what also necessitated an out of ordinary nearly 10% price increase as opposed to the 6% which we take in 2 tranches every year. We think while the pressure cup is still coming through, milk price increases leading to cheese price increases and so on, but we do believe that it is not going to be bad like last year. It should be within acceptable limits and not still in a zone where we feel comfortable, but we have to manage that.

Nillai Shah: The last question is on the OLO platform. Could you give me the numbers for FY13? You have given the numbers as a percentage of overall revenues for FY14.

Ajay Kaul: We have never actually spelt out the revenues, but in percentage terms, if we remember correctly we have jumped from 15-16% in the previous year to around 18% in this year, but honestly we are very optimistic about this as we have left the last year, this number is actually around 20% or so. We believe this number will climb as we have also started advertising on offline media which is TV, we believe this number will climb in a healthy 20s.

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

Latika Chopra: My first question is on CAPEX. You have again set an aggressive expansion plan of 150 stores for FY15. What would be the likely CAPEX for FY15 that you are estimating considering that most of the new stores would likely be on Pizza Theatre concept? And also if you could give the CAPEX on commissaries and the Dunkin' stores?

Ravi Gupta: We are planning to open about 150 Domino's Pizza restaurants and 25 Dunkin' Donuts restaurants, so that is an aggregate of about 175 Restaurants which we will open next year. These restaurants will have a CAPEX of about Rs.200 crores. In addition, there are the three commissaries where the work is progressing and all of the CAPEX on these three commissaries will get incurred during this year, so that will come into action. And we are staring the work on the another commissary which is the Greater Noida commissary. Thus the aggregate for all these plus relocation of stores, some replacement of assets, our estimate is that overall capital expenditure will be in excess of Rs. 300 crores in FY15.

Latika Chopra: Second question is a bit medium term. Given aggressive store expansion plans are sustaining for you and hopefully would sustain in coming years too, what in your view could be likely normalize same-store sales growth assuming economy growth reverts back to historical levels of 7% to 8%, what I am trying to get a sense is how cannibalization and competition would affect normalized SSG trends versus what we have seen in the past?

Ajay Kaul: We will not hazard a guess or give any guidance on what will be the SSG number under various scenarios. All we would say is that we believe next year or this financial year 2015 is going to have better same-store sales that we have witnessed in Q3, Q4 and so on. Coming to the question of cannibalization or enhanced competition as a bi-product of both these factors put together, we have always maintained that between a control group which means stores which are not split or cannibalized versus stores which gets split for whatever reasons be it efficiency, operational excellence and so on, there is a single digit same-store difference between the two and we believe that number will continue. There will always be a mid-level single digit difference between split stores and non-split stores and that is going to continue even in 2015.

Moderator: Thank you. We have the next question from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: This is to Mr. Bhartia. Earlier to one of my questions he had said that shareholding for the promoters will be stable at around 50%, now we are already slightly less than 50%. So, we can safely say that the promoter selling is over now or do you have a new limit set as of now?

Hari S. Bhartia: As I have said before, I am not trying to set any new limit. I think we have sold whenever at the corporate level we needed to sell. As of now on an immediate basis we are not seeing major reduction in any of our shareholding.

Sanjay Singh: As of now you are saying you are sticking close to 50% only?

Hari S. Bhartia: Yes, as of now. Immediately I do not see any major reduction in the shareholding.

Sanjay Singh: Operationally on the staff cost while you have taken some increases probably in the latter half of the year, overall it is still on a year-on-year basis per employee it is down on a low single-digit decline, is there any significant staff cost increase which is planned or which is already happening as we speak in FY15?

