



# JUBILANT FOODWORKS LIMITED



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## Q1 FY2011 Investors/Analysts Conference Call

**Monday, August 02, 2011 at 04:00 pm.**

**Urvashi Butani:** Thank you. Good evening ladies and gentlemen. Welcome to Jubilant FoodWorks Limited Conference Call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights for the quarter ended June 30, 2010. I have with me on the call Mr. Hari Bhartia, Co-Chairman of Jubilant Food Works, Mr. Ajay Kaul, CEO and Mr. Ravi Gupta, CFO.

We will commence the call with comments from Mr. Hari Bhartia and Mr. Ajay Kaul followed by Mr. Ravi Gupta. After the opening remarks we shall open the call for a Q&A session where the management will be very glad to respond to any queries you may have.

I would like to mention that certain statements that maybe made or discuss on the conference call maybe forward-looking statements. The actual results may vary significantly from the forward-looking statements made and the company does not offer to update them publicly to reflect changes in performance. A detailed statement in this regard is available in JFL's Q1 FY2011 release which is also available on the site [dominos.co.in](http://dominos.co.in) under the investors section.

I would now like to invite Mr. Hari Bhartia to commence the call by sharing his views on Jubilant Food Works performance for Q1 FY2011. Over to you, sir.

**Hari Bhartia:** Good evening and thank you for being present with all of us on this call today. I am really pleased to announce another very good quarter for Jubilant FoodWorks. Our results to-date have been encouraging us to really enhance our efforts and I would surely say that they echo our sentiments to grow and create value for our stakeholders at large.

We are moving ahead as per our plans to be the leader in the food service industry. We have been successfully growing our network on a national level. As of June 30, 2010 we have a total of 320 stores which are operational. We are constantly working on new initiatives to extend our brand presence as well as enhance our product portfolio at all the stores. On similar lines we are focused on creating internal efficiencies that would help us really increase our profitability. Lastly, I would thank and acknowledge and express my gratitude to all our investors for their continuous support. And now request Mr. Ajay Kaul to take the call forward.

**Ajay Kaul:** Thank you, Mr. Bhartia. Very good evening and thank you for joining us today to discuss Jubilant FoodWorks operating and financial performance for the first quarter ending June 30, 2010.

The first quarter has been a great start to the year ahead of us. We have delivered a very good set of numbers with good top line as well as robust operating profits. I trust you would have seen our earnings release by now. I would like to briefly take you through our numbers for this quarter.

Our Net Sales for the quarter ended June 30 2010, stood at Rs 1,356 million with a growth of 60% year-on-year. Our Net Profit for the quarter under review was Rs. 153 million as compared to Rs. 34 million compared to the first quarter in 2010.

Our business continues to post solid results, benefiting from performance from our same-store sales combined with new stores that we have opened during the quarter.

JFL has so far been successful in creating a close connect between the Domino's brand and our consumers. We have had an exciting journey since our listing in February 2010 and are confident of our growth going forward. Our efforts to grow are backed by a robust operating model. It is always our focus and endeavor to move ahead with our pre-requisites in place.

We are continuously working to develop new ways of improving the experience our consumers have with Domino's. During the quarter under review we have once again launched Pizza Mania which has further established Domino's Pizza as an affordable and highly accessible brand. As a leading player in the food industry we have been able to successfully grow the size of the pizza consumption segment.

Since inception JFL has had the objective of augmenting its leadership in the Indian food space. We have taken significant efforts to create a brand which has a close association with its customers across the country.

We wish to provide our consumers with food options that would give them satisfaction. Our product offerings have not only increased consumption amongst existing customers but also introduced people who have never consumed pizzas earlier. We continue to be active on the product development front with innovation and customer satisfaction being our key focus. In Q1, we have successfully launched Wheat Thin Crust Pizza which provides the health conscious with the choice of a fibre rich and a very thin and light crust.

We have received positive response and appreciation for the product and are confident about its success going forward too.

During this quarter, we have also introduced online ordering for Domino's Pizza in Bangalore, Delhi, and Mumbai across 211 stores. At present, this covers close to 65% of Domino's stores. Such a facility not only provides the easy accessibility to the consumer but also provides us with a wider reach.

Moving ahead in terms of our network, we are operating a total of 320 stores across India as of June 30, 2010. During the quarter, we inaugurated 14 new stores. We plan to continue our efforts to extend our brand pan India. We also plan to create a subsidiary to launch company-owned stores in Sri Lanka very soon.

We believe our market position is strong and that we are well-positioned to capture the opportunities in the sector. We will continue to build our operational efficiencies which are backed by our strong human resource base. As a dominant player in the service industry, we as a company, think it is imperative that we constantly hone our employees' talent through training and development. We believe in providing our employees with opportunity to progress in every aspect possible. We believe in empowering them.

Everything considered, we are positive about JFL's future and believe that we will be able to achieve sustainable growth and deliver value to our shareholders in the immediate as well as over the long-term.

That brings me to the end of my remarks. I would now hand over to Ravi Gupta who will take you through our financial performance.

**Ravi Gupta:** Thank you, Ajay. And welcome once again. I shall briefly provide you with an overview of our company's performance for the quarter ended June 30 2010. I am delighted to announce that JFL has once again delivered a strong set of numbers this quarter.

Our total income for Q1 FY2011 stood at Rs. 1,356 million. This translates to a 60% growth when compared to the corresponding quarter in the previous year. This growth is largely driven by the new stores which we launched during the last one year and the quarter as well. This has also contributed by healthy performance in the same-store sales which we have encompassed during the first quarter. We have successfully enhanced our penetration across the country and this has resulted in high number of orders received.

During the quarter we were able to launch 14 new stores taking our total number of stores in operation in the country to 320 stores as of June 30, 2010.

Moving ahead, I would like to share some colour with respect to our profitability for the quarter ended June 30 2010. Our EBITDA was reported at Rs. 251 million compared to

Rs. 121 million in the same period of 2010. JFL's EBITDA margins for the quarter stood at 18.6% versus 14.2% in Q1 FY2010.

We have witnessed a very robust performance in this quarter on account of first and foremost our network expansion combined with the benefit of our continuous cost effective practices which we implement across all the levels of our operations. As you know, being in the food industry, as a company, we constantly face a concern of food inflation. As a result, with such cost containment practices in place, we are able to sustain healthy operations in a scenario of rising expenditure.

With respect to interest expenses during the quarter, interest expenses have declined and stood at Rs. 2.4 million on account of prepayment of term loans.

