



**Transcript of the Q1 FY15 Conference call for Investors & Analysts**

**Call Duration : 1 hour 03 mins**

**Management Speakers :** Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks  
Mr. Ajay Kaul – CEO of Jubilant FoodWorks  
Mr. Ravi Gupta – President & CFO of Jubilant FoodWorks

**Participants who asked questions :** Mr. Avi Mehta – IIFL  
Mr. Aditya Soman – Goldman Sachs  
Ms. Latika Chopra- JP Morgan  
Mr. Pratik Biyani- Standard Chartered  
Mr. Vivek Maheshwari - CLSA  
Mr. Abneesh Roy - Edelweiss  
Ms. Shilpa Samant – Cogencis  
Mr. Varun Lochab- CIMB  
Mr. Hemant Patel- Axis Capital  
Mr. Riken Gopani - Infina Finance  
Mr. Kunal Mehra - Visium  
Mr. Amit Kumar - Espirito Santo

**Urvashi Butani:** Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for the quarter ended June 2014.

We have the senior management on the call with us, including Mr. Hari Bhartia –Co - Chairman of Jubilant FoodWorks, Mr. Ajay Kaul - CEO and Mr. Ravi Gupta – CFO. We will initiate with key thoughts from Mr. Hari Bhartia and follow that with the operating and financial discussion with Mr. Ajay Kaul and Mr. Ravi Gupta. After that the management will be happy to respond to any questions that you may have.

Just to state our standard disclaimer, certain statements that may be made or discussed on the conference call today may be forward looking statements and the actual results may vary significantly from the forward looking statements made. A detailed statement in this regard is available in JFL's Q1 FY2015 release & presentation which are available on the company's website, under the investors section.

I would now like to request Mr. Hari Bhartia to share his perspectives with you.

**Hari Bhartia:** Thank you. Good evening. As all of you know our momentum and overall success over the years is the direct results of our focus on all our brands and their development and eventually customer satisfaction. Based on our belief that the Food Service Industry (FSI) remains untapped to a large extent coupled with strength of our iconic brands like Domino's Pizza and Dunkin' Donuts, we remain convinced and confident of our future growth potential.

As the industry evolves, we continue to refine our strategies by staying true to our business philosophy in order to capture the attention of the new consumers while deepening our relationship with our existing consumers. In challenging times our deep commitment to innovation extends from root level business activities, to internal systems designed to enhance efficiencies, from menu to marketing and customer engagement. As we entered a new fiscal, fundamentally we stand stronger and have sound proven strategies in place which will enable us to pursue growth trends and execute our long-term strategies and there by enhance our shareholder value. Thank you very much and over to you Ajay.

**Ajay Kaul:** Good Evening and thank you for joining us on this call today. I shall initially discuss our performance in the quarter, followed by an update on our key focus areas.

In Q1FY15, Total revenues witnessed a growth of 20% to Rs 4,768 million and PAT was at Rs. 277 million.

As you are aware, we entered the new fiscal on the coattails of cautiousness in consumer spending. With 2 consumer centric brands, a solid foundation of systems and processes and most importantly a loyal customer base, we place our confidence in the macro story of our company and continue to expand. We see the opportunity at large as intact and are focused on differentiating our proposition and executing successfully on our strategies to further fortify our position in the food service industry. Our efforts are getting appreciation from industry bodies and Domino's Pizza won the prestigious Indian Retail & e-Retail awards for the Best Advertising/Marketing Campaign of the year- Pizza Mania "Pehli Kamai" and also the Best Home Delivery brand. Euromonitor data published in 2014 corroborates our efforts and has outlined Domino's Pizza as the largest QSR brand in India in terms of sales in 2013. As per this data Domino's is around 15% higher in terms of sale from our nearest competition in QSR for calendar year 2013. Also in the chained Pizza market, Domino's has further strengthened its leadership position with 70%+ market share.

Let me share a few more thoughts on Domino's Pizza. In Q1FY15, we have opened 35 new Domino's Pizza restaurants which take our total network spread to 761 restaurants. During the quarter we entered new

cities too, besides exploring opportunities in existing ones. We set foot in 4 new cities and today the total span our Domino's pizza restaurants is over 154 cities in India. As we speak, our restaurant count is at 772 spanning across 158 cities in the country. We believe this demonstrates the amazing vitality for our brand and validates the growth potential in this space.

We are using technology ingeniously to reach our customers and believe have now developed it as a competitive advantage to clearly differentiate Domino's Pizza. Our national OLO Campaign has received tremendous positive response and the online and mobile platforms are consistently moving on an upwards trajectory. This quarter, OLO contribution to overall delivery sales was at 22% while Mobile Ordering sales contribution to overall OLO was around 21.5% during the quarter.

As part of our routine business activities, we often question and brainstorm as to 'what can drive our company forward and give us that unique edge?' And the unanimous answer is more often that not, traced to our willingness to innovate and evolve in every aspect of our business. When we ideate, we do it with a multi-pronged ambition of one- delighting our customer and two- creating an unbeatable business model which will serve as a competitive edge.

On our menu front- innovation is an exciting process and we like to combine our insights with consumer preferences and create something new, exciting and flavorful every time. This quarter we saw a big new launch which was of 10 new pizza varieties. The response has been extremely positive. We have also launched South Indian special pizzas in the south and based on the positive acceptance of this initiative, we look forward to capitalize on this innovation. The response to Junior Joy Box has been truly exciting. This was a new audience segment that we were reaching out to. For the benefit of all, Junior Joybox is a complete meal for children and consists of a cheesy pizza slice, two breadsticks with oregano seasoning, a custard dessert, a fruit based beverage and a toy. This combination has been a super success and we will continue our unwavering efforts to further develop this space and keep offering something new to our dedicated audience.