Ravi Gupta: Computing the average staff cost and saying that this is declining becomes very difficult in the environment where about 30-35% of the employees are on a part-time basis and this number keeps on fluctuating; we have weekenders, we have part timers, and in that context I will request you not to look at the average manpower cost because it could be a misnomer; our endeavor is always to have more part timers, because this helps in balancing the labor cost at the store level; our business peaks out during 2 hours during lunch and 2 hours during the dinner and also during the week ends. So we like to have more and more part timers. As availability increases we would like to go towards that. But, coming to the core of the question saying that whether a significant cost is coming forward in terms of increase in the labor costs now labor costs at the team member level increases by increasing the minimum wages. So as and when the minimum wages increase, there could be some pressure that we also need to increase to comply with the laws of the land, and other than that what is the market related increase that only we have to give to rest of the team members.

Moderator: Thank you. The next question is from the line of Aditya Mathur from Citi Group. Please go ahead.

Aditya Mathur: Sir, can you give us some color on the performance of the new stores, especially given the environment how were trends and revenues for new stores be – are you really seeing a big shift in the payback given the low consumer sentiment?

Ravi Gupta: The new stores – we have been consistently saying and it is still true that they offer about 70-80% sales of the system average sale and during the last year also, we have maintained those kind of averages. Second is our internal norm for the pay back at the store level is that they should pay back within three years or less, so whatever CAPEX cost which has gone should come without interest back to us in less than three years. So that norm is also still being followed by all the restaurants. Although it will be too early saying that "Okay, stores opened last year, whether they will deliver by third year or not?" But the initial trends are clearly indicative, whereas as we go forward they should be able to recover the whole of the capital in three years or less.

Aditya Mathur: You again have a higher store opening guidance for this year. So, over the next one or two years, do you think internal accruals would be sufficient or do you think you may need to actually take on debt to fund the expansion of both the stores as well as the commissaries?

Ravi Gupta: Looking at the CAPEX requirement of Rs.300 crores next year, we believe that we should be able to meet through internal accruals; however, in case we get further aggressive, saying that we want to open more stores, there could be need for marginal amount to be raised through debt or something like that, but that also may not be there if the economic sentiment rebounds and we are back to higher EBITDA levels.

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

Avi Mehta: A clarification; that CAPEX number you said for FY15, if you could repeat that?

Ravi Gupta: It is in excess of Rs.300 crores.

Avi Mehta: Because part of the employee cost is variable in nature which is obviously given the business model, would you be able to share any broad-based or any percentage of cost which would be more fixed in nature which you kind of would be able to deliver?

Ravi Gupta: You have to look at the fixed versus variable into two contexts; one, when you look at one store level, and two when you look it at the company level. As there is only one store in existence, then you look at fixed versus variable, but when you look at the company level, every additional store became variable, because as you are opening more and more restaurants, you are adding more and more costs because the rent also become kind of variable in that case. So, when you look at the store level it is a different picture, when you look at the company level it becomes a different picture.

Avi Mehta: More on the store level if you share?

Ravi Gupta: I think it will require a little more time; maybe we can have a separate discussion on that.

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

Abneesh Roy: My first question is on the innovations you have done in FY14, essentially Pizza Junior JoyBox and Pizza Theatre. So, if you could share some insights, globally, do you have Pizza Junior JoyBox and how the gross margins are in this because you seem to be offering a lot at that price point? And any data points that Pizza Theatre is working, if you can share that because it does need investments, so, in that context, are you seeing some benefits already or you think only when economy recovers and sentiments recover only then you can kind of quantify that?

