Transcript of the Q2 FY17 Conference call for Investors & Analysts

Call Duration : 01 hour 10 mins

Management Speakers : Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks
Mr. Ajay Kaul – CEO of Jubilant FoodWorks
Mr. Sachin Sharma – President & CFO of Jubilant FoodWorks
Mr. Arvind Vats – Chief Investor Relations Officer of Jubilant FoodWorks

Participants who asked questions

Mr. Aditya Sonman - Goldman Sachs
Mr. Arnab Mitra – Credit Suisse
Mr. Nillai Shah –Morgan Stanley
Mr. Amnish Aggarwal- Prabhudas Lilladhar
Mr. Manoj Menon - Deutsche Bank
Mr. Abneesh Roy - Edelweiss
Mr. Ankit Babel - Subhkam Ventures
Mr. Kunal Vora- BNP Paribas
Mr. Pulkit Singhal – Motilal Oswal Asset Management
Mr. Dhaval Mehta - Emkay Global
Mr. Avi Mehta - IIFL
Mr. Aditya Solanki - Dalal & Braocha

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Jubilant Foodwork's Q2 FY 2017 Earnings Conference Call. As a reminder, all participants' 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 "*" followed by "0" on your touchtone phone. Please note, that this conference is being recorded. I now hand the conference over to Ms. Urvashi Butani from CDR. Thank you and over to you.

Urvashi Butani: Thank you all for joining us on Jubilant FoodWorks Conference Call.

We have with us the senior management including Mr. Hari Bhartia -- Co-Chairman; Mr. Ajay Kaul -- CEO; and Mr. Sachin Sharma -- President and CFO and Mr. Arvind Vats -- Chief Investor Relations Officer.

We will initiate the call with key thoughts from Mr. Bhartia followed by Mr. Ajay Kaul and Mr. Sachin Sharma after that the management will be happy to respond to any queries that you may have.

Just to state our standard disclaimer, certain statements that may be made on this call today can be forward-looking in nature and a note to that effect has been stated in the release sent out to you earlier.

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

Hari S. Bhartia: Thank you, and a warm welcome to all of you. We saw improved operating and financial performance in Q2, driven by the Company's efforts to drive business growth via both short-term and long-term initiatives.

Sustained marketing efforts along with a mix of innovations in menu offerings and sales promotions have enabled Jubilant Foodwork's to continue to enhance its connect with the customers. While this has certainly helped us improve sales momentum, it has also resulted in higher customer retention. We continue to focus on optimum network expansion and driving our technology platform to enhance the customer experience and of course, improving operational efficiency.

During the quarter, we have successfully integrated the SAP platform and we believe this will help the company assimilate the relevant data points and insights which will help in making key decisions and increase productivity of assets and resources of the company.

For opening new restaurants, we have maintained our discipline on return-on-investment to achieve our long-term goal of sustainable growth.

For the remainder of the year, we are well poised to take advantage of the festive seasons as well as the likely positive changes in consumer spending. Our efforts would be clearly directed towards leveraging the strong ecosystem that we have created at Jubilant FoodWorks for the growth of both our brands.

Before I hand over to our CEO – Ajay Kaul, I would like to wish all of you a very Happy Diwali and a Happy New Year. Ajay, you may take this call forward.

Ajay Kaul Thank you, Hari, and a very warm welcome to all present with us on this call today. A very Happy Diwali in advance to all of you.

We have always iterated that we at JFL are creating a business story for the long- term and that our business philosophies are agile to adapt to the short-term challenges. While there are still no significant visible positive changes in the consumer sentiment, we are confident that led by a number of initiatives to boost consumer interaction along with upcoming festivities**,** we will be able to drive sales positively going ahead for the remainder of the year.

A quick highlight of our Q2 performance.

JFL reported a 13% increase in revenues and SSG at 4.2%. The same store order growth has also been positive for the quarter. This is largely attributable to our continuous efforts towards innovations such as the launch of Burger Pizza that has received very good response and Pizza Mania Extremes, Navratra Pizza, etc. These are very well complemented by our target marketing and advertising initiatives which were deployed in order to excite and engage our customers and attract a wider audience.

Technology continues to be a dominant driver for growth and a huge success focus area point for company. The online ordering platform is witnessing a sharp surge. And in Q2 our average online ordering sales contribution to delivery sales stands at 47%, and mobile ordering sales contribution to overall OLO is 54%. These are by far the highest numbers we have ever recorded. As a reference point to the gains seen in the segment, the corresponding figures for quarter two last year were 36% and 30% respectively.

Besides online ordering, we are utilizing various advanced technologies across our business functions. We have successfully transitioned into a SAP-based system across all key functions and are investing further in improving the quality of our CRM and expect this to yield higher levels of efficiencies in operations. Thus, technology has become a prime agenda for us and we will be making the necessary investments needed in order to ensure we remain ahead of the curve.

Moving on to an important parameter for our business which is restaurant expansion, we continued our expansion drive with emphasis on payback parameters, we have opened 59 new Domino's Pizza restaurants in this financial year and are at present optimistic of achieving our planned target of around 130 new Domino's Pizza for full year 2017. For Dunkins', as I indicated in the last concall too we took some tough but necessary decisions to close some of our restaurants as these were not able to match our parameters for returns. Given the current operating environment, we are cautiously continuing with our expansion plan. For the year, we are planning to open around 15 new Dunkin' Donuts stores and so far, have launched eight new restaurants and closed six restaurants. Our Sri Lanka operations are also undergoing a turnaround and in the current quarter, we registered a same store growth of 23% and 27% for half-year ended September 2016.