Our PAT in Q1 FY2011 was at Rs. 153 million, up from Rs. 34 million in Q1 FY2010. PAT margins were 11.3% as compared to 4% on account of improvement in operating performance.

Moving forward, we are pleased with our first quarter results and are optimistic about the remainder of the year. We will continue our focus on providing our customers with a unique experience along with a variety of offerings.

On the business front, it is our constant endeavour to improve operating efficiencies as we expand our presence.

With this, I would like to conclude my opening remarks and would like to request the moderator to open the call for Q&A. Ajay and I will be happy to address any queries that you have. Thank you.

**Moderator:** Thank you very much, sir. Our first question comes from the line of Raj Mohan who is an individual investor. Please go ahead.

**Raj Mohan:** I wanted to understand a bit deeper as to what triggered your same-store sales grow of 37% this quarter. Do you feel that apart from your marketing strategy that you have talked about that there are also some onetime events like the World Cup Football which triggered same store sales?

**Ajay Kaul:** No doubt, 37% even in our own history is unprecedented. If you look at CAGR, over the last five years same-store growth, it is sitting at around 18% , last year in particular was 22%, and so compared to that 37% looks really good. And you are right; there are elements like the World Cup Football and even the IPL which did lend a few percentage points here or there to our numbers. But I would give more credit to the following. One, the products which we launched during the course of last year which was Pasta somewhere in August-September last year and the Choco lava cake which was done somewhere in December along with Cheese burst Pizza, I think clearly the

effect of that has continued into this year. We re-launched Pizza Mania in April, as an affordability product starting at Rs. 39. Clearly both in terms of penetration as well as frequency of consumption it is lending itself to same-store growth. So as a result we have been able to achieve this stupendous 37% same-store growth number.

**Raj Mohan:** Okay. When you say that there are some factors which are qualitative and sustained. What will be the new target for the same-store this year previously you had targeted 15% to 17%, are you going to increase that by March?

**Ajay Kaul:** In fact as we move into the year if you look at Q2, Q3 and Q4, even last year Q2, Q3 had started doing very well. It was the first quarter last year which had not done very well because we were coming out of a tough year. So the moment we start comparing this year's quarter to Q2, Q3 and Q4 against good quarters of last year we expect the same-store growth to come down. But for the full year we believe we should do better than 16% same-store growth number. This was the number guidance which we had given at the beginning of the year. But having had such a good quarter in Q1, we believe we will do better than 16%.

**Raj Mohan:** Would you be able to give same-store and new store sales in absolute numbers?

**Ajay Kaul:** Not possible, sir.

**Raj Mohan:** You have indicated salaries increases, which would have some pressure on the margins, both at the store manager as well as the team members level in the current quarter. Were the other operating leverage figures in the SG&A more than compensate for this negative pressure on EBITDA?

**Ajay Kaul:** The answer to that question would be no. See, if we were to sustain let us say a 37% same-store growth, then we could make a better apples-to-apples comparison, but we believe there will be pressure on that. So comparisons may not be the right thing to do. But you are right; there will be a bit of pressure on our EBITDA margins. Like we have done 18.5% in Q1, we believe the number for Q2 will be a little probably lower than that, but for the full year last year we did around 15.8- 16% EBITDA margins, we believe we will do marginally better than that for the whole of this year.

**Raj Mohan:** Okay. You had indicated in your very first earnings call, that at the end of FY2007 that you have scaled up future annual expansion to 50 stores to 70 stores as against 20 stores to 25 stores which you were doing three years back. This year you will reach 70 stores expansion and the post-this will you be revisiting your model to scale up more drastically when the 60 stores to 70 stores incremental reach as you had done three years back?

**Ajay Kaul:** We are talking only about this year, yes, we do aim to open 65 stores to 70 stores and we are also at the same time doing relocation of around 10 stores. Actually, in terms of site location, finding and all that it is not a number of 70 stores but it is 80 stores. We believe that as of now that is the kind of number which we should be able to do for this year.

**Raj Mohan:** Have you got a pulse on next year's CapEx and your tax rate for next year?

**Ajay Kaul:** We will not be able to reflect on that right now.

**Raj Mohan:** Thank you so much and wish you all the best in your endeavour.

**Ajay Kaul:** Thank you very much.

**Moderator:** Thank you. Our next question comes from the line of Pritesh Chheda from Emkay Global. Please go ahead.

**Pritesh Chheda:** First question on the same-store sales growth, you commented that 16% should be a more realistic number to look at. What should be the robustness of this growth? Can this growth continue for next four to five years looking at the market scenario at this stage? Second question is on the 37% growth which has obviously surprised us for the second consecutive quarter, could you tell us what is the volume led growth in this and what would be the price-led growth?

**Ajay Kaul:** Okay. First question I would try to correct the statement which you probably misread from my previous statement. 16% is what we had said at the beginning of the year. However, after a good Q1, we believe we will do better than 16%.

**Pritesh Chheda:** This is for FY2011?

**Ajay Kaul:** Yes for the full year FY2011, you are right. Now, you want to know what it will be for in the coming years. It is hard to say that, but if you go out by our past track record excluding this year we have had a CAGR same-store growth of around 18% over the last five years. Last year in particular was 22% and this year one quarter result which you have seen, a 37% same-store growth is in terms of revenue

**Ravi Gupta:** Inflation would be about 5%, and we normally increase price by about 2% - 2.5% every six months. So you can say about 5% is inflation/ price increase led balance is volume led.

**Pritesh Chheda:** So of the 37%, close to 30% to 32% is volume-led?

**Ravi Gupta:** Yes, you can say that.

**Pritesh Chheda:** Okay. Now, if you look at the history of this volume-led growth, how has that changed and what are the factors which have driven the change? Is it pure product launch or is it purely driven by the market?

**Ajay Kaul:** As I was saying to answer the earlier question successful product launches done last year which are continuing their effect into this year. 'Pizza Mania' re-launch which is the affordability product, the Rs. 39 start product, was re-launched again in April and supported again by some cut through advertising, this is again lending a lot to generating more and more orders, whether they are increasing penetration or frequency both. Then Thin Wheat Crust Pizza which was basically thin crust pizza but in the wheat variation, has become quite a popular one amongst the health conscious people and thereby repeat purchase of that product is going up. So it is a mix of promotions, new products, some cut through advertising, which has helped us and of course there is probably a percentage or two points there by virtue of the World Cup and call it the IPL and so on. So all those reasons put together have led to this revenue growth. **Pritesh Chheda:** Okay. In your experience with Domino's over the last six to seven years, in India, is there cyclical business from quarter to quarter or is it virtually nil?

