# Jubilant FoodWorks Limited

# Investor/Analyst Conference Call Transcript
February 25, 2011

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**Urvashi Butani:** Good evening ladies and gentlemen. Welcome to Jubilant FoodWorks Conference Call for Investors and Analysts. The call has been hosted to discuss the signing of a master franchisee agreement to bring Dunkin' Donuts restaurants to India. I have with me on the call – Mr. Ajay Kaul - CEO and Mr. Ravi S Gupta – CFO. We will commence the call with comments from Mr. Ajay Kaul followed by Mr. Ravi S 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 also like to mention that certain statements made would be forward-looking in nature and the actual results may vary significantly from these statements and the company does not offer to update these publicly to reflect the changes in performance. A detailed statement in this regard is also available in Release, which is available on the company's website under the investors section. I would know like to invite Mr. Ajay Kaul to commence by sharing his views on the introduction of Dunkin' Donuts in India and JFL's strategy going forward. Over to you Sir.

**Ajay Kaul:** Thank you Urvashi. Welcome and thank you for joining us today . We are extremely proud to introduce our relationship with Dunkin' Donuts, the world's leading coffee and baked goods chain, not to mention a name that is synonymous with delicious doughnuts. The Dunkin' brand is also the fastest growing quick service restaurant chain in the world.

We had the formal signing of the agreement with Mr. Nigel Travis, Dunkin' Brand, Chief Executive Officer and Dunkin' Donuts' President yesterday. Both Dunkin' Donuts and Jubilant Foodworks believe that now is the right time to bring and develop exciting brands such as Dunkin' Donuts in India.

To give you a brief background on Dunkin' Donuts, Globally it operates 9700 stores in over 31 countries with an extensive menu comprising options such as coffee and espresso, delectable donuts, sandwiches, and more. The company has been serving more than 3 million consumers per day. Dunkin' Donuts sells 52 varieties of donuts and more than a dozen coffee beverages both hot and cold as well as an array of bagels, full range breakfast sandwiches, muffins, and other baked goods. Dunkin' Donuts Global promise is to "provide high Quality Food & Beverage, served in a friendly, fast and affordable way.

JFL is happy to partner with Dunkin' Donuts in its endeavor in India. With Dunkin' Donuts, we intend to provide 'all day part food' options to the consumer through its range of offerings. Our product range will include all day part sweet and savoury options of food and various hot and cold beverages which will cater to all age groups.

Having developed an excellent track record, we believe we have created a strong leadership position in the organized food sector. Thus we have been an obvious choice for most internationally renowned food brands to tie-up with. We evaluated quite a few such global food brands. It took us a good two plus years to reach our final conclusions based on key considerations like - strategic fit with JFL, fit with the Indian consumer, ability to become highly profitable with high ROI, flexibility in the model/localization etc. We believe our partnership with Dunkin' Donuts is clearly in line with JFL's philosophies. We wanted, as a group, to focus on brand, which provided us the opportunity to grow with high ROIs coupled with limited investments and capped risks and at the same time which would help leverage our execution capabilities and expertise. Moreover, Dunkin' Donuts will enable us to cater to both the food and beverages market in India thereby creating opportunities to cater to much larger markets.

In our view, Dunkin' Donuts is the perfect match to JFL ideologies. Innovation for us is at the focus of our approach to create a unique experience for our consumers. Dunkin' Donuts' model provides us with great flexibility to localize the offerings in order to better cater to the preferences of the Indian consumer and his tastes. As a principle, we believe it is necessary to be extremely aware of our customers' preferences and feedback. Thus as we move ahead, our menu will witness constant development and alignment to the Indian palate.

With the entry of Dunkin' Donuts in the Indian market, we believe it clearly has the potential to make waves in the QSR space. The Indian food service market at present is estimated to be valued between Rs. 60,000 to 70,000 crore. The estimated share of organized chain of food service restaurant is expected to increase significantly from the current 8- 10% to 20 - 25% in future. This of course is backed by factors such as changing demographic profile, rise in dual income level, rise in discretionary spends, improved standards of living, and growing demand for convenience, and the willingness to try with new and international cuisines. More specifically, we are of the opinion that there are immense opportunities in the all-day part food segment as a category and it is largely untapped with a limited number of players in the organized category.

We believe we have worked in a focused manner to develop a national organization in the QSR space. Our learnings give us confidence to welcome leading brands such as Dunkin' Donuts under the JFL umbrella. We have with our previous experience created a leading position for ourselves in the retail food space. We have accumulated a pool of learning in several domains such as SCM, human resource management, marketing, and operational excellence to name a few. Moreover, we have also developed the ability to gauge consumer insights. Last but not the least; we have created a pool of talent which will be deployed onto this new project. These are people at various levels who have years of food service experience. Thus the availability of such experiences and expertise will enable us to apply these to the benefit of Dunkin' Donuts from day one itself. Backed by essential prerequisites, we are optimistic and confident of replicating a similar growth trajectory for Dunkin' Donuts. With Dunkin' Donuts added to JFL's portfolio, we will be able to leverage our extensive experience and thus we truly believe that DD will be a perfect integration to the JFL brand and will definitely create a synergistic operating environment.

Before I hand over to Ravi, I would like to provide a few details of the agreement. Our tie-up with Dunkin' Donuts is an exclusive franchisee arrangement for a period of 15 years with the option of renewal for another 10 years. The agreement provides JFL with the exclusive rights for Dunkin'Donuts in India with the first right of refusal for Nepal, Bangladesh, and Sri Lanka.

JFL believes in using a systematic approach to progress. Thus we plan to initiate our rollout in phased manner which we believe is definitely a wiser strategy which will enable us to - lay emphasis on generating sustainable profitability and enhance adaptability of the brand to consumer tastes and our investments will be better aligned to growth delivered by Dunkin' Donuts.