Overall, we are moving well on our short-term and long-term strategy for the profitable growth of our brands. In addition to all the key initiatives that I just discussed, an ongoing agenda for us is innovation. This is embedded in the DNA of the organization; with ideas constantly flowing and deliberated upon at any given time. We believe this is our advantage and we have not only developed this critical tool but have also sharpened it over the years. The reason we focus our time, energy and resources towards innovation is that this one tool serves multiple purposes for us. It helps us inject excitement among our customers and with new launches, we create a menu that caters to the customer's pulse and creates a delight moment every time they engage with us. For example, as many of you may be aware, we launched an entire menu around the festive season of Navratra with a pizza to align with the festival sentiments. Along with this, we provided a sweet dessert in the form of Sago Pudding and side order in the form of Sabudana Crispies. From an emotional connect perspective, for the ten-day Navratra festival; around 450 of our restaurants across the country were converted to 100% vegetarian outlets.

I believe innovation at this level has enabled us to make our brand closer to customers. In fact, our innovation is not limited to just menu, it has become a way of life for us and spans across all functions of the organization.

We are also making good progress in coming up with a very large State of Art Commissary at Greater Noida. We expect the same to be operational by 31st March, 2017. This new commissary will not only help us being efficiency in operations; but we will also be able to manufacture some of the product ingredients in-house which hitherto were being bought from outside.

In conclusion, we believe that we are well positioned to meet the long-term objectives of the organization through our brand reach and equity, the quality of our offerings, our innovation capability, and our execution strength coupled with our strong financial position that enables us to invest in growing our brands. We will be focused on execution and ensuring we grow our business for the future to meet our customer evolving preferences.

I will now request Sachin Sharma -- our CFO to guide you through the financials.

Sachin Sharma Thank you, Ajay. I shall quickly brief you on the financial performance of the company, just a line of guidance, all financial reporting and discussion has been done in accordance with Ind-AS.

Revenue in Q2 stood at Rs. 6,655 million, which is a growth of 13% Y-on-Y. The key drivers for this increase are innovation in our menu offerings, network expansion, and utilization of digital platforms to reach a wider audience.

With respect to expenditures, total expenses in Q2 increased by 14% Y-o-Y. Rise in these expenses is attributable to intensified focus on the sales promotions and advertising efforts undertaken in order to enhance customer engagement. Increase in network of Domino's Pizza, and Dunkin' Donuts and pre-determined rental increase have resulted in the increases in rent during the quarter. The employee expenses also increased compared to the same quarter last year because of annual salary hike. This increase was though partly offset by a reduction in employee cost driven by implementation of Six Sigma and higher use of technology in the form of online ordering and mobile ordering which eventually led to reduction in requirement of employees per stores. While the revenue growth remains the forefront of our strategy, however, we are also working relentlessly to bring our cost down and driving efficiencies throughout the organization.

Moving on to our earnings profile, EBITDA for the quarter stood at Rs. 643 million, which is 9.7% of the revenue and net profit at Rs. 216 million, which is 3.2% of the revenue.

We will also be closely monitoring the industry dynamics and suitably align our near to medium-term strategy to ensure that we continue to maintain our leadership position.

On that note, I hand over the call to the moderator for the Question-and-Answer Session. Thank you.

Moderator Thank you, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Aditya Soman from Goldman Sachs (India) Securities Pvt. Ltd. Please proceed.

Aditya Soman My first question is on promotional activity. I think the sense we had is that; we have seen sort of messages on discounting throughout the quarter. In fact, they have probably been higher than what we have seen in the past. To what extent was the recovery in same store sales over the first quarter driven by increased promotions, and is there a way for us to track this promotion activity, in terms of is there a number of proportion of total sales that were under promotional activity?

Ajay Kaul Okay, first and foremost, it is something which we want to share with all of you and that is that as our categories start evolving over the years, discounting in terms of both breadth and depth tends to increase and I am going here by our experiences in developed markets like the U.S., UK, Australia, Germany, Japan and there is a long list there. In fact, you will be surprised that the discounting there is far-far higher. So, on one axis, it is bound to happen as the categories develop. Now in the Indian context because the last two years - three years have been particularly, should I say tough from a consumer sentiment and offtake perspective you have seen probably a bit more intensified discounting activity. We are quite sure that as soon as the market starts becoming a bit more positive in terms of consumer sentiment which means same store growth starts climbing back to let us say high single-digits, double-digit kind of numbers hopefully inshallah soon, discounting activities will own its own come down, we are quite certain of that. So, that is point number one. Point number two is, with online ordering becoming progressively a substantial part of our business you may have heard earlier on that close to 50% of all our delivery business today is transacted online. Close to 50%, and that is not a small number. We are as you may be aware the seventh most transacted e-commerce brand in the country. So, given these kind of volumes, on the e-commerce side which is the online ordering side our discounting tends to be slightly higher than the offline side. So, that we have taken our overall weighted average discount up. On our offline business, which is the conventional traditional Domino's business, delivered at home or consumed on our premises, their discounting has gone up marginally not significantly, and that has been because of competitive pressures. So, looking forward is our discounting expected to go up? The answer is no and our discounting will tend to be in similar zone. It is one of our key tasks to make sure that discounting is kind of is in the similar zone and if consumer sentiment were to improve which we are hopeful about in the next one or two quarters the pressure on discounting will tend to ease off.

Aditya Soman Thanks, that was helpful. Just a follow-up on that. In terms of discounting versus just cutting pricing is that a conscious decision because I think the sense I get from looking at some of the price points and comparing price points even globally is that some of the pizzas in India are relative to income levels tend to be a lot higher priced which probably caps your total market if there are no discounts. Would it just be better to then pass on some of the commodity benefits that you have seen over the last few quarters by cutting prices?

