



**Transcript of the Q3 & 9M FY18 Earnings Conference call Transcript
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Management Speakers : Mr. Hari S Bhartia, Co-Chairman & Director of Jubilant FoodWorks
Mr. Pratik Pota – CEO

Participants who asked questions

A. Ranganathan - Ambit Capital
Abneesh Roy - Edelweiss
Aditya Soman - Goldman Sachs
Amit Khosla - Catalyst Global
Amit Sinha - Macquarie
Arnab Mitra - Credit Suisse
Avi Mehta - IIFL
Bhavesh Shah - CLSA
Jinal Sheth - Multi Act
Latika Chopra - J.P. Morgan
Manoj Gori - Equirus
Manoj Menon - Deutsche Bank
Mayur Gathani - OHM Group
Mitul Mehta - Lucky Investment
Navin Trivedi - HDFC Securities
Nishit Rathi - CWC Advisors
Prasad Deshmukh - Bank of America
Rahul Arora - Nirmal Bang
Sanjay Singh - PineBridge Investments
Vishal Gutka - Phillip Capital

Moderator Ladies and Gentlemen. Good Day and welcome to the Jubilant FoodWorks' Q3 and 9M FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar Thank you. Welcome to Jubilant FoodWorks' Conference call for Q3 & 9M FY18. Joining us today are Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; and Mr. Pratik Pota – CEO.

We will initiate key thoughts from Mr. Bhartia and follow that with updates on performance and strategic direction from Mr. Pratik Pota. Management will respond to queries that you may have afterwards.

Underlying our standard disclaimer, certain statements that may be made on today's call could be forward-looking statements and the actual results may vary significantly from those statements. A detailed statement in this regard is available in JFL's Q3 & 9M FY2018 results release and presentation, which are both available on the company's website under the Investor section.

I would now request Mr. Bhartia to share his perspectives with you. Over to you, Mr. Bhartia.

Hari Bhartia Thank you and a very warm welcome to everyone who is present on the call. I am glad to share with all of you our Results of Q3. We have sustained our same store growth and yet again delivered healthy performance during the quarter driven by focus on consumer with disciplined approach towards cost optimization.

Before I share the update on the quarter, let me briefly share my views on the change in GST regime for restaurants. As you are aware, the GST rate for restaurants has been reduced to 5% without input tax credit. I believe this is a positive change for the organized restaurant industry and believe this will drive growth and conversion from the unorganized sector. In-line with JFL's customer centric approach, we immediately passed on the benefits of lower tax rates to our customers, while very nominally we increased prices on select menu items to cover for the input credit loss.

Now, I would like to share my perspectives on our performance in quarter three. You may recall that we had undertaken a number of

initiatives at the beginning of the year with clear focus on sustainable growth. We had said that we will bring in more value to the customers, we will continue to innovate and bring superior product quality, bring seamless customer experience and of course, continue to invest in technology. Cost optimization effort is continuing, and Pratik will update on you that. I am also pleased to underline that we have made progress on almost all the areas on which we had focused, and this is visible in our earnings performance.

As mentioned in the previous call, we continue to receive encouraging response to our Everyday Value initiative which focuses on value for money aspect and targets families and group of friends. In addition, an all-round comprehensive upgrade of Domino's Pizza quality done in quarter two has been very well-received by consumers and continues to drive growth for us in Q3. On the digital experience, we have made efforts to improve the user interface and are now revamping our mobile app to further improve the experience and include new user-friendly features.

Dunkin' Donuts has made significant progress during the quarter and we have considerably reduced the losses in-line with our stated objective. Our focus of closing down the unprofitable stores as well as emphasis on Beverages and Donuts will help control costs as well as drive efficiencies for us.

Given the scope of the opportunity, our commitment for growth and steps taken by the management, we are confident of driving sustained and profitable growth.

With that, I would request our CEO – Mr. Pratik Pota, to please take this address forward.

Pratik Pota

Thank you, Mr. Bhartia. Good evening, and thank you for joining us on today's call. We are pleased to share with you the results for Q3 FY18.

Operating revenues for Q3 stood at Rs. 7,952 million, up by 20.7% over the same period last year. This was on account of a strong 17.8% same store growth in Domino's.

EBITDA for Q3 FY18 came in at Rs. 1,369 million, a growth of 113.7% over Q3 FY17. The corresponding EBITDA margin came in at 17.2% as compared to 9.7% in Q3 FY17 and 14.1% in Q2 FY18. This EBITDA margin was the highest since Q3 FY13.

Net profits in Q3 were Rs. 660 million, an increase of 230.6% year-on-year. Net profit margin was 8.3% for Q3 FY18 as compared to 3% in Q3

FY17 and 6.7% in the preceding quarter. This was our highest PAT margin since Q1 FY14.

During the period, we opened 3 Domino's Pizza restaurants and closed 1, giving us a total store count of 1,127 stores across 265 cities. In Dunkin' Donuts, we opened 1 new restaurant and shutdown 9, the Dunkin' Donuts store count therefore stands at 44 stores across 12 cities.

I will now turn to some of the highlights of the last quarter's performance. As you are aware, the GST regime for restaurants saw a significant change mid-quarter. While we believe that the 5% GST rate will be a significant growth driver for the restaurant industry in the long-term, the withdrawal of input credit meant a significant increase in the input cost in the short-term. We passed on the benefits of lower GST to our customers immediately, while taking a small calibrated price increase on a few products to partially cover for the input credit loss. There was, however, a clear and significant reduction in overall effective prices for our customers which we communicated aggressively through our advertising and have gratified that customers noticed and appreciated this.