Lastly, I would like to add that our results thus far have been encouraging and endorse the fact that we are moving in the right direction. We are absolutely geared to take up this new and exciting venture and thereby create higher levels of success and achieve many more milestones in the future. I would now like to hand over to my colleague Ravi Gupta to say a few words.

**Ravi Gupta** Thank you Ajay. A warm welcome to everyone once again. We are very excited about Dunkin' Donuts' announcement. We see this announcement as being significant for our shareholders, customers, employees, and start of another exciting story in the QSR space. The QSR segment in India is constantly on the move. We believe there are gamut of factors which drive this growth and we expect this trend to continue as we move ahead. JFL too, in line with the industry dynamics, has always been proactive in its functioning and thus with the introduction of Dunkin' Donuts under our umbrella, we believe we will be able to deliver a broad range of new experiences in the form of all-day part food to our customers.

There are now several steps that we need to take in order to successfully move forward and we are very committed to this. JFL has always as a rule used a systematic approach to progress. We will just apply the same philosophy for Dunkin' Donuts too. Our rollout will be in a phased manner thus ensuring sustainable profitability and greater adaptability to Dunkin' Donuts to consumer preferences. Thus our initial focus will be primarily on metro cities and we plan to rollout about 80 to 100 stores over a span of 5 years. Moreover, we are confident that this venture will deliver an optimal return on investment from early stages of operations itself. This would be possible by leveraging our existing strength in supply chain, operations, and marketing as well as leveraging the common functions such as finance, HR, IT, and supply chain. Moreover, one of the important aspects of our association is that the arrangement with Dunkin' Donuts provides us with the leverage to design products better suited to the Indian consumer along with Dunkin' Donuts' support to create premium quality of products at the exceptional value.

Let me now speak of the synergies that this alliance will create. JFL has deep understanding of the food industry and has a know-how required to judge and feel the pulse of the Indian consumer. This is the competitive edge that we have developed and hope to further enhance as we move ahead. We have developed all around expertise including store planning, store operations, logistics, human resource management, innovative product development as well as excellent marketing initiatives. JFL's association with Dunkin' Donuts thus rests on synergies of shared profit business philosophy and processes besides the commercial viability and opportunities for scalability. Furthermore, we have at JFL developed good practices in the area of people management and today have the best talent pool in the industry. We will thus have the benefit of leveraging all these factors for launching Dunkin' Donuts' operation in India. Besides, Dunkin' Donuts being a successful global brand, it has also developed best practices in several domains. Thus, we will further have the benefit of exploring these and amalgamating them with the established practices at JFL.

In terms of the size of a store, the model offers a great flexibility. The doughnuts and other food products will mostly be prepared at the commissary which reduces the size of the store.. In view the processing at the store is minimal; the store size would be smaller. On an average, size of the store would be around 700 to 750 square feet. We have not finalized our exact business plans and CAPEX plans as of now; however, as Ajay mentioned earlier, it is a low investment, high ROI model. The investment per store is much lower than what we presently spend. Also since the model has great flexibility in terms of its product offerings, it meets all-day part food needs of the consumer and this helps us to get better ROI.

Let me add further that the CAPEX would be funded out to the internal accruals and there would not be need for any external funding.

With added up the Dunkin' Donuts, we see ourselves widening our portfolio and view this as a perfect example of our commitment to expand and strive for greater success. We hope that when we combine the existing strengths of JFL and the potential of Dunkin' Donuts in India, the result will be incredibly efficient and competitive offerings for our consumers. With this, I will now request the moderator to take the call forward. Ajay and I will be glad to address any queries that you may have. Thank you.

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

**Pritesh Chheda:** If you could compare Dunkin' Donuts' progress in some of the new emerging geographies in terms of the expansions that they have done or their franchisee have done, the ROI that business has generated and the CAPEX that franchises have done and what kind of similar CAPEX or ROI is possible in this business from a 3 year perspective?

**Ajay Kaul:** Dunkin' Donuts is present in around 31 countries worldwide. None of the entities are listed. So to that extent, we do not have access to lot of this information, but having said that if we look at the Asian market for example, they are present in nearly 6-7 markets. In markets like Korea for example, they have 900 stores. They are by far the market leaders. In Philippines, they have 600 stores, again by far the leader. In markets like Indonesia, they have around 280 stores if we know the number correctly which is again puts them in the market leadership position if you were to compare them with food companies as well as coffee companies. They are also present in Thailand and a few other countries. We do not have access to that ROI information which you are talking about. So we will not be able to comment on that.

**Pritesh Chheda:** What is the number of years that Indonesia and Philippines have been present?

**Ajay Kaul:** In Indonesia, they have been present for I think 20 plus years, in Philippines again 25 plus years, and Korea also is around 25 years.

**Pritesh Chheda:** What kind of ROI is possible in this business and should this business be cash breakeven in terms of achieving, similar to Domino's or would it be different?

**Ajay Kaul:** Two points here. On a steady state basis, if both businesses had started on a day and they were now let us say, both were 10, 15 years old. Comparisons would be fair, but if I have to give you Domino's comparison with let us say the first 10 stores which we opened for Dunkin' Donuts, it cannot be a fair comparison, but let me still build the case for everybody's benefit. We are confident that the stores will be cash positive in the first 12 months of operation, it could be even earlier. In terms of let us say return on investment or payback because the CAPEX involved in Dunkin' Donuts store is much lower than what we spend on a Domino store today. While it is also smaller in size, but in terms of CAPEX, it is much-much lesser. We believe that our internal norm of getting a payback is 3 years which we rigorously follow in Dominos and it is much lower than 3 years in Domino's, in the case of Dunkin' Donuts, it is definitely possible.

**Pritesh Chheda:** The internal norm of getting payback in 3 years is possible?

**Ajay Kaul:** Yes.

**Pritesh Chheda:** Initially would there be a large investment to set up commissaries and all in Dunkin' Donuts model and what would be that number, is there an upfront fee to be given to Dunkin' Donuts?

