

## Q4 & FY2011 Investors/Analysts Conference Call

May 13, 2011

**Urvashi Butani:** Thank you. Good evening ladies and gentleman welcome to Jubilant FoodWorks conference call for investors and analyst. The call has been hosted to discuss the financial performance and share operating highlights for the quarter ended in 31 March 2011. I have with me on this call today Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks, Mr. Ajay Kaul – CEO and Mr. Ravi Gupta – CFO. We will commence this call with comments from Mr. Hari Bhartia and Mr. Ajay Kaul followed by Mr. Ravi Gupta and after the opening remarks we shall open the floor for a Q&A session where the management will be very glad to respond to any queries you may have.

At this point I would like to mention the certain statements made or discussed in today's conference call maybe forward looking in nature and the actual results may vary significantly from these statements made. The company does not offer to update them publically to reflect changes in performance and a detail statement to this effect is available in the release sent out to you earlier and on the company's website. I would now like to invite Mr. Hari Bhartia to commence by sharing his views on Jubilant FoodWorks performance for Q4&FY11. Over to you sir.

**Hari Bhartia:** Good afternoon to all of you. And thank you for being on this call. We are very pleased to report healthy profits for the quarter of this fiscal based on our, very solid financial and operating performance. We continue to witness a very healthy trajectory in our growth on the back of, I would say, a very robust business strategy and a very strong business model that we have continuously nurtured and developed over the last many years. And as all of you may be aware this quarter has been rather special for Jubilant FoodWorks as we expanded our business with the addition of Dunkin' Donuts which is really a world-renowned coffee and baked goods chain and also one of the fastest growing chains across the globe. As we enter new fiscal we are quite optimistic about our plans for Dunkin' Donuts and the growth potential for Domino's Pizza. We will do our best to further capitalize on our strengths and I am confident that Jubilant FoodWorks will enjoy continued growth in the financial year 2012. My colleagues Ajay, the CEO of Jubilant FoodWorks and Ravi the CFO will now provide you with more detailed view on our results and a perspective on our story and other key developments so far. Thank you again.

**Ajay Kaul:** Thank you Hari. A very good evening and warm welcome to all present here with us. Jubilant FoodWorks witnessed another strong quarter and a solid and successful fiscal, not only from a profitability standpoint but also in terms strategic development and that is Dunkin' Donuts. As reported in yesterday's financial results press release, our Total Income for the quarter witnessed a robust growth of 56% over last year to stand at Rs. 1,937 million. Our Net Profit for the quarter was at Rs. 193

million up 86% as compared to the same period last year. In FY2011 JFL's Total Income stood at Rs. 6,783 million up by 60% over FY2010. The corresponding Net Profit stood at Rs. 720 million up by 118% over last year.

Jubilant FoodWorks sees itself as an innovator and at the same time has the ability to focus on its consumers to develop leadership position in the food service industry. We have successfully been able to expand our network of Domino's Pizza stores across the nation. At the start of FY2011 we had set a target of opening 70 stores spread across existing and new cities and I am pleased to announce that our coverage has successfully evolved as we launched 72 new stores during the year. Today we have stores total at 378 spread across 90 cities in India. Moreover we are on track with our plans to enter Sri Lanka through our subsidiary Jubilant FoodWorks, Lanka Private Limited and are set to launch Domino's Pizza there next month.

We believe we have built our competitive strengths and continue to do so backed by our focus on key business philosophies that have been part of JFL since inception. We believe we are able to create value with our commitment towards customer needs innovation and quality and hope we are able to generate even greater value in the future.

We are truly excited about the prospects and the potential of our growth especially with our new venture which is our association with the world leading baked goods and coffee chain - Dunkin' Donuts. As many of you may be aware and present with us when we discuss our ideologies and strategy around Dunkin' Donuts in the Q4. We believe Dunkin' Donuts relationship is a perfect match with JFL's way of business. With Dunkin' Donuts added to our portfolio we wish to cater to the all day part food segment which we believe is largely untapped and has tremendous potential to grow. Also the Dunkin' Donuts brand is extremely relevant for India not only due to its strengths in donuts and coffee but also due to its differentiated food and beverage menu.

At present we have initiated our work on several areas which would form the backbone of this new venture, before we begin the rollout of actual stores. An important point that would like to emphasize here is that the nature of Dunkin' Donuts model enables us to localize our offerings and recipes and present to our customers a range of offerings which would cater and satisfy to their needs, which we at JFL believe is an extremely positive and crucial factor for creating a successful food and beverage brand. Moreover, given Dunkin' Donuts expertise in several international markets combined with Jubilant FoodWorks stature in industry in India, we are confident of creating new successes with Dunkin' Donuts in India.

Moreover, we have a highly committed and strong team to drive Dunkin' Donuts operations. Mr. Dev Amritesh, who as Senior Vice President Marketing for Domino's Pizza has been very instrumental and fundamental to build the brand Domino's Pizza at

Jubilant FoodWorks. He will now lend his strategic leadership vision and expertise to drive the operations for Dunkin' Donuts as the President and COO of Dunkin' Donuts.

Going forward, the food industry in India continues to present great opportunities especially in the QSR space. All in all we feel JFL has the capabilities, the knowhow and healthy financial strength to tap this growing potential.

For the year ahead of us our goals as an organization are clear, we would like to continue to grow our network of Domino's Pizza- continue to aggregate revenue growth and expand our scale, productivity and enhance our brand equity. Our expansion plans for the year ahead are based on the feedback we have received so far and thus plan to open 80 new stores in FY2012. Also we are confident of our plans of a phased rollout of Dunkin' Donuts stores. Thus our initial focus will be primarily on metro cities and we plan to rollout about 80 to 100 stores of Dunkin's Donuts in a span of next five years.

That brings me to the end of my remarks; I would now like to handover to Ravi Gupta our CFO who will take you through our financial performance.

**Ravi Gupta:** Thank you Ajay. Good evening and warm welcome to all of you again. I am pleased to report that the continuous focus of our team on profitable revenue, cost control initiatives and customer satisfaction has resulted in another solid performance for Jubilant FoodWorks. I shall briefly provide you with an overview of our Company's performance for the quarter and the full year ended 31 March, 2011.

Our Total Income for Q4FY11 was at Rs. 1,937 million with a robust growth of 56% over the fourth quarter last year. This quarter growth was largely due to the increase in our network & and same share sales growth. We also witnessed increase in number of orders received on account of the Cricket World Cup. Our same store sales growth for Q4FY11 was at 33.2% as compared to 38.1% for Q4FY10.

Moving ahead with respect to profitability during the quarter our EBIDTA was reported at Rs. 331 million compared to Rs. 185 million in the same period last year. While our EBIDTA margins were at 17.1% as compared to 14.9% in Q4FY10. Finally we achieved robust bottom-line profitability during the quarter with an increase of 86% in PAT to Rs. 193 million as compared to Rs. 104 million in Q4FY10.

This fiscal by virtue of systematic planning we have opened 72 stores and entered several new cities which include Tier II and Tier-III cities too. And we are pleased with the positive response we have received on such openings. Thus backed by the feedback we will also continue to relentlessly drive our capabilities to further expand our network and strengthen our business model.

While the industry is witnessing healthy growth, the sharp increase in inflation in India has been a particular concern to us as a player in the food industry. However, given our scale and infrastructure- such as our strong supply chain, focused management and practices related to cost control at all organizations level we have been able to leverage these not only to our benefit but also to the benefit of our customers. Thus as we continue to grow, we are also continuing to focus on cost containment and again achieve favorable year on year results in operating expenses.

Moving ahead we had no interest charge on our book this quarter as compared to Rs. 11.81 million on Q4FY10 due to repayment of all term loans.