Ajay Kaul: There are quite a few questions in your one question, so let me break it down into various pieces; first is with regards to Junior Joy Box (JJB), the insight is totally coming from India and this has got nothing to do with idea coming from abroad. What we believe is that while Pizza is at the end of the day a product consumed in family occasions where it is not just one person, but a group of people whether it is friends or a full family, we believe that junior ages like anything from 3-4 years to maybe 7-8 years, I would not say was getting precluded but it is not that exciting category for them. So there came a need that why not catch our young kids at an earlier age, but make the product more exciting for them and also bring some elements like non-aerated drink but instead give a "Maaza" along with it, also a toy which tends to excite them, but at the same time keep it at a price which is reasonable. So we did a lot of re-engineering internally and if you have seen that product there is a lovely box which is quite enticing and inside that there is this small pizza portion and then there is garlic bread which kids love and then there is also the dessert which comes in the form of custard on a bit of a bread, and a toy of course, which always kids find exciting. So, we have made sure that the margins of this are marginally lower but if the volumes will justify, because we believe a lot of this business should be incremental businessIt has been launched only 2-3 weeks back but so far we are receiving some fantastic response from our consumers, we are supporting it by some advertising campaign. So it is doing very well. Coming to the question of Pizza Theatre, yes, our first pizza theatre by virtue of the look and the feel and the way we have grafted it from giving visibility to our consumers to see actually how their pizzas are made while they get ordered, it brings in that element of call it adult QSR space rather than a pure archetypal Quick Service Restaurant. Even the way in which we have created seating's within our restaurants is like multiple levels, they are at various layers so to say and it attracts different groups of people and so on. But, by the time now we have constructed our 69 stores we have been able to again work on the back side to make sure that the cost for creating a Pizza Theatre store are not significantly different from a conventional store. So it is not putting tremendous pressure on return on investments or incremental CAPEX cost and so on, it is marginally more and we do believe that as volumes go up, we will be able to even put them in control. In terms of impact on let us say sales coming out of Pizza Theatre stores, we do believe over a period of time they will generate incremental extra sale but if an indicator is to go by which is Customer Satisfaction Index, which is how satisfied are consumers with the ambience, the service, and the look and feel and thereby overall the perception and emotional connectivity with Domino's brand clearly "Pizza Theatre" stores are statistically significant results on Guest Satisfaction Index. So, we do believe this important indicator will bring repeat purchase and higher frequency and so on in future. I hope I have answered all aspects of your question.

Abneesh Roy: One clarification on this you said gross margins are higher in Joy Box or lower?

Ajay Kaul: Lower; I meant the costs are a bit higher, so thereby margins are marginally lower than our rest of the business.

Abneesh Roy: Two follow-ups on that; this is being also given in delivery, when do you see this being extended to most of your stores?

Ajay Kaul: I think it has already started in all the stores, and it is on delivery also. So, are you carrying the impression that it is not being offered countrywide?

Abneesh Roy: I was just checking?

Ajay Kaul: It is being offered, there may be some one-off exception but to our knowledge it is in all our 700 odd restaurants in the country.

Abneesh Roy: In this quarter same-store growth was negative in spite of a favorable base when we compare quarter-on-quarter. Now, what has happened, this big change on macro has happened with a much stronger government and they will be focusing on the urban infrastructure much more versus the earlier one, they are also 100 new cities, etc. So my question is in that context how your own view has changed? In terms of positioning "Yeh Hai Rishton Ka Time" somehow same-store growth has not delivered when we see the new positioning. So are you thinking of a new positioning with the new macro, any comments whether that positioning has worked or not in challenging times and now challenging times in a few quarters might change?

Ajay Kaul: Again, you have several questions rolled into one, so let me just again break them down into pieces; as far as "Yeh Hai Rishton Ka Time" is concerned let me take the second part first, this journey was started in 2012, after we believed we had a good journey with our positioning at the time which was "Khushiyon Ki Home Delivery" and clearly there were compelling reasons for us to realize that whenever Domino's Pizza happen these are moments when families come together and relationships get rejuvenated, they get further bonded, people come further closer. Now, there is an indicator called 'Emotional Connection' and there is a way we measure it by a brand tracker every month and this is more internal to Domino's, but I have to share this with you since you have asked this question because the idea eventually is that customer should be more and more emotionally connected with our brand, and our brand tracker over the last eight quarters has clearly shown that we are the most emotionally connected brand within our space in the country and that score has only been growing more and more. We do believe that in these tough times how our market share position has only improved, last year we had a 62% market share of pizza market and this year it's 67, we still are the fastest growing brand in our space, it is only because people even in tough times are resonating with "Yeh Hai Rishton Ka Time" so we have no iota of doubt in our mind that this positioning is going to continue for some time. Till some other compelling reasons in times to come, so a downturn is no reason for us to reach a conclusion that the emotional positioning is not resonating with our consumers.