We had rolled out our comprehensive product upgrade, all new Domino's in Q2, and the benefits of this continued in Q3 FY18. Customer feedback to the upgraded products remained extremely positive and this drove an increase in new customer acquisition, as also an increase in existing customer's frequency.

Our Everyday Value proposition on medium-pizzas continues to do well and also helped drive core pizza growth last quarter. Our focus on driving digital revenues and improving delivery NPS led to a strong increase in delivery growth. Our online sales increased to 60% of overall delivery sales, owing to an improved functionality and performance of our digital assets, specifically the app. Our other initiatives such as all-night delivery and a special small-town package also did well in Q3. All night delivery is now available across six towns and 42 restaurants.

In Dunkin' Donuts, we continued to make good progress on our stated objective of halving our losses. The sharp focus on donuts and beverages along with shutdown of unprofitable stores led to our losses reducing significantly.

Looking ahead, we will continue to execute on our strategy for growth outlined at the start of the year with discipline and consistency.

Just to recap, the five themes that we had talked about were:

1. Improved product quality and innovation
2. Enhancing value for money quotient amongst consumers
3. Providing a seamless customer experience
4. Leveraging technology and
5. Of course, optimizing and focusing on cost management

To conclude, we are satisfied with our performance last quarter and are confident that we have a solid set of plans for driving profitable growth in the future.

I would now like to hand the call back to the moderator and open the forum for questions.

Moderator Thank you very much. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Manoj Menon from Deutsche Bank. Please go ahead.

Manoj Menon The first question, actually if you could help us understand the same store growth a little more, in terms of how the customer growth is trending, particularly on the delivery side where you will be able to track this much more closely? How the average bill value is tracking? So just trying to understand the key drivers for this same store growth number.

Pratik Pota Thank you, Manoj. I think our performance in the last quarter came on the back of a strong consumer feedback and a positive acceptance of all our marketing and customer facing initiatives. What also helped was that the growth profile was more skewed towards order growth which is new customers and existing customer frequency than the BPO growth. It was also more skewed towards delivery and of course our core pizzas, both because of all new Domino's and because of Everyday Value.

Manoj Menon Okay, understood. So just quickly if I may, this basically means that the proportion of Pizza Mania would have kind of declined?

Pratik Pota I would not like to comment specifically on the mix of various products within the portfolio, but what I would like to say is that Pizza Mania has also seen reasonable growth and healthy growth in the last quarter, all parts of our portfolio have delivered strong growth.

Manoj Menon Just one more on the revenue side, now that we have had the EDV for a little more than two quarters, continuously pan-India, so what are the drivers of EDV which are working because I think you have launched Rs. 99 EDV in Tamil Nadu, for example, a couple of months back, versus the BOGO which used to be a two-day out of a seven-day sort of discounts.

What I am trying to essentially get is how much more your run rate, the EDV actually has got, is it more like another six months or do you think that it actually can be more actions possible let's say in terms of time line for the next 24 months or so?

Pratik Pota

Manoj, the fundamental change that EDV has brought in our business is that it has helped us provide a regular value pricing to our consumers regardless of specific days and definition points, that is the first point. As a result of that, we have managed to drive consumption across different days without waiting for specific deep discounts. And that is a big transformation change. Also the fact that it has replaced the deep BOGO offer that we had earlier, also it was meant to give lesser discounts and that obviously has helped the margin profile. We believe that, and as I mentioned earlier in my opening remarks as well, that providing value for money as a proposition to consumers is a very, very integral part of our strategy going forward as well. As to what form and shape that will take in the future, it is hard to tell right now, but value will remain a big, big part of our efforts going forward, value for money.

Manoj Menon

That actually takes me to the second question which is on margins. Now that margins are closer to, directionally speaking, at an all-time peak, you definitely looking ahead will actually have more resources coming from that line. If you could help us understand, broadly speaking, what will be the sources of investment? For example, you may have an opportunity to invest in improving the dine-in quality, for example that is one I look at. By the way cost reduction is another source, so how should I think about sources and the avenues of investment over the next 24 months?

Pratik Pota

Manoj, it will be fair to say that we would continue on our journey of expanding and growing the Domino's franchise. So certainly, a one big avenue of investment would be network expansion, that is the first point. The second point is, every avenue that will help improve the customer experience, whether it is improving delivery experience or the dining experience, we would look at very closely for investments. The third point, again keeping in mind the strategy, is technology and digital, there will also be area where we would look at investing to help drive revenues and improve customer experience.

Hari Bhartia

Just to add, with our Greater Noida commissary getting commissioned and our commissary network almost expanded, so when we grow our stores, we do not need to invest more in our commissary, that is in the near future. So that will give us a better overall efficiency at the commissary level also.