Now to give you some colour on our full year results. JFL's Total Income stood at Rs. 6,783 million registering a growth of 60% as compared to FY10. Our EBIDTA for FY11 was at Rs. 1,202 million compared with Rs. 656 million in the previous fiscal. The EBIDTA margins stood at 17.7% as compared to 15.5% in FY10.

Lastly JFL's PAT for the fiscal was Rs. 720 million witnessing a growth of 118.4% as compared to PAT of Rs. 330 million in FY10. The corresponding PAT margins were at 10.6% and 7.8% respectively.

During the year, besides new store openings we maintained our commitment to innovation and as a result saw the introduction of new addition to our menu such as Pasta Italiano and Mexican Wrap along with the new Pizza variant, Double Burst Pizza which we launched in the Q3. Also these have and continued to receive tremendous positive response from our customers.

And as many of you may be aware from our recent announcement, we have expanded our brand portfolio with our alliance with Dunkin' Donuts, there by driving greater value for the Company and our stakeholders. Dunkin's Donuts, in more than one way, is an ideal match for JFL and its growth story. We truly believe that with this association we have begun another exciting story in the Indian QSR space. Exciting for many reasons, firstly we believe that with the uptrend in the food business, it was an opportune time for us to formalize our association to introduce Dunkin's Donuts in India and provide the Indian customers with a new range of products. We have the flexibility in this model to fine tune, as Ajay has mentioned, to localize our offerings to align them to taste and preferences of the Indian palate. Furthermore we believe that we will be able to benefit from several synergies. We have from our journey thus far, gathered the expertise and the ability to monitor and feel the pulse of the consumer thus giving as a unique edge. Besides we have an immensely talented human resource base of which a dedicated team under the leadership of Dev has begun work towards making Dunkin' Donuts a success.

Moving on, we would like to sincerely thank our investors and stakeholders for the continuous faith placed in JFL. We are confident of sustaining a good growth momentum in the years ahead given our increasingly differentiated profile which is enhanced by our association with leading food brands. With this I conclude my remarks and I would request operators to open it for question and answers. Ajay and I will be more than happy to answer all the questions. Thank you.

**Moderator:** Thank you very much sir. Our first question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

**Pritesh Chedda:** Could you tell us if there is any further scope for operating leverage in the Domino's business model and if yes then could you identify the areas from where the leverage can come in the business after reaching this scale?

**Ajay Kaul:** Okay. If you look at last three years, we have improved our margins from 12.1% to 15.5% year before last to 17.7% last year. I do agree that towards the end of last year by virtue of a bit of pressure from raw materials, especially milk and cheese and a bit because of our investment on our people, last quarter margin probably was not as good as it should have been but still 17.7% is a good improvement over the previous year which is 15.5%. Now going forward if you have to make some sort of a guidance for next year, we believe we should be able to at least retain the same margin percentage even next year. Now answering your question that is there a room for improvement, yes of course related to scale and while we plan to add 80 new stores next year, we will also have growth coming from same stores. As the quarters will pass we will be in a better position to make a comment, but we believe retaining this margin is definitely what we will do. Is there scope indeed as far fixed cost or I would call them partly variable cost like marketing which will probably not grow at the same pace as our business. Our G&A should not grow at the same pace as our business will. There will be scope for improving margin there.

**Pritesh Chedda:** In the total store network of 378 that you have today, how much is Delhi and how much is Mumbai and what is the maximum potential of stores say in a city like Delhi and Mumbai and ten years down the line how many such cities do you see?

**Ajay Kaul:** We do not have exact numbers Pritesh, in all fairness, at the fingertips right now, but let me give you these numbers in a slightly different way, in a different format. The top three cities between Delhi, Mumbai and Bangalore contribute to around should I say 40% - 45% of our business. And it is quite surprising the rate at which the frequency of consumption is increasing in cities where we have been present for a much longer duration, how the consumer habits are changing with regards to frequency and penetration. So as a result we believe there is as much opportunity in Delhi and a Mumbai and Bangalore and the few other bigger cities, to open more and

more stores because the frequency of consumption is increasing at such a pace, as much as there is in - let's say the Lucknows and Ahmedabads and the Kanpurs as there is in new cities where we are not present at all. And I am looking at the next two to three years window here, actually Pritesh in all fairness we will not be able to look that far and tell you that how many stores will be in Delhi ten years from now.

**Pritesh Chedda:** And when you said 45%, is it 45% of the store network or 45% of revenues?

**Ravi Gupta:** It is based on of revenue; and it keeps on hovering between 40 to 45%

**Pritesh Chedda:** Percent of revenue.

**Ravi Gupta:** Yes. Just add onto what Ajay has indicated. About five years back we were about 50 stores in the top three cities. And as of now there are about 130 stores in those top 3 cities.

**Pritesh Chedda:** So about 50 stores roughly a city.

**Ravi Gupta:** 50 stores, around three cities 5 years back.

**Ajay Kaul:** Around 50 stores in Delhi.

**Pritesh Chedda:** Okay.

**Ajay Kaul:** Around 50 in Mumbai and around 40 in Bangalore is a number as of now, number of stores.

**Pritesh Chedda:** Okay. Can you hazard a guess how many sub cities do you see ten years down the line or is it not possible?

**Ajay Kaul:** I can't, we can't talk in terms of number of cities but in terms of stores if I have the predict, let's say ten years from now, they will be well in excess of maybe 1200, 1300, 1400 stores.

**Pritesh Chedda:** On Domino's network.

**Ajay Kaul:** We are only talking about Domino's Pizza here.

**Pritesh Chedda:** Okay. And when you gave these 80 new store additions for FY12 that is Domino's alone right?

**Ravi Gupta:** Yes, that is Domino's Pizza alone.

**Pritesh Chedda:** Okay. My next question is in your revenue say for FY11, is it possible to know what is the new product SKU's contribution that is Pasta, wraps, dessert put together as a percentage of revenue?

**Ajay Kaul:** We would not want to share that information, all we can say is that the contribution of Pizzas no doubt has gone a few percentage points lower.

**Ravi Gupta:** But it continues to be around 80% level.

**Pritesh Chedda:** Okay. Now that includes, 80% is pure Pizza and 20% would include beverages and everything.

**Ajay Kaul:** Yes, everything else. But let me just add to this step as a part of our concerted strategy clearly expansion in terms of share of stomach is something which we are consciously looking at and these are also learnings coming from international markets, where products which can expand the share of stomach are only helping us to grow the ticket size also, while it is also some impact on the order. Products like the Choco Lava Cake which came in as a dessert, the Pasta which clearly was an addition to the Pizza the category and Wraps and so on, have all helped in this area. So the 37% - 38% same store growth which we have achieved this year and 22% last year, we would attach some weightage clearly to the addition of these new products.

**Pritesh Chedda:** Okay.

**Ajay Kaul:** And progressively going forward we would be looking at such products. As much as we will focus on Pizza.

**Pritesh Chedda:** Okay. Now what is the highest revenue that you have generated out of a store and what is that number, does it mean that eventually one of your new stores would go towards that higher store revenue?

**Ravi Gupta:** Pritesh, to answer your first question. Our average store sales, when you look at sales of Rs 678 crore that we have done and divide this by 342 i.e. an average of the number of stores - which is small average store at beginning of year and the end of the year, you will come out of a figure of 1 crore 98 lakh sales on an average basis what we have done during the last year.

**Pritesh Chedda:** Yes.

**Ravi Gupta:** But some of the stores have had sales which is about 2 to 2.5 times more than this. So, does it answer your question?

**Pritesh Chedda:** Yes, so when I use the same store sales growth, one of the new stores would eventually on the growth basis should go at that number, as it when it matures?

**Ravi Gupta:** Yes, at some point in time it may go and we are not saying that the store which is at the 2 to 2.5 times the level of the national average has stopped growing, that store may also grow.