**Ajay Kaul:** Commercially without divulging the exact numbers are, we have to pay them a country opening fee. Every time a store opens, there is a store opening fee and there is also a royalty which is to be paid on sale. We can safely say that all these are not very different from what we have worked out with Domino's without divulging even numbers on that front, but you know some of those numbers. So we have struck, to my mind, a very good deal commercially and in terms of life of the contract which we said earlier also 15 years and extendable for another 10 years. As far as commissaries are concerned, the commissaries in the case of Dunkin model are that much more flexible in their approach. Firstly they are much smaller than what Domino's requires and they also have flexibility depending on the density of your stores and the way you want to cover them, commissary sizes could vary from 2,000 square feet to may be 10,000 square feet. So that is a fairly flexible model.

**Pritesh Chheda:** How does this compare with Domino's commissary?

**Ajay Kaul:** The Domino's commissaries, for example, the one which we have built recently goes up to even 20-25,000 square feet.

**Pritesh Chheda:** And will this business be housed in a separate wholly-owned subsidiary or within JFL itself?

**Ajay Kaul:** It is under the JFL umbrella as a separate division. And we believe there will be shared functions. For example finance, IT, and supply chain to a large extent we will leverage also. So all those plans will get worked out from now until the launch of the first store which will also be one of your questions so let me kind of preempt that. We will intent launching our first store in the first quarter of 2012 calendar year.

**Pritesh Chheda:** Lastly this terminology of day part food is new to us. So if you could spend more time in terms of what it includes?

**Ajay Kaul:** Good question Pritesh. I must tell you that our selection process has taken us more than I would say 2-2.5 years our discussion with Dunkin' Donuts, but what struck us was from a consumers perspective if you see, there is a Rs. 60-70,000 crore food services market in India today growing pretty fast and the organized chain part of this business is only around 10% today. So it is still a minuscule thing, but potential to become 20%-25% in the next foreseeable 5- 10 years. So there is lot of room to grow.

Now if you were to cut this whole piece into various day parts which means starting with breakfast going right up till 11 o'clock in the night, while there are two definite meals along the way which is the lunch and the dinner. Typically let us say if you look at Domino's model just as an illustration, we are predominantly a lunch and a dinner model. So we have foods which are basically meal replacements, lunch and dinner, 70-80% of our food gets consumed around 12 o'clock to 2 o'clock and may be 8 o'clock to 10 o'clock. Now in the case of Dunkin' Donuts, we believe their strength on the food side is that they will have a food solution at various day parts not only in lunch and dinner, but they will also have something which will be there for 4 o'clock, something for 6 o'clock, something for 10 o'clock in the morning, and even breakfast.

While we know that in India, eating out for breakfast, compared to the Western world is still some time to go, but changes are happening. So that is where the larger opportunity is and that is what actually on the consumer side attracted us towards Dunkin' Donuts in terms of their offering and coupled with that is the fact that we can localize. They give you a lot of leeway to localize unlike lot of other brands which have their signature products and they want you to kind of stick to that. Localization could mean not only bringing in Indian taste into it and even looking at some very hardcore Indian snacks if it may come to that or Indian kind of food. So both these put together will give you an idea that these are basically food solutions localized to the extent that they can get, for the Indian consumer throughout the day and then one layer added on to this is the beverage which is starting with coffee. 'America's most favorite coffee' is the tag line which the Dunkin' Donuts has used for several years now. They are clearly one of the leading coffee players in the whole world with presence in 30 odd countries and there are a lot of statistics to support that. So clearly coffee driven beverages and even cold beverages like the Colatta and all that which are proprietary cold beverages. They are again market leaders and as I said a little while back in my speech, they are the leading coffee and baked goods' company in the whole world and the fastest growing QSR in 2010 in terms of number of stores. So a mix of all this attracted us to Dunkin' Donuts. While we had a wide array of I would say 3-4 people that we were talking to across categories, who we were discussing with and these discussions sometimes go on for months, years also. It was very judiciously that we embarked or we decided to go in for Dunkin' Donuts.

**Pritesh Chheda:** So what we understand in the Dunkin' Donuts, we will have snacking which is largely baked and then beverages and what you mean by day part is all the meals covered in some form or the other in the day part food segment?

**Ajay Kaul:** I would refrain from using the word snacking, but all types of food solutions as rightly said by you, but throughout the day.

**Pritesh Chheda:** In Domino's, we had this exception that you would not have another delivery based franchise that you take up in the future, is there any exception to this agreement?

**Ravi Gupta:** Yes Pritesh there is an exception. We cannot enter into a predominantly coffee and doughnuts business. That is the only exception.

**Pritesh Chheda:** Many thanks.

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

Amnish Aggarwal**:** If you look at say Dunkin' Donuts, their product line is mainly for example in addition to coffees something like donut, bagels, muffins, etc., which are more like oven-toasted products. So when you are referring to some sort of localization and customization here, are we likely to stick to your baked products or there is a likelihood of some totally Indianized products also being in the menu?

**Ajay Kaul:** Theoretically, you can Indianize as much as you want while we would want to stick to lot of signature products of Dunkin' Donuts which are consumed like that anywhere in the world. In doughnuts for example they are the largest doughnut player in the whole world and doughnut actually even in lot of Asian countries is a significant portion of the menu mix and the revenue. So we believe, India as a country, represents an untapped doughnut potential. We have a sweet tooth and we believe with the amount of sweetmeats-that get consumed, there is lot of opportunity for doughnuts , but beyond which the muffins, bagels and all that which are again signature products have a large scope, but over and above theoretically we can go to any extent in terms of introducing Indian snack if need be. Whether we will be do it from day one. However our estimate is as we had mentioned even in our speech is that the Indian consumer will determine what all we will launch and what all products will be there on our shelves. If the customer wants us to do that, we will do that.

Amnish Aggarwal**:** My next question is regarding the import component because the coffee which Dunkin normally use is Arabica variety which comes from North America and it is brewed and prepared in the outlet itself and if it is not used in around 20 minutes or so, it is discarded. So going by this, do you plan to import your entire coffee requirements from there or what sort of localization will happen in that?

