



**Transcript of the Q4 & 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, Mr. Prakash Bisht – CFO

Participants who asked questions

Abhishek Ranganathan - Ambit Capital
Aditya Joshi - Anand Rathi
Aditya Soman - Goldman Sachs
Amit Sachdeva - HSBC
Amit Sinha - Macquarie
Anupam Agarwal - Lucky Investment
Arnab Mitra - Credit Suisse
Avi Mehta - IIFL
Kaustubh Pawaskar - Sharekhan
Latika Chopra - J.P. Morgan
Manoj Menon - Deutsche Bank
Neeraj Mansingka - Goldman Sachs
Nishid Rathi - CWC
Prasad Deshmukh - Bank of America
Pritesh Chhedda - Lucky Investment
Sanjay Singh - PineBridge Investments
Pulkit Singhal - Motilal Oswal
Raj Mohan - Individual investor
Sonal Gandhi - UBS Securities
Vishal Gutka – PhillipCapital
Vivek Maheshwari - CLSA

Moderator Ladies and gentlemen, good day and welcome to Jubilant FoodWorks Q4 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you sir.

Siddharth Rangnekar: Thank you, and welcome to Jubilant FoodWorks Annual Conference Call for Investors and Analysts. We will be joined today by Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Pratik Pota – CEO; and Mr. Prakash Bisht – CFO.

We propose to commence with perspectives from Mr. Bhartia, thereafter we shall have Mr. Pota sharing his view on the progress we have made operation wise, strategic imperatives that lie ahead and the outlook for JFL, he will be followed by Mr. Bisht who will update us on the financial performance. After the opening remarks from the management, the forum will be open for any queries that you may have.

Cautionary Note:

Certain statements that may be made on today's call could be forward-looking in nature. Actual results may vary significantly from those statements. A detailed note in this regard is available in JFL's Q4 and FY18 results release and presentation, both of which are available on the company website under the investor section.

I would now like to request Mr. Bhartia to share his perspectives with you. Thank you. And over to you sir.

Hari Bhartia: Thanks, and a very warm welcome to all of you. It has been a good and eventful year. As all of you are aware, we started the year FY18 on the back of successive quarters of nominal growth. We had also seen erosion of margins and reduction in operating leverage in the last few years. We saw huge opportunities to rationalize cost in all our functions. We also felt there was a strong need to improve value perception and improve our products. With increasing penetration of smart phones and online ordering, investment in technology was starting to become very critical. As all of you are aware, with this in mind, we had reset our strategy in the beginning of FY18 and allowed it to play out during the year.

We are pleased with our overall performance during FY18 in both Domino's Pizza and Dunkin' Donuts in line with our strategy. We saw same-store growth of FY18 at 13.9% with Q4 going up to 26.5%. In FY19, we continue to build on the successful initiatives started last year.

I would like to restate again what we said in the beginning of this year and our strategy going forward. We had been very rigorous and selective about opening of new stores in the year FY18. With steady growth in volume and sales, we are starting to increase our pace of opening new stores. Market continues to show large potential of opening new stores in existing and new cities. While we increase our store opening, we will continue to apply strong scientific rigor in selection of our new store locations. We will also continue to make good efforts and focus on getting higher sales from existing stores. As we had promised, we will continue to work on getting operating leverage. As all of you are aware, that we had company wise efforts to rationalize cost, the impact of which was visible in FY18. This impact will continue through FY19 and we are trying to make this as a continuous effort in our organization. We had also promised that we will bring value back to our customers. As you are aware, we took many initiatives in this direction:

Firstly, the introduction of Every Day Value Offer on medium size pizza starting at Rs.199 aimed mainly at attracting families and group of friends. Secondly, by launching All-New Domino's, we gave more and better toppings at same price. Thirdly, we selectively reduced prices of our products in our menu and the new GST regime was implemented with passing all benefits to our customers across the country.

We have also continued on this path by launching Every Day Value at Rs.99 at the beginning of FY19 for regular size pizzas and small group of two. This will help us to gain volume and new customers in FY19.

We have also promised to continue and increase investments in technology. We have improved digital experience of ordering on our app and on the web as more and more customers use smartphones and web for ordering our pizzas. We have continued to invest in improving technology for voice ordering, analytics for our business, store operations and supply chain. In the new year, we will continue to improve our user experience of our app with new releases and hopefully learn to apply artificial intelligence and machine learning on our database to serve our customers better.

We had also promised to reduce losses in Dunkin'. We did shut down our unprofitable stores and rationalize the cost. Our sales have continued to improve resulting in reduction of our losses to half in FY18.

We are working hard on the path of achieving breakeven by the last quarter of FY19.

As you are aware, last quarter we also announced our new joint venture to launch Domino's Pizza in Bangladesh. We see Bangladesh as a strong and growing market for pizzas. Going forward, we want to apply all our learnings from the Indian market to improve our performance in Sri Lanka and for the new launch in Bangladesh.

We believe we have an outstanding team of store managers who continue to run our stores efficiently and service our customers timely with great tasting, fresh and hot pizzas.

Our new CEO, Pratik Pota who joined at the beginning of FY18 took charge and is providing strong leadership supported by committed second line and a larger organization to make our store managers successful.

We are committed to make our organization adaptive to continuous changes especially in the new digital era.

Both Domino's and Dunkin' are very strong franchises. Domino's is the world's largest pizza company and a leader in technology in food services. We continue to have great partnership and share learnings which are continuously applied to the Indian market.

Lastly, I must add, we are happy to announce 1:1 bonus for our shareholders and increase our dividend to Rs.5/share, pre-bonus which amounts to Rs.2.5 post-bonus. We are committed to realizing full potential of our brands as we step into FY19. As mentioned before, we will continue to build on our strategic initiatives that we laid out this year and hope to bring several new and exciting measures that will continue to give profitable outcome in FY19.

Over to you, Pratik. Thank you very much.

Pratik Pota:

Thank you, Mr. Bhartia. Good evening, everyone, and welcome to earnings call for Q4 FY18. As you are aware, we have reported strong all round performance during the quarter. Overall revenues grew by 27.3% on the back of a strong 26.5% same-store growth for Domino's Pizza. Our EBITDA for the quarter stood at Rs.1278 million, an increase of 111% over same time last year and at 16.4% of net sales. Profit after tax was Rs.681 million at 8.7% of net sales. Further financial highlights would be shared by our CFO, Mr. Prakash Bisht.