Ajay Kaul You know price point comparison with other countries which are in different stages of evolution I do not think so is the right thing to do. I mean for example, in America, the brand is as old as 60 years the category is as old as 80 years - 90 years. Compare it with India where the category and the brand both are just about 20 years old. So, it is not fair. But you may argue; that yes discounting is one way of making your proposition more attractive. And in some way, more value for money oriented approach. But as I said earlier, the larger point is not what pricing at which you are. The larger point is the consumers, what state of mind are they in and the moment the consumer sentiment is more positive and they are in a state where they want to ease their purses and have more discretionary spends, we believe the pressure on discounting eases in such a scenario and we are hopeful that in the next few quarters as the situation from a consumer sentiment perception improves the pressure on discounting should come down.

Moderator Thank you. We will take our next question from the line of Arnab Mitra, Credit Suisse Securities (India) Pvt. Limited. Please proceed.

Arnab Mitra Firstly, on the overall demand scenario Ajay I remember, when you had moved from negative SSG to positive some seven quarters - eight quarters back at that time you had specifically said that the change in SSG is quite optical in nature and actually there is no significant pick up on the ground. So, this time and again you are saying SSG moved slightly up are you getting a sense which is that actually there is some improvement in your demand in your stores. I mean, could be because of your own initiatives but are you actually seeing an uptick in terms of consumer traction or is it also likely to be more optical given the base or how things are on a quarter-to-quarter basis?

Ajay Kaul In my opening speech also, Arnab, you probably may have missed that point that we do not see any statistically significant improvements, call them shifts in consumer sentiment, they are not perceptible enough. So, in other words, it is more of the same, while positive 4.2% this quarter compared to a negative 3% of previous quarter maybe significantly better. We do believe that it is a bit more optical than anything else. There are seasonalities and there are cyclicities which have given us benefit in this quarter. And last quarter you remember we may have spoken about Ramadan effect and all that that has actually given a positive impact in this quarter. So it is more cosmetic than you anything else which you may read in it as change in consumer sentiment and thereby everything looking hunky-dory. But having said that, we have said it last time also it is been nearly now two to three years of continued tepid sentiment and given all the work which the present government has done two and half years now almost and given what will be the fallout of the Seventh Pay Commission release of money is in the marketplace and conversion of that into discretionary spends. Similarly, I would say a better monsoon which have a slightly more convoluted but somehow it does still have an impact on our kind of business. We are optimistic that given another one quarter or two quarters things should start looking upwards positive from a consumer sentiment perspective and we are eagerly looking forward to that day.

Arnab Mitra

Sure. Secondly on the gross margin part, so I think after a very long time you have actually seen a dip or an increase in the raw material cost as a percentage of sales. So obviously, there is increased promotional activity given that, do you think the gross margin is likely to remain lower on a Y-o-Y basis and is there anything you can do on your side on the cost of goods side where you could knock off this impact or is it that given the environment we need to be at a lower gross margin to get the consumer to come back to our stores?

Ajay Kaul

As far as the impact of let us say ingredient input cost, i.e. the raw material cost is concerned I think we are managing to do a good job there, we are able to leverage our scale even in a tough environment like this. We are the largest food service player, we also continue to be the fastest growing food service player. We have also deployed Six Sigma not only at our end but we also do it along with our business partners in their factories and in their manufacturing places so, that they get the benefit to Six Sigma and we are obviously beneficiaries of that. So, all that is happening on the site and that will continue giving us some benefits. But the larger pressure on this line comes obviously, from promotional expenses and as I said elaborately a little while back that the pressure on promotional activities is there, discounting will continue to be there, it is our endeavor to keep it within check but having said that it is a tool which we have been using and will continue to use. We would like to control it going from here on so that it does not go beyond this and in the meantime, once the consumer sentiment changes we believe the pressure on discounting will only come down. So, that would be my long and short answer to your question.

Moderator

Thank you very much. Our next question is from the line of Nillai Shah from Morgan Stanley India Co. Pvt. Ltd. Please proceed.

Nillai Shah My first question is on your opening remarks, did you just say that you expect positive comps to continue through the year?

Ajay Kaul We did not make any such guidance or such forward-looking statement. As you may be aware we abstain always when making statements of SSG going forward. Sometimes we do make however, statements about store openings, and that we have said that we hope to open around 130 Domino's stores in this financial year and around 15 new Dunkin' Donuts store. There are some closure also in Dunkin' Donuts, which are happening. So, that is the only guidance we gave. So, we did not offer any guidance numbers on SSG going forward. All we said was that going forward, we believe and somewhere the sentiments will improve and SSG numbers should improve, but we are not seeing any change so far.

Nillai Shah Okay. And a second question on the gross margin, I am just quoting just the conversation we had post the results last quarter which is a month and a half ago. And it was mentioned by the management then and I am quoting is that on the gross margin side, we are confident that we will be able to maintain our margin due to deployment of several initiatives as far as raw material procurement is concerned and it goes on to talk a lot about the inflation, etc. So, what has really changed in the last one and half months to lead to this gross margin compression on a Y-o-Y basis whereas, just a month and a half ago, you were pretty confident of maintaining the gross profit margins?

Sachin Sharma Ajay has already answered, this is not because of the cost of the ingredients which have gone up, it is primarily to do with the sales promotion which we have done, because of which food cost as a percentage of net sales has gone up. So, the pressure of that has resulted into increase rather than per say the commodity prices going up, in fact, we are doing a lot of product re-engineering and changing the product mix which is going to have positive impact on the food cost. We being the largest player, we continue to enjoy a very good traction in terms of buying the raw materials from our established vendors. And we hope that going forward also will continue to have margins in the vicinity of 75 odd percent.