**Ajay Kaul:** I would not say that it is virtually nil, but seasonality from a classical definition does not really exist. Except that December, for example, as a month tends to be in lot of businesses, it tends to be one of our best months because of the Christmas, the festivities, year-end closings and those kind of occasions. But other than that, seasonality's are very, very marginal over month after month.

**Pritesh Chheda:** Okay. So only December month is an exception?

**Ravi Gupta:** Yes, you are right.

**Pritesh Chheda:** My last question was on Sri Lanka expansion, if you dwell more information there, what are your plans, what is the market size, who are the players there at this stage and what is the strategy in terms of expansion there?

**Ajay Kaul:** Earlier we used to have a franchisee operation in Sri Lanka and then we decided that after Sri Lanka's climate politically and then economically had started improving, that the time is right for us to enter Sri Lanka ourselves. In Sri Lanka Pizza Hut is already there, they have around 17 - 18 stores, KFC, who has also got more than double-digit stores and there are a few other locals there also. Our approach is simple. We want to open our own subsidiary. We are in the midst of doing that. And we hope to open our commissary and then 2-3 stores by March 2011.

**Pritesh Chheda:** Okay. What is the current market size there and what is the growth rate of that market?

**Ajay Kaul:** See, if you go by the past 2-3 year track record, obviously with the tough years thrown in, does not look very rosy but if you look at just the last year or so, most economic indicators are saying that the climate has changed and going forward, the numbers are going to look very good. That has also given us encouragement to enter Sri Lanka, ourselves.

**Pritesh Chheda:** Any rough idea on the market size for Pizza there, has anyone done any study on that?

**Ajay Kaul:** Actually, no. We have not done that, but we believe that any research of the past may give you one number but given that it is an outward looking market right now. The numbers may look totally different. So I would not hazard a guess based on past research.

**Pritesh Chheda:** What is the money that you are spending on the first phase?

**Ravi Gupta:** This year we will be spending about Rs. 5 - 6 crore basically to establish commissary and the initial two stores to three stores.

**Pritesh Chheda:** Including the commissary?

**Ravi Gupta:** Yes, Including the commissary.

**Pritesh Chheda:** And Mr. Gupta could you tell me the cash in the book at the end of June quarter?

**Ravi Gupta:** The debt is about Rs. 8 crore as of June 30, 2010 and the cash on hand is about Rs. 20 Crores as of June 30, 2010.

**Pritesh Chheda:** Okay. Thank you.

**Moderator:** Thank you. Our next question comes from the line of Percy Panthaki from HSBC. Please go ahead.

**Percy Panthaki:** My first question is on the royalty agreements that you have. We have seen recently a few companies have come out and said that the royalties that they are paying to the parent is going up suddenly. So just wanted to understand how does this stand vis-à-vis your agreement with Domino's and is there any possibility of the percentage going up in the near future?

**Ravi Gupta:** Our agreement has already run through the full term of 15 years and was recently renewed the agreement in October 2009. The renewal is effective 01 January, 2010. There is no clause in the master franchise agreement for any increase in the royalty percentage. It has not increased for last 15 years and there is no clause further,



which says that this percentage can go up going forward, however, the agreement is renewable after 15 years for another term of 10 years. During that 10 year term, the royalty figure may change.

**Percy Panthaki:** How much percentage does it stand at right now?

**Ravi Gupta:** As of now it is 3 %.

**Percy Panthaki:** Okay. Also just wanted to get your thoughts on the possibility of any new brands apart from Domino's that you might want to consider being franchisee on? Is there any sort of thought process there, would you be open to it and what would be your sort of constraints or what would be your conditions for considering this if at all?

**Ajay Kaul:** See, as we have said in the past also that having established one globally reputed brand like Domino's now, brought it to critical mass of stores, highly profitable, cash generating, makes us almost like an automatic choice for lot of these other international food brands which are absent right now from the country. So we are in the midst of discussion with some of them. And there are various stages of discussion. They are none at a stage where we can share anything material with you right now.

**Percy Panthaki:** Okay. But would you also be open to be taking the franchisee for non-food products or would you restrict yourself to food products only?

**Ajay Kaul:** We will restrict ourselves to food products only.

**Percy Panthaki:** Okay. And that does not cause any kind of problems with non-compete clause or anything of that sort with Domino's?

**Ajay Kaul:** Contractually there are some clauses there but obviously we are going to be operating in a space which does not go against those clauses but Domino's contract is fairly open, permitting us to operate in a lot of other food areas.

**Percy Panthaki:** Can you give us an idea of what would be your statistics like number of bills per customer per year, number of unique customers that you have and the average bill size?

**Ajay Kaul:** I am afraid we will not be able to share a lot of this information because we believe it can be competitively important.

**Percy Panthaki:** Would you be sharing this at the end of the year in your annual report or something or not at all?

**Ajay Kaul:** No, not at all.

**Percy Panthaki:** Okay. What are your thoughts on the dine-in possibilities for Domino's like most of your business right now would be order in, are you thinking of increasing the percentage of dine-in by having larger stores in terms of square feet that people can come in and dine-in?

**Ajay Kaul:** Over the last few years we have actually consciously by strategy and especially as we have gone in to the tier II, tier III cities, created stores which are firstly bigger than what the conventional Domino's stores used to be and secondly, we have gone high street-ish, may not be right inside the mall because delivery is always important for us, but we have gone fairly high street-ish and visible stores. In fact, we believe that that has also been one of the cornerstones for our success. While we are always delivery centric, and our all our communication, marketing, energy and everything will always be focused on a delivery centric model, but we have stores today which are generating a fair bit of dine in on premise business. We have also geared our people processes, and everything towards that. So I am glad to share with all of you that when we say that 37% is our same-store growth, both dine in and delivery are growing at similar rates.

**Percy Panthaki:** What was your percentage of revenues from dine-in, in FY2010 and what would you be targeting over three or four year period?

**Ajay Kaul:** See, all I would say is that it is not insignificant. It is fairly substantial, no doubt delivery is more but dine in revenues are also fairly substantial. And dine-in and deliveries are growing at the same rate right now.

**Percy Panthaki:** So would you be happy if they continued growing at the same rate or you want dine in to grow faster and therefore increase the share of revenues?