- Moderator** Thank you. We have the next question from the line of Avi Mehta from India Infoline. Please go ahead.
- Avi Mehta** Just wanted to understand if you could share the store guidance, because you highlighted towards focus on network expansion. So do you have store guidance in mind for FY19, and if not for FY18 if you could share?
- Pratik Pota** We have provided a guidance for FY18 and I would like to say that we are on course for that, we would be adding about 30 stores plus in this year. We do not, however, have a guidance for next year, the budgeting work will be happening, and we will be playing out, so we do not have the guidance right now for next year.
- Avi Mehta** Okay. Directionally, however, we should see an acceleration, would that be a fair understanding is what I wanted to know.
- Pratik Pota** That would be a fair conclusion, yes, absolutely. Given the way our store growth has come back, we would expect to see acceleration in store expansion next year.
- Avi Mehta** Okay. And lastly, could you share the Dunkin' loss impact during the quarter, how much would that be?
- Pratik Pota** The Dunkin' loss impact on the overall JFL P&L was 112 basis points compared to 218 basis points in same quarter last year.
- Moderator** Thank you. We have the next question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.
- Abneesh Roy** My question is, in terms of geographical is there any different trends you are getting? Why I am asking this is in North and East India McDonalds has been struggling and that is a key competitor in terms of larger consumer basket. So, would North and East India would have grown faster than this 17.8% number?
- Pratik Pota** Our growth profile has been fairly geography agnostic, so there is no specific skew towards North and the East. And that is very clear data point across, we have grown across all geographies.
- Abneesh Roy** But, why you would not gain from the McDonalds prices?
- Pratik Pota** It is hard to tell why we would not gain, Abneesh. But the fact is that in terms of our growth profile, we have had a fairly even growth profile across all our geographies.

- Abneesh Roy** My next question is on Dunkin' Donuts. In the last one year, you are down from 23 cities to 12 cities, meanwhile you have also opened 8 new stores. So my question is, on these 8 new stores, what is confidence level, what are the changes you have done, and do you think that these are on the right track based on the last one year data?
- Pratik Pota** Abneesh, our attempt in Dunkin' Donuts is to look at a model that is focused on Donuts and Beverages with simple food, that is number one. The second part of the model is to look at smaller format stores. So the work we have done in opening new stores should test some of these smaller format stores. And the initial results towards this are encouraging and we are seeing some growth coming in these stores on account of both the portfolio and the size of the stores.
- Abneesh Roy** And one follow-up here, the fact that you have exited 11 cities, so only 12 cities surviving out of the 23, so does it mean you are adopting a cluster based approach or these 11 cities were not ready for your product or there was too much competition in those cities?
- Pratik Pota** We took a very considered call, Abneesh, in terms of looking at various stores in various markets. And in markets where we were unprofitable we took that considered call to exit those markets. The reasons why we were not doing well was because of variety of factors, including market sizing, competitive reasons, our own performance there, specific store reasons, but that was a very considered call and was a store-by-store discussion.
- Moderator** Thank you. We have the next question from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha** My first question is, just wanted to get a sense on the impact of lower prices after the GST rate cuts. So, was there a significant difference in the run rate of SSG after the price cuts? And I understand last year similar timing was very weak, so if you can give us absolute run rate, was there a significant difference in the two half?
- Pratik Pota** Yes, the months of November both from a base point of view and this year point of view was significant, it had events within the month. But through the quarter and specifically between the two periods, we did not see any change in trajectory of our growth. It was fairly agnostic across the month as well.
- Amit Sinha** Okay. So that means that October was exceptionally strong, if I had to remove the base advantage. Second question on margins, now clearly you said that the base price increase was lesser than the input tax benefit which you had before that. While in this quarter, we are not

seeing any impact on the gross margin, is it fair to assume that subsequently there will be some impact, because now there will be full quarter impact?

Pratik Pota You are aware that we do not give guidance, Amit, as far as either growth on margins go, we need to keep in mind that this quarter the context was a little different. Two points of context, one is that of course Q3 traditionally in our business is a largest and strongest quarter because of the festive season and December month, and also the fact that we were napping a very soft year from last year. So those are two contextual points you need to keep in mind. Our attempt is going to be to recover the balance, cost that we have not passed on by way of pricing through both cost efficiencies and scale leverage.

Amit Sinha And also the removal of the discounts would have helped, right?

Pratik Pota That is right, of course.

Moderator Thank you. We have the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra First question was, just conceptually I just wanted to understand the SSSG number this quarter, because of this GST change you obviously took some pricing up at your net sales level to pass on the input tax which you do not have a benefit of. And that would have definitely supported the SSSG while the consumer would not have felt it, because the dining expense was down. So, is there a way to kind of adjust that and see what is the SSSG versus the 17% which is the reported SSSG?

Pratik Pota No, so I think Arnab, without going into the specifics or without impact of pricing, as I mentioned, one of my earlier answers. What encourages us is that the profile of growth was more, transaction order-led rather than bill order-led. So, pricing played a lesser role than did orders in driving our SSSG.

Arnab Mitra Okay. So, there will be some impact, but it is not, the major effect was the volume or the order thing?

Pratik Pota That is right.

Arnab Mitra Okay, understood. Secondly, when you started this year you had outlined all your priorities, one of the key priorities was costs and your margins are now at nearly an all-time high. So, going ahead are you happy with this level of margin and you would focus mainly on growth from here on or is there further cost agenda left or would you say a lot of the cost agenda has been already driven in this last 12 months?