Coming to Dunkin' Donuts, we are moving ahead decisively with a national roll out while emphasizing our compelling and attractive all day food menu. Our Mumbai launch in May was a phenomenal success and we are further convinced of our strategy and brand strength to expand to new markets. As we speak, our plans for Pune and Bangalore are well underway. As of today Dunkin' Donuts has 34 restaurants in 11 cities.

To quickly reconnect on our focus for innovation, Dunkin' Donuts menu offers us to a great deal of opportunity to design and invent new offerings which are of great appeal to consumers. In Q1 we launched a variety of wraps called the wicked and not so wicked wraps and iced teas to our menu, which are being well received by the audience. We have very recently launched a new range of burger called the Tough Guy Brute Burger both in veg and Non-veg along with 2 new flavours in our popular Dunkaccino beverage- Mocha Chip and Jamaican Rum & Almonds Dunkaccino.

Lastly, we believe there remains substantial opportunity to grow and we continue to make infrastructural investments like our enhanced new restaurant opening, supply chain systems such as commissaries along with focus on training our teams. As you may be aware we had initiated development of new commissaries aligned to the potential and the demand outlook we hold for our brands. Our new commissaries at Guwahati, Nagpur and Hyderabad will commence operation in second half of current year, whereas the Noida commissary would be one of its kind in size with state of the art technology and will commence operations in FY16.

Internally, we are leveraging resources across both brands to the best possible extent. We remain confident of achieving our restaurant opening target of 150 new Domino's Pizza restaurants, of which we have successfully opened 35 this quarter. With regards to Dunkin' Donuts we have targeted opening 25 new restaurants in FY15 and have launched 5 in Q1 FY15.

With that I would now request Ravi – our President and CFO, to take you through the financial details and I would like to add Ravi has been awarded The Best performing CFO in the FMCG Sector” at the 8th edition of the CNBC-TV18 CFO Awards 2013 So, that is a great achievement for Ravi. Ravi, over to you

**Ravi Gupta:** Thank you Ajay and warm welcome to all of you. I would like to give you some color on JFL's performance for the first quarter ended 30 June 2014.

Our total revenues stood at Rs.4,768.3 million which is 20 % increase over last year. Operationally, we are aligning our business to complement the needs of today's consumer. We believe that the consumer today is curious, connected, informed and we wish to satisfy his culinary experience keeping in mind all the above. Our prime goals of increased presence and a wider choice of menu offerings are also responsible for our increased topline. In order to better serve our customers with greater efficiency, we expanded our Domino's Pizza and Dunkin' network in existing markets and at the same time entered in new cities to widen our reach to new audiences. We continue to roll out a range of offerings in both our brands to better cater preferences.

Our total expenditure witnessed an increase lead by inflation in fuel and food items, wage hikes coupled with our investments towards advertising and marketing offers. Total Expenditure in Q1 FY15 increased 27% and stood at Rs. 4,178.6 million. Also there were developmental expenses related to Dunkin' Donuts as we continue to invest in the expansion of the brand. At an organizational level a strong focus on cost optimization has always been in our DNA.

Last year we said we will continue to focus on strengthening our foundation by way of augmenting commissaries and supply chain processes, our brands and thus our overall position and I am glad to report that we have stayed on course with our goals, with our eyes set to capture the potential in the sector. Infact JFL was awarded the “Exceptional Position” in the Supply Chain and Logistics Excellence Awards 2013 instituted by the CII.

Amidst our continuous growth initiatives and commitment to bring value to our business and shareholders, which are part of our philosophy and reflective of what we hold central to our thinking, we were confronted with challenges on the macro environment front, which have presented with certain pressures such as inflation. Combined with limited share of the consumer's wallet, we witnessed a quarter of moderated SSG of negative 2.4%, a mild improvement over the previous quarter's number wherein the SSG was negative 3.4%.

Our earnings in the quarter were challenged on account of weak discretionary trends which continue to have an impact on overall profitability. PAT for Q1FY15 stood at Rs.277.3 million. We are optimistic of the future, however barring short term challenges we believe it is an exciting journey, full of opportunities.

With this I would now request the moderator to take the call ahead and open the forum for a Q&A session.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from Avi Mehta from IIFL. Please go ahead.

**Avi Mehta:** I had two questions. First one the Dunkin' business per say, I mean do you think you would be able to share the size of the business in terms of sales, EBITDA now and probably if you could explain how you see the supply chain now that you have kind of defined a model.

**Ajay Kaul:** Sure. See as far as Dunkin's business is concerned, while we do have around 34 stores today as we speak, we do like to share that over the last two years we have been able to iterate, evolve and I would say reach certain destinations on lot of factors like pricing, like what menu mix we should have, the type of stores, what positioning and so on. But having said that it is still in an iterative mode so we will not be able to share numbers with you, but I must tell you that we are progressing very well and we are very positive about its progress. The launch in Mumbai, after all the learning we had in North India especially Delhi, was very reassuring because we reached some record sales in Mumbai. We now have three restaurants in Mumbai and based on that experience we now want to take all our learnings into Bangalore, Pune, Hyderabad, Chennai, during the course of this year. So, over all I would say very-very positive. As far as supply chain is concerned, since there is a lot of innovation that is happening on the Dunkin' Donuts menu and as you know that we have three verticals to work on there, there is the food side, there is the donut side and there is of course the beverages. So, there is a lot of scope of innovation and we have an excellent team of chefs and our marketing folks who are doing a great job. So, supply chain obviously thereby plays an important role. One could think at the infrastructure level, what we have done is that we are utilizing the same commissaries which we use for Domino's for Dunkin', so that it gives us some operating leverage, because we do not need extra infrastructure. Similarly, people within the same commissaries are managing both Domino's and Dunkin' operations, so again that gives us some leverage at the man power level. So, I would recon the same model will be followed even when we go to Bangalore, Hyderabad and so on wherever we have our own commissaries and that should give us some operating leverage. So, on the supply chain side as far as ingredient is concerned and I think it was a part of your question, it is a bit complex but that is where all the innovation is and with all the relationships we already have from the Domino's side with our various venders all over the country and also international relationships that we have with Dunkin' suppliers all over the world, we do not see any challenge there, in fact we are able to leverage the relationships very well for all our products in India.