**Ajay Kaul:** We are happy that they grow at the same rates, as of now. Because, even without spending our marketing and communication energy on dine-in, they seem to be growing at a good pace. Also as the saliency of the brand, what we realize is that as Domino's brand is becoming more and more top of mind recall. We are the largest MNC QSR brand in the country today, we are also the fastest growing MNC QSR brand in the country so all that is lending to it becoming a household name, while sitting at home or when people are on the run they tend to consume Domino's Pizza faster than anybody else.

**Percy Panthaki:** Right. Thanks very much.

**Moderator:** Thank you. Our next question comes from the line of Chirag Dagli from PINC Research. Please go ahead.

**Chirag Dagli:** How is the competitive environment in the dine-in space panning out?

**Ajay Kaul:** See, within the delivery space we have an undisputed market leadership we believe with a share in excess of 65% within the pizza delivery space. And we believe in the overall organized pizza segment we have a market share of around 47%. Now, if you look at as a subset of this whole thing as dine-in, clearly, when are you talking of dine-in, the options for the customers is way beyond just pizza, you are basically competing with all other types of food. However, what we realize is that the research has proven that the brand saliency created working around the food and food values, in our case is so strong that consumers find it compelling and now that Domino's stores are visible, we have also ample dine-in space, and good congenial environment for people to consume food, our dine-in business is growing as fast as our delivery business.

**Chirag Dagli:** But, would it be fair to say that our competitors are more well-entrenched within the dine-in space where as you obviously have a predominant market share in delivery?

**Ajay Kaul:** I would put it like this; their marketing and all other energies are focused towards dine-in as opposed to delivery. Similarly, if you look at our marketing energy, or if you look at all our advertising for that matter which is our highest spend, it is predominantly focused on delivery as you would have seen. So you are right, we are focused that way on from a marketing and communications point of view, in different spaces, but we have done a lot of process improvements and changes to ensure that our dine-in orders has also grown in. As we entered the new cities just to throw some light on that we have entered about 40 new cities in the last nine quarters. This year in the first quarter we have entered five new cities and clearly in the new cities stepping out of their home, and going and eating in a dine-in environment is clearly a part of the consumer psyche. And we have got some fantastic response in these cities where we have gone.

**Chirag Dagli:** So my point was that incrementally growth is coming from tier II cities where as a format you were growing in, in the dine-in environment, where a lot of your competitors have mastered that model, as you have mastered the delivery model, so just wanted to understand your perspective on how you are seeing the market. Do you think your competitors are growing faster than you within the dine-in space?

**Ajay Kaul:** Unfortunately, there are no clear cut ACNielsen kind of reports which talk about it, but if you have any access to data on how market share in general are growing, by being the market leader in pizza space today, being the fastest growing MNC QSR brand and I am not necessarily talking of new store addition here. You have to have same-store growth numbers to actually reach conclusion on who is growing faster because same-store growth is the real indicator of the health of that company or of that player, in terms of dine-in growth, delivery growth and of course it is translation into profitability. And if you have access to any of those numbers you would realize at what pace are we growing and what some of the other players are doing.

**Chirag Dagli:** All right. Would you say that over the next three years, the proportion of your dine-in revenues would be substantially higher than where you are today?

**Ajay Kaul:** I can talk of next one year. We believe that the proportion of dine-in and delivery business will be similar to what it is currently.

**Chirag Dagli:** All right. Thank you so much.

**Moderator:** Thank you. Our next question comes from the line of Umesh Gupta from Reliance Capital Asset Management. Please go ahead.

**Umesh Gupta:** My first question is with regards to the pricing strategy, historically, could you tell us what has been your strategy towards hiking prices and is it raw material led or is it simply an inflation led kind of strategy?

**Ajay Kaul:** Any such decisions which affect the customers obviously is led by customer research, price elasticity, those kind of analysis, etc., Inflation of raw material, we know is an often talked about subject, but for us it has not been that critical a factor and I will explain to you why. We are the only player in this food space, who has grown at such a stupendous pace. If you look at last five years our system level growth has been around 46%. Last year we grew by 51%. This year in the first quarter we have grown by %, almost 60%. So when we work closely with our business partners or call them vendors, nobody has shown them this kind of growth. So as a result, the vendors have made investments, they have increased their capacity, and then they have grown by about 46% year-on-year also, along with us, they have been able to get economies of scale benefit which they have been passing on to us also. As a result, we have not been getting too much pressure on raw material price increases despite whatever you get to read and hear from the news. Having said that, it is not that prices have remained constant. There is pressure. And based on elasticity exercises that we do with the consumers and so on, we do take around 2% - 2.5% price increase every six months. So even in the last one year, like in October-November last year, we had increased our pricing by around 2% - 2.5%, in April this year, we have again increased our prices by around 2% - 2.5%. And we obviously follow it up with some close consumer research to understand whether there is any drop in orders, customers, and thereby what is the elasticity and so on. And interestingly, we see, absolutely no drop in customer counts or order counts. So on the contrary, as you would have noticed 37% same-store growth will tell you that those many more orders being placed even by existing customers which means their frequency is increasing and the penetration is also increasing by new customers.

**Umesh Gupta:** Right. I was just wondering especially on the chicken prices and the live cattle prices world over have been going up at a much faster rate. So can you share on how much is the non-veg and veg kind of composition in your order?

**Ajay Kaul:** I am sorry. We will not be able to answer that question.

**Umesh Gupta:** Okay. Second question is on accumulative losses and what kind of tax rate would it be in the current year?

**Ravi Gupta:** You have the balance sheet actually. The book losses are around Rs. 40 crore. Our tax losses are lesser than that. This year we will have a tax rate of around 20%. It may hover between 18% - 20% depending on what kind of profitability we have during the year. So by mid of this year practically we will start paying full tax.

**Umesh Gupta:** Okay. So by next quarter you will absorb all the losses?

**Ravi Gupta:** Yes, you can say that in respect of tax losses. But we have already started providing for taxes. In Q1 also you will observe that the taxes have been provided for.

**Umesh Gupta:** Yes in the current quarter it has been about 18%. What kind of growth you believe there in the market in your segment?

**Ajay Kaul:** See, again, I wish we had clear reports, but we believe if you go by some qualified reports that have got published in the last one odd year. they are putting at the market growth rate, if you look at the QSR, Quick Service Restaurant or fast food use in general terms, and as a subset of that-pizzas, both these we believe are growing at around 20% to 25%, but this was coming out of in a year when there was a bit of toughness which I am talking of 2008-09. These research reports are from those days. We believe this number should only becoming more rosy and optimistic as we are in this year and as we would move forward.