**Pritesh Chedda:** Okay. Lastly Dunkin' Donuts, when is the first store going to open and how many stores are you now planning in the first year of operation?

**Ajay Kaul:** This is seen as the first year of operation. We plan to open our first store in Calendar 2012.

**Pritesh Chedda:** That is next calendar year.

**Ajay Kaul:** Next calendar year but Q4 of this financial year.

**Pritesh Chedda:** Okay. So Q4 FY12 is when you will open your first store?

**Ajay Kaul:** Yes, while we are trying to accelerate the whole thing but since we are still at a stage where our supply chain strategy, ingredients strategy, menu mix apart from the holistic marketing and overall strategy is being finalized, we are trying to accelerate, but realistically speaking Q1 Calendar 2012 is a good timeframe to look at.

**Pritesh Chedda:** And in the first year of operations number of stores in operation any idea?

**Ajay Kaul:** I probably would not put a number to that but it will be a small number because we clearly believe in opening a handful of stores there getting lot of learnings from that stores as much as we have done in Domino's and we firmly believe in getting the basics right, getting the initial entry strategy right and then accelerate thereafter, we do believe by the fifth year we should be sitting at 100 stores and as you have said in the past also that in 15 years time we believe we should be having at least 500 Dunkin' Donuts stores in India.

**Pritesh Chedda:** Okay. So as a strategy will you first stabilize Dunkin' Donuts model and then look for a new franchise or you are open to a new franchise before Dunkin' Donuts stabilizes.

**Ajay Kaul:** I would say we would want to stabilize Dunkin' Donuts because that has been the groups philosophy all through, that don't be in a hurry, at the end of the day we have to bring value to our shareholders and our investors as much as we did that in Domino's Pizza. People were knocking at our door for a long time but we took our time to finalize Dunkin's Donuts. So we would do that although we are in discussion with other people also but I think at least 12 to 18 months from now is when we would be evaluating or probably contemplate something, till that point we will be totally



preoccupied by establishing Dunkin's Donuts and of course taking Domino's to the next level.

**Pritesh Chedda:** What are the rent inflation and the employee inflation that the Domino's model is seen in FY11?

**Ravi Gupta:** I think it is very difficult to compute rent inflation because it is a mixture of how much space you are hiring, which area and the city you are hiring in. So to compute the exact rent inflation becomes a very difficult task. But having said that, in our agreement we provide for inflation which is about 15% every 3 years. So that is the inflation which is inbuilt in the agreement itself.

**Pritesh Chedda:** And employee inflation?

**Ravi Gupta:** As far as the employee is concerned we are offering them slightly better than inflation so that they can beat inflation. It is ultimately our employees who help us deliver the whole of our growth. And we need to maintain this sense amongst our employees who lead this accelerated growth. As a result, it is important that we keep them together and we keep them motivated.

**Ajay Kaul:** You must be already aware, that in September last year we had increased the salaries of our team members who work in the store, by significant number. There are of course, minimum wages pressures which are coming from all the state government and so on but we want to stay ahead of that curve and we had also introduced the incentive plans for our managers who work inside the store. All these are efforts being done to stay ahead of the curve, to ensure that regular inflow of employees is there, bench strength are been created, in the quest to open 72 last year and 80 stores next year. Because, as you are aware we are the fastest growing multinational food services chain in India, we are also the largest by yards as MNC QSR chain, so these are the steps we have to take.

**Pritesh Chedda:** What is the count in FY10 and FY11, the employee count?

**Ravi Gupta:** FY10 it was about 8,500 employees and FY11 it is about 11,500 employees.

**Pritesh Chedda:** This doesn't include the temporary employees which you have in the month of December?

**Ravi Gupta:** This is actually at the point of time - as of March 31.

**Pritesh Chedda:** Okay. And how much does the temporary addition happens in December?

**Ajay Kaul:** I mean, we add probably around 1000 extra people I am hazarding a guess but don't hold me on that. We do hire around a thousand odd people who then by January, February again kind of move out, so it comes down back to the reasonable level.

**Pritesh Chedda:** Okay. And my last and final question for Mr. Bhartia, have you framed the dividend policy now since its first full year of operations being a listed entity?

**Hari Bhartia:** On the dividend side this year the Board has decided not to give any dividend mainly for the reason that we continue to see huge growth in the Domino's Pizza business which we are investing a lot of resources both in India and then in the new markets like Sri Lanka and then of course the amount of investment required in Dunkin' Donuts this year is very small. So I think now Board will review this year as to how do we see growth in the next three to four years and then we will come back with a dividend policy. So I think this year we decided not to give a dividend because resources still need to be utilized for growth, I think the opportunities for growth are immense. So I think we need to see watch the market- which we see is growing quite fast, see when India is growing, the market is growing and has Ajay pointed out we continuously see the frequency being increased in the cities and that creates a completely new market, even in the existing cities where we are present. So, a lot of capital is still required for investing in new stores.

**Pritesh Chedda:** Okay.

**Hari Bhartia:** We will come back with the dividend policy definitely next year in terms of how we expect to distribute.

**Pritesh Chedda:** Thank you very much.

**Moderator:** The next question is from the line of Jaibir Sethi from CLSA. Please go ahead.

**Jaibir Sethi:** The same store sales this quarter has been exceptionally strong despite the tough days from fourth quarter of last year, I just wanted to get a sense of one, what drove this and second what would be a reasonable sort of growth rate to look for going forward?

**Ajay Kaul:** Okay, a reasonable number to look forward to in this year something which we believe we will be able to deliver is around 19- 20% as a same store growth number. Your observation was very right that coming out of quarter four of year before last where we had for the first time achieved this 35 - 40% same store growth number. Our 33% same store sales growth number for Q4 FY2011 was a good achievement, I think World Cup presence did help there, so that was one additional incremental business

that we got. Over and above, I think our product which we had launched in December and that continued for the whole of that quarter which was the Double Burst Pizza also helped and even other products which we had launched from time to time before that have led to the increase in share of stomach, they have also contributed a little bit. One more thing which probably I want to highlight in the end is that our online ordering which we have been trying to build a backbone for over the last year, year and a half clearly in the months of January, February and March has started showing better results and in this particular quarter, as a percentage of delivery sales, it was a good number and we are obviously betting a lot on that as far as future is concerned. I would attribute to these numbers.

**Jaibir Sethi:** Could you give us a sense of how much of this might have been the World Cup because, non World Cup versus World Cup periods during the quarter?

**Ajay Kaul:** It's a tough one to do. We have tried to do this analysis out there, it's a single digit, small single digit number but the nonetheless it is there and one can't disregard it.

**Jaibir Sethi:** And the 19%-20% number which you mentioned for FY12, what factors do you see driving that?

**Ajay Kaul :** I think it's a mix of all these factors which I had just said that we have an engine, a model which is kind of working well, supporting that will be our media strategy - we are increasing our marketing spends. We are increasing the spend which we are going to do on online media; we have a single number which we will start popularizing very, very strongly. We have been already doing that but this year will be very, very strong on that and over and above the product launches will continue the share of stomach story which I was talking about, will continue. So as a mix of all this, we believe that a 20% same store growth number is clearly that we can commit ourselves too.

**Ravi Gupta:** I think overall growth and saliency which we have seen and the growth in the Indian industry which we are foreseeing, that gives us confidence that we can achieve this growth of 20%.

**Jaibir Sethi:** Okay. And the second thing was around the margin side, I understand that you have taken a bit of a price hike effective April, however, there are still fairly palpable pressures both in terms of input cost as well as wages. So do you think the growth at its store level in terms of same store revenue and same store costs will be broadly in line or do you think you will perhaps some pressure coming in on store level margins.