**Avi Mehta:** Okay sir and the second question that I had, if I look at the menu innovation that you are doing in products, you are essentially moving Domino's more and more towards trying to make it more all day, please correct if my understanding is correct. Now if that is the case, the lines and you have two brands in the food space so how do you like separate which product will go into which line because there is bound to be some commonality that will start coming in. If you can just share your thought process over there?

**Ajay Kaul:** We do not think that we are moving our Domino's product range into the all-day part kind of range. Pizzas as you would know form a formidable proportion of the total Domino's Pizza business and is around 70% of total sale - which is dominant and that is predominantly consumed around meal time which is the lunch and dinner day parts. Although there are other sides which are also consumed throughout the day but as far as Dunkin' is concerned you are right, Dunkin' is pegged absolutely central around an all- day part menu but not just based on food but also beverages and Donuts and everything. So, we believe they are in foods space but they are definitely in a day part competing space.

**Avi Mehta:** Okay. I mean I was coming because of the fact the sides actually have increased but I get your point. Sir, lastly bookkeeping question please, if you could just explain the lower tax rate and that was the only thing that I needed. And I will come for the remaining questions.

**Ravi Gupta:** What is your question on a lower tax rate?

**Avi Mehta:** Sir in this quarter the tax rate was below the 33%. Is there one off in that sir or would that rate should be guidance for the full year if you could help us with that?

**Ravi Gupta:** No, it will similar rate for the full year approximately, it is not significantly lower. I think similar rate will continue for full year.

**Moderator:** Thank you. Our next question comes from Aditya Soman of Goldman Sachs. Please go ahead.

**Aditya Soman:** I think the first question is on cheese price, I think globally we seeing milk prices come off significantly, have you seen any impact of this on your sort of cost table yet? That is the first part of the question.

**Ajay Kaul:** Are you talking of upward moment of cheese or downward?

**Aditya Soman:** Downward. So, globally we are seeing milk prices come off significant over the past couple of months.

**Ajay Kaul:** Unlike, you know there are mixed kind of reports coming about cheese prices outside of India but definitely in India the pressure is on milk prices, you would probably have noticed that in the last two, three, four months the big players in the liquid milk market are clearly raising prices. But thankfully because of some global trends their exports and especially the powder milk is not as lucrative is helping us a bit but inflationary pressures on milk and thereby cheese are still there. Now the only thing which works in our favor is that we have some long lasting relationships with some of the largest cheese players in the country and based on our volumes that we will do, for them we are the largest player in our market which we said a little time back, we are also the fastest growing and that helps us in kind of keeping inflationary pressure on cheese still at our reasonably decent level. But pressures are clearly there.

**Aditya Soman:** Okay and on a related question, so there is no way you can import any of the cheese or can you have any sort of a relationship to import cheese if the prices globally come off?

**Ajay Kaul:** We can import cheese, in fact from time to time just to kind of keep understanding that space, in case there is any eventuality and out of a risk perspective, we do import cheese from the various global players. But in spite of dropped prices and so on from some markets, the duty structure is so prohibitive that the landed price of cheese coming from abroad is far-far higher then what we procure locally. So it is not a great price option if you have to put it like that.

**Aditya Soman:** Okay. And secondly, in terms of the overall consumer sentiment have you seen any change since the quarter ended, since the last quarter ended or is it remains relatively weak and soft?

**Ajay Kaul:** See at a general level I would say that we have not seen any significant change at all. So what was coming from the past seems to be continuing.

**Moderator:** Thank you. Our next question comes from Latika Chopra of JP Morgan. Please go ahead.

**Latika Chopra:** My first question is what would be the impact of Dunkin' format and EBITDA margins in Q1 considering the franchises were extended to Mumbai?

**Ajay Kaul:** See, the Mumbai piece does not have anything significantly different impact on the overall business because we need to understand that we are comparing 750 odd restaurants of Domino's pizza versus 34 of Dunkin' Donuts right now. But having said that, there is an impact and we have maintained

that to the extent of probably around 150 basis points to be the impact of Dunkin' on the overall Domino's business and thereby you know reflective in Jubilant FoodWorks performance at EBITDA level

**Latika Chopra:** Okay. And secondly on the other expenses we have seen a sequential increase of 10% odd, is it what is led to this, is it on account of high advertising and promotional spends or is there something more there?

**Ravi Gupta:** See for this quarter specifically, the sequential increase which you are talking about, one reason is definitely the advertising and promotion, in the tough market we continue to spend higher on the advertising, and promotion and it specifically includes the launch expenses for Dunkin' Donuts for Mumbai.

**Latika Chopra:** Okay. Lastly just a follow-up on the input cost question, we have seen a sequential decline in gross margins, one reason could be higher raw material inflation, or is there also a component of higher promotional activities or have the promotion activity has been similar compared to the Q4 of last year?

**Ravi Gupta:** Promotional activity is slightly higher than last year but one of the reason for reduced raw material cost, which we explained last quarter as well, is that the contribution which we used to receive from business partners as a marketing fund, is going to be received as a contribution in the product margin.