- Pratik Pota** Arnab, it would be fair to say that productivity and cost efficiencies are ongoing efforts which would continue in times to come, but equally there are very important investments asked that will be called upon to meet in improving product, in improving innovation, in driving customer experience, all of those. So, even as we drive efficiencies, we will continue to invest and spend behind those levers that helps us drive growth and improve the customer experience.
- Arnab Mitra** Okay. And just one last question, on the input cost side, especially on the food input cost side, what is the level of inflation or deflation that you are seeing on the food input cost side?
- Pratik Pota** So, versus the lean period last year, Arnab, we have significant investments in the Pizza Quality upgrade, so there is a food cost impact sitting out there in our food cost, there is also some impact on account of inflation in the food cost and some amount of impact on account of loss of input credit on few items for 45 days in the quarter. That has been compensated partially by improved efficiencies in our use and of course improved realizations on account of lower discounts for the same time last year.
- Arnab Mitra** And does the commissary anywhere going ahead help in reducing the operating cost, because it is still very large compared to what it is meant to do, that gain will come in only gradually?
- Pratik Pota** Yes, the new commissary that we have just commissioned would help us reduce some of the operating cost.
- Moderator** Thank you. We have the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman** My first question is again on input tax credit, so are you saying that most of the impact is now played out, it is unlikely that you will see a significant impact because of this in the next quarter?
- Pratik Pota** That would be a fair statement to make, Aditya.
- Aditya Soman** And secondly, in terms of your commissary, can you just throw more light on what aspects of this new commissary will drive better savings on cost or on what specific line items if we were to pull out?
- Pratik Pota** So, our new commissary that we have just opened in Greater Noida is one of the largest such facility in Domino's. It is a state-of-the-art facility, it will have manufacturing capacity for dough ball and for a couple of other lines as well. It will help us reduce our OPEX on two

counts, one is on account of freight and on account of some other labor and input cost.

Hari Bhartia But it will affect over a period of time, not in one quarter, it will slowly and gradually affect.

Pratik Pota And what we would also do on account of this new commissary is we will consolidate two of our existing manufacturing facilities, one for Domino's and one for Dunkin, and that will also therefore help drive efficiencies and cut cost.

Aditya Soman Okay, so these are current facilities in Noida?

Pratik Pota That is right.

Aditya Soman And you also mentioned in terms of efficiency over a period of time, so I think that I am assuming it is just because you get more leverage on the commissary cost as you open new stores, right?

Pratik Pota Absolutely.

Hari Bhartia More leverage and even more automation that we are doing in our new commissaries. So I think we will drive efficiency through that also.

Aditya Soman And just one follow-up, you are still on track to sort of eliminate Dunkin' losses by the end of the year, right?

Pratik Pota To reduce Dunkin' losses by 50% this year and on the path to breakeven next year is what we have set, and we are on track for that.

Moderator Thank you. Our next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani Any one-off costs that are significant in nature relating to the 10 stores that you shut down this quarter?

Pratik Pota Mayur, no, there is no one-off cost that is impacting the P&L either favorably or adversely.

Mayur Gathani And how do you see the increase in stores for Dunkin' Donuts going forward, I mean this quarter or FY19?

Pratik Pota Dunkin' Donuts we have said that we will be opening 5 stores this year and we stay with that guidance, there is no change there. We have opened 4 already and we plan to open 1 more this quarter.

- Mayur Gathani** Fair. And you said you have open smaller sized stores in the last few quarters, right?
- Pratik Pota** That is right.
- Mayur Gathani** So, what is the size and what was it previously compared to this time?
- Pratik Pota** So the average size has varied earlier from 800 square feet to about 1200 square feet, and the stores that we have opened have been on the smaller side, they have been ranging from 300 square feet to about 650-700 square feet.
- Moderator** Thank you. Our next question is from the line of Bhavesh Shah from CLSA. Please go ahead.
- Bhavesh Shah** My first question is to an earlier question, basically if you look at the same store sales in this quarter and if we look at the price hike that you took, essentially for half the quarter if I take there should be a 3% positive impact of price hike. So, is it fair to say that against the reported numbers of let's say around 18% the number will be more like 15% or thereabouts?
- Pratik Pota** We do not want to get into the exact dissection of the contours of the growth, but once again want to emphasize that the growth was more order-led rather than BPO-led. And that is what gives us a lot of encouragement. There was certainly an impact of the price increase that happened in the second half of the quarter, but it was not substantive and significant.
- Bhavesh Shah** Because, look, this quarter still captures only half of that, so as you go ahead SSG will have higher, the impact of this price hike would be much higher than what it had been in this quarter, and hence I was wanting to get that number.
- Pratik Pota** Sure, appreciate that.
- Bhavesh Shah** Second one on the opening remark by Mr. Bhartia about conversion from unorganized, if the input credit is not available, the entire GST principle was centered around input credit and therefore a better adherence to regulations and tax compliance. If input credits are not available shouldn't it benefit unorganized more than organized?
- Hari Bhartia** No, the idea of making that comment was, today the differential between an unorganized to an organized, even from perception wise has affectively come down from 18% to 5%. And today, completely unorganized would charge 1% or may be 0%. So, our differential today

is 5% only and unorganized also does not get any set off. So, effectively if you really look at it, Government has reduced prices, has reduced tax on the consumer which we have passed on because we never recovered 18% completely as input credit, our recovery was much less, one-third may be. And if this consumer price coming down, we expect the footfall to increase both in our deliveries and this thing, that is one positive point, that is what is the point of making that statement. Consumer price had come down.