Your first question, I am going back a year, year and a half back we used to give a guidance on same-store growth, we believe at that time it was a bit more predictable, now despite all the optimism we have as an organization and I have as an individual, for whatever reasons the economic sentiment drop in the market has belied some of our optimism. That is why as a company which is we believe are conservative, we would not hazard any guesstimates or any guidance for next year, but at a qualitative level I can tell you that while it is early days a stable government and so on at the center which is clearly is the case in this case, we believe what is good for the country, what is good for the consumption, for the economy and it should lend itself even into the QSR space, the Food Service space, beyond which I would not give any guidance or any number to that.

Abneesh Roy: Sir my question was not on a guidance, my question was you would have seen many cycles of down turn, so in that context when recovery happens how much of a lag you have seen for the sector? I am not asking for your company in particular but as an overall QSR or food consumption, any insights from the previous round cycle you can share as to how much is the lag in terms of say one quarter, two quarters and what exactly needed from the government, so how does sentiment improve from the downturn to upturn what exactly happens?

Ajay Kaul: We do not have very many such instances if I look at the last 5-7-years; there was a Lehman Brothers driven crisis but that was more external forces and there the recovery happened sooner than we knew, for 6-months our business did suffer, but come April of that year I think it was 2009 our business swung back to 20-25% same-store growth. This time the reasons are internal, so they are that much more kind of integrated into the whole macro environment. We do not have precedence to say that how fast the recovery will happen, but we do believe there is a certain time lag, consumption sentiment changes overnight but people have to start again investing spending money on categories like ours, we think it will happen, it should happen, it will also depend on what all government does but I am not going to go in that direction of what government can do, they can do a lot of things and it is for them to choose of what they will do.

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

Vivek Maheshwari: My first question again is on gross margins; I am not sure if I understood it correctly your gross margins have bounced back to 15 quarter high of 75.3. Could you please elaborate what has suddenly taken it up to something which is round about levels of second quarter fiscal '11, you have never hit that level, so what was different and is this sustainable?

Ravi Gupta: Vivek, three things have happened between Q3 and Q4; first and foremost is level of discounting has come down between Q3 and Q4, we have stopped doing the 'Buy One Get One' which we were doing every

Wednesday till November end. So overall discounting level between Q3 and Q4, Q4 discount levels are lower. Second factor – we have taken a pricing increase of about 5% by November 3rd week and another 2% in mid-January you can say. So impact of the price increase is also reflective of this. Third factor there is a restructure in some arrangements where business partners were contributing to the marketing fund. Due to that restructure some of the margins are being given as a product margin rather than as a marketing fund. So there is a positive impact in the material cost and that is a similar impact in other manufacturing cost, because marketing fund contribution from those business partners have reduced to the same extent. So overall margin has remained the same for those business partners, but the structure has changed. The net impact for this quarter is about 80 basis points for the third element; however on an ongoing basis it will be about 70 basis points when you talk about next year it will be impact of 70 basis points. So more or less all these factors which are there, they are going to stay for the next year as well, except for the 10 basis points of the business partner contribution.

Vivek Maheshwari: What do you mean by business partner contribution moving from? I am sorry I am not very clear with this moving from this line item to other manufacturing expenses?

Ravi Gupta: Some of the business partners contribute to the marketing fund - we can say joint marketing initiatives are being done, so it is appears as a line item, and you look at the marketing cost in the annual report you will see that 'Net of contribution received from business partner.'

Vivek Maheshwari: Could you just define an example of one business partner, who are these business partners?

Ravi Gupta: I cannot name but say the if the total margin is say 40%, so product margin is say 30% and 10% is given by way of marketing fund.

Vivek Maheshwari: May be I will take it offline with you on this one. Second one on the other expenses and overall expenses, the 30% increase for example in other expenses you mentioned partially is because of A&P, but are there any other hedge which have impacted this line item?