With respect to our store network, we opened seven Domino's Pizza restaurants and closed none during the fourth quarter, thereby giving us a restaurant count of 1134 across 266 cities. In Dunkin' Donuts, we opened one new restaurant and closed eight. As a result, the Dunkin' restaurant count was at 37 across 10 cities.

Let me also touch briefly on the highlights for the quarter: Our same-store growth in Q4 came on the back of strong growth in orders especially in delivery. Our dine-in part of the business also grew healthily, and this growth too was driven by orders. The all new Domino's product upgrade launched in Q2, continues to do well for us and drove strong growth in core pizza. Our product satisfaction scores remained high during this entire quarter. The Every Day Value proposition once again performed strongly in Q4 and we extended the EDV to regular pizzas towards the end of the quarter. Our strong focus on driving online sales showed good results, with online sales now contributing to 63% of total delivery sales. This is an area that will have sustained focus and innovations in the periods ahead. The Dunkin' Donuts business saw strong growth in Q4 on the back of growth in donuts and beverages. We achieved our stated growth of halving the losses in the year and are confident of achieving breakeven as we exit the current financial year.

The fourth quarter also witnessed two significant milestones. First was a launch of a mega-commissary at Greater Noida. This facility will support a large and growing network of stores in the north and advance the agenda of introducing newer products into the market across both brands. Secondly, Jubilant FoodWorks Limited announced the formation of a joint venture with Golden Harvest QSR Limited to launch Domino's Pizza in Bangladesh. Under this JV entity 'Jubilant Golden Harvest Ltd', Jubilant FoodWorks will be the major shareholder with 51% of the shareholding while Golden Harvest QSR Limited, a part of the larger Golden Harvest Group will own 49% in the joint venture. We believe that the Bangladesh market has great potential and we look forward to entering the market there soon.

As we look ahead to the coming quarters, our strategy will remain largely unchanged and will remain in line with the strategy for growth outlined last year. We will continue to focus on driving innovations and product quality, delivering continued value for money products, providing the customers with the seamless experience, leveraging technology and driving efficiencies and controlling cost.

To conclude, we are pleased with the performance last quarter and remain confident about driving profitable growth in our business in the future.

With what, I will request our CFO, Mr. Prakash Bisht to share the financial highlights for the quarter and the full year. Prakash, over to you.

Prakash C. Bisht:

Thank you, Pratik. I shall quickly brief on the financial performance of the company. All financial reporting and discussion has been done in accordance with the standalone IND AS financial statements of the company. Operating revenue during Q4 was at Rs.7,798 million, up 27.3% YoY. This follows same-store growth of 26.5% as our Domino's brand. Total expenditure for Q4 FY18 stood at Rs.6,520 million, up 18.1% over Q4 FY17. This was mainly on account of expansion in operation as well as addition of the new restaurants. EBITDA during the period stood at Rs.1,278 million, marking growth of 111% as compared to the same quarter last year. Our EBITDA margin stood at 16.4% during Q4 FY2018, up from 9.9% last year. Profit after tax was at Rs.681 million, delivering gains of 913% YoY. Net profit margins were at 8.7% in the period as against 1.1% last year. Operating revenues during FY18 were at Rs.29,804 million, up 17.1% YoY. This follows same-store growth of 13.9% at our Domino's brand. Total expenditure for FY18 stood at Rs.25,341 million, up 10.2% over FY17. EBITDA during the year stood at Rs.4,464 million, marking growth of 81% as compared to the last year. Our EBITDA margin stood at 15% in FY18, up from 9.7% last year. Profit after tax were at Rs.2,064 million, delivering gains of 207% YoY. Net profit margins were at 6.9% in the period as against 2.6% last year. In FY18, we did capex of Rs.1,067 million towards opening of new restaurants, reimaging existing restaurants and our Greater Noida commissary.

Mr. Bhartia already informed and I confirm that the board has recommended the dividend of Rs.5 per equity share for FY2018 on the existing share capital of the company. This would mean a cash outflow of Rs.329.92 million and dividend distribution tax of Rs.67.82 million will also be paid. The board also recommended issue of bonus shares in the ratio of 1:1. On approval of bonus share, the dividend payout works out to be Rs.2.5 per equity share on enhanced share capital after the issue of bonus share.

That concludes my remarks. I would like to hand the call back to the moderator so that the interactive session can commence.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Avi Mehta from IIFL.

Avi Mehta:

Sir, just wanted to understand, if you could give any, the next year in the store addition over there? Second question was on the Dunkin'

format in particular. You have been going through a very aggressive store closure plan. What is the thought over there in terms of next steps is it all done in terms of closures? Similarly for Domino's as well.

Pratik Pota:

So let me first start by responding to your question on our store opening plans for the coming year. As you are aware, last year our store opening was lower than what we have been opening historically, and we have opened 24 stores. Our focus was on getting the same-store economics right. Having done that, we are recalibrating our store expansion plan and our target for the year is to open 75 stores on Domino's. So that is on the store opening part. On Dunkin', we are pleased with the progress we have made on reducing our losses; we have halved the losses as said earlier. We also have seen strong growth come on our core portfolio of Donuts and Beverages. Based on the learnings from last year, we hope to continue to work this year and get to break even as we exit this financial year. Within that scope of work, looking at specific stores and seeing whether it is profitable or not, these are ongoing work stream and we will be clinically brutal to close stores. That said, we have seen the same store economics improve on Dunkin' as well and we are committed on the journey of getting to break even by exit of this year. Your specific question I think on capex, I will hand over to Prakash to respond to.

Prakash C. Bisht:

So we expect the capex to be in the range of about Rs.150 crore next year.

Avi Mehta:

Closures done in Domino's?

Pratik Pota:

Again, a similar response that I would give on Domino's as well. Looking at store level profitability is an ongoing effort, month-on-month and it is an ongoing exercise, and we will take calls based on store level performance. But again it would be fair to say that given our performance in the last year, I do not expect us to close large number of Domino's stores.