**Ajay Kaul:** In the beginning, first 6 months or so,- for getting the highest standards or benchmarks fixed even for ourselves, we will be importing most of it, but I would say the beauty of our contracts with Dunkin' Donuts is that it offers a flexibility and you will hear the word flexibility a lot of times during the course of today's discussion on various fronts and let me talk about the contract, it gives us the flexibility to even procure coffee locally, of course approved by them. It even goes to the extent of giving us the opportunity to even roast coffee locally. We can get into a roasting option if the need be. Keeping in mind that yes, there are high import duties on coffee this has been worked out. Now I cannot comment right now how fast we will get into roasting and so on, but procurement of coffee locally is something which we would start working on almost immediately. Because they believe in the highest quality of coffee, the highest quality Arabica beans get used for it, luckily India does produce lot of high quality Arabica beans. So we believe such options are workable, but it will require lot of product development, item development which along with the supply chain and product development team of Dunkin' Donuts, who are hopeful that we will be able to develop it fast.

Amnish Aggarwal**:** And if we look at price and positioning in India, who will be our key competitor in India and what sort of pricing are you going to adopt in this category when you enter?

**Ajay Kaul:** In terms of food space, we believe in the all-day part food segment and especially let us say westernized food, there is nobody who operates there. There are of course some cafés, who are basically coffee players, but they also carry some food with them, but they positioned themselves as coffee stores. So we believe there is nobody who is positioned as an all-day part food company who also sells coffee and coffee-related other cold beverages and hot beverages. Aand in any case if you look at most of these segments, they are so much in the evolutionary or in the lifecycle, they are so much in the formative stage. We believe that the basic competition is that Rs.60-70,000 crore food services market. You may have often heard me say this statement, even in the case of Domino's- which is a 15-year-old category now in India,we still believe that the 60 meals in a month and everything else that goes into eating foods throughout the day, the food services market which is Rs. 60-70,000 crores that is actually our real competitor. So to get a certain percentage and chunk out of that will be our objective and to that extent there is no one specific competitor we have.

Amnish Aggarwal**:** And you mentioned about the store size of around 750 square feet. So based on this, will be going for some store where there will be some dining option or it will be just like on-the-go kind of an outlet?

**Ajay Kaul:** No in fact let me just clarify here. Before I talk of flexibility, the model of Dunkin' Donuts is that there is no delivery in this. It is a predominantly takeaway, dine-in model. So when we talk of let us say an average size of around 750 square feet, the operational area thankfully is very small that is probably 150-200 square feet. So nearly 70% of the store gets consumed for consumer area, or customer area. If we go by the Asian example, there is a 20-30% business which is on-the-go kind of business where people come, they take their donuts and coffee and other things and then they move on, but 60-70% business does get consumed in the store itself. The flexibility I was talking about was that in terms of store size, in this case depending on where you are putting up the store, it could be a signature store which could even be 1500 to1800 to 2000 square feet or as small as may be 100-150 square feet depending on whether it is at a metro station or whether it is at a bus station or inside a library or it is in an educational campus. So they have a fairly flexible model where it can be put up and sales can be done.

Amnish Aggarwal**:** If I compare Dunkin' Donuts store which will be setting vis-à-vis the Domino's store which we have, in terms of the locations in the particular cities or localities, do you see a very significant shift happening for us particularly in the larger cities because being a home delivery model in case of Domino's, we could have a forte to go into more interior lanes or places because the people were to mainly order, but here we need to be right in front on the main doors, etc. So do you think to that extent, rental cost and all will be high in this model?

**Ajay Kaul:** In the Domino's model just to kind of put things fully in perspective, over the years in Domino's also we have started going fairly high street, sometimes in the malls, not very frequent. As a result, we are that much more visible and it has had its own positive impact on the business. I agree with you that the Dunkin' Donut model is that much more high street that much more mall oriented, that much more foot fall driven. So in terms of per square foot cost, it will get into those kind of real estate where per square foot cost we believe will be higher than what Domino's is, but fortunately the format is flexible.. For example an average Domino's store today is around 1200 square feet whereas an average Dunkin' Donut store will be only around 750 square feet.

Amnish Aggarwal**:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth Management. Please go ahead.

**Umesh Gupta:** Will there be any coexistence of both brands where you could leverage your current distribution network?

**Ajay Kaul:** In fact we have full intention of leveraging supply chain to the extent possible while the models are slightly different, but supply chain leveraging to some extent can be done. Other than that, there are shared functions like finance for sure, IT, HR to some extent which can also be leveraged.

**Umesh Gupta:** But not the front end?

**Ajay Kaul:** Not the front end. There may be a few malls for example where both Domino's and Dunkin' Donuts may want to enter and be next to each other, but I would say majority of places as rightly said by the previous speaker also and also by virtue of having already 364 stores by December we are already penetrated and we are present at lot of these places. So there may not be a need to do that. So probably it will not be a big overlap between the two.

**Umesh Gupta:** And on this journey for Dunkin' Donut, as you mentioned that since you have already been in the Domino's business for a long time. So this will not probably take the same course, but in terms of reaching the optimum margin levels and sort of PAT levels, what kind of time frame you see for it to catch up with your current operations?

**Ravi Gupta:** Umesh we are in the midst of working at our exact business plan, but to re-emphasize what Ajay has mentioned earlier, we believe that at store level, we would be cash positive within first 12 months of operation. We are pretty confident about it. And second our internal guidelines for opening the stores are not changing. Our internal guidelines say that the payback year of the store has to be 3 years or less. So we evaluated this model in that line and we are sure that we will have the payback less than 3 years in this model as well.

**Umesh Gupta:** What kind of rollout will it be in terms of number of stores per annum for the first few years?

**Ravi Gupta:** As we told you exactly year wise we cannot share, but in the next 5 years from the time we set up the first store which is about 3-4 quarters. In first 5 years, 80 to 100 stores will be there.