**Latika Chopra:** No, Ravi I got that, I was talking when I was comparing gross margins of June quarter with the March quarter on a sequential basis.

**Ravi Gupta:** Right.

**Latika Chopra:** There is drop there?

**Ravi Gupta:** Yes, there is increase in the promotion activity coupled with inflation and that is the reason there is marginal reduction in the margin.

**Latika Chopra:** Okay. So, we saw higher promotional activity in the quarter apart from higher raw material inflation.

**Ravi Gupta:** Right.

**Latika Chopra:** Is that the correct way to read it?

**Ravi Gupta:** Yes.

**Moderator:** Thank you. Our next question comes from Pratik Biyani of Standard Chartered. Please go ahead.

**Pratik Biyani:** Hi sir, just wanted to get some sense, earlier you are not seeing any, in the earlier call there was no confidence on the ground that things have been improving but after that month is there any improvement in the monthly trends after May for example has the June demand been better than May or July demand been better than June?

**Ajay Kaul:** See, we normally refrain from giving these kind of micro guidance, but still not to kind of disappoint you, we are seeing generally no change. However, I would like to just add one caveat to that, since comparisons will be made of let's say this quarter versus present quarter versus what happened exactly a year back, we did do one break through promotion last year which was called "One on One Wednesday" which at that time had given us a significant lift in orders while it had some other impact on EBITDA but in terms of orders it definitely had given us some impact. Since we have discontinued that kind of, call it high cost promotional activity, there probably would be some impact which would be visible in July & August versus last year but to answer your question otherwise we are not seeing any change in the consumer sentiment.

**Pratik Biyani:** Okay. And sir were there any price hike that we took in the previous quarter?

**Ajay Kaul:** Yes we did. Towards the end of June we did take a nominal 2.5%-3% price increase.

**Pratik Biyani:** Okay. So the impact that will come only in the next quarter?

**Ajay Kaul:** Right.

**Pratik Biyani:** Sir also you know come back to the tax rate point, Ravi sir mentioned it to be similar, so should we expect a tax rate of overall 28% for the FY15 and FY16?

**Ravi Gupta:** Yes, let me add to that what I said earlier. We are taking benefit of the 15% investment allowance on all the plant and machinery. Last year budget there was a clause that if your investment in two years in plant and machineries is Rs 100 crores and above, you can get a 15% allowance. Last year we were not eligible for it because investments in plant and machinery was not Rs 100 crores, this year we are eligible to claim even for the last year.

**Pratik Biyani** Okay. So, the tax rate for FY15 is also could to be similar at same range?

**Ravi Gupta:** Yes, so for this year at least to be in similar range.

**Pratik Biyani:** 28%.

**Ravi Gupta:** Yes, from cash flow my perspective, the outflow will reduce and we will get close to the MAT taxation for this year.

**Pratik Biyani:** Close to the MAT taxation. Sir MAT rate it is much lower at 20 odd percent

**Ravi Gupta:** Yes, but we need to provide for the deferred tax and assets and liability and that is the reason we continue to provide for about 28% which is there in the current quarter because there is no permanent difference. Investment allowance will create a permanent difference and that is the reason tax rate has come down from 32% to 28%.

**Pratik Biyani:** Okay. So essentially for full year it will be around that same level?

**Ravi Gupta:** Yes.

**Pratik Biyani:** And sir since every passing call you confidence on Dunkin' has been improving, do you think there can be a 150 bps negative impact on full FY15 margins or can there be an upside there because



given that your even Bombay performance was phenomenal, I mean are we getting learning's from there you can have a similar success in Pune, Bangalore, etc. So any change there that 150 bps can be lower?

**Ravi Gupta:** It could be but in this year we will be launching Dunkin' in a couple of cities. Mumbai we have already done, Bangalore we will be launching very soon and then we go to some other cities like Pune, Chennai, Hyderabad. That's what we are planning. So each of the city when you enter for first time, the volumes are not large enough and you also have launch expenses there which increases the overall cost, but in longer-run they help and later on we will see this 150 basis points is infact sliding downwards.

**Pratik Biyani:** Okay. Sir, just one last question on promo level, I remember last time you mentioned that promo in 4Q of last year was lower than third quarter. But you just mentioned in the previous question that in the Q1 FY15 the promos were higher. So is there any change because last time I think you were mentioning that gradually now you intend to lower your promotional levels going ahead in a sequential fashion?

**Ravi Gupta:** See from the Q2 and Q3 last year where we were offering Buy One Get One (BOGO) free every Wednesday, the level of promotional activity has gone up significantly. On both levels we have reduced the promotional activity but we are continuing some level of promotional activities like the kind of promotional activity which we do today is one Friday every month is typically a "Buy One Get One Free", which Friday nobody knows, then typically once a week in a quarter there is a "50% Off" offer. So on some quarters we may extend the BOGO offer instead of one day the offer may extend to 2 or 3 days. In this quarter specifically to push the online ordering platform, we had an OLO film also running with promotional offers to encourage OLO incidence.

**Pratik Biyani:** Okay. So essentially you are saying that even in the next quarter again you can expect the promo intensity to only inch up rather than go down?

**Ravi Gupta:** It should not inch up significantly, because we are already doing reasonable activities unless and until the consumer demands that and then we may need to change it significantly.

**Moderator:** Thank you. The next question is from Vivek Maheshwari of CLSA. Please go ahead.

**Vivek Maheshwari:** First, again on the gross margin bit, so whatever price hike that you have taken, 2.5% to 3%, that offsets the input cost pressure that you are seeing or there can be further margin dilution at gross level in second quarter onwards?