**Ajay Kaul:** See we believe, the pressure as far as manpower is concerned, is more internal, it is our own because we are growing at a certain pace and we need inflow of people at a pace at which we want. But we have also seen that when we take steps like these immediately after in a succeeding quarters, we are able to bring in lot of manpower efficiencies because training costs go down, bench strength are created so as a result, even the recruitment cost go down and so on. As far as raw material cost is concerned its obviously external driven but having said that I want to just mention one thing in the same breath that when you are growing, for example at around 60%, which is our total growth for last year and an year before last it was 50%, plus , we are able to work very closely with our business partners who maybe otherwise have inflationary pressures but when they are also growing on their Domino's piece by 50-60%, they are able to drive economies of scale, they are able to bring in or invest in plant and machinery well in time because they know our plans and they can almost bank on Domino's as a partner. So as a result these inflationary pressures on us are never as severe as they maybe for so called outside world, but having said that towards the end, last three-four months of last year they did go through an unprecedented kind of a phase, milk prices did go through the roof. But we believe it is something which we will have to work closely with our business partners, and nominal price increases are something which we have to take going forward in any case, which we have been doing in the last three, four years also.

**Jaibir Sethi:** Okay, so you are not particularly concerned about your ability to absorb these cost pressures.

**Ajay Kaul:** I would say the inflationary pressures have been there even in the last two years, a bit more in the last few months. But we try to work closely, absorb as much as possible and then pass on a nominal increase to our consumers.

**Jaibir Sethi:** Right. Thanks a lot for that sir.

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

**Manav Vijay:** Could tell me when the last price hike was taken?

**Ravi Gupta:** In the last financial year it was in November and in this financial year we have just taken in April, normally every year these are the two periods where we take the pricing hike.

**Manav Vijay:** Okay. So April and November.

**Ravi Gupta:** Yes.

**Manav Vijay:** Okay. Now, in spite of taking I would say a price rise our gross margins have basically they have come off I would say quarter-on-quarter as well. Now does that mean that the entire benefit that company is trying to get either let's say by increasing the prices firstly, secondly the operating leeway that you have in your model in terms of rent and other expenses is getting negated by obviously the extended inflation and the internal staff cost?

**Ravi Gupta:** Manav, I think we have discussed in the last concall also. When we decide about price increase in November typically this decision is taken two months before that period. And that is based on what is the inflation level at that point of time and what is the expected level of inflation. Now it takes for us a couple of months or maybe one or two quarters for us to exactly pass on the whole impact of inflation to the consumers. So when we took the last price increase at that point of time whatever inflation was expected we have taken a decision to increase the prices. But last couple of months as Ajay has indicated the inflation has been unexpected, the milk prices have gone through the roof. So it takes some time for us to pass on and we also decide that we will not pass on all the increase to the consumer demand because consumer may feel jittery trying to understand why pizzas have become expensive. So we want to pass on all the price increase slowly to the consumers and in the mean time absorb these increases so that consumer understands these increases and accepts all these increases and that is the reason last two quarters you find that raw material cost has gone up a little bit and you will see that going forward it will come under control.

**Manav Vijay:** Okay. Now, I mean, during the year we have generated close to Rs.40 - 50 crore free cash flow and considering the plans that we have just for Domino's keeping I would say DD apart as of now, this is more than sufficient to cover the entire CapEx that we will have in FY12 to a very great extent. So any specific reason of not distributing any dividend?

**Ravi Gupta:** See overall CapEx for the last financial year was about Rs. 70 crores now that is for opening about 70 stores and also on three other areas which is a replacement of the equipment in the existing stores, some additional new equipment because of the growth of 37% in the same store growth which has happened and all the additional equipment you need at the commissary level and all other levels in the Company. So going our plans are that we will open about 80 stores. Second aspect is cost of opening stores is also is going up because of inflation and also because we are upgrading quality of the stores- in terms, for example will have digital menu in all the stores and we have quite a lot of other improvement plans in the stores and we have seen that if we spend that kind of money, the pay back is pretty fast on those. And then we periodically reimage the stores, relocate the stores. So all these plans are there and are pretty aggressive. On top of it we plan to relocate two commissaries which is East and West commissaries. And we also plan to open one new commissary in North India which will be somewhere around Chandigarh. So all this plans are there

with us. Apart from that, we will invest in about 4-5 stores which will come in Sri Lanka and lastly plan for Dunkin' Donuts. So all these plans are there and we are on track and are fairly confident of achieving them and that's the reason the Board has decided saying that money is needed for execution internally.

**Manav Vijay:** Any specific reason of relocating East and West commissary?

**Ravi Gupta:** These are about 10-11 years old commissaries. They have lived their life and we have outgrown in terms of numbers - like this commissary was established for about 30 to 40 stores and it has stretched capacity to go up to 100 stores. Right now it is managing about 120 stores there. So beyond a stage you need to upgrade them, need to increase the capacity. So now when we establish, we will establish for about 200 – 250 stores there. So both the reasons are valid that it's lived its life and then we have to expand it at some point of time.

**Manav Vijay:** So what kind of CapEx at their relocation of East and West will require in FY12?

**Ravi Gupta:** Commissaries typically cost depending on size, anywhere between about Rs. 5 crore to Rs. 10 crore. Rs. 5 crore for about 50 to 75 stores commissary and about Rs. 10 crore for 250 stores commissaries. So those are kind of expense we will incur.

**Manav Vijay:** And the upcoming commissary in Chandigarh is because the current commissary in North has not been able to or may be is already stretching its limit?

**Ravi Gupta:** Not exactly that is the reason. We believe there is a quite a lot of potential in the northern part of the country specifically because right now all the transportation happens from Noida and we believe that we can reduce the transportation cost for up country stores and improve the product quality also and unfold the potential which is there in north. So that when the commissary is near by the logistic costs for supply to new stores and looking at the new store profitability also comes up pretty well.

**Manav Vijay:** Okay so we should have another Rs.5 crore to R.10 crore of expenditure in this commissary as well.

**Ravi Gupta:** Yes.

**Manav Vijay:** Great, thank you

**Moderator:** Thank you. Our next question is from the line of Amnish Aggarwal from Motilal Oswal Securities Ltd. Please go ahead.

**Amnish Aggarwal:** My first question is regarding the loans and advances which have risen at a very sharp pace during the year because if we look at the balance sheet which we have been given, the loans and advances have increased from Rs. 36 crore to nearly Rs. 70 crore. So would you like to guide us on what has led to this kind of an increase in the loans.

**Ravi Gupta:** Amnish, we had about Rs. 51 crore of cash lying in our hand about Rs. 21 crore you will find under investment, which is a liquid fund kind of investment which are there and Rs 30 crore is an ICD given to a corporate of repute which is under loans and advances. That will explain the complete difference.

**Amnish Aggarwal:** Okay so is that interest rate on ICDs link to the market rates?

**Ravi Gupta:** It is at market rate but not linked.

**Amnish Aggarwal:** Okay. And the second question is that what sort of CapEx we plan to have for the Dunkin' Donuts project in the current year that is FY12.

**Ravi Gupta:** I think we are in the midst for making plans for Dunkin' Donuts. We will not be able to exactly share the number for it, but when we look at in comparison to the Domino's, this will not be very substantial, may be about 5% of what we spent on Domino's ' this year.

**Amnish Aggarwal:** Okay. And if you look at the price increases which you have taken recently, my guess is that in the past, say six months or so we have increased pizza prices by an average of say 7% to 15% depending upon the various sizes. And practically in the entire menu, Pizza Mania is the only product for which the prices have not gone up. So are you witnessing any change in the sales mix happening due to this and do you envisage any impact on the sales because usually our price increase earlier used to be say around couple of percentage points twice a year. But this year if I look at the past 12 to 13 months the price increase would be ranging between say minimum of 10% to the upward of say 20%. So can you throw some light on this?