**Umesh Gupta:** How many stores are there in Indonesia and Philippines?

**Ajay Kaul:** Philippines exact count is not known, but we are told it is around 600. Indonesia is around 290, Korea is around 900. Korea in 2008, they had opened 500 stores.

**Umesh Gupta:** In one year they opened 500 stores?

**Ajay Kaul:** In 2008, they have opened 500 stores and today they have 900 stores. You can think about what the speed of opening is.

**Umesh Gupta:** Thank you.

**Moderator:** Thank you. The next question is from the line of Mithun Ashwath from Barclays Wealth. Please go ahead.

**Mithun Ashwath:** What sort of spend do you expect each customer to do on average in a Dunkin' Donut store compared to Domino's where the user spends a lot more because what he is buying is a pizza, so just wanted to understand that and also in terms of the competition you have several brands like Starbucks as well as you have the incumbents like Coffee Day as well as Barista in the market, do you think you are getting into a very crowded space because you have a number of coffee chains which also do serve other food. So I just wanted to understand a differentiation of Dunkin' Donut while Domino's is obviously a leader and does not have too much competition. How would you differentiate yourself in this crowded space?

**Ajay Kaul:** We will take this question in an order which you have not followed because I think it build up the case appropriately. When Domino's had entered the market 15 years back, firstly there was no pizza category present. Today we can very proudly say that there is little competition and I like your language honestly while we do believe there is still competition sitting there. The point is how well did we strategize, did we execute, did we plan, did we put our plans in place to reach a stage where we have marginalized competition. I think that needs to be kept in mind in terms of I would say the expertise, ability, you may think that I am not modest here, but I believe we have as a team the wherewithal to make any brand, any situation work in the food space irrespective of competition where we then ultimately can make statements like saying there is no competition. But coming back to your earlier two questions. Firstly Domino's which is predominantly a meal replacement cannot be compared in ticket size with what Dunkin' Donuts would achieve. So it is not a fair comparison, but to answer your question directly on what is the ticket size, honestly we have not worked it out. We have some guesses, but they are not science driven. They are intelligent guesses. We are conducting and we are going to do more and more intense research immediately and then arrive at more specific answers to questions like yours. Right now we do not have these answers.

You did talk about huge competition sitting there. Our view to that there is competition, but before that we believe that the Dunkin' Donuts' model is not competing with the coffee model directly. We are first a food company and then a coffee and beverage company. Because our appeal to the outside, to the customers starts with all-day part food solutions, that is our main thing and doughnut is a key hook in that. In lot of markets as I said 20% of the total food which we sell is coming from d doughnuts and in India, doughnuts as a category, again like pizza was 15 years back, is under developed and then if you move over from the foods space and go into the coffee space, I do agree there are some players there who have been around for 10-12 years, but if you also see the rampant growth of that segment. I have always maintained that if the formative stages of any category, more competitor means there are more consumers who are shifting from may be drinking tea, may be drinking some other beverages into drinking coffee and the more habit formation happens for more and more people, it is better for the industry, it is better for the category. So to that extent, we are happy that there are already so many players and people today know that coffee is something which you can go out and sit and have it in a lounge or a bar. So contrary to your view, we are positive. It is good that there are players because the category is developing, the market is developing and there is a market already sitting there and growing very fast. From the time coffee was launched in India let us say a coffee bar which was nearly 12-13 years back, there are 1600 stores in India. So every year there are additional 120-150 stores of coffee which are coming in India, which is good. There are more and more people who are having coffee; there are more and more people who are shifting from having tea to coffee.

**Mithun Ashwath:** Fine thanks.

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

**Manav Vijay:** What kind of CAPEX we will do in next 5 years considering 100 stores kind of stuff we are looking at?

**Ajay Kaul:** Manav we still working out our exact business plans and CAPEX plans, but having said that all the CAPEX which will be required for the Dunkin' Donut will be funded out of the internal accruals. We have robust internal accruals arising out of the current business and we believe that even after investing in the Dunkin' Donut model, we will have a great surplus. By December end, we had about Rs. 45 crore surplus which is 9 months performance and during this 9 months, we have repaid some debt as well. You probably know that on a Domino's store, we do spend around 70 lakh-per store. In the case of Dunkin, it is going to be much lower than that just as a reference, but as the first store will be built, we will know exactly how much it will cost.

**Manav Vijay:** In terms of commissaries, right now we have 4 all over India and I would say pretty much standard stuff goes out from the commissaries to the store, I would say at least in terms of dough We will have this almost similar kind of model in DD or will we have something different?

**Ajay Kaul:** The model of DD is also commissary led because the doughnut as a proprietary product gets made in the commissary. Lot of other products are outsourced, but may be hub-and-spoke through the same commissary But as I was saying earlier the size of the commissary is much smaller compared to what is there in Domino's. We will see if there are synergies of operating out of the same commissary and needless to say that, in the beginning, especially, we will start in the metros where we will be building the stores. So we have existing commissaries in some of these metros and as the plan unfolds, we will keep correcting ourselves and making the investments.

**Manav Vijay:** So maybe it will not be possible for the company to use the front end for Domino's and DD, we will make use of at least commissaries and let us say supply chain management staff to cut down on the costing?

**Ajay Kaul:** That is right.

**Ravi Gupta:** At the front end, both brands are independent.

**Manav Vijay:** Certainly and would it be possible to share the numbers of DD anywhere in the world? In terms of profitability?

**Ajay Kaul:** I do not think there is any country which is listed. We have also tried and getting other information, it is difficult even for us. At a global level, we know that Dunkin' brands is a $6 billion group. Other than that, it is very difficult to say.

**Ravi Gupta:** All the companies, even the parent company Dunkin is closely held, but whatever evaluation we have done with couple of countries where we have visited, all of them were pretty happy with the model, they are pretty excited with the model and all of them are recommended saying that in their countries it's done wonders for them.