Moderator:

Thank you. We will take the next question from the line of Manoj Menon from Deutsche Bank.

Manoj Menon:

Congratulations for a very good performance. One follow up on the new store addition, Pratik. Qualitatively speaking, would it be mostly in the existing 260-odd cities or would you be adding newer cities quite aggressively?

Pratik Pota:

Manoj, in response to your question, I think it will be a bit of both and let me go back to my opening remarks when I talked about the strong growth that we are seeing on delivery in existing markets. So in order to

service that delivery growth, we would need to open more stores in the existing markets as well. We also intend to open new stores in new markets to leverage and to take advantage of our aggressive plans lined up including EDV, it will be a bit of both.

Manoj Menon: Just checking the Every Day which have given you extremely good results for the last 12-months, now given that you have Every Day Value at multiple price points, the logical question here is, what next, so would you need more products, more variance or is it just driving this itself would be good enough for some more time?

Pratik Pota: Manoj, you are right, Every Day Value platform has given us strong results last year. It fundamentally resets the way we engage with customers on value where we offer an assured value for a particular price point right through the year as opposed to occasional discounts. That platform and that promise will continue to work for us this year. As you are aware, we have expanded that to regular pizzas as well. However, there are multiple other levers of growth that we intend to deploy which I talked about in my opening remarks -- the first one being innovations and products, then technology which will be a big growth driver as well and overall improvement in customer experience, so our plans for this year will be predicated on these four platforms -- innovation, value for money, technology and customer experience.

Manoj Menon: Where are we in terms of the food aggregators, there has been a consolidation which the food aggregators base has seen which to some extent would have been a tailwind for leading operators like Domino's who anyway probably is one of the largest delivery platform. Now how do I think about it because is this working in your favor, if you could just help us understand this journey and how does the medium-term look at this point on the aggregator from being competition, you probably co-opted them in the last 12-months, how should we think about this?

Pratik Pota: Manoj, our view on aggregators is simple and straightforward. We believe aggregators play a very important role in growing the delivery market and increasing and providing choice for customers. As India's largest delivery expert, we believe that, that tailwind is going to be our advantage. You may not be aware but our partnership with aggregators is such that we control the customer and we deliver to the customer. Therefore, we continue to own the customer and own the customer experience most importantly. So that is the first part. The second part is even as aggregators grow, we have to invest in growing our own digital and online platform and improve the quality of our assets and our customer experience. So it will have to be necessarily a twin effort which is what we are engaged into.

Moderator: Thank you. We will take the next question from the line of Sonal Gandhi from UBS Securities.

Sonal Gandhi: Congratulations on a very good set of numbers. My question is on staff cost for the quarter because we have been talking about enhancing customer experience, but if I see our staff cost has gone down this quarter. So how are we looking – are we rationalizing number of employees or is it because of the Noida commissary that the other commissary employees are out, would you like to explain this?

Mr. Prakash Bisht: Sonal, as you would have observed, our employee cost for the year is about Rs. 604 crore, which works out to be about Rs. 151 crore per quarter, on QoQ booking basis, there are certain estimations and true-ups. So this quarter cost has again true-ups. So we believe that the correct way to see it as an average of the YTD cost.

Sonal Gandhi: Secondly, I have a question on growth in SSG in stores and delivery. You have been commenting that delivery is making very good growth. So how is the growth in stores?

Pratik Pota: Yes, as I mentioned in my opening remarks, we saw strong growth in delivery driven by order growth but we also saw robust growth in dine-in, in our stores as well. So it was a combination of growth delivered both by dine in and walk-in business and also delivery, and both of these were underpinned by order growth.

Sonal Gandhi: But my question is maximum sales are coming from. You say that it is almost equal; dining as well as delivery?

Pratik Pota: Sonal, as you are aware, we do not give specific numbers between delivery and dine-in. It would be fair to say that both parts of the business gave us growth and we have strong growth. Within that delivery growth was higher as compared to dine-in.

Moderator: Thank you. We will take the next question from the line of Pritesh Chhedda from Lucky Investment Managers.

Pritesh Chhedda: My question is on the ability to continue to grow SSG on the same store. So is there metrics where you guys track in terms of utilization of a certain store and post which you need to split the store and set up? I am asking specifically this question because if you see for Domino's for the last 13-14-years of your history, before the IPO, you guys had a situation where post the IPO the store utilization went up, then you had to split the store, create new stores and then again you are in a situation where the store utilization is going up and hence we see the SSG growth. So any metrics in terms of the incremental possibility of

utilization on your existing stores? My second question is in the revised 2.0 business model that we see for you, last time when we saw the model the margins went up to about 19-19.5% and then started its downtrend when you started splitting the store, so in the revised 2.0 version, what is the margins which you look at a higher end in terms of the existing stores?

- Pratik Pota:** Thank you for the question. Let me respond to your first question; as I mentioned earlier, looking at store level growth and store level load is an ongoing activity and exercise and especially with a robust growth like this, there would be some stores that would need to split and create another avenue for delivery and for servicing the customer growth and that ofcourse like I said is a store-by-store activity. The first port of call is to service the incremental load from the existing infrastructure in the existing stores. Only in cases where we believe that cannot be done is the discussion on split stores. In some cases, that would be called upon given the strong growth that we are seeing in delivery.
- Shyam Bhartia:** But our experience has been in the past whenever we split stores, both the stores have grown, and both the stores have grown to the same level.
- Pritesh Chhedda:** But sir, the margins behaved really differently when that phase had happened.
- Shyam Bhartia:** As you see that we are already getting operating leverage from our existing operations. You will see that that is why the margins are improving.
- Pritesh Chhedda:** That is for the last four, five quarters, but I am...
- Shyam Bhartia:** We can assure you going forward we are focused on cost, we are focused on operating cost, etc., so we hope to get continuing operating leverage from the performance overall.
- Pritesh Chhedda:** So in your version 2.0 as I was referring to my second question, margins last time we saw at about 19% on a higher side, version 2.0 is a different margin profile?
- Shyam Bhartia:** We do not comment on the future margin profile.
- Pritesh Chhedda:** Direction?
- Shyam Bhartia:** Margin depends on so many issues. So that is why we are not commenting on it because we continue to provide value to our customers, so we always keep a balance between volume and margin.