**Umesh Gupta:** What has been historical CAGR in the last five years?

**Ajay Kaul:** System level growth for us has been 46% over the last five years.

**Umesh Gupta:** and for the market?

**Ajay Kaul:** The market growth rate we believe would have been around 20%.

**Umesh Gupta:** Okay. All right. Thank you.

**Moderator:** Thank you. Our next question comes from the line of Vinay Paharia from Religare Capital Markets Ltd. Please go ahead.

**Vinay Paharia:** Is the first quarter margin expansion also driven by some sort of a cut in advertisement expenses.

**Ajay Kaul:** Not at all. In fact even in the tough year, a year before last when the whole world was seeing a meltdown, two things which we did not cut down on was advertising expense and training for people because we believe the value that you create on both these- the brand as the people brand- is what takes you through when the going becomes easy. So even for this year to answer in a very short form we have only increased our advertising and not decreased it. However, because we have grown by 60% at the system level as a percentage our advertising expense has come down, and that has also lend a bit to the profitability as you see it, 18.5% EBITDA percentage

**Vinay Paharia:** So basically advertisement as a percentage of sales has come down, though absolute advertisement may have increased?

**Ajay Kaul:** Most surely.

**Vinay Paharia:** Right. Okay. Are there any other levers also going forward, specifically I observed that your rent cost has also grown at a rate lower than the sales growth which of course also indicates that you must have negotiated some rentals, so is it that this rental cost would continue to remain benign going forward?

**Ravi Gupta:** Vinay, actually it is not a renegotiation, although this is the strategy we keep reviewing and keep implementing also, but the reason that rent cost has come down as a percentage is primarily due to the very robust same-store growth of 37%. So typically the rental agreement has a growth clause in a sense that every three years rent will increase by around 15%, but when your same-store growth is 37%, obviously as a percentage the rent will come down.

**Vinay Paharia:** That is your operating leverage?

**Ravi Gupta:** Yes, that is an operating leverage.

**Vinay Paharia:** Also, for the whole year you are saying that the EBITDA margin would be just slightly more than what you have reported last year. Is it not that the latest quarter margin is not indicative for the full year margin or there should be some sort of a compression in latest quarter's margin?

**Ravi Gupta:** See, first quarter has been an excellent quarter, with a 37% same-store growth . Now, if one is going to assume that 37% same-store growth will continue for full year, we may continue with the margins. But it will be very difficult to get 37% growth because in Q3 and Q4 last year, the same-store growth was pretty robust, the base is high for these quarters, so on that high base growing at that higher rate will be pretty difficult. Now, like Ajay mentioned, that for our same-store growth, we have given in the beginning of the year, an estimate of 16% and now because of the very good first quarter we estimate that it will be definitely better than 16%. Considering

that we believe that EBITDA margin also, which we estimated at the beginning of the year at 16% approximately, will be definitely better than 16%.

**Vinay Paharia:** That is right. Basically, that is predicated on the fact that you are assuming same-store sales growth at 16% if it is better than in margins...

**Ravi Gupta:** Definitely it will be better.

**Vinay Paharia:** And vice versa?

**Ravi Gupta:** Yes

**Vinay Paharia:** Great. Thank a lot.

**Moderator:** Thank you. Our next question comes from the line of Manav Vijay from Edelweiss. Please go ahead.

**Manav Vijay:** How many stores do we have at the end of Q1 FY2010?

**Ravi Gupta:** 265 stores.

**Manav Vijay:** And how many have we added during the quarter?

**Ravi Gupta:** In the last year?

**Manav Vijay:** Yes, last year and current?

**Ravi Gupta:** 24 stores.

**Manav Vijay:** Okay. And when are we releasing the annual report?

**Ravi Gupta:** We have already released. It is available on our website also. Actually you can get in touch with Urvashi, she can arrange a copy for you.

**Manav Vijay:** Sure, sir, I will do that. Thank you very much.

**Moderator:** Thank you. Our next question comes from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.

**Rahul Bhangadia:** I just wanted to understand the same-store sales growth phenomenon. Is there a cap of the quantum of sales that you can get from a 1,000-square feet store suppose or you do not foresee anything like that for the next three, four, five years?

**Ajay Kaul:** See, there are two things I would like to mention as a response to your question. When we are doing let us say 37% same-store growth, and if you look at the 241 stores that qualify within the same-store definition, we have a large spectrum sitting there. So there are stores which are maybe even 3-4 times the size of the smallest store in this category of same-store. Now, even those big stores are growing by the similar numbers, anything from 30% - 40%, so that itself is an indication that the size of the store is not a limiting factor to its growth, that is part two, answer to your question. However, as the stores started becoming really big, we on our own realized that the service levels especially at the periphery of each stores starts dropping a little bit. The consumer feedback and the research and all the call back that we do with our customers also tends to suggest that at the periphery of these stores sometimes the service levels are not good enough which can have an impact on repeat purchase and so on. So phenomena called splitting of stores happens in our industry which means that we create new stores on the periphery of existing large stores where they take away a little bit of territory from the existing stores and leave behind majority of the previous territory. So if I have been able to answer your question, that no sooner do we realize that some stores are becoming very big, there arises opportunity for creating new stores also. And the old stores as soon as we do this kind of cutting exercise or splitting exercise, because of enhanced service levels the sooner than later they grow back to old levels and even surpass that. Now, when we talk of 37% same-store growth for this quarter it includes stores which have also been split which means stores which have been cut in size, and they are also a part of the 241 stores. So that tells you that in reality the same-store growth is even more than 37%. Have I been able to make myself clear?

**Rahul Bhangadia:** Yes, is there a physical constraint like sales per square foot that you would see in your store?

**Ajay Kaul:** No, it is not. Actually, there is no such constraint; we see in our business right now which can become a limiting factor to what the size of the stores can be.

**Ravi Gupta:** Rahul, to add to what Ajay has indicated there is no constraint primarily but we need to make an additional investment in terms of additional computer, additional bikes, some additional equipment in the store, so that the store can handle larger volume.

**Rahul Bhangadia:** That is provided that your delivery volume keeps going up rather than your dine-in volumes, right?

**Ajay Kaul:** In both situation. Basically we need to increase order processing capability.

**Rahul Bhangadia:** Okay. Thank you.



**Moderator:** Thank you. Our next question comes from the line of Madhuchanda Dey from Infina Finance Private Ltd. Please go ahead.

**Madhuchanda Dey:** When you were mentioning this 37% same-store sale growth, how many stores are you considering for the same?

**Ravi Gupta:** The total of 241 stores. These are the stores which operated full of last year and are going to operate full of this year.