**Manav Vijay:** You said that in Korea, in 2008, they opened 500 stores. Is that right?

**Ajay Kaul:** Yes, you are right.

**Manav Vijay:** In Korea, DD is present for last 25 years, am I right?

**Ajay Kaul:** Yes.

**Manav Vijay:** So there was a big expansion plan that happened in Korea in 2008 which may be would have followed in 2009 as well as 2010. So we will have 10, 15, or may be 20 stores every year for next let us say 5 years and then we will explode like the way we did in Jubilant or depending upon what kind of response we get from the customers, we might change our strategy?

**Ajay Kaul:** Your second part will be true all the time because depending on the consumer, if the consumer is ready to imbibe the product faster than what we think he is, the numbers could look far better and more aggressive than what we have just talked about But we believe given what our pace in Domino's is, given the rate at which our estimate of the customers' readiness is to imbibe products like these for example the rate of change in terms of discretionary spends on items like these, the willingness of the consumer today to experiment with international cuisine, these kind of formats.

I spoke at length about how the organized chain as a percentage of the total food service market is growing at a very crazy pace and lot of other socioeconomic- cultural landscape changes that are happening, working women, double income - no kids, rise in nuclear families. All these factors directly or indirectly are affecting the growth rate of this segment. So when we say 80 to 100 stores in 5 years, our confidence on this number is very high. Will it become 150 and 200, we will depend on the rate at which the consumer is running and honestly we can see that is far. But may be the consumer will go even faster than this and the opportunity will be even more. For example if we look, Domino's started 15 years back in the first 10-11 years and I know we are talking of years which are in the past where the consumer was not as much involved, there was not as much disposable income, there was not as much discretionary spend. We in the first 10-11 years had added around 150 stores only. So you may argue slow pace, but in the last 4 years, we have added on an average 65-70 stores every year. So this is also reflective of the rate of change of the consumers' acceptance of products like these. Of course how well you are marketing, what kind of brand awareness you have created. All those things also play a role, but also speaks volumes about the readiness or the willingness of the consumer to consume products like these. So with Dunkin' Donuts, fortunately we are starting at a time and the consumer is already showing these kinds of changes in their psyche

**Manav Vijay:** What will be the catalyst in Korea for them to add such a huge number in one single year?

**Ajay Kaul:** No clue. But its not in one single year, it has been 3 years. We are talking of 2008, 2009, and 2010 and now we are sitting in 2011. So it is not one year, it is 2-3 years, but yes they have added lot of stores in each one of these years. They are by far the market leaders by a long margin. You can probably go and check out they are not listed you would not know. In terms of who the biggest competitor is how many stores do they have. So I think they also reached the stage where they are kind of running away from competition.

**Manav Vijay:** Thank you.

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

**Harrish:** My question is to Ravi specifically that you did mention that we would be cash positive in less than 12 months. Now does it imply your cash conversion cycles similar to what you have in Domino's?

**Ravi Gupta:** In Domino's model, we are cash positive from the very first month of operation and here we are saying we will definitely be positive in the first 12 months of operation. But having said that, on the top of it ,we add that the evaluation of the store will be done by the same internal guidelines which is pay back in 3 years or less. So the same guideline will be applied for Domino's store as well as for the Dunkin stores and we are fairly confident that Dunkin stores after the initial stabilization period, they will deliver 3 years payback period.

**Harrish:** So when do you go negative working capital in DD?

**Ravi Gupta:** DD, we work on a negative working capital from day one. We are leveraging our existing sales. We will continue to buy on credit and sell on cash and that strategy has not changed.

**Harrish:** And what sort of capital employed have you set out for this project?

**Ravi Gupta:** We are still working our business plans and CAPEX plans. So once they are finalized, probably we will be able to share more details, but having said that CAPEX is much lower than what we spent in Domino's because the average size of the store itself is lower than what we have average size in Domino's and the processing at the store end is minimal. Most of the work is done at the commissaries and with a hub and spoke model. Even doughnuts are practically in a ready state when they are delivered to the store. There is no processing required for doughnuts to be done in the store end.

**Harrish:** Would the CAPEX be 40% of what you have in Domino's?

**Ravi Gupta:** Harish specifically then you are guessing again. My request will be that we will share with you the appropriate number when we have worked around the CAPEX plans.

**Harrish:** Thanks Ravi.

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

**Hiren Dasani**: Just as you were talking to multiple players, with this announcement, does it feel that any other tie-ups are ruled out or will we still look at other tie-ups as well?

**Ajay Kaul:** Good question. When we changed the name from Domino's Pizza to Jubilant Foodworks a couple of years back, the intent was of course one was going public which we have already. The other intent was to bring in other internationally reputed food brands. So it has taken us 2-2.5 years since the time when we had got in discussion with Dunkin' Donuts to actually judiciously come to terms , that is the partner we want to go with. The reason is simple that every time we pick up a partner, we want to achieve similar success levels as we have done in the Domino's level. We are not a company who would want to do things in a hurry just because we believe there is an opportunity sitting there. So having embarked on this journey with Dunkin' Donuts, while our discussion with other brands is there, we are not going to truncate those discussions, but we will put them a bit on, I would say, the back burner, stabilize Dunkin' Donuts over the next year-year and a half period and may be at the time revisit and see if we can launch another brand after an year and a half, 2 years from today. So not close those doors, but at the same time not aggressively pursue them.

**Hiren Dasani:** Thank you.

**Moderator:** Thank you. The next question is from the line of Manoj Menon from Kotak Securities. Please go ahead.

**Manoj Menon:** Is there any number of stores or any such commitments anything in the agreement which you would be able to share?

**Ravi Gupta:** Yes Manoj, we will be able to share that. In agreement, we have to open minimum 500 stores over a period of 15 years.

**Manoj Menon:** And any timelines, any breakdown of that?

**Ravi Gupta:** Definitely there is a breakdown. We will not be able to share exact breakdown, but 500 stores are there over 15-year period.