**Ajay Kaul:** Yes sure, we normally take two price increases during the year, one, somewhere in April, one somewhere in October- November. These are nominal 2% to 3% price increases. The last price increase which we have taken in April is a little more than 2% - 3% but it is not in the range in which you are talking. It is definitely not in that range. It is a mid-single digit number, but having said that, this is the first time we took it. There were a bit of inflationary pressures but we were also obviously watching the consumer's behaviour very-very closely. We have our own ways of doing that. We have seen no change whatsoever so far during the first month and half of this year on consumer behaviour with respect to price.

**Ravi Gupta:** Amnish, to add to what Ajay has indicated see we do not increase the price of all the products across. When we increased the prices now in April, we have not increased price of the Pizza Mania which remains at Rs.39. So it means when we do a weighted average increase some of the pizza variety may have a higher price increase and some of them can have a lower or no increase at all. So that is the reason you may say 10% to 20% but that is not in the range we have operated ever in the history on the company. Our increase was 5% p. a.

**Amnish Aggarwal:** Okay now actually, the difference is you are looking at the weighted average price increase, but I'm looking at say the only the pizza segment, because you are right that Pizza Mania has not seen any price increase but if I look at say, pizza in particular, only pizza part, I mean, if I look at October and now the price increase in some of them I think as per my data its say in double digits if I'm not wrong.

**Ajay Kaul:** If you seen last time in October and we did go through a price increase in November also. So maybe it is a multiplier effect of two price increases. You know, what we do is, we do actually a weighted average which means we look at the actual sales generated by each SKU and multiply it with the price increases and so on. And as I was telling you, the weighted average impact is not 2% to 3% but it is still a mid-single digit kind of a number, if you understand. And most importantly is the elasticity, we are not seeing so far any visible signs whatsoever of consumer off takes having got impacted because of it.

**Amnish Aggarwal:** Okay but because Pizza Mania prices are stable, has there been any increase in off take of the same?

**Ajay Kaul:** It has been at the steady, same level as it has been in the previous years or the previous months.

**Ravi Gupta:** And then Amnish to update you last year we have taken Pizza Mania price up from 35 to 39 at one go itself. So it is not that we don't take the Pizza Mania price. This time we have decide not to take it, but at appropriate moments we will do that.

**Hari Bhartia:** On the inflation I just wanted to add what Ajay and Ravi have said. While inflation obviously increases the price of raw material but I think Jubilant FoodWorks and its team have done a fantastic job of leveraging our increasing amount of raw materials that we buy from the supplier. So A) we continuously develop new vendor who are more cost effective and even the existing ones because of our sheer size of purchases going up every year substantially. So while there is inflation on raw material but I don't think we allow the impact on the raw material at the same level because we certainly leverage our buying power continuously as we move forward because we buy the same stuff in a much larger quantity. I think the team has done a very good job in that.



**Amnish Aggarwal:** Okay Mr. Bhartia thanks a lot.

**Moderator:** Thank you, the next question is from the line of Harish Zaveri from Deutsche Bank. Please go ahead.

**Harrish Zaveri:** This question is addressed to Mr. Bhartia and there was this investor apprehension on a change in articles of association three months earlier, there was one particular line on the change in articles which was that you could go into beach resorts and hotels. No I remember checking with the management and the answer that I got was no other investments except in food, but I wanted to know your views on this one.

**Hari Bhartia:** We were very clear and have exactly the same view. We have no intentions at all. I think it must have crept in because sometimes you try to cover everything when you go for a change, probably Ravi can explain this better but this Company as you know has remained focused since the time it started and continues to remain focused in the line of business that we are in. So you can be rest assured that we are not building any beach resorts.

**Ravi Gupta:** Harrish to add to what Hari Bhartia has indicated, I think the explain about statement in that notice was very clear, that all these amendments and whatever our future endeavours will be, they will be all related to the food business. You can read it clearly in that line, we are very clear that we are focused on the food business and we don't intend to divert in any other direction.

**Harrish Zaveri:** Yes thank you.

**Moderator:** Thank you. The next question is from the line of Kalpesh Makwana from Quant capital. Please go ahead.

**Kalpesh Makwana:** We have talked about increased scale of business a lot. The only thing which I wanted to know is, is there any possibility of gross margin expansion from going forward year, if the food inflation were to come down?

**Ajay Kaul:** As I said, a little while back, as we see the business right now we are confident that we will be able to maintain the margins which we have delivered in the previous year which is 17.7%, in the coming year also. If you look at our last three years performance we have been steadily improving our margin performance from 12.1% to 15.5% to last year 17.7%. If we have unprecedented growth, far more than what we anticipate, sometimes there can be reasons unknown to us for example we think we can do 20% same store growth, if we do better than that, there will be margin improvement for sure, but as of now we are confident of 17.7% delivery.

**Ravi Gupta:** Kalpesh, our gross margin continues to be around 75% and in the future also we will definitely try to maintain around that level.

**Kalpesh Makwana:** Okay perfect that answers. And another question which I had in mind was the 80 stores guidance that we have increased now, are we seeing this only for FY12 or we are confident of achieving the same number from years coming ahead.

**Ajay Kaul:** These are the number only 2011-12 which means next financial year.

**Kalpesh Makwana:** But is the ground situation giving you enough confidence that you will be able to maintain this?

**Ajay Kaul:** We will make the statement at the appropriate time but for next year we are pretty much confident that 80 stores or something which we should be able to deliver.

**Kalpesh Makwana:** Perfect sounds good. And my last housekeeping question, what should be the tax rate for FY12?

**Ravi Gupta:** FY12, it will be full tax.

**Kalpesh Makwana:** Full tax, 33%?

**Ravi Gupta:** Yes.

**Kalpesh Makwana:** Okay perfect thanks.

**Moderator:** Our next question is from the line of Hiren Dasani of Goldman Sachs. Please go ahead.

**Hiren Dasani:** Of Rs 70 crore CapEx in FY11 can you briefly or approximately tell what would be commissary related, what would new stores related, and what would be replacement related?

**Ravi Gupta:** I can give you a ballpark figures, about 90% of this is related to the stores, And that includes both new stores as well as the existing stores. Now the investment in the stores is approximately, in the last year was in the tune of about Rs. 7 million per store and the rest is for the existing stores. I hope that will suffice.

**Hiren Dasani:** Sure and this Rs. 7 million seems to be gone up little bit?

**Ravi Gupta:** Yes this year it will go up for the reason which I told you, saying that we will be improving our quality of the stores and there is a bit of impact of the inflation also and both these factors will result in an increase of this number. So like we will have digital menu which I shared with you and other quality of the construction and other areas also we are improving and we have seen wherever we have spent that kind

of money it pays back pretty fast. And that is the reason we would like to spend little more on that.

**Hiren Dasani:** In any of the operating expenditure line that is employee, the rent or the other OPEX, will there be any Dunkin' related expenditure as well in the quarter?

**Ravi Gupta:** In the quarter yes there are small expenses like agreement related expenses and other things which are there, not very significant.

**Hiren Dasani:** Could it be like less than Rs. 5 crore or more?

**Ravi Gupta:** Yes much-much lesser.

**Hiren Dasani:** Okay. Thank you.

**Moderator:** Thank you. Our next question is from are line of Neeraj Sadani from Barclays Wealth. Please go ahead.

**Neeraj Sadani:** I actually wanted to know that is there a possibility that we will use the same stores as Domino's to sell our Dunkin' Donuts products going forward?

**Ajay Kaul:** No, the answer of that question is a direct no. These are two separate divisions, these are two separate brands and the kind of markets or target segments they are kind of going for are different. So as a result there may be coincidence that there may be a Domino's and a Dunkin' store next to each other but not under one roof if you understand, but in all likelihood they will be in different locations also.