Nillai Shah Okay. So, the margin band is about 75% going forward, that is at least the hope going forward.

Sachin Sharma Yes.

Moderator Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Pvt. Limited. Please proceed.

Amnish Aggarwal I have a couple of questions. My first question is that because of this now your online ordering and lot of restructuring which you are taking on the manpower side because if I see, there are actually two issues. One is the manpower cost, which has been continuously rising because of the minimum wages and the increase in head count and the second has been rental. Now, while you have been now trying to address your headcount reduction so, what sort of benefit do you see from the headcount reduction in one year or two years? In terms of number of people per store where were we say one year back? Where are we now? And where will it be say one year down the line? And secondly, on the same light in terms of rentals because rental is again something which goes on to increase at a rate of 5% - 7% every year. So, are we planning something on that front also in addition to the renegotiation part which we have been trying to do.

Sachin Sharma See coming to firstly personnel cost, if you look at the current quarter also, the increase in the personnel cost is not in line with the revenue growth or the number of restaurants which has gone up. Despite having the annual increments, the increase in the minimum wages, the revised payment of bonus impact and all that, the reason for that is that there are a lot of efficiencies at our store level manpower. We are deploying Six Sigma techniques plus OLO also is helping us to reduce the headcounts at the store level. Ajay mentioned in the last call that we have been able to reduce our headcount by one person to two persons per store, this continues and we are going to further leverage it by having the flexi hours manpower deployed in our stores and we have some more ideas around that which at this stage are in the pilot run and we hope to leverage these ideas and insights.

Amnish Aggarwal And is there any such action in case of rentals?

Sachin Sharma All our rental agreement have predetermined escalation clauses which effectively means around 6% annual hike in the rents. Some of the agreements have the sales linked incentive also to be paid to the landlords. So, in that line the levers available to us are not much. However, given that the way the real estate is doing, we have done a lot of renegotiations with our landlords where either they have agreed to reduce the rents or at least defer it for a period of time. So, because of that if you see our rent that is in the ballpark at around 19% increase YoY. Further service tax also has gone up in this quarter compared to last quarter.

Amnish Aggarwal Okay. And particularly again on this year rental thing, are not we looking for something like say your sales linked something like minimum guarantee or something like that sort of arrangement with our landlords?

Sachin Sharma That we do have in quite a number of restaurants and so that is already there in lot of contracts.

Amnish Aggarwal Okay. Sir, my final question, which is the second one, is regarding ingredients, when Ajay was making a statement he said that when our Noida commissary get commissioned we would be some sort of backward integrating for some of the ingredients. So, can you give us some more color on what these initiatives are as far as backward integration in that part is concerned?

Ajay Kaul Very good question. We like these questions, which are forward-looking and they bring into light the investments that we are making in our business, only because we are creating a company for the future. This Greater Noida commissary will get commissioned by 31st March, 2017 if everything goes okay, it is a State of Art, arguably we believe the best such facility anywhere in the Domino's world. To start with, of course, it is going to manufacture the conventional dough that we make. But over a period of time we believe this versatile facility will help us to manufacture buns, different types of breads and even some dessert, it should be able to do with some minimum investments and so on. So, we believe we can become manufacturers internally, it is going to give a big fillip to our new product development team because they can then come out with really rady and out of box products; of course, within the Domino's Pizza, overall framework which we can launch. So, we believe our versatility and our ability to launch more consumer-focused innovative products will increase and because this will be manufactured by ourselves and we will not be dependent on any third parties it should also bring in unit cost advantages to us which will help us to price our products better and so on.

Amnish Aggarwal Okay. Sir, have you quantified any such gains which will accrue to you say in the first two to three years of that which is just starting?

Sachin Sharma No, we have not quantified and when we will reach that stage we should be able to share with you. But when we conceived this project we did work out the ROIs and in addition to these savings which will result into from the backward integration, our existing facility at Noida also would get shifted to that place. So, there would be economies of scale also which will kick in.

Moderator Thank you very much. The next question is from the line of Manoj Menon from DeutscheAsset Management (India) Pvt. Ltd. Please proceed.

Manoj Menon Just two questions. One on the new products which has been launched in the last couple of quarters. If you could just talk a little bit more about some of the quantitative parameters whether it is consumer acceptance whether it is in terms of what proportion of your revenues these products are?

Ajay Kaul Sorry, which products, Manoj?

Manoj Menon The Pizza Mania Extremes or the Burger Pizza?

Ajay Kaul Okay, now I understand. Pizza Mania Extremes was a higher value added product over Pizza Mania where we had some more evolved and should I call them more valuable toppings. And the interesting piece is that lot of our customers actually do not mind paying that additional Rs. 10 - Rs. 15 Rs. 20 and migrating to these. And Pizza Mania as you are aware is a good double-digit percentage of our incidence overall and Pizza Mania Extremes also was a part of that and it did very well. Burger Pizza, which came in and was launched somewhere in July and the objective behind Burger Pizza was to offer a product in an occasion where burger naturally emerges as the first option. But offer it in the form of a pizza, it is not a burger, it surely is a pizza, it tastes like pizza. But it is clearly addressing the occasion when burgers get consumed and this product has done exceedingly well. Its incidence in peak days, in peak months and weeks was very high, I mean very high single-digit numbers far exceeded our expectations and even in a steady state today which is when we are not promoting it that much and some other products have taken over, it is still a high double-digit number. So, consumers have liked it. You know the scores which we get on recommendability, likeability and all that for both the products have been exceedingly, have been very high.