Bhavesh Shah

Sure, sir. And lastly on the advertising bit, while you do not share the number and it is somewhere there in others, but you mentioned that you had aggressively advertised, so that would have a positive impact for sure on same store sales growth. So, any thoughts on how the advertisement trend would be in the foreseeable future?

Pratik Pota

We will continue to invest behind strengthening our brand and supporting our marketing programs, much to think of it in quarter three of this year.

Moderator

Thank you. We have the next question from the line of A. Ranganathan from Ambit Capital. Please go ahead.

A. Ranganathan

One is, particularly there is a follow-up of what has come across us the same store growth, and I believe same store growth is now being calculated on net sales value. By that analogy, not just the subsequent quarter, all quarters going ahead considering that we have taken a price hike on a menu level and discounts have been discontinued, coupons have been discontinued to a great extent. The entire same store growth number actually just gets re-based upwards, and therefore from what we check, our channel checks suggest that the menu price hike is about 5%, adjusted for may be discounts so it is about 8%. Wouldn't that 8% SSG be the bare minimum which we will be able to do?

Pratik Pota

Abhishek, thank you for the wishes. But as you are aware we do not give any specific guidance on what our prognosis for same store growth or margins could be or would be. I just want to reiterate the comment I made to the earlier questions which is that our same store growth in Q3, what encouraged us was a fact that it was driven more so by orders and transactions than it was by bill value.

A. Ranganathan

Sure. And one more thing is that when did we switch from the gross bill value to NSV on same store growth?

Hari Bhartia

See, our pricing to customer was always without tax and tax was always added. So, instead of 18% now 5% is added. So, customer outgo has

come down. So that is why there is no change in the way we account for SSG.

A. Ranganathan

And the other part is, in one of the earlier calls Mr. Bhatia did mention about the earlier 15% as a sustainable margin, somebody asked this question and he said that those times were when the base was lower, the business was smaller in size. But we are already at 17% and as you mentioned there are still some more jam to be taken on cost, some more jam to be taken on productivity. Therefore, would we actually see our base margins which we want to operate this business at on a sustainable basis, will we revisit that comment again of operating at 15% is not any more unachievable?

Hari Bhartia

I do not know which comment you are referring to, but you have seen the margin this quarter and our efforts continue to leverage our size when we grow, continue to reduce cost. But we also have to remember that we have to pass value to the customers. So, it is a balance that we have to achieve. You would have seen when we launched all new Domino's we added to our cost to give more to the customer. So, I think while we look at the margin for future, but we also look at how we can continue to give more value to our customers to get continuous improvement and reduce costs.

A. Ranganathan

Right sir. And last thing, I think you mentioned that our headcount of 22 per store will remain till the SSG tolerance level and now that we are seeing orders come back do we envisage increasing headcount anytime any soon?

Pratik Pota

So, Abhishek, our headcount in the stores, as you imagine, is a combination of fixed headcounts and variable. The variable headcount moves up and down in response to the growth in our business, especially orders, and within that especially, to deliver growth. Even as we invest and even as we deploy manpower to support and fuel this growth and service the customers' requirement, we also are mindful of the fact that we have efficiencies to drive in our manpower as well. So both the work streams going on, the attempts to improve our customer experience, improve our delivery NPS, improve our dining-in experience and therefore deploy the right number of people in the stores to support that even as we look at saving cost and getting smarter at forecasting and deployment of our manpower.

A. Ranganathan

Sure. But what would be the SSG level at which you think we will have to start investing, because 17%- 18% number what we have achieved this quarter, that number, are we close to that number is what I am trying to understand, in terms of orders, may be the percentage number may not be the right way.

- Pratik Pota** Abhishek, like I said that is a dynamic process. As orders move up, depending on every store's serviceability, manpower goes up or does not go up. And that is a constant process, as growth moves up we make sure, like I was saying, we have the right manning in our stores to support the customer experience, to support delivery of those orders. But that does not preclude the fact that we will be looking also at driving efficiencies.
- Moderator** Thank you. We have the next question from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra** Most of the questions have been answered, but just a few more from my side. Firstly, on the demand environment, clearly this quarter you saw a significant improvement in order growth thanks to your own initiatives and there was a bit of a base effect as well, probably. But what is the sense you are getting from the overall demand environment on a like-to-like basis, are you seeing a step-up there which should give one confidence that the SSG number on a normalized basis will also continue to remain in a healthy zone?
- Pratik Pota** This quarter, as you mentioned yourself, there are two specific points that make it harder to read in a very clean manner, both the base impact and also what happened during the quarter on GST. However, our observation and our own belief from what we have seen in our stores network is that our growth is driven a lot more because of our initiatives that have played out well in the market place and we are yet to see a strong resurgence in consumer sentiment. It is fairly flat, we have not seen this graph move up significantly yet.
- Latika Chopra** Secondly, clearly there is a significant improvement in the way the Domino's franchisees run, you are looking to reach a breakeven in Dunkin' format soon. Over the next two to three years perspective would the management look to explore more platforms within the QSR space or fine dining space, is that something which is on the plate for the team?
- Pratik Pota** Firstly, we continue to see huge potential in our pizza business. We see India as a market we still have to open lot many stores itself in the pizza business. So we will definitely, our first priority is to grow the existing business and get maximum operating leverage. As I mentioned earlier, we have built infrastructure for much larger number of stores in terms of how we can service through our commissaries and distribution network. So that is the first priority. Secondly, we will bring Dunkin's to profitability and then after next year look at driving growth in that brand. Thirdly, we continue to experiment with ideas where we could add new set of cuisines or format which have large potential. So, I

cannot come to you and say that we have a plan to launch another brand yet, unless we have finalized it, unless we have tested it properly. So as far as learning from the market and experiments, we continue to do that.