Ravi Gupta: When you look at Q-on-Q basis other expenses only decrease, this is despite the fact that 47 new restaurants which have come in operation, plus the full quarter impact of the 47 restaurants which we opened for Domino's in the previous quarter plus five new Dunkin' Donuts restaurants which we opened.

Vivek Maheshwari: On a Y-o-Y basis if I look at, you are adding say in fiscal '15 and I do not want a guidance but directionally I just want to get it right, 20% is broadly where you will have incremental stores, right, so say around 20% store addition and your expenses in general are at least in this quarter have risen like 25% or other expenses – rent and stuff is of 30%, does that mean that you need an SSG of closer to 10% which means 10% SSG and assuming the same system level sales in case of new stores 30% revenue growth just to offset this kind of cost inflation which means that SSG has to be higher than that in order to have margin accretion, is that correct reading?

Ravi Gupta: Let us divide the business into two parts – one is a same store and second portion is all other stores, whether stores opened in the current year or in the previous year. On a same-store basis, sales growth has to be same or higher than the inflation in order for margins to increase in percentage terms. So for example if the costs are say 80 and sale is 100, the sale is increasing by Rs. 10, the cost also can increase by 10%, in nutshell the margin will remain 20%. Now look at last year, sales have grown only by 1.6% which is lower than the inflation growth, and as a result the margin as a percentage on a same-store basis is lower. On a new store which is store opened last year and a year before, those stores anyhow open at 70% to 80% of the system average sales, as a result while they are profitable as 90-95% stores are profitable from very first day of operation, in percentage terms the EBITDA margins are lower, as a result we are margin dilutive all the time. So A plus B together we need to see things that how the year has been.

Vivek Maheshwari: So my third question is on Dunkin' Donuts, you had initially, I think a couple of years back you indicated that 3-year pay back is what you would look for here, where are we on that or its again still early you think?

Ravi Gupta: Vivek, we have always maintained that the 3-year pay back is what we are confident about with the exception of first 12 to 18-months because 12 to 18-months there will be some additional cost of running the restaurants because we are developing a new brand, we are developing a new category called "Donuts" and the wastage will be higher, the volume will be lower and all that. So we are still confident that at a store level, we should be able to achieve a 3-year target period pay back with the exception of first 12 to 18-months.

Vivek Maheshwari: So in say north for example where the stores are fairly old now compared to say Mumbai, are you seeing that 3-year possibility now or is the confidence on the franchise as much now, as it was at that point of time when you were kind of firing for 3-years?

Ravi Gupta: Definitely, last con call also I think we mentioned, majority of the stores in the north region are positive.

Vivek Maheshwari: Last bit on Dunkin' Donuts again, you mentioned 150 basis points margin impact and 120 basis points for this year. Now if I recall correctly originally I think last year you started with 80 basis points then 100 basis points and you said we will try to cap it at 100 basis points, now all this while you obviously did not anticipate this kind of SSG pressure in the base Domino's business, the fact that margins in Domino's are so lower which means that the performance of Dunkin' also has been much worse, otherwise the impact would have been lower, does that mean that on the profitability front Dunkin' has been worse than what you were thinking at that time?

Ravi Gupta: Last year it was 80 to 90 basis points, and the beginning of the year we have said it will increase by about 20 basis points, so we have been more or less in the same ballpark range. In Dunkin' Donuts there was some marginal delay in opening of the west region, we were hoping to open in Q4. Other than that the performance is in line with what we had expected. Now, on impact of Dunkin' operation on JFL in next 5-years, lets understand it by an example, say Dunkin is profitable and having a 5% EBITDA margin, and at that point of time Domino's hypothetically say has a 20% EBITDA margin. Now we need to give the weightages, say Domino's is 90% of the business and 10% is the Dunkin business; weighted average for both the business together will be 18.5%; still it will be JFL margin dilutive by about 150 basis points despite the fact that Dunkin' is profitable.

Vivek Maheshwari: So which essentially means do you anticipate Dunkin' margins at some point of time being converging with Domino's or that you think is not possible?