**Neeraj Sadani:** Okay sir, thanks.

**Moderator:** The next question is from the line of Vishal Desai from Centrum Broking. Please go ahead.

**Vishal Desai:** I just wanted to sense as to the 80 store target that we have been given for FY12, how many of these would be Sri Lanka based stores if you could give me a figure on that?

**Ajay Kaul:** None of these stores are from Sri Lanka. These numbers are purely the Indian operation.

**Vishal Desai:** This will be only India operation including the one starting in the next month as well.

**Ajay Kaul:** Yes it doesn't include the one in Sri Lanka which we are proposing to start in June next month.

**Vishal Desai:** Thanks a lot.

**Moderator:** Thank you the next question is from the line of Madhuchanda Dey from Kotak Infina. Please go ahead.

**Madhuchanda Dey:** While mentioning about the growth numbers on the same store, if you could give us some sense of how has been the movement in the average ticket size of your bills over the quarters? I mean how has that improved from the beginning of the year to the end what has been the trend?

**Ajay Kaul:** We will not be able to give exact information on that because we believe, a bit of it is, reasonably proprietary and there may be a bit of competitive edge sitting there but I can tell you one thing, I did speak earlier on about how some of the new products like Choco Lava cake, Pasta for sure, the Wrap these have all led to share of stomach increase. So when I talk of share of stomach, it means that the same customer who was earlier ordering pizzas also started having a bit of Pasta and a bit Choco Lava cake and so on. So clearly that has led to ticket size increase, And while on a standalone basis also there are pure Pasta eaters and pure Wrap eaters and so on which has led to the order increase. Since your question is on ticket size we had been growing ticket size quite handsomely over the last one or two years.

**Madhuchanda Dey:** And is there any new product addition planned in the Dominos framework this year?

**Ajay Kaul:** Indeed, the product innovation centric to pizzas and now even centric to non-pizzas is clearly what we always said is a differentiator for Domino's and we plan to launch new sides, we also plan to launch new pizzas during the course of the year and you will get to hear about them and see them on TV as when they get launched.

**Madhuchanda Dey:** Okay.Slightly different question on the Dunkin's platform, you were mentioning a lot about Indianized offerings in Dunkin's. My question is, when you are giving it a concept of Dunkin's what is that you have in mind in terms of your competition, I mean who are basically going to be the competitor to Dunkin's in your framework?

**Ajay Kaul:** See since the category if you ask me is at a stage which is still so in the initial stages. Honestly, I wouldn't put anybody in the competitor's list name. Let me spend a moment on telling you what Dunkin' Donuts would try to achieve or do in India. If you look at the Indian market, clearly while there is a small coffee market but growing at a big pace, there are a few other things but all day part food options including lunch and dinner consumed outside of home, is the single largest segment. Now there are some Indian companies, Indian brands like a Haldiram and so on which are trying to cater to this. We believe based on what we would inherit from Dunkin' Donuts from other

countries, I am talking of countries outside of America, where food has played a very important role, and we would primarily be operating in the all day part food solutions markets. And an integral part of that offering is going to be Dunkin' Donuts. Country after country wherever Dunkin' has gone they have had a roaring success with the donuts and they are undisputed market leaders and we believe that it is going to be a similar story in India also. And the third peg of the story is coffee and other beverages in the Indian context because it is tropical, so there are a lot of other non-coffee or call it cold beverages which Dunkin has to offer. So this is going to be the overall mix of what the story is going to revolve round. All day part food, donut as an integral hook which is sitting there and has got tremendous potential as a category and coffee and beverages. In the beginning if you see for all these categories especially coffee it is still a concept which is so new in India. Going by experience of coffee consumption in other parts of the world, per capita consumption of coffee in India is one of the lowest. Even if you were to have an urban cut in it is still very very low compared to some of the markets like let us say Asian markets and so on. So there is a lot of headroom for that to grow and Dunkin' Donuts coffee in the US if you are aware, is always seen as customer being the most brand loyal to for the last five years. Whenever they have done loyalty tests, Dunkin' Donuts coffee is regarded as the one where consumers have maximum loyalty towards. That is why they have a campaign which has a tagline "America runs on Dunkin'". So we believe that while a small segment but has a lot of headroom to grow all day part snacking option is something which we are going to focus on. In the beginning there will be the Western bias in it but clearly there will be the Indian options and over the period of time since they have the leeway and flexibility to Indianize as much as much as possible, we would all get into that also and clearly donuts as a differentiator will always be there. Because nobody else in the world actually has donuts like Dunkin' Donuts.

**Madhuchanda Dey:** Donuts in India have not really caught on in a big way unlike Pizza and we have at least in the urban part of India it is not that we do not have exclusive coffee chain. I mean definitely you must be having in mind where would you differentiate yourself and you definitely alluded to this Indianised offering. Is there any model that you have in mind which you would like to give us a sense of at this stage?

**Ajay Kaul:** Some strategy development and some research work is on; so that is going to crystallize our thinking that much more. But we clearly do not believe we are another coffee player, like there are some people in the market, who also and we know are trying to aggressively trying to focus on food because they realize that there is that much more to the whole story. We believe, going by success of Dunkin' Donuts it is one of the largest baked goods & coffee company in the whole world. Market after market where they have gone, donut, as a category had a roaring success. We see no reason why if we do get our act right, we cannot develop donut as a category in India. You may argue that some people have not been able to promote donuts, but we do not believe that those are the right donut companies. Dunkin' Donuts is the largest donut company

in the world. Their donuts are consumed by the dozens in every country. So we will get our act right, same as the story with pizza let me tell you 14-15 years back, initially nobody knew what pizzas were there, so we have belief and confidence in our strategy, in our execution, that will be able to make donuts a household name. But donut is only a subset of all day food part option is what we will be focusing on and clearly supporting that by a strong coffee & beverage program.

**Madhuchanda Dey:** Okay, thanks.

**Moderator:** Thank you. The next question is from the line of Pratik Biyani from Standard Chartered. Please go ahead.

**Pratik Biyani:** I wanted to know your strategy on opening of new stores. One, in existing locations basically what typical radius of coverage do you look at, specifically in top five cities like you are talking about Mumbai, Bangalore and Delhi. From 50 to what number of stores do you think it can go, 50 to 100 or 70? And second would be when you enter in a new city build a certain per capita statistics on population figures to decide on which city you want to enter?

**Ajay Kaul:** Let me answer the second question first, yes, you are right every time they enter a new city we look at a lot of pieces of data, primary, secondary data, we go to reports, and we look at per capita consumption of durables and so on. But our model if you realize is such where density of population of a certain type of SEC is very, very critical. So while we do all that we also go on foot and that is why we have our own business development team who are trained under a certain way of Domino's working. And they identify which is just the right place for opening stores. And we have had roaring success city after city where we have gone. For your information we have entered 21 new cities last year. So we do all that, call it due diligence, call it science and technology all these are brought into this whole process and why not because we have to make every store successful. As far as the first question is concerned, more than the radius governed by a certain range by kilometers especially in big cities, as the frequency of consumption is going up and up, we realized that-one is of course the 30 minutes or free universal proposition which we have for our customers that we need to keep in mind. And we also need to keep in mind the service levels to our customers, sometimes we reach in 30 minutes but it is at the upper end of let us say 28-29 minutes which is not again what we want, because our average delivery times are much lesser. So as frequency is increasing we carve out stores out of the existing stores and earlier when there was just one store, now we have with some virgin markets around it, we have maybe 2 or 3 or 4 stores. So if your question is ultimately that how many stores can you have in these large cities, we cannot put a number but there is tremendous potential still for us to grow.

**Pratik Biyani:** My second question is on same store sales for stores which are mature, which are operating for more than three years, what is the percentage of same store sales growth that you're witnessing in these stores as compared to the new stores that you are bringing in?