Manoj Menon No, has it become a significant portion of your revenues?

Ajay Kaul Yes, most certainly both of them have become a good portion of our revenue.

Manoj Menon Understood. So, you know what the thought process here? I mean a burger pizza is going to be a permanent part of the menu or is it a limited time product?

Ajay Kaul Yes, it is going to be a continuous thing. It will stay there because it is a significant portion of our revenue.

Manoj Menon Understood. And Ajay, just one question on the consumer sentiment comment which you made about the statistically significant, there is no change which you are seeing. If you could just allude to some of the parameters which you made looking at internally without any quantification maybe what are the two things or three things which you want to see internally to say that things are changing?

Ajay Kaul Look the biggest one is repeat purchase behavior of several subsets segment that exist within our total customer base. If we were to break it down into consumers who consume us once in a year, twice in the year, three to five times in a year, six to twelve times in a year, 12 plus, we have various subsequently-segments. Are we seeing that there is a different repeat purchase behavior being shown by these groups? The rate at which we are able to acquire new customers let us say if our total customer base is 100, how many of them are new? And the moment that number starts growing it means there are more and more new people who are coming into the net, which means there are people who were experimenting, people who are trying to consume new products, they have a bit more money's in their hands, so they do not mind now going and trying out a pizza also and so on and so forth and there are a few other surrogates also. These to me are some of the big indicators and the moment we start seeing increase in frequencies, increase in new acquisition of new customers, also the rate of fall of lapsing customers reduces and general frequency across various sub segment increases these are indicators for us that consumer sentiment is changing.

Manoj Menon Understood. But only thing this applies only to the delivery part, right I mean which is 50% of your revenues?

Ajay Kaul This applies to delivery part, it also applies to dine-in part because a good portion of our dine-in customers also we have their information in our system we have the information still not 100%. But they are sizable numbers, sizable enough that we can do statistically the analysis and reach conclusions.

Manoj Menon Understood, Sir. If I may, one question for Mr. Bhartia on any update for the succession planning? I can take one last question then, on the Dunkin' Donuts.

Ajay Kaul **It seems that Hari's line got disconnected. So by the time he get reconnected,** let me answer the question. Look first and foremost my last working day is going to be 31st March and my agenda very clearly is that having along with the team, created a highly successful brand like Domino's, even while I leave it should be as vibrant if not more. So clearly, I want to make sure that I leave on the right note and also leave it in the right hands. As far as Mr. Bhartia and Board is concerned, an active search process is on and there are of course a few internal candidates, who are good candidates, strong candidates. But we are also looking at outside through recruitment agencies at some strong candidates from outside and then the Board will decide who the Mr. Right or Ms. Right for our company. Then my job starts where I will induct the person, hand hold, coach, mentor call it whatever and there is enough time till 31st of March to make sure that the person is absolutely ready and will take the Jubilant FoodWorks into the next glorious ten years.

Hari S. Bhartia This is Hari Bhartia. Sorry Ajay I think my phone was on the mute, I heard your answer, nothing further to add. We do hope to make the selection by the end of this year. So, we will have almost three months to plan a smooth transition.

Manoj Menon Understood. So by end of this year you mean December, right?

Hari S. Bhartia Yes, we should be able to announce the succession.

Manoj Menon Yes, Understood, sir. One question which a lot of investors were actually asking was that in the consideration set, do you also have representatives from the promoter family also as an option?

Hari S. Bhartia Nobody from the promoter family at this time is being considered for the CEO position.

Moderator Thank you. The next question is from the line of Abneesh Roy from Edelweiss Securities Limited. Please proceed.

Abneesh Roy Sir, currently I am seeing this ad and promotion of one plus one offer on pick up. So wanted to understand if in the past you have done this kind of promotion earlier? Earlier, obviously, focus was on delivery, you have earlier said that stores are not doing that well versus their delivery format. So, is this the reason and will it be a sustainable kind of promotion?

Ajay Kaul Look, any promotions which we do, we do not want it to be sustainable; we do not want to run it for months and years together. These are short bursts. We have in the past told you that despite all the competition that may have been there because of these aggregators and some of the other delivery options, our delivery business was always doing better than our dine-in business, our delivery business was always growing positively even on a same store basis, even in the toughest of months and quarters. So we launched Burger Pizza, which was more attacking the burger occasion, which is primarily a dine-in occasion. So that has lifted our dine-in business also. Today our delivery and dine-in are doing equally well. And this latest promotion is directed towards dine-in because it was again to give a fillip to our dine-in business. See, we are constantly innovating and trying new-new things to understand what stimuli makes the consumer react in the best possible fashion. So this is not a long-term thing, it is a very short-term thing. It is an LTO for sure, this is a limited time offer. We will measure exactly how the consumers are behaving to this and we will also remove it after sometime. But it is targeted primarily to a dine-in customer and we have obviously done some pilots before this in some specific markets to see how consumers react to such offers and only after that do we launch such offers.

Abneesh Roy But sir is it on dine-in because it says only pick-up orders, pick-up orders only?

Ajay Kaul Yes, that pick-up orders basically is the dine-in. Basically which is non-delivery, where consumers have to go to our store, consumers have to go to our store to either consume there or pick it up from there.

Abneesh Roy Okay. And sir, second is the store openings, you are saying 75 stores for second-half because 130 you are still maintaining, you have done 55 in first-half for Domino's. So any downside risks to this number or is it more back ended so, 75 will be doable.