There is no perfect answer for this and we cannot comment on the future. The idea is to drive volumes, the idea is to drive store numbers and that is where our efforts will be, that is where we get operating leverage.

Pritesh Chhedda: What is the negative EBITDA contribution of Dunkin' in FY18?

Prakash C. Bisht: In Q4FY18, Dunkin' overall EBITDA was 105 basis points; FY18 was 118 basis points. Just to add to that, you of course are aware that this was more than half over what was there in the preceding year, in FY17 the Dunkin' drag was 241 basis points which came down to 118 basis points.

Moderator: Thank you. We will take the next question from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra: First question is on the fact that this industry in the slowdown phase, one of the big problems was new customer additions were not happening. So while you did say that a lot of the growth is order-driven. Any comments on, are you seeing new customer acquisitions starting or is it more of existing guys on your database buying more? In that context also, Rs.99 Every Day Value, while you are aiming it at new customer acquisition, are you seeing any kind of risk of downtrading from regular pizzas into the slower price point and how do you kind of think of that risk?

Pratik Pota: Thank you, Arnab. On your first part of the question, our growth in the last quarter came on account of both new customers being added at a faster rate as also an increase in frequency of our existing customers. You may recall our remarks for the preceding quarter as well, that we made a similar observation. So we are pleased to see that trend continue of both new customers and existing customer frequency going up. On Every Day Value Rs.99, we are aware and we should remember that we are in a category that has low penetration and as market leaders it is our role to expand the size of the category and to increase penetration and grow frequency. We believe that our EDV 99 proposition will do that and the overall advantage of expanding the category and growing frequency will prevail.

Arnab Mitra: In terms of downtrading risk because it has now been about 1.5-months since the offer has been there. Are you seeing that as a risk playing out anywhere or it is more of new customer acquisition that has been driven by this?

Pratik Pota: Arnab, I would not like to comment on this current quarter and how we are doing, but I would like to say that before we rolled out EDV Rs. 99 nationally, we had done a pilot in Tamil Nadu and our analysis showed

that between new customer acquisition, growth in frequency versus some downgrades from existing larger pizzas, the numbers stacked up which is why old proposition is national.

Arnab Mitra: Last question on employee cost. This quarter we have seen a flat YoY employee cost and actually if you go back 8, 10 quarters your employee cost has been in that Rs.140, 150 crore range. So with such high SSG, obviously you need more delivery people, how are you managing to keep the employee cost flat, there will also be some wage increases and therefore should we anticipate these costs starting to go up now from here on?

Pratik Pota: As delivery increases and as we need to deploy more manpower to service the delivery orders, there will be some cost pressures coming on part of manpower, that is #1. #2, of course, as you are aware, there will be minimum wages pressures across, in addition to the normal wage inflation. We have to turn ourselves to deal with these inflationary pressures by bringing more efficiency, bringing more variabilization of the manpower and ensuring that we have more operating leverage of fixed manpower.

Arnab Mitra: Whatever initiatives you have taken to cut cost here, is the bulk of that in those initiatives already played out in FY18 in terms of efficiency of manpower or would you say there is more to happen or you have done some pilots and the full rollouts are yet to kind of happen in FY19?

Pratik Pota: Looking at productivity and cost optimization is an ongoing activity. Equally it would be fair to say that we continue to deal with real inflationary pressure. So both of them are real ongoing activities and it is our attempts to minimize and mitigate the impact of inflation to continue productivity and activity.

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

Latika Chopra: My first question was on your Every Day Value offer. It is almost close to a year that you have seen this at Rs.199. Could you comment on how that has influenced your gross margin profile, and also does it anyway constrain your pricing power?

Pratik Pota: The EVD Rs.199 proposition has been transformational for our business. It has done two things – First of all, it has allowed us to move away from the deal ‘Buy One, Get One’ discounts to a much more sustainable proposition, that is #1. #2, it has helped us to drive frequency by moving customers away from specific consumption day, to a spontaneous consumption. So it has improved our margin profile while driving same-

store growth and while driving overall core pizza growth. I would say that will be the overall observation of EDV 199.

Latika Chopra: The 99 EDV offer would that be margin dilutive or you think the leverage benefits will be enough to ensure the margin profile is not affected?

Pratik Pota: Latika, we believe that EDV 99 is going to actually take the EDV proposition to the entire new set of customers with smaller group sizes of two and people who have hitherto left out of the EDV proposition. This is the same way EDV 199 works for us for medium pizzas where it was both growth driving and margin accretive. We believe EDV 99 would be no different.

Latika Chopra: Second, we heard a lot of focus on technology. Any specific initiatives you have in mind for FY19 here? Would that also contribute towards saving on the cost front for you?

Pratik Pota: Latika, Mr. Bhartia did speak about some of them in his opening remarks, but just let me just recap and talk about some of the big themes that we are working on with respect to technology in the year ahead -- the first one is we are looking at significantly improved quality of our digital assets, our app, our website, PWA, etc., and again that is something that we will start playing out in the months ahead, #1. #2, looking at very clear data-based customer segmentation and very evolved CRM program based on that. Using machine learning to give very specific and personalized recommendation, using AI in our business, looking at analytics to drive performance and decision-making and also potentially looking at the platform of loyalty.

Latika Chopra: Have some of these initiatives already led to cost savings for you over the last year or so?

Pratik Pota: Latika, as online contribution has increased, we have looked at efforts of mitigating cost of order taking manpower in our store and that will continue to be an ongoing effort. As online contribution increases, we will see the productivity in manpower, it has already been part of our activity even last year.

Moderator: Thank you. We will take the next question from the line of Abhishek Ranganathan from Ambit Capital.

A Ranganathan: A couple of questions here; one is on the gross margin which we have seen in this quarter, we have seen some decline there. Is this a new normal run rate we look at because of the changed product mix and add to that possibly the EDV 99?