Moderator Thank you. We have the next question from the line of Amit Khosla from Catalyst Global. Please go ahead.

Amit Khosla I think my question has been answered partially, but just like to go on something specific. When you look at the more evolved customers, the very high end of the market, is there any strategy to look at that given your expertise in deliveries that you got?

Pratik Pota To your specific question about the high end customer, we may respond in two parts, I am not sure I entirely understand the point you are making, but let me try and answer in two parts. The first one is that we will be relevant, and we will remain relevant for all consumer segments. The segment that is still yet to entire the pizza segment or who are very light and infrequent users, equally people who are much more evolved consumers, who have a discriminating pallet and who are looking for more evolved experiences from their pizzas. So we have to be relevant to all tastes of consumers and our marketing and innovation plans will cater to all of them, the entire spectrum. That is number one. Number two, if you are asking in context of frequency, then yes, we have a very clear plan and we already are in place on looking at strong CRM programs to drive frequency across consumer segments, including the high frequency, more evolved consumer.

Moderator Thank you. We have the next question from the line of Jinal Sheth from Multi Act. Please go ahead.

Jinal Sheth My question was that if we notice obviously we have had great margin expansion in the alt three quarters, and during the same time obviously we have been focusing on reducing loss making stores and all that. So the point being that if in the future once we are done with this restructuring, and considering where we are on margins once we get back on that store growth part would there be a downside to our margins in that connect?

Pratik Pota Jinal, I just want to echo what Mr. Bhartia said a little while back that we continue to see a strong potential in growing the pizza business in this country. I mentioned earlier that our store plan for next year and our store opening outlook would be stronger than what we opened this year, and keeping in line with what Mr. Bhartia said. So yes, we are committed to expanding the store network profitably and sustainably. How that will impact margins, time will tell, but we believe that there is

a significant potential for the pizza business in the country and we are committed to leveraging that potential.

Moderator Thank you. We have the next question from the line of Rahul Arora from Nirmal Bang Securities. Please go ahead.

Rahul Arora Just wanted to talk a little bit about the digitization aspect you spoke about at the start of the call. If I see your average online ordering contribution to delivery sales has gone up by about 11% year-on-year, and your mobile ordering has also gone up by about 15% year-on-year, and your download of mobile apps has gone up by about 80% year-on-year. So, internally what sort of targets do you have for this, how much of lever is this for our margins and how high could this number possibly go?

Pratik Pota And yes, the digital business and online ordering has been a significant engine of growth for us last quarter. And as I have said in my opening remarks, and we have talked about in the past as well, driving digital and driving technology will remain a key strategic pillar for us going forward. We will invest in improving the quality of our digital assets, improving the customer experience, adding functionalities both on the mobile side and also otherwise. We are investing in growing our digital marketing profile and our footprint. And yes, we believe that this source of growth will continue in the future as well, given the way tech penetration is increasing, given the way our own platform is evolving and the effort of chief digital officer, who as you are aware, we have hired earlier in last quarter.

Rahul Arora The reason I ask is, I mean if I compare you to something like McDonalds and they started delivering and they have seen a surprise in their margins since deliveries started for them, so when you look at online ordering to your delivery sales 60% number in a market like India can it go north of 80% - 85% is where you think?

Hari Bhartia Rahul, as technology gets embraced across the strata, as smartphone penetration increases, I would expect this growth to continue. But we also are committed to improving our experience in other parts of the customer landscape as well, for example in our voice ordering. So our investment will be done to ensure we improve the experience and accessibility and ease of ordering across all channels. But that said, I think it would be fair to say that given the sheer pace of technology growth and adoption, this channel would grow faster than the others.

Rahul Arora Fair enough. One quick question on cost side, if you have already answered this I apologize. But if I look at your staff cost it is down about 300 basis points year-on-year, your other expenses are down about 350

and your rental cost is down about 110 basis points. Obviously, this corroborates with the way you have gone about your store opening, but do you have much more juice left in terms of levers on these aspects to improve your margins or are you virtually topped out from these angles?

Pratik Pota Rahul, like I said earlier, it would be facile to say that we have run out of ideas to improve productivity. So driving cost efficiencies and improving productivity is an ongoing effort and it remains so going forward as well. However, the countervailing forces and the demands on moneys and on cost where we will have to use lean productivities to compensate for. We will also be making proactive investments in specific areas in driving and improving customer experience, we will also have a call on the cost. So there will be a trade-off in margins on account of both of these countervailing forces.

Moderator Thank you. We have the next question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta Sir, as we have embarked on an exercise reducing losses at these Dunkin' store level, now I may attribute to reduction in Dunkin' store from that what we have been doing or is there some sort of upward SSG movement that we are seeing in the current 44 stores? And the third combination would be improvement of menu? So if you can just help me to understand your Dunkin' strategy.