**Ravi Gupta:** See, the price increase that we have taken is in the second half of the June. So the impact of the price increase is not visible in first quarter numbers fully. Whereas inflation impact is fully visible in the first quarter.

**Vivek Maheshwari:** Okay. So if I have to, basically what you are essentially saying is margins will at least stay flat or may move up because of this then?

**Ravi Gupta:** Yes.

**Vivek Maheshwari:** Okay, understood.

**Ravi Gupta:** As far as the gross margins are concerned.

**Vivek Maheshwari:** Sure. Dunkin' Donuts 150 basis point impact which Ajay mentioned for the full year also 150 is what we should be running with?

**Ravi Gupta:** Actually we disclose only the full year impact. Quarter wise it may vary from one quarter to another quarter.

**Vivek Maheshwari:** Okay. And when will you share number from say top line and overall performance for Dunkin' as a separate segment?

**Ajay Kaul:** The moment we are confident that it is kind of getting into a steady state where it becomes a bit more predictable. We are gradually heading in that direction. Having said that I would always say that even in let's say two years from now or whenever, the Dunkin' contribution in revenue terms and so on will always be very-very small compared to what the Dominos' will be at that stage. But I think probably in a few quarters' time we should be in a position to share the number and it's actual performance.

**Vivek Maheshwari:** Okay, understood. One more thing on the same store sales growth, you did minus 2.5 and during second half the base becomes really low where you have reported something like (-3%), so can there be just sheerly because of the base can there be a positive trend at least in the second half of this fiscal year?

**Ajay Kaul:** See, how eventually the economy and thereby the impact on consumption and thereby impact on categories like us will span out, we wouldn't hazard a guess honestly because a few times in the past we have been proved wrong and we are a conservative company, we do not like saying things which we cannot live up to. But as a guess what you are saying is correct, that if the bases coming out of the past are low, then going forward if there is growth happening then those numbers should probably start looking a bit better.

**Ravi Gupta:** And we also should notice that from Q2 until November last year there was an additional promotional activity which has increased sales. So that can put a pressure also for this year's number.

**Moderator:** Thank you. Our next question is from Abneesh Roy of Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, some of the consumer companies and even the other QSR companies which came out with results, sir what they are saying is the premium segment is growing faster, in your case if you could elaborate both in Dunkin' and Domino's, are you also seeing the same trend and if not, what is the reason?

**Ajay Kaul:** We firstly do not think we are in the premier kind of category, so I do not know whether the comparisons are fair and I would answer this question even otherwise. Premium category, I do not think so we are premium to that extent. For tickets sizes which are anything from Rs. 200 to Rs. 500, I don't think so we probably belong to the premium category.

**Abneesh Roy:** No sir, my question is within Rs. 200 to Rs. 450, is Rs. 450 growing faster than the Rs 200 or the Rs 250? That is the question.

**Ajay Kaul:** No, I think while obviously a number of people or call it if we were to talk of dispersion of consumers across various price bands is different and at the lower price is obviously there tend to be more number of people, but if we were to kind of superimpose growth I think the all the segments are probably growing or in our case de-growing at the same pace.

**Abneesh Roy:** Sir, Joybox has done quite well, could you tell some numbers as to how much growth is coming from this?

**Ajay Kaul:** See, more than growth what we would say is that in its peak time when we were advertising and so on, the Junior Joybox as a percentage of our total business was an almost a double-digit number, that is all we can say.

**Abneesh Roy:** And sir for you Joy Box is more of a footfall generator, more order generator so that the bigger pizza can also be bought, what is the entire strategy in this?

**Ajay Kaul:** The key idea was that kids who are as it is pizza eaters but probably they have more affinity for some other category, so how to make pizza more relevant even to the let's say the 5-year-old and the 8-year-old and so on. Because beyond that age when they become 10, 12, 14, then pizza becomes more relevant to them than probably some of the other category. So the idea was to become more appealing and attractive and relevant to them and that is where we have launched Junior Joybox.

**Abneesh Roy:** One more follow-up question on Domino's, region wise again any trend that you can share? Why I am asking this is if you see in West, especially Bombay and Ahmedabad market, are you seeing any uptick in consumption because part of the consumption will be also stock market return led.

**Ajay Kaul:** Surprisingly we are seeing no difference between the various regions or even the tiers of cities or even in terms of aging of cities. So it is kind of almost statistically insignificantly the same across the whole country.

**Abneesh Roy :** Sir, when you are discussing the Dunkin' Donuts cost you said because Bombay launch happened in this quarter that is why there was a step up in the cost. Sir now in the coming quarters you will be entering new cities, so every new city does it entail the similar step up or because Bombay was a much larger market? For example you entered Karnal also but you didn't speak about that. So normally Bombay, Bangalore, Hyderabad these kind of cities will require bigger step up and what exactly it is, what exactly are you doing whenever a new city you are entering, if you could tell us what are the cost you are incurring in that?

**Ajay Kaul:** When you are launching a new brand in a large city or in a region like what we did in Mumbai as it was Dunkin' Donuts, obviously you need to create an impact, you need to kind of make a quite a loud announcement there. So we used multi-vehicle, multimedia, multi-channels to make that announcement. So that is what we did in Mumbai. I would say a similar thing will happen when Dunkin' Donuts enters Bangalore for example, but beyond which let's say Pune or Hyderabad or Chennai will probably not be as big because they will be the second and third cities in the region but still there will be some money that will get spent on bringing those brands into those cities. Karnal is not a great example because Karnal was probably the 150th city for Domino's Pizza and every time we enter a new city like Karnal or for that matter Pathankot also which we did last quarter, the amounts spent will be far lower. We do some promotional activities even at Pathankot or Karnal level but they are far lesser in magnitude and impacts.