- Prakash C. Bisht:** The gross margin decline that you have seen in this quarter, so fundamentally between the last quarter and this quarter the differentiation is on account of GST. So some impact of GST which was there in the last quarter only for 15-days has worked out for the full quarter in this quarter whereas we have also done certain cost initiatives which has partly offset this.
- A Ranganathan:** 240 basis points decline YoY, I am referring to that.
- Prakash C. Bisht:** Why the food cost contribution has gone up is primarily, as Pratik had also explained that we launched our new improved Domino's this year, so which has far more toppings and in terms of the overall cost of that pizza is higher. So the impact of that pizza is sitting in the food cost. The other impact is on account of the GST which has come in. So these two factors have contributed towards increase in the food cost. But at the same time, we had done many initiatives like our cost saving initiative which has further brought down the cost.
- A Ranganathan:** So is this run rate which we can expect to clock now?
- Prakash C. Bisht:** By and large.
- A Ranganathan:** Pratik, second question I have here is on fulfillment, particularly... I think someone asked about this fulfillment, an extension to that is that with more of low orders say something like an EDV 99 on an absolute basis the fulfillment cost does not change. So are we looking at any different means of fulfilling this order, outsourcing or we are happy to do this as long as the volume plays out?
- Pratik Pota:** Abhishek, our math shows that the orders that we are getting are not margin dilutive and it is very important that we control the customer experience of delivery which is the key differentiator for Domino's. So therefore we intend to deliver by ourselves and control the end-to-end customer experience.
- A Ranganathan:** So you are saying your orders which you are getting are not margin dilutive vis-à-vis let us say EDV 199 or normal medium pizza, is that the benchmark you are saying of not dilutive, I am referring to EDV 99 going ahead, is that EDV 99 would have as a percentage the fulfillment cost would be higher simply because the value is lower?
- Pratik Pota:** All that I would like to reiterate is that we believe owning the customer experience from order taking, to delivery is a very-very important part of our proposition and our differentiation and we intend owning that entire piece.

- A Ranganathan:** What is the number of employees at the year end? The presentation does not carry.
- Prakash C. Bisht:** Our closing employee count was at 27,539.
- Moderator:** Thank you. We will take the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management.
- Pulkit Singhal:** Just wanted to check, At the store level, when I look at your cost, raw material is 25% of sales, employees 20%, other operating expenses 29% and rental is 11%, if I broadly look at a store level what is the kind of inflation that you see in cost?
- Pratik Pota:** There are various inflationary pressures that we see in our store cost line. Let me elaborate with two or three examples; the first one I talked earlier about the manpower cost, there is the normal wage inflation that happens, minimum wage pressures plus have a higher needs of delivery, need to deploy more manpower, that is one. In our food and packaging, there are inflationary pressures. There are inflationary pressures in rent where the contracted pay increases. So these are the normal inflationary pressures that have been managed in operating business. Fuel will be the other inflationary pressure that we are seeing. However, we endeavor constantly, and we talk about as one of the big themes for this year, and indeed for last year, it would have very clear work streams mitigating the inflationary pressure. So for example, in the area of rent, while contracted rent increases, there is an ongoing effort to reduce and renegotiate with existing landlord to try and mitigate some of those inflationary pressures. Similarly, on manpower I talked about, efficiency drive that we are undertaking, including using more of available manpower, improving the quality of our forecasting, and leveraging our fixed manpower a lot better. As far as raw material goes and food goes if you look at expanding our levers of vendors and partners and buy from and source from and therefore to to get competition going to make sure we get the most competitive rate for ingredients. So there are a number of inflationary pressures you can imagine but there are equally strong number of countervailing initiatives that we have undertaken as management to make sure we mitigate the impact these inflationary pressures.
- Pulkit Singhal:** So, would it be fair to say that on an average broadly 5-6% inflation and it is the management's effort to try to bring it below that at the store level?
- Pratik Pota:** I would not like to give a specific number because it varies across, but I would restrict my comment to what I said earlier.

- Pulkit Singhal:** The store expansion plan seems to have now kind of gone back to the 75 and now hopefully ahead. What is the potential size of market that you see?
- Pratik Pota:** Again, in the opening remarks, Mr. Bhartia talked about the fact that we see strong potential for Domino's Pizza in the country and we believe very strongly that there is a large market out there which we need to leverage and tap into and as a step towards we are opening seventy five stores this year, but we believe the potential is far more than that.
- Pulkit Singhal:** So the EBITDA margins are now at 16, 17% levels which are fairly healthy and probably closer up to the peak that you have achieved in the past. How does management look at this from 3-5-year perspective, I mean, would you say that over a period of time, want to reinvest any extra margin that you earn because of your own efforts on cost, etc., to kind of push the penetration curve and like EDV 99 offer or trying to recruit more consumers, is that what the effort will be this time?
- Hari Bhartia:** You are absolutely right, so we keep that balance always, between continue to get loyalty of our customers, bringing them value, increasing same-store growth, volume, so there is always that fine balance we have to keep, this is an ongoing exercise that we continue to look at and we have become more and more careful on this. As I said in the opening remark also that we made a promise to bring value back to the customers and we will continue to see that customers get good value from us and we are starting to see good results in terms of volume growth, in terms of stores operation, everything. So as Pratik explained on cost side, we continue to work to increase margin so that we can give more value to the customer, so that effort will continue, the idea is to grow, as Pratik said, the potential is to open many more stores.
- Pulkit Singhal:** I was just checking in this kind of margin gap in mind that you would have that you do not want to go beyond, I would like to reinvest in the business or open store?
- Hari Bhartia:** I am not committing on a cap but I am saying that this is a fine balance that we keep all the time so that we continue to grow. The idea is growth because there lies a large potential in the market. As we grow, our focus is also on how to get operating leverage.
- Moderator:** Thank you. We will take the next question from the line of Vivek Maheshwari from CLSA.