Ajay Kaul: Most certainly it will, but it will take some time and that day then margin dilution will arguably stop.

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

Ankit Babel: Sir, last year your gross margins have improved but on account of low revenue growth especially in the same-store sales growth you had witnessed a negative operating leverage and that had impacted your margins. Now going forward you are expecting the same-store sales growth to be better than what you have in the last year, so there will be some operating leverage coming in, but at the same time there will be an impact from Dunkin as you mentioned 30 basis points higher, and adjusting to all these things will we see an improvement in margins or a decline in margins for the year as a whole at a consolidated operating level?

Ravi Gupta: Ankit, while answering Vivek, I explained how to look at the overall business, since we are not giving any guidance about the same-store growth for the next year we are not able to give any guidance about the EBITDA margins as well at this point of time.

Ankit Babel: But any idea whether it would be improvement or a decline? I am not asking how many basis point it will improve or something like that

Ravi Gupta: Ankit, this is a million dollar question. If somebody can tell me how much the economy will grow next year, how much the same-store growth it will convert to, we can easily compute the EBITDA levels.

Moderator: Thank you. The next question is from the line of Shilpa Samant from Cogencis. Please go ahead.

Shilpa Samant: My first question is you normally take 6% price hike annually divided into two parts. So will it be the same for FY-'15 or will it be above that?

Ravi Gupta: As of now it should be around same number - 3% twice in a year but we always maintain saying that if there is a turbulence in the market in the sense if we are experiencing high inflation in the ingredients we will look at third price increase at that point of time.

Shilpa Samant: So the first one comes in June, is it?

Ravi Gupta: We will declare once we have done it, we do not announce prior saying that we will be doing it.

Shilpa Samant: Also the 2% price hike that you mentioned that you took during the quarter was it for a Dunkin' or was it for Domino's?

Ravi Gupta: Domino's Pizza

Shilpa Samant: Recently also you have increased the price of some Dunkin' products I believe when you added new product of 4% to 10%?

Ajay Kaul: That is right.

Shilpa Samant: So that was just last one, right?

Ajay Kaul: That is right.

Moderator: Thank you. The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

Gaurav Bhatia: Sir, you said ad spends as a percentage of sales this year is higher than 5%, and you also said that there is a restructuring of marketing spends. So this increase in ad spends, is it because of that?

Ravi Gupta: No, actually the marketing fund has reduced. So ad spend what we talked about, it is a real amount which we have spent, marketing fund is a notional one kind of. So between 4.7% which the person has mentioned against that I said it is higher than 5%.

Gaurav Bhatia: Sir just to be clear, Coke has not changed any of its margins that they give to us, right, it is just a reclassification of costs?

Ajay Kaul: Without trying to name any business partner here, the answer to that is 'yes' that it is basically a restructuring, so in one line it kind of reduces and it gets added in the other line, but overall it does not change.

Gaurav Bhatia: The impact of cannibalization due to store splitting, has that increased or decreased?

Ajay Kaul: It is at the same level as it was in previous years.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.

Kunal Bhatia: Sir what is the average break even and payback period for the Dunkin' Donuts?

Ajay Kaul: This question was answered by Ravi even earlier other than the stores which we open in the first 12-months to 18-months there is a bit of model iteration on pricing on store type and menu mix and so on, we do believe that in the long run expecting Dunkin' restaurants also to deliver on 3-years or less pay back periods like we do in Domino's, is doable.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities and Finance. Please go ahead.

Binoy Jariwala: Could you give me a breakup of the CAPEX incurred in FY-'14 and likewise for the FY-'15? You have just mentioned that about Rs.200 crores would be on account of store openings and the remaining Rs.100 crores would be on account of commissaries and relocation of Noida commissary?

Ravi Gupta: Out of about Rs.230-240 crore CAPEX which we have incurred, may be 80% of that is on account of the new stores which we opened in across Domino's Pizza and Dunkin' Donuts. So in total together we opened 166 new stores last year, so that in aggregate is about Rs.180-190 crores worth of CAPEX which we have incurred last year. Rest of the CAPEX is for the commissaries, offices, replacement of the equipment and rest of the things.