Pratik Pota You are absolutely right, in line with our commitment there is a statement that we made earlier, we are on the journey of reducing and halving the Dunkin' losses this year on the way to breaking even next year. What has encouraged us in our performance last quarter in this journey as a part of that process is the fact that we have seen growth also come back in Dunkin' Donuts on the back of a strong focus on Donuts and beverages, even as we have shut-down some of the unprofitable stores. So it has been also encouraging in terms of overall response from consumers on our sharpened donut and beverage focus.

Mitul Mehta Sir, would it be possible for you to share what sort of SSG movement are we seeing there?

Pratik Pota Mitul, we have not in the past shared SSG for Dunkin, as you are aware, the only numbers that we called apart for Dunkin' is the impact of Dunkin' on the overall JFL P&L. We would not be changing that stance going forward. However, like I said, we are encouraged by the consumer response to the revamped Dunkin' proposition.

- Mitul Mehta** And sir, when you say breakeven next year, which means that we would be breaking even at the PAT level or at the EBITDA level?
- Pratik Pota** At the EBITDA level as we exit next year, absolutely.
- Mitul Mehta** At the EBITDA level we should be breaking even?
- Pratik Pota** That is right.
- Hari Bhartia** To be very clear, the plan that we had mentioned was that we will halve the losses and when we exit next year we will be EBITDA positive in the last quarter. So in fact this can change to better, but at least this we are making all efforts that when we exit last quarter we will have positive EBITDA.
- Moderator** Thank you. We have the next question from the line of Nishit Rathi from CWC Advisors. Please go ahead.
- Nishit Rathi** Just wanted to understand, on-the-go formats are something you have been experimenting, is there anything that you can call out when these formats could be scaled up and in terms of scalability of this format and how have they performed thus far?
- Pratik Pota** You are talking about the on-the-go formats?
- Nishit Rathi** We have seen some of those formats in Bombay at metro stations and maybe you will be having it out there. So just wanted to understand, what has been your experience and what could be the scalability for these kind of formats?
- Hari Bhartia** So, Nishit, a more sort of a general answer in response to your question before I come to a specific response, we believe in the potential of the travel and transport channel. And therefore, we would aim to be present in places like metro station, etc, which is a large footfall and large consumer people traffic. Our experience with the stores which are on-the-go servicing this consumer segment have been positive, and that has remained positive and it has been in line with our overall growth profile in quarter three. So we are encouraged with what we have experienced and like I said earlier, it has reinforced our conviction in the potential of this channel going forward.
- Nishit Rathi** Anything you could call out when this could be a substantial part, because the potential is huge as you said, any plans to say that when this could be really large?

- Pratik Pota** Well, it would not be an end point, like I said earlier we believe in the potential of this space and we will be growing it. And as behavior changes and people spend more time on the road out of home, this channel will grow in size and we will participate in that growth.
- Moderator** Thank you. We have the next question from the line of Sanjay Singh from PineBridge Investments. Please go ahead.
- Sanjay Singh** I just wanted to understand what will be the CAPEX this year?
- Pratik Pota** The CAPEX for this year would be Rs. 70 crore in total.
- Sanjay Singh** And next year it would only be for stores or is there any more commissary or you have anything else planned?
- Pratik Pota** Sanjay, as mentioned earlier, we do not anticipate any investment in fresh capacity creation next year in commissary. There will however be small CAPEXs which are anyway ongoing, but no substantive capacity addition CAPEXs in commissary. So a large part of investment and CAPEX will be behind store expansion and other investments that we need to make next year.
- Sanjay Singh** Okay. So, in that case, this is more a question probably to Mr. Bhartia, few years ago, we were in an investment phase where the CAPEX was probably almost equal to the cash flow. Now probably this year and may be next year we should see a very healthy cash generation. What plans to invest this cash after CAPEX, after investments.
- Hari Bhartia** Let us not make the plans too much ahead, and I think our effort would be to look at opportunities to expand the store growth as much as possible, as much as the market would allow us. And I would say we should have this broader discussion end of next financial year.
- Moderator** Thank you. We have the next question from the line of Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh** Just two questions, firstly, there is a term which was used a couple of times, improving voice ordering experience. This was used a couple of times during the call. I mean what specifically do you intend to do?
- Pratik Pota** Thank you, Prasad. Yes, I did allude to that a couple of times and let me elaborate on what I meant by that. As you can imagine we listen to our customers all the time and we keep hearing their feedback and working on it. One of the feedback we had received was that our experience or ordering, the voice experience sometimes seems to be inconsistent where there is either a poor reliability of the call itself in terms of call

drops and sometimes also when the call goes to the store there is a divergence between the store person servicing the walk-in customer versus the order on the phone. And that makes for a poor and sometimes inconsistent experience. We want to address both of these points of feedback, we are strengthening our call-center experience and investing in more technology better quality of partners. So when a call lands in the call center it will be serviced much better. The reliability of the technology also will improve and therefore the call drops will come down. And we also are looking at pilot if we can migrate some of the call to stores in to a centralized call center.

Prasad Deshmukh Okay. So, will this have any immediate cost implications, positive or negative?

Pratik Pota It is too early to say right now, Prasad, because we are still in the pilot phase. But our focus right now is on validating whether this customer experience leads to enhanced revenues in business and how the cost plays out. So that is the work we are doing right now. But I just want to go back to a larger point which is that regardless of channel and access we have, we are committed to improving the quality of the customer experience and the ease of ordering, and removing friction from all parts of a customer experience.