**Manoj Menon:** Can I assume that it is going to be predominantly back-ended?

**Ajay Kaul:** It is back-loaded a little bit, but by the $5^{th-}$ $6^{th}$ year, 80-100 stores which is what we have also communicated to you is the number which we need to achieve.

**Manoj Menon:** Understood sir. I heard you mentioning that there is a great flexibility for customization to the local requirement, just to take it very hypothetically so that I am very clear about it. Will it be possible to sell let us say samosa in this. When you say customization, I remember Amnish asking about oven products etc. So till what level this customization let say coffee day sells samosa is that possible here technically or we do not want to do it?

**Ajay Kaul:** The flexibility allows us to launch samosas, but will we launch samosa, right now I cannot comment on that.

**Manoj Menon:** And on the business model per se, predominantly DD is a takeaway model elsewhere in the world and probably it is not going to be very different in India as well considering the store size, will it be dine-in here?

**Ajay Kaul:** Takeaway and dine-in. It is on-premise consumption model. It is not a delivery model. On-premise consumption means there is a 20-30 odd percent business going by the Asian example, I am not going by the US example because in the US, on-the-go coffee is a very big thing. On-the-go coffee and doughnuts that is how it happens in the US, but in the Asian model nearly 60-70% business is consumed inside the store itself. So we expect something similar may also happen in India.

**Manoj Menon:** Understood. Let us say typical 750 square feet store, what would be the covers which will be available there?

**Ajay Kaul:** It is difficult to say right now, but 75% of this space will be utilized for the customer area. Operationally you only require around 100-150 square feet.

**Manoj Menon:** And now the context in which I trying to understand this was the whole takeaway concept is not really sure whether it will be relevant in Indian context because I cannot really pick up the coffee and walk on the platform because let us say in Bombay there is no platform to walk.

**Ajay Kaul:** When you say takeaway, I think you should call it dine-in which means to eat inside the store as opposed to take away by true definition.

**Ravi Gupta:** Takeaway happens more on the food side specifically in Asian country for doughnuts and other food products. So takeaway portion which is there 20-30% proportion which Ajay was mentioning, it is predominantly on the food side, and less on the coffee side.

**Manoj Menon:** Thanks.

**Moderator:** Thank you. Our next question is from the line of Abhijeet Kundu from Antique. Please go ahead.

**Abhijeet Kundu:** Globally, what is the contribution of coffee for Dunkin' Donuts sales and where do you see that in India?

**Ravi Gupta :** Coffee and beverages together in Asian countries is about 30% and food is about 70%, but when you talk about US, it is the reverse, it is 60% coffee and beverages and food is 40%. So we go by the Asian example and we believe that India is a story around the food, not around coffee and beverages. We expect that we follow the Asian trends of 70% food and around 30% coffee and beverages.

**Abhijeet Kundu:** What price point are we looking out for the coffee and food this thing, just rough ball park figure?

**Ravi Gupta:** We are working out all these nitty-gritties and it will be difficult for us to share details such as at what price the coffee and doughnuts will sell.

**Abhijeet Kundu:** Just wanted to ask you that for Domino's, the store that you will be setting up further, could we see some sort of integration happening between the two wherein big Domino's store could also have a Dunkin' Donuts in it?

**Ravi Gupta:** Both brands are independent brands. So they need to have independent identity. In future, you may see that both stores are adjoining, but not one store inside the other. Never you will find that, brands will not allow that because it is dilution of the brand.

**Abhijeet Kundu:** Adjoining stores is possible right?

**Ajay Kaul:** Yes adjoining stores are possible.

**Abhijeet Kundu:** They are not competitors?

**Ajay Kaul:** They are not competitors.

**Abhijeet Kundu:** Thank you.

**Moderator:** Thank you. The next question is from the line of Raj Mohan who is an individual investor. Please go ahead.

**Raj Mohan:** You did talk about the target store additions and your comfort levels at 80 to 100 stores over the next 5 years and you also said that as the customer evolves probably these targets may be revised upwards. I somehow feel 80 to 100 stores is very conservative and I feel it is very modest from your end because of all these factors like one is Dunkin' Donuts globally is deemed to be a very aggressive store adder when compared to its competitors like Starbucks and all that is one. Second is when you look at the Indian market, some of the leading players are targeting an annual expansion of about 200 to 250 stores which says that the absorbing capacity is not a limiting factor in India and third when you look at China and the kind of aggressive expansion Starbucks is talking about, it is currently operating at about 750 stores and it is looking at opening 1000 of stores in the next few years. So when I put all these together, the current stage at which the Indian demography as Ajay correctly pointed out, I feel very strongly that 80 to 100 stores is a very modest figure. Would you like to talk about this?

**Ajay Kaul:** Honestly no comments. Part of this story of evolution of the consumers specifically for the categories we are talking about, we will get to see them as we kind of start dealing with them. The consumer space in general is very promising whether it means unfolding of more stores, we cannot offer any comments right now, but overall from a Domino's perspective and Dunkin' Donut perspective, we are very positive about the market of future.

**Raj Mohan:** The second thing is your sales per outlet, average sales per outlet in Dunkin' Donuts globally is about 4 times the Dominos global outlet, I did the rough hand kind of calculation. Though as you mentioned capital investment is lower than opening a Domino's store than Dunkin' Donuts, do you think the wider range of products sales per store will be higher than same period Domino's store?

**Ajay Kaul**: If I break your question into two, I do not know where your math is coming from in the first part because we probably do not necessarily understand that and we see probably a little bit of a flaw in that. I think we have done our math in that space. As far as part B is concerned, it is not right for us to compare in terms of sale because the models are different; one is delivery, the other is dine-in driven, one is focused on all-day food part, the other is predominantly a meal replacement lunch and dinner. So whether the size of Dunkin' Donuts stores in terms of sales will be larger or smaller than Domino's is difficult to say right now, but we know the store format is smaller definitely on an average.