Binoy Jariwala: So how much CAPEX was incurred for commissaries?

Ravi Gupta: Commissaries CAPEX I think in all aggregate together about Rs.7-8 crore.

Binoy Jariwala: For FY-'14?

Ravi Gupta: Yes.

Binoy Jariwala: And likewise what is the figure for FY-'15?

Ravi Gupta: For FY-'15 it will be large because the three new commissaries at Guwahati, Nagpur and Hyderabad would come into existence –at the cost of around Rs.30-35 crores, Noida commissary is a larger commissary, that will entail larger expenditure but that is not going to complete during the next year, so there will be some work which will get done, that alone may use a large amount, but on the whole for commissaries will end up spending about Rs.60-70 crores.

Binoy Jariwala: What is the total CAPEX for Noida commissary? And by when should it be operational?

Ravi Gupta: It will be operational in FY-'16. Total CAPEX for the equipment alone will be about Rs.30-35 crores but we are also looking at the possibility of land purchase there and building our own premises on that land, so that will be additional cost.

Binoy Jariwala: So that should be another Rs.35 crores or so?

Ravi Gupta: Yes, land alone will be about 30-35 crores plus building will be another Rs.25 crores.

Binoy Jariwala: In FY-'14 of Rs. 240 crores you said Rs. 180 crores is for new stores and roughly about Rs.7 or 8 crores is for commissaries, so the remaining Rs.50 crores is for?

Ravi Gupta: This is basically replacement of the equipment which we do at the restaurant, there is relocation of restaurants which happens, re-imaging, new offices, regional offices, training centers and , plus it also includes (WIP) the work-in progress which is there which was about Rs.18 crores.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Tree Line Investments. Please go ahead.

Pulkit Singhal: Can you remind me what is the Dunkin' Donuts impact in FY-'13, please?

Ravi Gupta: In FY-'13 it was about 90 basis points.

Pulkit Singhal: So that basically your EBITDA margin would have been 18.1% if Dunkin' Donuts would not have been there, right? Now where I am coming from is you nicely mentioned how to look at the business, in which case in FY-'13 you had a contraction of 60 basis points on a like-to-like basis excluding Dunkin' Donuts, and if I look at FY-'13 you had the same-store sales growth of 16% while you had 20% store addition, which means that even at 16% same-store sales growth was not able to offset a 20% increase in new store addition dilution impact. Now is that how we should look at it going ahead that if you are adding 20%, obviously you are not adding 20%, you are adding 17% this time, so accordingly the same-store sale growth would be around that figure, needed to offset the dilution impact?

Ravi Gupta: At the same store level when the growth is higher than the inflation, the margin improves. Now at 16% our same-store margins have improved last year; however at the same rate I also explained new stores are margin dilutive and this is not the case last year, it has been the case for last 5- 7- 10-years. Now it depends on how much aggression we have on new store openings and that will determine that what kind of same-store growth will be there, basically that creates an efficiency in terms of better EBITDA margins on a same-store basis which will get diluted by opening of the new restaurants.

Pulkit Singhal: So there is a certain dilution happening by new restaurants which means that your same-store sales growth has to be higher than inflation to be able to offset that dilutive impact, am I with you out there?

Ravi Gupta: Yes

Pulkit Singhal: Now in FY-'13 you had 16% same-store growth, even if I assume 8% to 10% inflation roughly that means even 6% extra, despite that the EBITDA margin contracted which means that it could not offset the dilution impact of a 20% increase in stores, that time you added 111 stores, is that right?

Ravi Gupta: You are right.

Pulkit Singhal: So going ahead 150 stores you are adding which is roughly 17%, now in that case if 8% to 10% again is suppose the inflation may be its lesser, you would probably may need around same-stores sales 14% roughly to get ?