- Vivek Maheshwari:** First on price hike for FY19, given last year was more about cost and there has been a lull on the price hikes. What are your thoughts for FY19 on the same?
- Pratik Pota:** Let me just wind the clock back and remind that when input credit was withdrawn was November 15th, we did not pass on the full impact of that to customers through price increase, we only took our partial price increase and absorbed the rest in our margins. Going forward, as Mr. Bhartia said earlier, our attempt is to provide customers with continued value for money and that remains our #1 priority. However, as the year pans out, and as the inflation becomes more evident, and we see numbers playing out, we will take a call for the year on pricing. But our first priority is to drive growth for giving customers value for money.
- Vivek Maheshwari:** You mentioned about minimum wages and Wage Code 2017, if that were to be implemented, there can be a big headwind on the employee cost front then?
- Pratik Pota:** Of course, as I said also in the same remarks, our attempt is going to be to mitigate the impact of that to using better initiatives that I talked about, but yes, we are aware of that, we are aware of the fact that we should be constantly looking at driving efficiencies in our business model to mitigate the impact of some of the inflationary pressures.
- Vivek Maheshwari:** Secondly, I have an observation that while every quarter you have been talking about innovations, FY18 was more about Every Day Value and product upgrade, there have not been any launch I think with the exception of chicken range. Is that a fair observation and does that mean the launch activity should pick up as we head into FY19 now?
- Hari Bhartia:** Our All New Domino's was a major innovation, if you talk about innovation, it was a product upgrade, toppings upgrade, so we do not treat innovation only as a new product introduction, I think the upgrades that we have made in all our products, I would consider was a major innovation for us last year.
- Vivek Maheshwari:** Two small numbers if I may; one is on other income. Why is there a sharp increase from a quarterly run rate of let us say Rs.3 crore to more like Rs.12.5-13 crore, is there any one off over here?
- Prakash C. Bisht:** Yes, there is a one-off in this item, to the tune of about 5-6 crore one-off item is sitting in other income for this quarter.
- Vivek Maheshwari:** On the balance sheet, there is some loan, it is a small number again but just curious, loan of Rs.16.9 crore which comes on the asset side. Could you elaborate what exactly is this?

- Prakash C. Bisht:** This is the transaction between the employee welfare trust in the company.
- Vivek Maheshwari:** Not to any group company?
- Prakash C. Bisht:** Not to any group company, so it gets knocked off in the consolidated accounts and when you will see the line item in the consolidated accounts it is not there.
- Moderator:** Thank you. We will take the next question from the line of Amit Sachdeva from HSBC.
- Amit Sachdeva:** Excellent results. Pratik, if you could elaborate a bit on Bangladesh opportunity, two questions; how do you see the market in next five years and what does the plan look like, how we should think about this? Secondly, how this will be actually accounted in your financials – would it be like a JV or like associate or would you do your proportionate consolidation?
- Pratik Pota:** Amit, Bangladesh is a very exciting market and we have a lot of confidence about the potential of our business there. Bangladesh as an economy, as you are aware has poised at a point where the economy is growing, the discretionary incomes are growing, the lifestyle of people is changing, there is a bit of urbanization, technology is playing a much more important role in the country. So all of these are right for our industry and we intend to participate in that growing economy. We are very pleased to have a joint venture partner, Golden Harvest, they are a reputed group with the deep and longstanding understanding of the market in that country and we believe that our partnership will help us exploit this opportunity going ahead. We are in the process of drawing up concrete plans for entering the market with impact and you can be sure, as Mr. Bhartia talked about in opening remarks as well, we are drawing on the learnings from the India market and also Sri Lanka as we draft our entry strategy into Bangladesh.
- Prakash C. Bisht:** We have 51% in the joint venture. So when it becomes operational, the accounts will be consolidated.
- Amit Sachdeva:** Like a full revenue and cost, all consolidated?
- Prakash C. Bisht:** The new accounting standard which has come in for joint venture accounting, it is generally done on the equity basis, it is not a line-by-line.
- Amit Sachdeva:** Like an associate?

- Prakash C. Bisht:** Yes.
- Amit Sachdeva:** I thought there was an option you could choose both, but...?
- Prakash C. Bisht:** Earlier it was an option, I think going forward it has to be on the equity basis.
- Amit Sachdeva:** What is the five-year kind of outlook you have like, we have 200 stores or 300 stores?
- Hari Bhartia:** At this moment, we are finalizing our plan. I think it will be incorrect to give a number of stores for the next five years right now.
- Amit Sachdeva:** My second question is on new format in India. So we have been talking about in the past as well and obviously the Dunkin' has obviously been reshaped and Domino's is on the right economics curve and growing from there. Do you now see or envisage a possibility of new own brand which could now ride on the success or it is still a far-fetched sort of thinking?
- Hari Bhartia:** As you are aware, firstly, our greater focus is continuing to be on Domino's because we see a very large potential as Pratik also mentioned, we are increasing the number of store opening, but the potential is much bigger. Secondly, to stabilize Dunkin' by the end of this year. That means we have said we want to break even by the end of this year and then start growing Dunkin' hopefully in the future years. Thirdly, we continue to experiment in the market. If not in the market, ourselves on what are the other foods that we could look at. So when there is a concrete plan, we will definitely come back and talk to you. We are taking the market learning, we are understanding the consumer as to what other kind of foods they would look at. So that learning we are continuing to absorb. If you ask me today, I do not think we can promise you anything on a third brand right now.
- Moderator:** Thank you. We will take the next question from the line of Kaustubh Pawaskar from Sharekhan.
- Kaustubh Pawaskar:** Sir, just one question which has been repetitively asked on the margin expansion. So this year we have seen about 500 bps kind of improvement in operating margins. I do not want any guidance or expectation from your end but what do you think would be the key drivers going ahead if you want to see any substantial improvement in the margins, according to you, what would be the key drivers over the next one to two years?