**Ajay Kaul:** Between a store which is let's say honestly even 10 years old, 13 years old, 8 years old, if I have to do some sort of correlation analysis on it, they are all growing at rates which are not very different from each other. So it is not that when a store which is 12-14 years old does it start giving just a single-digit same-store growth and the answer to that question is no. But they are differing and it depends on a lot of factors but there is no saturation, as such, if that is the underlying point in what you are saying. Sometimes when a store becomes very big and service level to customers starts getting affected then we split a store and create two out of one.

**Pratik Biyani:** Of the 80 stores you are planning to open, do you plan to enter another 20 more cities this year?

**Ajay Kaul:** We do not have a number of new cities target in front of us. But there will be a sizable number of new cities that we will enter. In the last three years we have entered as many as 50+ new cities. Last year in particular we entered 21. So even this year we intend to enter a lot of new cities.

**Pratik Biyani:** One last question on the ICD's that you mentioned about, it is Rs. 30 crore and how much do you expect to earn out of it, at what rate has it been given, if you could share its contribution to other income would be in this current year?

**Ravi Gupta:** We will not be able to share the exact percentage the amount we have shared with you and we have given it to an organization of repute. That is all what we can share with you.

**Pratik Biyani:** Okay, thank you.

**Moderator:** Thank you. The next question is from the line of Vijay Chugh from Ambit Capital. Please go ahead.

**Vijay Chugh:** My question was are there good reliable estimates available for growth for the industry for the past 1 to 3 years and considering the way food habits are changing, what tempo can be sustained?

**Ajay Kaul:** There are various reports from various agencies from time to time consultants and so on. But none actually clearly spell out what you just said, concretely, but they all allude in a certain direction. Some reports from people like Technopac and others probably do talk about consumption a little bit. But all we can say is that the food services market, organized, unorganized and everything put together is a huge market.

And organized part of it is still we believe based on various estimates, just about 10 to 12% of the whole thing. If you were to take a sub-segment fast food and as a sub-segment of that pizza and pasta, while most of it is organized today it is still just about 2% of this whole thing. So the headroom or growth for per capita consumption if you may in other words that is the yardstick to look at. There is a lot of headroom for pizza and pasta to grow as a category.

**Vijay Chugh:** And in terms of market shares, consumer satisfaction or consumer loyalty any matrix to know from the company side how they have assessed or measured it over the last one year?

**Ajay Kaul:** We are pretty much frenzied about customer satisfaction measurement. In fact for your information, while our emotional laddering to our consumers is “Khushiyon Ki Home Delivery”, internally our every store manager in our every store, there is a “Khushiyon Ka Meter” which is there in every store. That is the way they look at it. And based on a fairly rigorous 10-15 point program, do we assess how happy customers are in that store, and that is based on delivery customer index which is separate from dine-in. We also look at the number of concerns which come from every store and how fast they get resolved. And we look at lot of other indexes and all that go into defining “Khushiyon Ka Meter” for every store. So every store when we enter we know how happy the consumers are in that store. Over and above this we also use the Millward Brown model, which tells us that against some other competing brand how happy our customers are. We do mystery shopper exercise, so we do a lot of things; in fact we are fairly obsessed you may say in some ways with customer feed-backing and customer service. And for your information the Franchising Association of India last year, amongst all retail companies in the country, for customer service and responsiveness give us the number one award, across the industry. Which means that it includes large format retails, it includes hospitality, it includes everybody and we were number one there.

**Vijay Chugh:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Saurabh Pant from SBI Mutual Fund. Please go ahead.

**Saurabh Pant:** Ajay you just spoke about at a particular level store in terms of revenue size or the scale of the store, you consider splitting the stores. So is there any benchmark average revenue which would actually bring where the quality starts getting affected and you consider a new store?

**Ajay Kaul:** No, there is no benchmark per say, because a lot of stores we have differently based on spread of the household count. If I give you one example probably that will help you to understand what I am saying. Delhi as a city is very flat whereas Mumbai as a city is very vertical, so the same yardsticks cannot be applied to these two cities, because



they are different. So to answer your question there are no yardsticks in terms of let us say revenue. But there are some, I would not still call concrete benchmarks but there are some norms in terms of household count but more importantly we look very closely at how satisfied customers are, how many lates are we offering in that store especially over the weekends, , what is the average delivery time, so those are the indicators which tell us that are we stretching ourselves in that particular store where our customer service is suffering and that becomes an indicator for us that maybe the time has come for it to split.

**Saurabh Pant:** But generally when you see that these factors that you spoke about, these start getting affected and you think about opening another store but on an average such stores which are split what kind of revenue they clock, it can be a very broad number something like that?

**Ajay Kaul:** They are large stores, I can tell you that these are not small stores; these are probably the stores which are in our top 40%.

**Saurabh Pant:** So exactly like Ravi mentioned the point that on an average you have clocked about Rs. 1.9 crore per store, bigger ones are clocking somewhere around 2.5 times of that, so we can consider that number to be something

**Ajay Kaul:** No, I would say you do not have to go that far, even stores which are let's say 30-40% more than this sometimes can come up for splitting and let me tell you one thing that same store growth number which we have been talking about, 38% last year, includes the impact which may be coming because of this splitting, net of that impact that this point number one. Point number two is that even when we are splitting and obviously one store is losing some revenue and the other new store is being created, the return on investment norms which we have internally are taking the net sales into account because we clearly are also cognizant that overall the new store should be returning the investment.

**Saurabh Pant:** How many stores would have been split, say in the last one year?

**Ajay Kaul:** If you look at as we speak, it is a good double digit number which has split.

**Ravi Gupta:** Apart from whatever stores we have opened in the new city, whenever we open a store in existing city there will be some level of split, can be 10% split, can be 50% split, can be anything in between. So practically whenever you open in existing cities there can be a split there, except for maybe second store in the city that could be an exception.

**Saurabh Pant:** Just a related point, can we look at the Domino's model today in terms of revenue on a per square store basis, that is something when it starts reaching a level of

something like let us say you said an indicating no.- Rs 3 crore, just for example, so those stores until they reach about that revenue benchmark, they can grow at something like a same store sales growth number beyond that they would grow something may be sub-10% of that number. Would that be the right way of understanding?

**Ravi Gupta:** When you look at last year specifically like 37% growth which we had, we try to analyze whether the bigger stores are growing at lower number or older stores are growing at that number, and we are surprised, although there is a difference of a couple of percentage points but all categories stores have grown.

**Saurabh Pant:** So you are saying that the deviation of growth is very low across?

**Ravi Gupta:** Yes. Only in cases where we decide to split, there will be an impact for sometime but we have seen that within 3 to 6 months' time let us say nine months' time, the store recovers the lost sales and starts growing again.

**Saurabh Pant:** Thanks a lot.

**Moderator:** Thank you. Our next question is from the line of Mitul Mehta from Lucky Securities, please go ahead.

**Mitul Mehta:** You said that our metro concentration is about 45%. Just want to get some sense metro versus a non-metro in terms of the customer response and how you are expanding the stomach of a consumer by launching new products. What has been the growth pattern in FY10/ FY11 for a metro versus a non-metro?

**Ajay Kaul:** See from a non-metro let us exclude stores which have opened in the last 1 to 1.5 to 2 years because these are purely new small kind of stores. So let us compare metro versus other non-metro less the other segment I just talked about. We are not seeing a big difference between these two categories. If you understand what I am saying, this is not a number which I am, as a proprietary I want to hide from you, but we are not seeing a big difference there. There is no big correlation which we can run there that there are saturations being achieved. In the smaller cities by virtue of higher penetration more and more people start consuming, in bigger cities penetration is not that much of an issue but frequency starts becoming higher and higher because people there are that much more internationalized, globalized; they have been eating pizzas for a longer duration. To answer your question in straightforward terms we are not seeing a big difference in terms of manifestation on same store growth.