Ravi Gupta: Your thinking process is correct, but let me add also in FY-13 there was some more impact; one impact I can recall right now, there was an increase in duty and taxes during that year, there was one more factor which was responsible for dilution of about 40-50 basis points in the margin, so those were abnormal factors in that year.

Pulkit Singhal: Your gross margin has actually contracted in FY-'13 as well. So raw material cost must have been, I guess, significantly higher or something?

Ravi Gupta: Thinking process is correct.

Moderator: Thank you. We will take the last question from the line of Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Sir first thing on the Domino's business, wanted to understand if you could throw some color on the SSG in terms of ordering growth and ticket value growth, direction may be not the numbers you can share, which one was a more weaker number?

Ajay Kaul: Order growth often or most of the time is shed lower than our revenue growth that is by virtue of the price increases that we take; we normally take two price increases of 3% each. So even in this year the order growth is marginally lower than our revenue growth.

Riken Gopani: And the ticket value, has that improved?

Ajay Kaul: As a result, the difference between the two obviously then it will manifest in terms of ticket increase, and that is what it is.

Riken Gopani: Secondly, just wanted to understand on the Domino's business, the pure pizza versus the side orders that combination business is more or less same across the last 2-3-years, or is the other pieces of the ordering reducing more than the SSG basis, if we could get some color on that?

Ajay Kaul: On SSG basis there is no difference; however the kind of focus that we over the years have by strategy put on sides like pasta to start with and after that we launched some comprehensive dessert lines between Butter Mousse Cake and Choco Lava Cake, and subsequently our focus on launching at least two sides every year, clearly the pizza percentage is going down and that is by choice and strategy, but it is still a significant number, at the end of the day we are a pizza company, so pizza is a significant portion of our overall business.

Riken Gopani: You mentioned that you can achieve the margins that you are in case of Domino' s, just by the fact that the composition is not as concentrated towards one product in case of Dunkin' how will you achieve those kind of margins in case of Dunkin'?

Ajay Kaul: In fact I would look at the other way round that there are probably three or four categories under which we now have the opportunity of making money or improving our margins. We have the beverage line led by coffee which is what we are known for, we have the doughnut line which is what is in our name and as a part of our heritage. And thirdly I would say and as importantly or more in the Indian context is the food line which as today, burgers, wraps, sandwiches and so on. So to my mind there are multiple opportunities for us to leverage and increase our margins. Now, our ambition is to take it to the same level as Domino's in a steady state basis. Having said that I would still say it is early days, we are very optimistic but it needs to go through a lot of iteration still, we still have not gone to western India; we have just launched in Mumbai, next is south. So as we start moving forward. We will actually also do lot of iteration on this front but we do believe sincerely that we will move in this direction of having equalized margins on both these brands over a period of time.

Riken Gopani: Sir just one last point in terms of your sensitivity towards the economy, has it historically been as sensitive towards the GDP growth or you would think more recently the sensitivity towards GDP growth has increased more?

Ajay Kaul: We have had 23-24% averaged out same-store growth over a 6-7-year period, if you leave the last year alone there is not enough statistical evidence or is there a high degree of correlation or some sort of an equation we have worked out GDP leading to what kind of same-store growth but we do believe that a good healthy 6-7-8% GDP growth and especially when it starts getting to 7 and 8% lends itself very well to our same-store growth, that is all I can say as an answer to this question.

Riken Gopani: Because as you mentioned that 23-24% was across 7-8-years, do you feel more confident that with GDP growth, the SSG would improve or...?

Ajay Kaul: The answer to that is definite yes, it has to go northwards. If GDP growth increases most certainly in a consumption-driven economy categories like ours will do better. How much? What numbers? We cannot stick our neck out and give that number right now.

Moderator: Thank you. I now hand the floor back to the management of Jubilant FoodWorks for closing comments. Thank you.

Ajay Kaul: Thank you everybody, thank you for all being present with us for this duration of this call. Should you have any other further queries you may get in touch with us and we would be more than happy to address them. Thanks and Good Day.

Ravi Gupta: Thank you very much.

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