- Hari Bhartia:** One of the key drivers, as Shyam mentioned, is operating leverage, that will be the key growth driver because with growth and continuous work on efficiency, and not taking customers for granted will keep us in good shape.
- Kaustubh Pawaskar:** What was your advertisement and sales promotion expenditure for 2018?
- Pratik Pota:** Kaustubh, we do not share our advertising and marketing expenditure, we have not given that breakout, but just without talking about numbers, I want to underline the fact that given our strong belief in the potential of brand Domino's, we will be investing in strengthening the equity of the brand and our IPL investments that you have seen is a step in that direction. So we are also committed to building the brand in this country and driving kind of better growth.
- Moderator:** Thank you. We will take the next question from the line of Aditya Soman from Goldman Sachs.
- Aditya Soman:** Can you tell us what is the capex in FY18 and what is the guidance for FY19?
- Prakash C. Bisht:** FY18 capex was Rs.106 crore whereas the next year's expectation is in the range of Rs.150 crore.
- Aditya Soman:** This is for next year 75 stores, right, that seems actually quite high. So would there be another commissary or this is the technology investments that you have mentioned earlier?
- Prakash C. Bisht:** It is a combination of everything. So obviously, one part is the new store. But in addition to new stores, we are also reimagining the existing stores and then there is maintenance and new app development. So it is a combination of everything, it is not only the new stores.
- Aditya Soman:** What was the total free cash flow or cash flow from operations generated in this year?
- Prakash C. Bisht:** So the cash generated was about Rs.266 crore which is reflecting in the increase in the balance sheet.
- Aditya Soman:** Next year clearly again you will probably have surplus cash flow. So would that mean you just look to raise dividend or you are still evaluating a new business opportunity?
- Hari Bhartia:** No comment on this right now. We have just increased the dividend.

- Moderator:** Thank you. We will take the next question from the line of Amit Sinha from Macquarie.
- Amit Sinha:** Clearly, in the last few quarters, there have been several structural interventions and that has led to significant step up in the SSG, and even if I look at two years kind of a CAGR number for this quarter or the yearly number, this looks like a clear step up. So my question is how should we look at the sustainability of SSG, is a 10% number which is basically CAGR of two-years CAGR or the entire year SSG is a more sustainable number to look at? Just wanted to understand the gone-by quarter, I am not asking for any future guidance, etc.
- Pratik Pota:** In a sense it was, but so you are right, performance in the last quarter have been strong and we are happy about the performance. Our focus remains on driving profitable growth in the periods ahead. We are looking at those four strategic pillars that we talked about –product innovation, value for money, technology and customer experience – and bring a very sharp focus on driving efficiencies and productivity. But that will be in our focus. Now in terms of same-store growth in the future and in terms of operating margin that remains to be seen. But we can be sure that we are focused on the basics that drive the business and that has worked for us in the last year.
- Amit Sinha:** Just a follow-up, we have seen significant correction in the retail prices after the GST tax cut and that has followed in our SSG number as well. So my question is, we are not looking at any one-off kind of quarters, right, these are pure sustainable numbers in terms of the volumes and in terms of the SSG, right?
- Pratik Pota:** The P&L that you see are of an operating business and ongoing business, there was one exceptional one-off item which Prakash highlighted in the other income which is impacting the PAT but at the EBITDA level this is the usual.
- Moderator:** Thank you. We will take the next question from the line of Aditya Joshi from Anand Rathi.
- Aditya Joshi:** Sir, my question is pertaining to the new app MSP mechanism that will be coming into force. Will there be any impact on raw material cost and ultimately on the gross margin?
- Pratik Pota:** Aditya, the MSP mechanism will have a very-very marginal impact on our cost and we have in place accountability and work stream to mitigate the impact of that.

- Aditya Joshi:** My next question is pertaining to the small town projects that we initiated a few months back with the size at Rs.49. How many stores do we have under that project and when we will be rolling out that in all small town stores pan India?
- Pratik Pota:** Aditya, we have this in all targeted small town stores in India already. As you mentioned, this was using super value menu price at Rs.49, both new customers and existing customers' frequency. This has worked really well for us and we intend to continue with this year as well.
- Aditya Joshi:** Sir, we will be rolling out in all stores this year?
- Pratik Pota:** In small town stores, absolutely yes, it is already in play in the targeted small towns. I mean pricing, package, etc. is already in place in all the three or four towns where we intend to reach.
- Aditya Joshi:** Sir, my last question pertains to the set of data that we used to publish. Sir we used to give data for state wise Domino's store. Will we not be giving that data going ahead because since last two presentations we have not been giving that data?
- Pratik Pota:** Aditya, your inference is correct, yes, we will not be publishing the state wise detailed data because we believe that it is competitively-measured information and we would not like to put it out in public domain.
- Moderator:** Thank you. We will take the next question from the line of Vishal Gutka from PhillipCapital.
- Vishal Gutka:** I had one question on the ad spend. So now this year you are going to sponsor IPL and you are sponsoring one of the teams in IPL and also spending heavily on digital platform. So annually you have been spending around 5-6% of sales on ad. So will it remain in the threshold for FY19 or you are likely to see some increase?
- Pratik Pota:** Vishal, yes, you are right, we have made an investment in IPL and we believe that is is the right thing for us to build the brand, IPL is the platform, its prime time and it helps us both build salience and drive consumption. So in that sense it is the right thing for us to do. We will make choices elsewhere and we will make sure that the overall marketing spends for the business works given our overall requirements.
- Moderator:** Thank you. We will take the next question from the line of Neeraj Mansingka from Goldman Sachs.

- Neeraj Mansingka:** Just wanted to check upon this rent expenses. Was there a one-off in the rent for closures of stores?
- Prakash C. Bisht:** The only increase is on account of GST impact. Otherwise, there is no significant increase on account of closure of stores.
- Pratik Pota:** Input credit on rent was available to us for 45-days in the preceding quarter which went away for this quarter but that is a full quarter impact of the GST input credit and plus there are the usual contractual inflation increases in rent which play out. So a combination of two of them, but predominantly the former.
- Neeraj Mansingka:** Can you give general guidance on how you see the rent inflation over a period of time?
- Pratik Pota:** No, we have not given the guidance, Neeraj, but again, I just want to qualify the question by saying that even as there is inflation happening on rent, we continue to have those work streams going on in mitigating the impact of those.
- Neeraj Mansingka:** Just to push it slightly more you have all renegotiated contract on the rental side. So what is the generic inflation on the contract that you have signed in the recent past maybe 6 months or so?
- Pratik Pota:** Again, these are just information that we do not want to share in the public domain because we believe that is something I guess shedding too much, there is competitive space and there is competition of real estate as well, so we do not want to go and share these numbers, but you can be sure that we drive hard bargain and like I said whatever the rent increases are there in the contract, we have parallel work streams aimed at driving productivity as well.
- Moderator:** Thank you. We will take the next question from the line of Nishid Rathi from CWC.
- Nishid Rathi:** Just a question on the gross margin. So we took some price hike for taking the impact of GST, during the middle of last quarter. So after taking the price hike, I would have assumed that gross margins would have improved quarter-on-quarter. So just trying to understand what is happening out there for my understanding?
- Prakash C. Bisht:** Nishid, first of all to clarify that though we took a price increase in the last quarter, we did not pass on the entire input cost to the customers. So we partly did it, therefore you see impact of the input credit, so we did not pass on the entire cost escalation to the customers through price increase.