Ajay Kaul 75, we have a very high level of confidence. In fact, if you recall earlier we used to say 130 to 140 while we may be gunning even for a higher number. But our confidence on achieving 130 is very-very high. And let me add one more thing to it, which we have been constantly saying now in various forums that the focus is on profitability. It is not that we were not focusing on profitability earlier; but now given that the sentiment is becoming that much more tougher; progressively it is not changing. We want to make sure that all the openings that we do 130 - 135 whatever the number is these are good profitable stores which give us a return-on-investment in three years and thereabouts and there is hardly any compromise on that. And that is why the focus is not to open those 10 stores - 15 stores like three years we did 150 there sometimes the return-on-investment period stretches to four years - five years six years also. We want to avoid such situations. Similarly, on Dunkin', we want to be 100% sure that whatever openings we do these are profitable stores and thereby we are not even refrained from closing in the case of Dunkin' nine stores so far, three last year and six this year.

Abneesh Roy One small follow-up. Gross margins, you said was down because of promotions. But promotions has been quite high last quarter also. So, is Burger Pizza and Pizza Mania Extremes pulling down the margins because that margin profile will be definitely lower than the higher priced variants, right?

Sachin Sharma No. Burger Pizza and Pizza Mania Extremes have not significantly reduced the gross margin. It is actually the sales promotions which has put pressure on the gross margin.

Abneesh Roy So those gross margins are comparable to overall margins, Pizza Mania and Burger Pizza.

Sachin Sharma A shade lower but very, very minuscule. I mean, by and large Burger Pizza's food cost is slightly higher than the average food cost but not anything to write home about. I mean those are not the reasons for increase in the food cost.

Moderator Thank you. The next question is from the line of Ankit Babel from Subhkam Capital Ventures Pvt. Ltd. Please proceed.

Ankit Babel Sir, my first question is, I understand you do not give any guidance on the growth or profitability front/ But as investors, we would like to know the operating margins, which are continuously falling year-on-year I mean, from 18%, it has come down to single digits now. So, where do you see these margins getting bottomed out, and what levels can we see in the next say in FY 2018. I mean, can it be double-digits or it will go to 8% something like that. Some idea on it, sir?

Arvind Vats See we can not give guidance on how the margin will fathom out in future. But one thing which I would like to mention here is that when you are comparing 18% level of operating margins with the level where we are today, though SSG is one of the reasons which has contributed in this reduction in margin but there are few other reasons also which one should consider. One of that is the impact of Dunkin' on the margins because 18% which you are talking about is when Dunkin was not there

Ankit Babel I am fully aware of the reasons of the fall, I am not disputing that. What I need to understand is, because in every quarter we as analysts and investors build in some improvement in margins and ultimately the company delivers a decline in margins. So, just wanted to understand when it will bottom out, at what levels it will get bottomed out?

Arvind Vats By the time same store growth does not come closer to or higher to the normal inflation which is hitting the margin, this pressure on margins will continue. This is what at the max we can say on this and the normal inflation which we are witnessing from past few quarters at JFL level is around 6%, on all the cost lines put together.

Sachin Sharma In average across all cost lines from labor to rent to raw material to whatever.

Arvind Vats See, this we have maintained in past also that if every other thing remain constant, to counter the inflation pressure on margings or to see any improvement in margins, at least the 6% level of same store growth is required to make it nuteral. As we have kept on saying in past also that even though our same store growth was lower than 6% still we have been able to either maintain or able to minimize the impact of cost inflations on margin by leveraging other levers in our hand that is the scale of operations, new innovation and bringing efficiencies under various cost heads.

Ankit Babel Sir, is it fair to assume that suppose if the SSG growth remains at around 3% - 4%, assuming, then there is this further scope of margin reduction from here on?

Arvind Vats Again you are asking for the guidance on margins which I would again refrain from giving. But the concept I have told you, so that is the math which you need to do at your end.

Ankit Babel Sir, my second question is on Dunkin' by when can we see it breaking even at a PAT level or PBT level, whatever it is? I mean, either you tell us the timeline or the size of the sales that at 100 stores it will get breakeven or give us some idea about it?

Ajay Kaul Look, more than 100 stores, yes, that will be a number which will offset let us say the G&A cost and to enable this brand to achieve breakeven. But what is more important is the store level profitability. We have around 70-73 stores today. Some of these stores make profit at the store level, but some are clearly struggling. Now, had the economic sentiment actually not been as bad as it has been in the last two - three years we were hopeful that by now at an aggregate level store level profit we would have been making and we would have been then gunning towards making sure that our G&A and other post store level EBITDA costs are also being taken care of. Now looking forward is there a date which I can give you by then this whole business will become profitable, it is not an easy answer. It will take at least two years - three years it could be more also, but could be lesser if the economic sentiment suddenly improves and everything starts becoming nice. So without hazarding a specific date or a point in time when it will become positive or profitable, I would say it will take a few years still. But the important thing is that our focus is on profitability, now that is the mantra, we do not shy from closing stores. We are cutting down costs and bringing in efficiencies, productivity like never before and hopefully in a few year's time the overall business will be good.

Ankit Babel Yes, actually why we were so worried was because every quarter the margins are declining. So a 9.5% margin was never thought of for Jubilant and this came as a surprise to everybody. So, I was just wondering that is there still scope for a further down or will it bottom out here and if consumer sentiments improve, it can only move up. So, that is the reason I was asking this.

Sachin Sharma See the impact of Dunkin on the margin continues to be in the range of 250 basis points and it has not increased further.

Ankit Babel Sir, my last question is that if GST comes in, will you get a set-off of the service tax paid on rentals, will there be a savings on that?