**Mitul Mehta:** Or let us say a non-metro centre when you recently or maybe opened a store a year or a year-and-a-half back that the experience has been pretty muted versus some other centre?

**Ajay Kaul:** There are. One odd of ten are places where the response is not as good as we had expected but today we have also through all our precision marketing and all other marketing weapons that we have, ground level, local stores marketing, corporates we are able to turn around these stores also after giving all sorts of injections to them in a short period but other than that and I would not like to name any because they are pretty much random. After all the due diligence that we do they sometimes give us a surprise. But probability of such stores, as I said, is just about 5%.

**Mitul Mehta:** We did talk about runaway inflation in milk and cheese. And correspondingly we did take some price action. So when you take price actions, the intensity of price action versus previous year and a year before that, how much of a price hike did we take this year versus last two years?

**Ajay Kaul:** We have been taking two nominal price increases every six months and this has been the pattern for the last 3-4 years of around 2% to 3%. This year in April we took slightly higher than that and so far there is no indication that consumer off take had any impact.

**Mitul Mehta:** To reverse the prices once the inflation starts cooling off, so do the benefits get immediately passed on or the impact of price rise continues to accrue to our company?

**Ajay Kaul:** Firstly, your question is a little hypothetical. We do not foresee that food inflation led decreases will happen in foreseeable future. If they are at the same level we should feel lucky. So, the chances that it is going to go down are low. But even hypothetically it were to go low, I do not foresee that we will go ahead and reduce prices that is my immediate answer although it is a hypothetical question. So in that circumstance maybe it will start giving us some margin benefits.

**Mitul Mehta:** My last question is a little broad based and premature but I am sure you can answer. Now our Jubilant pizza model seems to have very well established as far as return parameters are concerned. Now if I were to look at Dunkin' Donuts as a separate entity or a segment, have you set any internal targets in terms of what kind of return on capital employed we would be targeting, or is the economics in Dunkin' Donuts would be identical to a Domino's pizza shop?

**Ravi Gupta:** See our evaluation criteria for opening a new store at Domino's is that payback for that stores, whatever we have invested in that store, should be less than 3 years. And then we evaluated Dunkin' Donuts and all other brands, we have passed all those brands through this filter and after Dunkin' Donuts has passed through that filter, we have short listed that brand to go ahead and we believe that Dunkin' Donuts has a potential to meet this criteria which is our internal criteria of pay back of three years or less.

**Mitul Mehta:** Thank you very much.

**Moderator:** Thank you. Our next question is from the line of Aakash Manghani from Girik Capital, please go ahead.

**Aakash Manghani:** Earlier you mentioned that some of the stores which you opened, let us say, three years back, ten years back, or eight years back, they are growing at a similar rate. One thing I want to know have any of your stores in the past decade or so had de-grown?

**Ajay Kaul:** None.

**Aakash Manghani:** And you did not have to shut down any of your stores?

**Ajay Kaul:** None. You may have sometimes seen a store closing but let me assure you no store has been shut down because of performance reasons. We may relocate and we are consciously relocating some of our old stores which are Domino's stores doing well but we used to follow the old Domino's model where they were a bit in the inside, not very visible and so on, and we realized as we are moving stores more and more high street, more and more outside, that itself gives the big fillip to the sales and so on. So those relocations may have happened and you may have seen an old store shutting down but none because of performance.

**Aakash Manghani:** You mentioned earlier that there have been changes in consumption pattern also which has led to increase in same store sales growth over the last couple of years. So if you can give me an idea that compared to five years back vis-à-vis now what would be the average orders taken away from your top performing store five years back as compared to now?

**Ajay Kaul:** I cannot share consumer level data but I can tell you that if you look at three of four buckets one is if the store has got 'x' number of households around it, how many households are ordering at least once in a one year period. Now clearly this has gone up significantly. People who are consuming you at least once or more, clearly their frequency, if you compare five years back has probably gone significantly up maybe more than doubled in this time period. Now households per se, as the store starts becoming bigger and bigger we reduce the number of households there because servicing becomes better and so on and we create a new store out of the other households. So even number of households per store has been reducing over a period of time. So if I have been able to answer your question all these consumer level data are suggesting that at the consumption level clearly the consumer is imbibing pizza as a category more and more.

**Aakash Manghani:** Recently there was a report in one of the leading newspapers talking about the growth patterns of most of your competitors, the likes of Pizza Hut, Subway or McDonalds, not exactly head on competitors, so I would like to know your take on it as in how do you see competition panning out. You are the market leader as of now but 5, 7, 8 years out do you see more of international players coming into the scene or do you still expect to increase market share going forward?

**Ajay Kaul:** See, market share result of the activities which we do, we do not start the day by saying that we want so much of market share. Yes, but market leadership is something which we had aspired some years back and clearly we are the number one player today in the pizza market and we also take pride in saying that we are the largest multinational fast food company in the country in terms of number of stores. Now if you look at the penetration of pizza and pasta as a percentage of the total market it is still so small, while the industry is 15 years old, fast food industry and pizza and pasta also as a sub-segment of that, we do believe that there is still lot of headroom to grow and lot of work which all of us together which is us and some of our other honourable opposition do, will only change habits of people. If I were to just throw one piece of statistics here, there are number of meals consumed outside of home in a Delhi or a Mumbai, compared to any other, let us say a metropolis in Asia, is still so miniscule despite changing food habits and so on, so out of 60 meals in a month lunch and dinner, a very small percentage of that is consumed outside of home in a Delhi or a Mumbai. The moment you look at a Jakarta or a Bangkok or any other such country, they have also gone through this whole process, they are sitting at 5 times, 6 times, 7 times our size. So there is a lot of headroom to grow there. So we are very upbeat about the market. We do not believe competition is with the next player. In fact we are more competing with the generic Indian food which is the dal roti, the idli sambhar, dosa and the chana bhaturas and so on.

**Aakash Manghani:** Lastly, you mentioned about the 80 stores which you will open in this fiscal. How many would be dine-in amongst this?

**Ajay Kaul:** All our stores are going to be delivery-centric because that is what we are, we are a delivery expert and we are number one in the country and also the world. However, as you rightly said the last three or four years we have consciously creaked our strategy to create stores which also has ample good dine-in environment, so all our stores which are coming up this year are going to be having a dine-in centricity also where they will be people who can sit down and in a good congenial fast food environment and consume their food.

**Aakash Manghani:** So the CAPEX per store would increase significantly I assume.

**Ajay Kaul:** See it would normally be similar to last year because last year also we opened similar stores but this year we have consciously tried to create that much more high

volume mentality in our stores. When I say high volume mentality it means creating stores for the future because 37% to 38% same store growth also are unprecedented. We have been witnessing 20% to 22% same store growth for a long time but 37% to 38% was also for the first time for us. So we are creating stores for future whereby investing a bit more into infrastructure, a bit more into modern-day technology to make sure that they facilitate order taking, they facilitate order processing, and we are able to handle higher volumes.

**Aakash Manghani:** In your inventory, your inventories have increased significantly this year. What would be the reason for that?

**Ravi Gupta:** We have procured one of the material in advance because there was an anticipation of shortage of that material and that is the reason temporarily in the month of March thus inventory was high.

**Aakash Manghani:** Thanks a lot for answering my questions. Wish you all the best.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments.

**Ajay Kaul:** I would like to thank everybody for patiently listening to our part of the story. Thank you very much for joining us today. We had a strong finish to a year and are optimistic about our growth going ahead. Should you have any more queries please do get in touch with us and we would be very happy to address them. Thank you from Ravi and my side and Hari Bhartia.

**Moderator:** Thank you. On behalf of Jubilant FoodWorks Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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