**Abneesh Roy:** Sir my last question is we introduced 10 new pizzas this quarter, however, the same store growth remains negative. So do you call this as a success or coming quarters will see the impact, so it is a lagged impact? And any plans for introducing loyalty membership kind of programs in any of your formats?

**Ajay Kaul:** I must admire you, you have asked some half a dozen or more questions in the process. Okay, the first one is as far as loyalty program is concerned, no, we would not launch unique loyalty program of our own. We are contemplating journey onto loyalty program where there are multiple partners involved

and we are already kind of discussion and trying to evaluate that. As far as your question on the 10 new pizza refresh program is concerned, see in terms of percentage incidents, our high frequency consumers clearly were saying that they are also seeking variety and to that extent it did very well and our percentage incident was also very good. And it did not somehow reflect in our same store growth. Our argument is that if we had not done it, maybe our same store growth may have looked even worse than where we are currently. Yes, these pizzas will play an important role in future as the environment and economy improves this will lead to higher frequency and people for trying out all the 10 varieties will increase the frequency of the culture.

**Moderator:** Thank you. Our next question is from Bhaumik Bhatia of IDBI Capital. Please go ahead.

**Bhaumik Bhatia:** Actually, just one question to confirm, when you say there will be 150 basis points impact from DD stores, so if you compare F14 to '15, there will be an incremental 30 to 40 basis points impact, right?

**Ravi Gupta:** About 30 basis points, yes.

**Moderator:** Thank you. Our next question is from Shilpa Samant of Cogencis. Please go ahead.

**Shilpa Samant:** Sir my first question is, I am not sure if I have heard correct but is there no benefit from the price hike taken during the quarter? I believe there were two price hikes, one in April for Dunkin' Donuts' which was about in the 4% to 10% range and the other was in the second week of June which was about 1.5% to 8%. So, what has the company to say about that?

**Ravi Gupta:** See, the comment which I made, the full impact of the price hike is not visible in this quarter because the price hike happened in the second half of June. As a result of full impact of the price hike will be visible in the next quarter. As far Dunkin' Donuts is concerned, the number of restaurants for Dunkin' Donuts is actually very small to have a measurable impact on the overall numbers.

**Shilpa Samant:** All right sir. Sir can we know what percent of revenue is contributed by Dunkin' Donuts?

**Ravi Gupta:** We are not sharing separately of what percentage numbers but we can say that even when Dunkin' Donuts reaches about 80 to 100 restaurants, it will still contribute about single digit in terms of percentage share in the overall revenues of the company.

**Shilpa Samant:** Right sir. Sir just one more question, is that going forward you have earlier given a price hike target of six percent which we normally take every year into division, so this time is it 6% or are you planning to take it to a higher level?

**Ravi Gupta:** See, decision about that is taken based on what are the input pressures we are facing. At the beginning of the year our target is to have as minimum price increases as possible but still, looking at the overall inflation in the economy, we said two price hikes of 3% each is unavoidable. Looking at the environment we will decide whether we need to have more price hikes or we need to have a lesser price hike than the 6%.

**Moderator:** Thank you. Our next question is from Varun Lochab of CIMB. Please go ahead.

**Varun Lochab:** Sir, my question was on the employee cost front, in terms of wage inflation, did we take any sort of wage hikes in this quarter and in terms of overall are you seeing greater pressure on wage inflation and if you could just give some comments on how the attrition levels are behaving especially at the front

end given the fact that a lot of ecommerce guys are also expanding and this could be a perfect poaching ground. So just a bit on the employee **cost front**.

**Ajay Kaul:** See, as far as salary increases are concerned, we take our annual salary increases from 1st July, so in the last quarter there has not been any such thing factored in. As far as attrition is concerned, I don't think so we are seeing any abnormal attrition, it is like what we have seen over the last so many quarters and years. There is no special pressure on attrition. See, what also you need to understand is that even our employees for example within Domino's or Dunkin' Donuts, if you join as a delivery person, we have instances where they have gone on to become General Managers and Vice Presidents in our company. So there is career that we offer and not one just a job of going and delivering pizza and there are enough instances. I do not know how what jobs or where would they eventually land up in ecommerce company. So people realize it, it is not that we are not losing some people, we are, but it is not something abnormal which is happening and we in any case have a well-oiled machinery, we have 25,000 employees, we have nearly 10,000 drivers. So when you have such a large number of people and you are constantly recruiting and training and kind of making them move forward.

**Varun Lochab:** Okay. And sir wage inflation this year what we have taken, is it on similar lines as earlier years or any changes out there like in a broad trend?

**Ajay Kaul:** See as far as minimum wages are concerned, they come unannounced and to the extent for you to have budgeting for them or predicting them is not easy and there are few pockets all over the country that keep coming. Apart from that, there is the usual wage increases what we take every year is what we have taken for this year also.

**Varun Lochab:** Okay. And sir just on the CAPEX guidance, any change to that compared to what you had announced in the beginning of the year?

**Ravi Gupta:** No, there is no change in the CAPEX guidance, our CAPEX guidance remain that we will have a CAPEX in excess of about Rs 300 crores.

**Varun Lochab:** Okay, so that stays unchanged.

**Moderator:** Thank you. Our next question is from Hemant Patel of Axis capital. Please go ahead.

**Hemant Patel:** One quick question on the comment that you made earlier on that in terms of market share, we have held on to the market share, so just was trying to understand how do we go about literally calibrating this and what is the sense and how are we actually fared over last year? And the second part of it is in terms of the category itself how has that done versus the other formats of western informal eating categories?