Sachin Sharma Yes, that will be one of savings. So in terms of not just the service tax on the rentals, all the input service tax which we pay for services which we use and also central sales tax and other taxes which we pay, but are not able to use them fully for the input tax credit. Once the GST kicks in all the input tax which we pay for buying these goods and the services will be utilized completely against the output GST liability and all this is going to help us in pushing up our bottom-line.

Ankit Babel Just one thing, what could be the tax number which was un-utilized based on FY 2016 numbers?

Sachin Sharma See, we are working out the number as of now. I mean it would be wrong on my part to give you the number but it is going to be a decent number which is going to help the EBITDA.

Moderator Thank you. The next question is from the line of Kunal Vora from BNP Paribas Securities India Pvt. Ltd. Please proceed.

Kunal Vora Question which was just being discussed, if things do not improve at what margin level would you decide to slowdown new store additions, which are obviously going to be margin dilutive in the short-term. That is question one, if you can you answer that, I will go to next one later.

Ajay Kaul Look there is no threshold margin level. It all depends on the store which we are opening till the point we believe that the payback periods will be three years and thereabouts, I would still say that almost every store that we open starts generating profit from day one this is the Domino's story I am giving you, almost on the very first month. And averaged out it is a three-year period within which they return they pay back the returns, on the investments that we have made. So, I mean till the point even in tough times, we are able to get return-on-investments in three years and less, why should we not open stores? But, I agree that the two are interlinked. When consumer sentiment is not good progressively new store also getting their investment back in three years will be a tough thing. So rather than sticking our neck out and saying that X percent and Y percent we are on our own you must have seen that we have been toning down, we started last three year 150 we started this year by saying 130 to 140 and at the mid-year moment we are saying around 130 stores that what we are opening. So, we are on our own are tempering this down. We hope that we do not have to temper it down further and in the meantime consumer sentiment should improve and we should be only able to increase this number.

Kunal Vora Sure. Second one, your thoughts on food aggregators like Zomato and Swiggy how they are doing and how they are impacting you and like may be your presence on their platform and how much they are contributing to your sales right now, some thoughts on food aggregators?

Ajay Kaul Their contribution to our sales is not much, it is very small. As we know their numbers and we know at the rate at which they are growing while a lot can be written or lot is being written about them, their financial viability and who all will survive and who all will not; but we are not complacent we watch this very-very closely. We have some excellent commercial deals with them, so it does not at all hurt us. Look, even in the tough days which is what we are going through right down the last two - three - four quarters, our delivery sales, despite all the competition you will be thinking that these aggregators are giving us or for that matter all other brands which are not known for their deliveries have also intensified their delivery activities like all the other big brands. Our delivery was still doing better than dine-in when we were growing for seven quarters at around 3% to 4% same store growth, our delivery same store growth was better and our dine-in sales growth was inferior to delivery. So, there should have been an immediate impact on our delivery growth so, we are not actually seeing a direct impact on our delivery sales. To the contrary, our belief is that the aggregators we do not know who all will survive eventually, but they are helping to grow the delivery market, they are helping the delivery markets to increase their, making people change their habits and consume food at home, more and more food out of home but at home, out of home food consumed at home and we believe even if some of them were to close down shop tomorrow the habits are going to change for good and that is the opportunity we will jump on.

Kunal Vora Sure. But they are becoming meaningful in size, they are like having sizable numbers and they are increasing. Are you not looking to improve your market share on their platforms because they are segmenting the ordering market?

Ajay Kaul We are looking at that also, but what is more critical for us is to grow our own delivery business and are focusing on that also. So we are looking at all aspects.

Kunal Vora But why not simultaneously increase market share on their platforms like say whatever you are doing…

Ajay Kaul We are, but we are not going to get them on some crazy commercial terms, the terms will be at our terms.

Moderator Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities Limited. Please proceed.

Pulkit Singhal Just wanted to understand the break-up of the same store inflation of 6% in terms of raw material, employee rent and others.

Arvind Vats I will give you broad guidance on that; rental itself has an inbuilt inflation of around +6% into it because our rental agreements say that in about every three years we will have 15% escalation. So that itself with simple math result in 5% increase per annum plus some renegotiations, some relocation, new restaurants, which then comes up with competitive market rate. So all put together, we have witnessed that this line item has an inflation trend of around 6%+. Rent in our case is around 10% to 11% of total sales. Then second big cost is personnel cost which is around 23% of sale is also inflationary by more than 6%, because even minimum wages increase, which are controlled by government, is around 8% to 10% per annum if I average out the impact of each and every states' minimum wage increase announcements. Plus the employees which are not coming under minimum wages but otherwise getting covered on the executive side, there also the annual increments are around 10% or so. So all put together, employee cost has a tendency to grow by 10%. All these numbers that I have shared are on average basis. Balance items are manufacturing and other cost line items which are mainly driven by market inflation which again you can say that the Indian economy is witnessing a 6% sort of inflation. So thereby, all put together we are saying that at JFL's level cost lines are having an inflationary impact of around 6%.

Pulkit Singhal So raw material is where you are getting the benefit right now?

Arvind Vats Yes, which we have kept on saying time and again and we have also told you the reasons as to why we are comparatively in a much beneficial position than other players or even the market also.

Pulkit Singhal Sir in terms of, I mean of the 25% raw material cost, how much would be dairy products?

Ajay Kaul We cannot share this information with you, but it is sizeable. Cheese is a sizable portion of our total cost.