**Madhuchanda Dey:** My question is you have considered 241 stores, what was the average vintage of the stores as on June 30, 2009?

**Ajay Kaul:** All these 241 stores operated full year which means they were working on 1<sup>st</sup> of April 2009 till 31<sup>st</sup> of March 2010. And they are also operating this full year obviously.

**Madhuchanda Dey:** But what was the age of the newer stores in the 241 stores?

**Ajay Kaul:** Theoretically, one year. It could be one month also.

**Ravi Gupta:** It may have operated for one month before last year but full of last year

**Madhuchanda Dey:** Okay. What would be the proportion of that?

**Ravi Gupta:** See, out of 241 stores, 60 stores are opened in year 2008-09. So those 60 stores opened in 2008-09 are part of these 241 stores.

**Madhuchanda Dey:** Okay. They would be the relatively newer stores. And within this 37%, could you give us a range of what was the highest same-store sales growth and what was the lowest, 37% obviously is the average?

**Ajay Kaul:** It is not possible, but it is a bit of spectrum. The stores which were split as I was trying to explain a concept of splitting of stores a little while back, those tend to be on the lower side because we consciously take away some of their business and give it to a new store. But rest of the stores were in a handsome same-store territory.

**Madhuchanda Dey:** Okay. I mean a couple of percentage points higher than the average would be the best ones and what was the bottom?

**Ajay Kaul:** The dispersion is more than that.

**Madhuchanda Dey:** Okay. What would be the worst performance?

**Ajay Kaul:** Offhand I honestly we cannot give you any number.

**Madhuchanda Dey:** And my last question is, - generally for a store to reach the average for the company how much time does it normally take in a Tier I and in a Tier-II city?

**Ajay Kaul:** Difference between the Tier I and Tier II is not clearly visible. However, it takes probably 2-3 years for store to reach the level of a matured store.

**Ravi Gupta:** To add to what Ajay has indicated; in the meantime the matured store definition is also changing. Their sale is increasing there as well.

**Madhuchanda Dey:** Right, I got your point. What is the kind of performance of the 60 stores that you added in 2008-09?

**Ravi Gupta:** We actually do not differentiate. We basically divide stores into three buckets only. Stores opened this year, which is one bucket, stores opened last year, which is the second bucket and the rest of the stores we talk about same-store. All discussions actually happen around same-stores because that is also the international benchmark established very clearly, saying that same-store growth reflects the health of the business completely. We will not be able to provide the year wise breakup.

**Madhuchanda Dey:** Yes I got your point. With every passing year what has been the change in the same-store sale growth?

**Ajay Kaul:** There is a marginal difference I would say. The newer stores do marginally better as compared to same-store, marginally only. So if your question is that are they significantly different? No. They are only marginally better. I hope that answers your question. Old stores are also running almost at the same speed. They are also growing let us say in excess of 33%, 34%, 35%.

**Madhuchanda Dey:** Okay. Since 37% is a very, very healthy number. Beyond what kind of number would you think that you are constrained of capacity?

**Ajay Kaul:** We do not believe that we have so far reached stages at all where capacity questions have started coming in and we have become worried about that. Because a few of our stores based on opportunities available, we do split them, but having said that there are stores which are four times a size of an average and still they are growing at the same good healthy 30- 35%. So, I do not think so we have reached that stage of constraint.

**Madhuchanda Dey:** Okay. Thanks.

**Moderator:** Thank you. Our next question comes from the line of B. Natesan from Spark Capital. Please go ahead.

**B. Natesan:** A bit of insight on this online platform – now that you are launching online ordering, I am sure this will be healthy for our same-store sales and considering this fact, over a period of time the same-store sales growth will hit the roof, but what is the kind of average lead distance that you have presently and how will it increase and how robust is the system presently and will it also concurrently lead to greater number of stores because we need more number of stores to service them. So how is that we are going to have a breakeven or the trade-off between higher number of stores vis-à-vis higher average lead distance? Can you give us a sketch of that? What is the distance that you travel to actually deliver?

**Ajay Kaul:** Our basic fundamental principle of delivery remains the same. We have to reach our customers within a stipulated timeframe.

**B. Natesan:** Yes but what is the average distance that you travel?

**Ajay Kaul:** The same as conventional people who order through the phone. Having said that, this initiative is still relatively new. We have had trials in Bangalore and now we have gone to Mumbai and Delhi also.

**Ravi Gupta:** We are present in the top 26 cities in respect of internet ordering.

**Ajay Kaul:** I must admit, while we are on a talk with all of you, that it is not free of issues, we do have some basic teething problem, but they are marginal and we are working, we are finding IT solutions for them. And a lot of times you have to do hit and trial only then do you realize what can the issues be when you are talking about millions of customers. We are right now in the midst of all that. But we know that we are the first company who are trialling it and when we look at other markets where already online ordering is launched, we believe there is a lot of potential there.

**B. Natesan:** Okay. And because of the same store sales increase by 37%, what is the average increase in the number of employees per store and also substantiated by the higher employee cost, so how much is the value increase in the employee cost and how much is the volume increase in the employee cost?

**Ajay Kaul:** In terms of volume increase, thankfully, it is a small fraction of this 37%. Beyond a certain point, the fixed employees in a store remain fixed, the store manager and the managers all them do not change, so that is something that gives us a bit of leverage efficiency. But having said, that probably you must have gone through our document in detail, we did increase salary of our team members in December last year. So a full quarter impact of this was a one-time salary correction that we did. When you compare that with last year Q1, when there was no such correction done, you will see a jump in our labor cost. As a percentage it is still lower but it has given us some leverage. Also, we have done a salary correction and this is not the annual salary increase which

we do year after year, - the annual salary correction for our store managers and our district managers, which means people who manage the stores and their immediate bosses, and again that has obviously taken our salary cost a little bit high.

**B. Natesan:** What is the proportion of online ordering to physically visiting a Domino's store? I am sure, presently online is very minuscule as you said but what is your target in terms of next two to three years in terms of how you see the proportion shifting towards online ordering to coming physically and buying pizza?

**Ajay Kaul:** See, there are countries which have been in a far more advanced stage of online ordering. Specifically, the western world even countries like Japan, Australia and so on. And their online ordering has been there for a good four, five, six years. So in those countries the numbers have reached a good double digit number. In India it is still a low single digit number. But we are only talking of months of launches here. So while infrastructure-wise there are a few challenges in India compared to the western world, but we believe that we will be able to find solutions to the infrastructural challenges and we are pretty much optimistic about this medium of ordering.