**Ajay Kaul:** Our only source of information which is calibrated is the Euromonitor data which is like standard used world over. Their report came out recently for the year 2013, so within the pizza market only i.e the chain pizza market, our market share last year was around 67% and this year it has climbed to we believe to around 72%- 73%. So clearly, even in a tough market, as you know our growth is not very rosy, we have still grown our market share. But what gives us more joy is that within the QSR, Quick Service Restaurants let's say there are players which includes other categories like burger and the chicken, etc. we are at least 15% larger today than the next largest player. Earlier, we had the second best player very close to each other, so we have grown our lead even over the next largest MNC food brand. That clearly tells us that even against formidable and honorable opposition, names are pretty big and we have a lot of respect for them, we have been gaining lead over these people even in a tough markets.

**Hemant Patel:** So would it be fair to say as consumer preferences given your category is doing a little ahead, the consumer preference is still on a western cuisine, still flows towards pizzas versus the other formats?

**Ajay Kaul:** See if you go by experience in other countries and why should India be so much different, I would argue over a longer period of time it should not be the case, for example some category like burgers tend to be far more popular and thereby universal in their approach, consumption and also being sitting not around the meal time but probably on an all-day part access, in most countries burger company is said to be larger than pizza companies but it is strange that in India we are larger than some of these other burger companies. So I would not reach conclusions whether India is like that, it is only over a period of time that we need to understand how we will span out. But yes, for the moment clearly, pizzas seem to be as a category quite ahead with this consumers in India.

**Hemant Patel:** Okay. One final question on when you are looking ahead, the way online purchases and mobile purchases have been made and surprisingly it is growing by the quarter, do we need to rethink the way in which we are rolling out stores as we go along? I mean if this starts becoming seriously a larger portion of incremental revenues, do we need to really put in the number of stores that we adding on. I am not probably saying it from a year or two, but probably ahead of this?

**Ajay Kaul:** No, I think it is probably too early. We are obviously picking up lot of call it inspiration from how Domino's is evolving in some other countries, especially countries who are leading as far as online business is concerned. Beyond a certain point it tends to have stagnated at certain place, and currently while online contribution to total delivery sale is around 22%, it will take some time before it starts hitting the 30s and 40s and 50s numbers. So I do not think so we see it differently over the next at least 5, 7, 10 years.

**Moderator:** Thank you. Our next question is from Riken Gopani of Infina Finance. Please go ahead.

**Riken Gopani :** Sir, firstly I would like to understand is there any discrepancy between the growth rate of your stores maybe five years older, I mean are they seeing a sharper decline in SSG than the stores which are two-three years old?

**Ajay Kaul:** No, that is not the case. The moment we see that the store is two, three years old and it has gone past the initial stage of just coming into and penetration levels and all that start reaching a certain level, we are seeing similar behavior by stores, whether it is in terms of the aging axis or whether it is on you know call it, the type of cities they are in, they are behaving quite similarly.

**Riken Gopani :** Okay. Then just wanted to understand as to what would you attribute if I were to generalize it between ours and reported numbers of Domino's, foods as a category seems to be getting impacted more and driven by sentiment or whatever it may be. But a lot of categories which have reported numbers on the consumer side seem to have done better off as well especially on the discretionary side. So any comments that you would like to make as to why foods is a category you think is underperforming some of the other categories?

**Ravi Gupta:** See, one of the reason is that outside eating habits have not been engraved in the people still, there is always a fall back option that if there is pressure on the disposable income and discretionary income, you can always fall back on your home food. In developed countries where home food is not a good alternative because it is as expensive as an outside food, people do not have option, people still eat outside food, what only they will do is instead spending higher amount on outside food, they will start spending slightly lower amounts, it means they will downgrade slightly. But in India, the moment there is a pressure on the disposable and discretionary income, people can fall back on home food.

**Riken Gopani :** Okay. So you are basically saying that according to you the sentiment hasn't because let's take the example of cars, it seems as if the sentiment has improved there rather than having deteriorated so incrementally since you are also saying that the demand even maybe in July or August hasn't seen any improvement. Sentiment is not improved for the consumption?

**Ravi Gupta:** Sentiment did improve but look at some hard facts. For this purpose I divide consumers in two categories, say the existing consumer and the new consumer. Now existing consumer, his income has been growing and as per the Hewitt survey it is growing about 10%. But the inflation when you look at the last year, it grew at 11%. Thus his net disposable income has been reduced. Secondly, the interest rates have gone up and as a result the people who have taken leverage because of home and car loans and all, their EMIs have increased, this again has impacted the disposable income. Now with the disposable income under pressure, you need to find out an alternative for it. Secondly for the new consumers, a new consumer typically is a youth who is getting employed, maybe becoming a separate unit of consumption. Now India needs about 12 to 13 million employment generations for the youth to get employed fully. We are able to create today employment for about half the people and mostly in construction and agriculture. Now, if the youth is not getting employed, how will they get added to the food category? So the challenge lies in both. Now let us look at future, as far as the employment is concerned, I think the situation will improve slowly as the government is taking initiatives and bringing more investment. So employment situation will improve slowly but as far as the inflation position is concerned, our confidence is that another 3-4 months' time it will start coming down. As a result once the income will increase say at 10% to 11% and if inflation comes down to say 6% - 7%, there will be increase in disposable income. And the moment the inflation comes down, we expect RBI also to reduce interest rate, as a result, there will be reverse cycle on EMI reduction also. It will further help in increasing the disposable income.

**Riken Gopani :** Okay, got it. Sir, one other point I wanted to understand is on the event that was there, one large event would be the Football World Cup which was there within the quarter, was June a better month and if not for that months was the de-growth even sharper?