**Raj Mohan:** I came with the figures. My basic figures came from the globally available set of numbers.;like Dunkin' Donuts on a 9700 odd stores has 6 billion sales while Dominos globally from 9200 stores has 1.5 billion sales.

**Ajay Kaul:** No in this I can tell you upfront. Firstly the 1.5 billion Domino's sale is actually not system wide gross sale because in a lot of cases, the franchise revenue which is being shown in this 1.5 billion line and not actual sale of pizzas. Secondly the $6 billion sale for Dunkin' also includes the Baskin-Robbins piece in it which is the ice cream piece. That is why I thought there was something amiss there.

**Raj Mohan:** But currently since you are initially looking at the market, you would not be able to exactly say where you stand, but then you feel it will be somewhere around that range in the Domino's store?

**Ajay Kaul:** We believe it will be lesser than a Domino's store I think.

**Raj Mohan:** You have mentioned this deal will be low on investment and high on return. Normal markets in coffee and doughnuts have also considered to be quite healthier. With this deal, do you think the company's margin profile will improve on a consolidated basis in the longer term?

**Ajay Kaul:** Raj Mohan too early to comment about this actually.

**Raj Mohan:** Thank you.

**Moderator:** Thank you. The next question is from the line of Tejas Sarvaya from Trust Capital. Please go ahead.

**Tejas Sarvaya:** Just want to know bit on qualitative side in the sense that I am not much worried on the acceptance of doughnuts in the metros, but what happens in Domino's is that even if you go into the newer town, pizzas people know it, but doughnuts is something people do not know much about outside metros, so what is your sense on it?

**Ravi Gupta:** Absolutely right, 15 years back when we launched Domino's, even the metros never knew about pizzas actually. So it is in a much better position today. So we need to come with our marketing plan, advertising plan, and what we have created for Domino's on pizza category, I think we can replicate the same one for the Donuts as well in India. We are really confident about that.

**Tejas Sarvaya:** Since you have said that payback will be less than 3 years, can I get some sense on whether the revenue per store should be same as that of Domino's, how would be different?

**Ravi Gupta:** We said it will be lower.

**Tejas Sarvaya:** So employee cost should generally be lower right?

**Ravi Gupta:** Employees are much lesser. Every store will have about 5 to 7 employees.

**Tejas Sarvaya:** And last on the margin side, would it be same or it would be different?

**Ravi Gupta:** We explained previously that our internal evaluation criteria for setting up the stores will remain the same which is payback of 3 years or less and we believe that with the Dunkin' model also, we will be able to achieve that criteria.

**Tejas Sarvaya:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Rajesh Kothari from ALF Accurate Advisors. Please go ahead.

**Rajesh Kothari:** Since the Dunkin' Donuts is more of a dine-in concept compared to Dominos which is a takeaway concept; do you think the actual capital employed per square feet is going to be higher for doughnuts compared to pizza?

**Ravi Gupta:** There is hardly any equipment in a Dunkin' Donuts model other than coffee and some beverages machines. So that is the reason the investment per store will be lesser as compared to the Domino's model where you require ovens, make lines, bikes and then cold storage. All these products are stored at air conditioner temperature of 25-26°C. We do not require temperature of 1-4°C also in the store. All these will lead to it lower capital invested in each of the stores.

**Rajesh Kothari:** But the operating cost per square feet will be higher am I right because of the 75% dining area so the rental and it will go up to that extent, am I right?

**Ravi Gupta:** Man power is lower.

**Rajesh Kothari:** But I think rentals will be the very high cost, am I right in your overall costing compared to man power?

**Ravi Gupta:** Rentals could be higher but we explained that in Domino's model also our stores are now high streetish not exactly high street. So we are already working on that territory. So it should not be significantly different than what we are having in a Domino's model.

**Rajesh Kothari:** And just to clarify you see that revenue per store in doughnuts will be lower compared to pizza, but revenue per square feet will be lower or higher?

**Ravi Gupta:** We do not measure that. It is not insightful parameter for our business.

**Rajesh Kothari:** You do not measure on per square feet?

**Ravi Gupta:** We do not.

**Rajesh Kothari:** And why it is so?

**Ravi Gupta:** There is a huge operation area like in Domino's model. We will measure revenue per store that is more appropriate for us.

**Rajesh Kothari:** But since the size of the store itself is half compared to Domino's, revenue bound to be lower because size of the store is also half.

**Ravi Gupta:** It is not an insightful parameter for our business & we don't measure it that way

**Rajesh Kothari:** But overall return on capital employed on store basis, how do you compare donuts versus pizza category?

**Ravi Gupta:** I did just explain saying that CAPEX per store will be lower.

**Rajesh Kothari:** And return on capital employed on entire total capital employed?

**Ravi Gupta:** When we say return on capital employed, I explained that on an average whatever the internal guidelines we are following for the opening of the Domino's store which is payback of less than 3 years will be applied to the Dunkin' Donuts model also and we are fairly confident that Dunkin' Donuts stores will give you payback of less than 3 years.

**Rajesh Kothari:** The net margins in this category will be lower or higher than pizza category?

**Ravi Gupta:** Our overall criteria for opening the store is payback criteria. We do not look at margin whether it is 10% margin or 20% margin. We are focused too much on payback criteria, like whatever investments we are making on a store, whether the investment is X amount or Y amount. So long as we get the return in 3 years or less, we are pretty happy with it.

**Rajesh Kothari:** And this investment means everything, fixed investment as well as other associated costs, am I right?

**Ravi Gupta:** Whatever investment in the store is there, I mean capital investment.

**Rajesh Kothari:** Perfect, thank you.

**Moderator:** Thank you. Ladies and gentlemen as there are no further questions, I would like to hand the floor over to Mr. Ajay Kaul for closing comments.

**Ajay Kaul:** Ladies and gentlemen it was a pleasure to have all of you with us. Thanks for your patience and I hope we have been able to answer your questions. We are very excited about this new opportunity and along with Domino's we believe we will make resounding success out of this. Thank you very much.

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

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