Pulkit Singhal Sir. I was just trying to comment again on the same store inflation because this first-half when I look at it on the employee expense at least you have done commendably well. I mean despite a 15% growth in stores, the employee costs have grown only 10%. So just from that basis, the inflation seems to be more like negative because of the productivity gains you have done. So then it says basically some of the other cost items may have gone higher but I am just trying to understand how much of this is possibly is applicable in the FY 2018 because I would think 10% inflation in employee cost would mean say if you have 10% increase in store count then around 20% growth in employee costs but it is obviously offset by the productivity gains. So, how do you look at that productivity gains? How much more is possible?

Arvind Vats See, I cannot give you the number but I can show you the direction that since we have started working aggressively on this line by deploying new techniques and innovation ideas. This is going to give us benefit even in FY 2018 also, but how much that I would refrain from sharing. it so because now that has already started coming into the base as we speak. Plus you should also be cognizant of the fact that last year we have opened few commissaries also which has its impact on employee cost. In next year we are not planning to add any new commissary barring shifting our existing Noida commissary to Greater Noida. So from that perspective also, I do not see that much of increase in our employee count other than new restaurants addition. So thereby net-net what I see is that this cost line item should either give us some respite or ramin stable in the next three four quarters.

Pulkit Singhal Sure. And do you see any risk on raw material costs rising due to dairy prices?

Sachin Sharma As of now, we do not.

Moderator Thank you. The next question is from the line of Dhaval Mehta from Emkay Global Financial Services Ltd. Please proceed.

Dhaval Mehta Sir, my question is basically on the Dunkin' side. So if you see from the last one year, the Dunkin' impact on our margin has gone up from let us say, from 150 bps to currently around 250 bps despite us closing around nine stores. So I am not getting it right, so why exactly this is the case?

Sachin Sharma See, Dunkin' losses have traditionally not been 150 basis points, they were ballpark in the range of around 200 basis points and the reason is that there is a slight increase in the Dunkin' losses by 250 basis points because the restaurants which are getting closed are also having some of the agreements where the rentals are to be paid for the duration from the lock-in perspective for three months to six-month period and some of the people are also for the time being are there. So we have for the last two, three quarters, been saying that the Dunkin' losses are around 250 basis points. Going forward, we have said that we are working on this and hopefully, we should be able to cut these losses by decent basis points.

Dhaval Mehta Okay. My second question is in terms of demand, so are we seeing any regional trend in demand or can you throw some light on the same.

Ajay Kaul Look, we have answered this question two times - three times till now, let me repeat it for your benefit again. While we have not seen any change in consumer sentiment and yes we are speaking statistically, because there are ways of measuring it.

Dhaval Mehta No. Sir, my question is not on overall demand, any regional trend on demand. Let us say, we have seen few companies based out of south have delivered extremely good set of numbers. So are we seeing a good demand in south vis-à-vis let us say, other parts of the country?

Ajay Kaul No, there are some regional differences but they are not pointing towards any trend and to correlate that with some regional companies doing well and we keep doing these kind of analysis constantly we are not seeing any such correlation.

Dhaval Mehta Okay. Neither in demand vis-à-vis let us say, metro and rural areas.

Ajay Kaul No.

Moderator Thank you. The next question is from the line of Avi Mehta from IIFL. Please proceed.

Avi Mehta Just two clarification questions. Could you just help understand what is the store count that is used for SSG growth in second quarter?

Arvind Vats See, for same store sales definition we are continuously following the same rule which statesthat the restaurants which are operational by 31st March, 2015 are part of our same store growth calculation.

Avi Mehta So for second quarter it will be 876 stores, which was the number as on end March 2015.

Sachin Sharma 874 to be precise.

Avi Mehta 874, okay. And, sir, second clarification is on the CAPEX sir, if you could kind of share that number. What is the likely CAPEX outlay going to be in this year?

Arvind Vats For FY 2017, we are expecting our CAPEX to be around Rs. 250 crore. This in clude cost of our Greater Noida commissary excluding the land cost for same since that cost we have already capitalized previously.

Avi Mehta Sir, sorry Rs. 200 crore - Rs. 250 crore is the actual spent and capitalization or would be minus Rs. 50 crore is that what you are saying, I am just trying to understand?

Arvind Vats Excluding the land cost which we already capitalized in our books a year back.

Avi Mehta Okay. So cash will be Rs. 220-250 odd crore, okay.

Arvind Vats Yes, from that perspective I am giving this reasoning.

Moderator	Thank you very much. The next question is from the line of Aditya Solanki from Dalal & Braocha. Please proceed.
Aditya Solanki	I wanted to ask with the lower cost of raw materials, are we compensating on the quality of the products especially at Domino's because it seems to be the major reason for lower revenue apart from the online services coming in. So, are we somehow compensating on the quality of the products?
Ajay Kaul	One thing which we have said not now but for the last five years - seven years and I wonder whether any company actually does that but definitely, we do not compromise on our product and the quality of the product by cutting corners and by you know I do not know what you mean by quality, are you saying lesser cheese, smaller Pizza, lesser ingredients? We do not do all that and this we have said in various forums, so the answer is a big 'No' to your question.
Moderator	I now hand the conference over to the management for closing comments, over to you.
Ajay Kaul	Well, thank you ladies and gentlemen for taking the time and joining us on this call today. We hope that we have adequately answered your queries, should you need more information, you know how to reach us. But before I close on behalf of the whole Jubilant FoodWorks Limited and my colleagues here, Sachin and Arvind , a very-very Happy Diwali to you and your families and your close ones. Have a great time. Have a great year ahead and enjoy yourselves. Bye.
Moderator	Thank you. Ladies and gentlemen, on behalf of Jubilant FoodWorks, that concludes today's conference call. Thank you all for joining us. And you may now disconnect your lines.