Prasad Deshmukh Perfect. And one small question, there is a sharp jump in online and mobile ordering, at what stage would you start thinking of reducing the manpower which typically I think you have three people manning the store just taking orders. So at what stage will that lead to may be some rationalization at that level?

Pratik Pota Prasad, the number of people who take orders in store it is a dynamic number, depending on the order flow and the traffic. And as online ordering increases that number will remain dynamic and response to the shifting traffic profile. So if the traffic from online increases we will obviously cut down manpower in the stores, but that is even now as we speak a dynamic and ongoing process.

Moderator Thank you. We have the next question from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka Just wanted to know how night delivery has helped, what night delivery has an impact on SSG? Given that good amount of stores are open during second half of December for Christmas and New Year eve, can you just throw some color on night delivery, how does it has supported SSG growth for the company?

- Pratik Pota** Our all-night delivery has been very positive. As I mentioned earlier, we have now expanded our network in all-night delivery across 42 restaurants and in six towns. Our response has been positive and of course it has played a significant role, it has seen a role not just in enhancing customer experience but also in driving growth. But it has played its role along with other parts of our marketing program.
- Moderator** Thank you. We have the next question from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori** I just needed some clarity, if you can give. So, what has been the impact of Dunkin' Donuts currently on total EBITDA?
- Pratik Pota** You are talking about Dunkin' impact on EBITDA?
- Manoj Gori** Yes, because earlier it used to be around somewhere in the tune of 225 basis points.
- Pratik Pota** Yes, we responded to the question earlier but let me just recap what I said. The Dunkin' impact on the EBITDA was 218 basis points in Q3 FY17. This year in the last quarter that reduced to 112 basis points.
- Manoj Gori** Okay, so it is almost half of what you were actually witnessing, that is great. Secondly, I would just like to know like a couple of quarters back we highlighted that there are approximately 100 stores which are under observation where we are trying to monitor the performance of those stores and we will be taking appropriate actions for their revival or either for store closures. So, currently like can you just throw some light like what is the status on those 100 stores?
- Pratik Pota** Manoj, the strong growth that we have seen in Q3 following up on the growth in both Q1 and Q2, the stores that are unprofitable are very few and scarce and not significant in number.
- Manoj Gori** Okay. So there is nothing much left for Domino's itself. So Domino's stores, when we look at store count today, are much more healthy. So it is only like we need to take requisite measures for Dunkin' Donuts at this moment?
- Pratik Pota** That would be fair in terms of the store network, yes.
- Moderator** Thank you. We have the next question from the line of Navin Trivedi from HDFC Securities. Please go ahead.
- Navin Trivedi** Sir, my question is more towards the industry part. If you can just comment on how has been the industry growth during the quarter? So

it gives some idea about how the larger trends are happening in the industry.

Pratik Pota

As I mentioned earlier, this quarter is hard to read by itself as a clean quarter given the base impact. So, it would be fair to say that there would be growth visible in numbers across in the restaurant industry, but we are yet to see a strong recovery in consumer sentiment and resulting in strong increase in consumer footfalls and consumer traffic. And I dare say that is true of entire industry. Numbers do not reflect that because of the base impact, but we are yet to see that sentiments come back. And as Mr. Bhartia said earlier in his remarks, the 5% GST would be a tailwind for the industry as it removes the asymmetry between organized and unorganized sector and that could be a tailwind potentially, and we are all hoping that it plays out. But as of now that is too early, it is not evident yet in consumer sentiment or in consumer spend.

Navin Trivedi

But since Pizza is more branded kind of a system driven where the smaller players contribution, the unorganized contribution will be not very significant. So, do you think that even the GST rate of 5% would change not only from the Domino's point of view but from the industry point of view would change a lot even in the next coming year's growth?

Hari Bhartia

It is not only that we compete for the stomach with only Pizza we compete with other food products also that is being sold under different brands or under unorganized sector. So to that extent a customer paying less GST has an advantage and I think to that extent our gap has reduced. So, certainly it should give us some advantage, as Pratik said, some tailwinds in the future. It may not be evident in the short-term but in the long-term I think it is a great move. From our side we are quite happy.

Navin Trivedi

We know that you do not give any guidance and the SSG is something where we have seen high double-digit kind of growth to again negative SSG also, and again we have reached to high double-digit kind of SSG. So we know that you do not share the guidance, but in terms of as you mentioned the 5% GST rate has certainly boost the industry, can you think that the average of the industry now will change in the next two to three years' timeframe? So, we were assuming, let's say, 8% to 10% kind of a sustainable growth for SSG, this will change to some extent post the rates revision?

Hari Bhartia

So, Navin, you answered your question yourself. You are absolutely right, we do not give guidance on numbers in the future, so do not have anything more to add in what I said already and we have said already,

which is that we are committed to the path of driving sustained profitable growth in the business. And we believe that in a long-term certainly the lower GST rates will be a tailwind for us. But we are committed to our strategy and execution thereof in a disciplined way quarter-after-quarter.

Moderator Thank you. Well, that was the last question for today. I now hand the floor back to the management for their closing comments.

Pratik Pota Thank you, everyone, for your wishes and your feedback. Before concluding, I just want to reiterate that we are committed to executing our strategy, like I said a little while back, consistently in a disciplined way. And we are guiding ourselves and our business on this path on a sustained way in the future. Thank you very much and have a good evening.

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