**Ajay Kaul:** We do not give such granular kind of information, they were kind of similar honestly.

**Riken Gopani:** There was no specific improvement because of that event?

**Ajay Kaul:** No.

**Riken Gopani :** Okay. And sir one last question, what would be the cash on the balance sheet as of date?

**Ravi Gupta:** About Rs 100 crores.

**Moderator:** Thank you. Our next question is from Kunal Mehra of Visium. Please go ahead.

**Kunal Mehra:** My first question is regarding the promotion expense. You indicated despite the price hike, you intend to keep promotion expenses flat. Conversations with your competitors indicate that they are intending to keep their promotion activity at or slightly higher levels and in the prior quarter. Would you therefore be flexible in increasing your promotional expense in order to kind of keep your growth at or about current levels in the phase of what you call modest demand and sentiment?

**Ajay Kaul:** I mean, if I have understood your question correctly, are we flexible on promotions, indeed we are. But at the same time we are very measured in terms of what impact it will have on, of course, the consumption but as importantly on the costs and thereby EBITDA and so on. We have realized having done one on one Wednesday kind of promotions last year which for a certain period did give us gains, but the

moment we realized that they were not giving a trickle on the EBITDA, we also removed that. So we would keep changing the flavor of our promotions from time-to-time. We would avoid deep discounted promotions. The idea basically is to maximize sales with minimal cost thereby giving the maximum trickle to EBITDA, so that would be our driver every time, obviously the highest ROIs in each promotion. So we are flexible but we are not mindless and ruthless about it.

**Kunal Mehra:** Let me ask you one final question then. As a minority investor, I mean we have been pushing you to try and think about some form of dividend, instead, you have held off on those request and pushed back and chosen to invest, a part of that if not an increasing part of that in the build out of Dunkin' Donuts. Now the problem is you are not sharing with us any visibility on how that is progressing and it has been more than a year, and I appreciate it, but is there any variable that you can give us at least at a store level for some of the stores that have aged to show us how footfalls or productivity or profitability per store has changed. Because the problem is for the company, I only track figure of Dominos and it took us close to pick a number, seven, eight, nine years to break profitability. And I am just wondering in the absence of any granular data, should we expect the same in terms of Dunkin' and therefore the implications on part rather than returning that money to us as dividend.

**Ajay Kaul:** Okay, there are two three parts to your question, let's hope that we address all of them. You know, if you are not giving dividends, the reason is not Dunkin', the reason is overall growth of the company. If you realize even today, the cash which we are generating is going more in constructing or building Domino's than it is Dunkin'. If I were to give you a bit more granular information, probably the capital expenditure of Dunkin' this year between the stores and the new factories that we are building and even the next year versus what we would spend on Dunkin', the Dominos would probably be three to four times of what we will spend on Dunkin's overall capital expenditure.

**Kunal Mehra:** Okay, so it is still 25% going into Dunkin' of incremental CAPEX?

**Ajay Kaul:** I would say probably one seventh or one eight. So substantial portion is still going on to Domino's, so it is not Dunkin'. Now coming to the question on granularity on Domino's or Dunkin' and whether it will take eight, nine years... did I hear you right when you said probably Domino's took eight nine years to be breakeven, did I hear that right?

**Kunal Mehra:** I mean, and please do correct me if I am wrong with that because I am basing that purely on memory.

**Ajay Kaul:** It is probably not right but let us assume if that is the expectation eight-nine years. '

**Kunal Mehra:** Why don't you correct me, what was it for Domino's and we are happy to take that as a measure?

**Ajay Kaul:** See, Domino's as a model was such that even at the time at the store level, the stores would start breaking even much-much faster, probably in the first few months itself and that is what you call it the beauty of the model. With Dunkin' what is happening is the first year, year and half has gone into various iterations that we have done on various call it axis whether it was the pricing, whether it was the menu mix, the type of stores, the size of stores, or locality of stores and so on and so forth, we now are reaching a stage where we can say that some level of confidence that the payback period that we are expecting from Dunkin' hopefully will not be too different from what Domino's has achieved over a period of time. So as a result, expectation of that business breaking even after eight nine years I think is a bit too much, we should be able to make that business profitable much earlier, I cannot put my finger on a certain year or a timeframe, but it should be much earlier than that.



**Kunal Mehra:** Okay. That's really helpful Ajay, appreciate the color. No likelihood of any dividend right, in the next 12 months?

**Ajay Kaul:** Yes.

**Moderator:** Thank you. Our next question is from Amit Kumar of Espirito Santo. Please go ahead.

**Amit Kumar:** Sir just one question from my side, this 10 pizza range as well as the Junior JoyBox, when was this launched exactly, in which particular month and around what time period?

**Ravi Gupta:** From May to June.

**Ajay Kaul:** The Junior Joy Box was launched in May and the Refreshed Pizzas were launched in June, the 10 new pizzas.

**Amit Kumar:** So the impact of these 10 Pizza launch would really not have been in this particular quarter, we will probably see next quarter what happens?

**Ajay Kaul:** I would say that, yes, around probably three weeks data would be there in that quarter and the rest would be actually in the month of July and so on.

**Moderator:** Thank you. I would now like to hand the floor back to the management for closing comments.

**Ajay Kaul:** Thank you everybody for being patient listeners today and we had some exciting questions coming up. I hope you had a good time, we enjoyed the interaction. We wish you all the very best and hope to talk to you very soon. Thank you.

**Moderator:** Thank you, sir. Ladies and Gentlemen, on behalf of Jubilant FoodWorks that concludes this conference call. Thank you for joining us. You may now disconnect your lines.