**B. Natesan:** Okay. Great, thanks.

**Moderator:** Thank you. Our next question comes from the line of Gaurav Pant from SBI Mutual Fund. Please go ahead.

**Gaurav Pant:** When you say volume growth, how is that classified, is it the number of orders?

**Ravi Gupta:** It is a combination of orders as well as order size.

**Gaurav Pant:** Okay. So both put together is the volume growth?

**Ravi Gupta:** Yes.

**Gaurav Pant:** Okay. Realization growth is over and above that.

**Ravi Gupta:** Yes the inflation growth is over and above that.

**Gaurav Pant:** I am saying one plus the growth in bill per order multiplied by one plus the number of transactions multiplied by one plus the number of pizza sold should give me the same store sales growth?

**Ravi Gupta:** The last one, or you can say the third one is merged in the first one the transaction size. The transaction size gets impacted by two ways ,one by inflation & other by more pizza / items in the order.

**Gaurav Pant:** So that is in the bill per order?

**Ravi Gupta:** Yes that gets merged within the bill per order.

**Gaurav Pant:** Okay, can you share those numbers so realization growth of 5% how much was the bill per order growth?

**Ravi Gupta:** We will be unable to share.

**Gaurav Pant:** Okay, how many stores did DP Srilanka have before you terminated the agreement with them?

**Ravi Gupta:** They had five stores.

**Gaurav Pant:** Okay, the same as the number during the IPO?

**Ravi Gupta:** Yes.

**Gaurav Pant:** Okay. The tenure of the agreement ended?

**Ravi Gupta:** The agreement never ended, the franchise was not interested in continuing in fact there were three partners one of the partners got relocated out of Sri Lanka, so not interested in continuing. So that is the reason we had to terminate the franchise.

**Gaurav Pant:** Okay, there was no one-time payment that we have to make to them right?

**Ravi Gupta:** To them, no.

**Gaurav Pant:** No, Thanks a lot.

**Moderator:** Thank you. Our next question is a follow up from the line of Percy Panthaki from HSBC. Please go ahead.

**Percy Panthaki:** Have you done any kind of international benchmarking on EBITDA margins for pizza delivery; are you more or less in line with what the best-in-class achieve in other countries or do you still have a way to go ahead?

**Ajay Kaul:** I am sorry because the different international franchise operates in different models, it is difficult to find an international benchmark because there is no benchmark specifically suppose I talk about labor cost, labor cost in India and internationally and in other countries can be substantially different.

**Percy Panthaki:** No, I am just talking about international benchmark on the EBITDA margins so for example if there is a FMCG company in India you can still benchmark the EBITDA margins against an FMCG company in the let's say UK although all their costs might be different the EBITDA margins do not tend to be substantially different so I am talking from that point of view?

**Ajay Kaul:** See, if you look at all the listed entities of which we have a bit of access of information about, a lot of this information is classified. Every franchise has got their own Domino's operation on a franchise basis. They don't access information. But we have information of let's say Australia; we have a bit of information about UK and so on. Now their model is different from ours to an extent where they are predominantly a sub-franchise operation. To put things in context out of the 550 or 560 odd stores in UK majority of them are further sub franchise stores. Similarly Australia nearly 40-50% of the stores are sub-franchise.

**Percy Panthaki:** What is your percentage, sir?

**Ajay Kaul:** Almost Zero.

**Percy Panthaki:** All of them are run by you?

**Ajay Kaul:** All of them are run by us. So needless to say that when you run on your own you can leverage a lot of your cost and at the same time the sub franchise keeps throwing at you a certain percentage of those contracts you have signed with them. So it is again difficult to kind of benchmark and say exactly that we are X and we are better than everybody else, but I can say that at 18.5% in the quarter if you were to compare that irrespective over the model they follow the EBITDA margins of some of those other countries, you can go to the site we would be fairly comparable if not better than most of them.

**Percy Panthaki:** Okay, and my second question is on how the orders are placed? Can you give me an idea how many phone calls will be placed to your central call centre versus how many would be placed to an individual store and the reason why I ask this is if most of the calls are placed to your central call centre then it really doesn't matter whether a store has come up afresh or it has been existing since the long period of time because even if it has come up only yesterday if it is routed through a central call centre the volumes will start coming through as and when the people from that locality are calling so I just don't understand why your store should get two or three years to ramp up to an average sales for the company as you noted in one of the questions earlier. This can happen only if the customer is calling that store and not the centralized call centre number?

**Ajay Kaul:** See, I will answer your second question first, because it excites me a bit more. As and when you create a new store there is apart from the brand level advertising which you do which is creating a demand for your products, you do lot of activity at the ground level which is by way of door hangers we call it. Door hanger is typically a one pager both side filled up which basically talks of new store having got opened, offers we are making and so on and so forth. Now we believe that is a very, very powerful way of generating demand within the catchment area of a store. We distribute you know, crores of such flyers every year just to throw some number so gradually as you start putting more and more such door hangers in a new store more and more people get to know about it. It is an impulse product so thereby at different stages the enticement is different and people get converted into buying it for the first time and thereafter the repeat purchase and so on. So I beg to differ from you that demand will start generating from day one so there is obviously a process by which people adapt to the product even in new store. Coming to your first question, I am afraid we will not be able share the data with you of how many come through a directly into the store and how many come through call centre.

**Percy Panthaki:** Okay. Thank you.

**Moderator:** Thank you, our next question comes from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.

**Sunny Agarwal:** How much have you penetrated and how much is left to be penetrated in Mumbai and Delhi together in terms of opening up the number of stores?

**Ajay Kaul:** See, Delhi was the first city where we opened our stores. And if I remember correctly Bombay probably was the second city and needless to say we have substantial number of stores in both these cities and we are easily market leaders in both these cities. We still believe there is lot of room to grow without actually throwing any penetration numbers and so on; we believe there is still lot of room to grow in both these cities.

**Sunny Agarwal:** Sir, if you can clarify in terms of number of stores? Currently, how many numbers of stores you have in Mumbai and Delhi and how many can be opened and or how much potential both the cities have?

**Ajay Kaul:** See in terms of number of stores if you look at Delhi NCR in excess of 50 stores, and Mumbai, Greater Mumbai included again 50 and an excess of 50. And when we talk of potential I think without putting a number to it, I think there is lot of room for us to still grow because there is lot of potential.

**Sunny Agarwal:** Okay and apart from that the next age cities like Bangalore, Calcutta, Madras, Hyderabad, Ahmedabad and Pune?