- Nishid Rathi:** So the question is, was there some tax sitting in raw material which had input tax credit which was not being able to absorb in the raw material line item because there was I thought that was more in other expenses and rental?
- Prakash C. Bisht:** So pre 15th November we were getting the input credit for all the raw material purchases. Post 15th November the input credit is not available to us. This cost line item has gone up, partly it has been passed out to the customers through a price increase, partly we have absorbed.
- Nishid Rathi:** My understanding is correct right, that even after the 99 you are going to broadly maintain the similar kind of run rate for this, in the gross margin line item?
- Prakash C. Bisht:** In terms of food cost, yes.
- Moderator:** Thank you. We will take the next question from the line of Prasad Deshmukh from Bank of America.
- Prasad Deshmukh:** This is about new store opening that you have talked about. The 75 stores, these will be similar to what you have been opening till now or is there any angle to it, like some of them will be delivery centers or so on?
- Pratik Pota:** Prasad, we are looking at all formats including format innovation. So we are open to stores which are both conventional that we have opened in the past which are in the high street or food court or mall store or indeed innovative format which would work for us given the specifics of that market. So we are open to all possible concepts including the ones that you mentioned.
- Moderator:** Thank you. We will take the next question from the line of Raj Mohan, an individual investor.
- Raj Mohan:** In the context of our transformation through restructing offer and cost rationalization, are we objectively seeing the breakeven in new rigorously selected stores happening much quicker in the context of settling into this model over FY18, are we more certain of the 75 stores opening mentioned earlier though last year we ended up with 24 though the initial plan was 40, 50?
- Pratik Pota:** Raj, let me respond to the first part of your question; our quality of new stores that we have opened in the last 12-months in terms of the performance has been significantly better than what was there in the past. So our new approach of using more rigour, more analytics and sharper benchmarking, while arriving at a new store location and new

store format, has worked for us in the last one year. That was your first question. As far as your second question is concerned, yes, we are fairly confident about our store projection of 75 and we believe we should get that this year.

Raj Mohan: My final question was with respect to Domino's US who in the earnings call mentioned about their new delivery innovation, i.e., hot spot strategy wherein they would deliver in public places like beaches, parks, etc., Do you broadly think India is also in a great situation to adopt this to further enhance delivery with its swarming people in public places?

Pratik Pota: Raj, I would say the innovation that Domino's in the US has announced, I think it is fantastic, it is helping them target new occasions and new locations for delivery and I am sure we can derive learning from there and you can be sure we are looking at it very actively. That said, one channel we do have in India which I just want to sort of place on the table once again is railways, where we deliver to 206 railway stations across the country and we believe this could be an engine of growth for us also in the future. Given the rail traffic that we have in this country, we have great promise in it.

Moderator: Thank you. We will take the next question from the line of Anupam Agarwal from Lucky Investment Managers.

Anupam Agarwal: Congratulations on a great set of numbers. Just wanted to understand has the company done any analysis as to what has been the average ticket price pre-Every Day Value offer and post Every Day Value offer for the last three years?

Pratik Pota: We have done the analysis and we look at these numbers day in and day out, but we would not like to share these numbers as we are in a competitive industry and would not like to talk about these numbers in detail.

Anupam Agarwal: I understand the ticket price must have fallen due to the Every Day Value offer. Has the fall been significant to the previous level?

Pratik Pota: Without going to details, you can be sure that Every Day Value is a proposition that will work for us to drive both growth and profitability and then it comes through a combination of growing transactions and growing ticket sizes. That is something we tend to continue in the future as well.

Anupam Agarwal: Is there any possibility for the company to look at basically giving reward points for every order, you get a reward point as to which I can

redeem in a later stage, to attract to keep the customer loyalty in place, to retain the customers?

Pratik Pota: These are kind of things that we keep evaluating and when the time is right we will roll it out, but yes, it will not be the only thing that we look at going forward.

Anupam Agarwal: After the previous quarter, addition of a new CEO, has the company thought of adding another management or another senior level manager to oversee the operations?

Pratik Pota: Looking at the leadership team and ensuring that we have the right set of capabilities and the right set of talent to lead the organization is an ongoing activity. We believe right now we have the right structure for taking us into 2019 and beyond. Of course, this is something that we keep revisiting dynamically. As and when we believe we need to infuse leadership team with more capabilities and more talent, we will do so.

Moderator: Thank you. We will take the next follow up question from the line of Latika Chopra from JP Morgan.

Latika Chopra: We understand your same-store sales comparables have been pretty healthy owing to your own initiative. But any sense on the general landscape in the QSR or restaurant industry from demand side?

Pratik Pota: Yes, we believe that a large part of the same store sales have come from the initiatives that we rolled out last year. But we are seeing some pick up in momentum especially on the dine in side. We saw some pick up in Q4 as the impact of the lower GST started playing out. It is early days yet but I would say that yes, we did see some momentum.

Latika Chopra: You also mentioned delivery has been doing better. Has that been also on account of more push by food aggregators in the space, are you seeing more orders coming through their platforms for yourself?

Pratik Pota: Latika, the good part is that even as aggregators have grown, our own organic growth has been as aggressive. So there is no disproportionate queue that we are seeing from aggregators vis-à-vis own platform.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to the management for closing comments. Over to you.

Pratik Pota: Thank you everyone for joining the Q4 earnings call. To summarise, I just want to restate what we said in the beginning; we are happy with the performance that we have delivered in the last quarter and are

extremely confident and optimistic about the prospects in the future and we will continue to deliver profitable growth.

Moderator:

Thank you very much members of the management. Ladies and gentlemen, on behalf of Jubilant FoodWorks Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.