**Ajay Kaul:** Again, a lot of penetration to grow. These are very promising cities and we are again market leaders in all these cities which you just mentioned and we still believe there is lot of room to grow.

**Sunny Agarwal:** Okay, thanks.

**Moderator:** Thank you, our next question is a follow up from the line of Pritesh Chheda from Emkay Global Financial Services Ltd, please go ahead

**Pritesh Chheda:** What is the employee count at the end of FY2010 and the end of Q1 FY2011 and what is the inflation in the employee expense that we typically seen or any outlook there?

**Ajay Kaul:** The employee count and at the end of full year 2010 is lower than 8300employees and as on June end we had around 8600 employees.

**Pritesh Chheda:** Is it 8600 or 9600?

**Ajay Kaul:** 8600, I know this number probably last year December went up to even above 9000

That was because December, as we were seeing earlier part of our meeting today, happens to be one of our biggest month and at that time you beef-up your December team quite a little lot especially with weekenders and people who work with you on those special days like 24- 25 December, and all that. So they get counted in your headcount although they may not work with you for the full month so that is why you may be under the impression that there is a number like 9600 and so on, but on an ongoing basis in a regular month as we speak the number is sitting at around 8600.

**Pritesh Chheda:** And what is the inflation or percentage hikes? I will put it this way, what has it been for the last four, five years?

**Ajay Kaul:** See we believe that having being rated as the ninth best employer by Hewitt survey, we are also amongst the top 25 best employers by Great Place to Work survey which was done recently. We believe people are clearly what give us a competitive advantage and we believe we cannot share this thing unfortunately. They give us a sustainable advantage of what kind of increases we give them and how do we retain them.

**Pritesh Chheda:** Okay, thank you. All the best.

**Moderator:** Thank you, our next question comes from the line of Umesh Gupta from Reliance Capital Asset Management. Please go ahead.



**Umesh Gupta:** As you said there has been no data available on market size, market growth and things like that. What I am trying to understand is that you have mentioned that this market is growing at 20% and the same store sales grew for the last five years have also been about 18%, so when you talk of this market growth does it primarily mean the same store growth and since you can add a store in a given year the growth could be an addition of the same store growth and the incremental percentage of number of stores you add?

**Ravi Gupta:** Actually, the 20% number is the system number.

**Umesh Gupta:** Yes, but is that the same number of which we talk of same store growth?

**Ravi Gupta:** No.

**Umesh Gupta:** Okay, so how are these two different?

**Ravi Gupta:** Same store basically means the store which has performed last year and the same store which is performing this year. So when we talk about same store growth of 37% which means 241 stores last year and 241 stores this year although we are operating 306 stores at the beginning of the year.

**Umesh Gupta:** No, you said 37% same store growth. Now assuming that you don't put up any store or even the market doesn't put up any store so would the market have also grown at 37% plus minus, you know company specific reason?

**Ajay Kaul:** Not at all, the market if you remember I was referring to research reports which go back a year or so where they have said that the market is growing at 20% or so, we believe that number may have grown to around 25% today as the market has improved. Now this is a system level growth, if you take away all the new store additions out of this which everybody is doing the whole industry is doing, the same store number is anybody's guess. But I think it probably will be a single digit number, - it may be 5% or 10%. I don't know what the number will be. So that would be the industry same store growth number.

**Umesh Gupta:** Okay, so you are saying that since all of you are putting up stores, this 20% is the average growth on the system level which includes the same store growth?

**Ajay Kaul:** Yes, absolutely.

**Ravi Gupta:** As compared to the 20%, our CAGR growth for the last five years has been 46%.

**Umesh Gupta:** Yes. If you keep on growing at this rate of about and you mentioned you have a 50% market share and the market grows at 20% and you grow at 30% to 35% in the next five years you will be at about 75%-80% market share, could that be possible?

**Ajay Kaul:** We have not worked out those numbers but as they say *“aap ke muh me gud shakkar”*.

**Umesh Gupta:** I appreciate that, but this looks slightly out of sort of reality you alone having 80% market share at the end of five years, growing at 30% rate wherein the market is growing at 20%?

**Ravi Gupta:** It depends on actually other players. Actually, how fast they are and how aggressive they are in growth.

**Ajay Kaul:** Also 37%, we only pray and hope as some of you are also saying, that it continues at this pace but as we get into some of the tougher quarters during the course of this year also, this 37% is not sustainable and that is why when we initially started the year we said our same store growth will be 16% although the last year we had done 22% but we believe that because we have had a good Q1 - 37%, for the whole year we should end up at a number better than 16%.

**Umesh Gupta:** Yes, since you are adding 70 stores this year and you had almost 300 stores at the end of last year, you are adding about 22% stores this year and the same store growth is 16%. Does it mean that it works out to about like 35% or whatever that combination works out to that kind of growth?

**Ravi Gupta:** No, 16% number of same store has to be applied on 241 stores. The balance 65 stores which we had opened during the last year just operated for half of last year on an average you can assume. They will be operating for full year this year, so typically they should give double the volume if the sales level are same but if the sales level are higher they will give more than double the volume and on top of it we will be opening 70 more stores which on an average you can say will operate for about half of this year. So you can work out the equation now.

**Umesh Gupta:** Okay, yes, you have a presence in 75 odd cities as of now so what are the criteria for selecting a city and you had mentioned that you have entered five more cities this quarter. In how many cities do you think you would have a presence in, in the next two years, depending on your criteria of entering a city and things like that?

**Ajay Kaul:** Next two years is tough to answer although we do a lot of research primary level as well as we rely on RK Swamy reports and lot of such reports but I would say that if past is anything to go by in the last nine quarters which means two full years and this quarter we have entered as many as 35 to 40 new cities and obviously a lot of this is

based on our research and our own field work which we do and as I was talking about some external reports and because we are encouraged by the results we have been getting so far it is prompting us to open more and more new cities. So during the course of this year also we believe we will enter another five to ten more new cities. But to look at the next two to three years and make a forecast is tough for me.

**Umesh Gupta:** Okay, alright thanks a lot.

**Moderator:** Thank you. As there are no further questions I would like to hand the floor back to Mr. Ajay Kaul for closing comments.

**Ajay Kaul:** Well friends it has been a pleasure talking to all of you. There were some really interesting questions that came. We thank you for joining us today and we are positive about our company's growth and performance going forward. Should you have any more queries at hand, please do get in touch with us and we would be more than happy to address them. Thank you from my, Ravi's, and Hari Bhartia's side.

**Ravi Gupta:** Thank you very much.

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