



Jubilant FoodWorks Limited

Investor/Analyst Conference Call Transcript August 2, 2013

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 30, 2013. We have the senior management on the call with us, including Mr. Hari Bhartia –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 FY2014 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 to everyone present on this call today.

I believe a key strength of a consumer-centric company such as ours is the ability to reinvent continuously. We at Jubilant FoodWorks follow this with great dedication. As a Company, Jubilant FoodWorks has embraced changes in the business environment and responded to it effectively, particularly over the past year. It is also important to recognise that those aspects of business that have remained constant and been critical in ensuring our success, a strong infrastructure foundation, continued and sustained network growth along with product development.

While the economy certainly has presented us with challenges involving a disruption in consumer sentiment, our core value of creating customer

delight with our offerings remains enshrined within the culture of the business and guides how we operate both internally and externally.

It is a summation of all these aspects and many more like our talented work force and their passion that have helped us grow to where we are today. These will remain at the very core of our business in the future as we build a platform capable of delivering a sustainable long-term growth.

With this I would like to conclude my remarks and now request my colleagues, Ajay and Ravi, to continue with their presentation.

Ajay Kaul:

Thank you, Hari. Good evening to everyone joining us on the call today. I wish to share some quick highlights of the first quarter performance with you before I dwell on some of the customer-focused initiatives we have.

Total revenue in Q1FY14 stood at Rs 3,965 million which represents 26% increase over the last year while our PAT stood at Rs. 340 million during the quarter. Whereas the fundamental levers of growth remain intact, we have been faced with an unprecedented climb down in sentiment from the consumers' vantage perspective. JFL is cognizant of such compulsions and motivations and as a company we have taken steps to maintain a value proposition for them.

Engaging with our core audience is something we do almost instinctively. Our efforts have been focused around giving them the best possible experience while consuming any of our products. Our products are fine-tuned to majority preference and there is timely injection of innovative menu items, all of which keep the excitement alive in a category such as ours. Our DNA is built on search, reach, network, robust systems, cost management, logistics, marketing, brand management, CRM and innovation to mention a few and we have tweaked each of these aspects to address our consumers. There are two big drivers that we use to enhance the proposition of our brand and delight our customers, increase in network and innovation.

In terms of Domino's Pizza – Our network continued to witness an expansion across the country with us making inroads in new cities like Erode and Hosur in Tamil Nadu, Baramati in Maharashtra, Cuttack in Odisha and Haldwani in Uttranchal. Today, we are successfully present in 128 cities with a total network of 602 restaurants. Our thought process on this front is rather simple. We want to make Domino's Pizza an easily accessible brand and make our restaurants a medium for us to serve them better with our offerings.



A similar approach is also being mapped for Dunkin' Donuts too. The brand has been well embraced by the consumers in the region it has been launched thus far that is Delhi, NCR and Chandigarh. We are encouraged by the results of the 14 restaurants that we have opened. While we are still on the learning curve, we are utilizing our continuing research of the marketplace and our understanding of our consumers and their presences to offer suite of irresistible offerings. We want to strengthen Dunkin's competitiveness in many dimensions establishing a strong foundation for its future growth.

Moving on to a topic of discussion that is close to all present in JFL and an important part of our growth formula that is innovation!

The core of our business is to build a customer-centric organization and develop a close connect with our customers and the power of innovation enables us to do this exactly. This quarter we launched innovative side orders like Spicy Baked Chicken and the very recent Lebanese Rolls. The feedback and the appreciation received from consumers is definitely positive and gives us an impetus to strive for more in the coming future because at the end of the day we wish to create a delightful experience to our consumers. On Dunkin' Donuts too, the menu development is an exciting journey. From new varieties of coffee to recent addition of burgers to the all-day part menu; we are constantly evaluating and exploring a new culinary option.

Another trend we have committed to is sustainably building and capitalizing on the Online Ordering platform. There is ongoing growth that we are witnessing in this segment as there is an increasing shift in the consumers using digital media in their day-to-day activities. This quarter we saw cumulative over 8 lakhs downloads of Mobile Ordering applications across various smartphones. Online Ordering contribution to delivery has been constantly on the rise. By the end of this quarter OLO contribution to delivery sales was at 20% while Mobile Ordering sales contribution to overall OLO was at 10% during the quarter. Hence the numbers clearly validate the efforts, the time and the resources dedicated to the development of digital platforms.

As we position JFL for future growth we are returning to the things we do best as I have explained. To summarize the quarter, we made important progress to position ourselves for strong short and long term growth. Looking forward, we remain absolutely confident in our vision and in our system's ability to execute to grow and to create value all for our stakeholders.



I would now hand over the discussion to Ravi, our President and CFO to take you through the financial highlights.

Ravi Gupta:

Thank you, Ajay. I shall quickly take you through the financial performance in this quarter. To begin with, top-line growth was at 26% and stood at Rs. 3,965 million as compared to Rs. 3145 million last year. As Ajay mentioned we have two main catalysts that have driven our growth. One is the consistent increase in Domino's Pizza restaurants and secondly, our approach towards innovation. As mentioned earlier we have opened 26 restaurants of Domino's Pizza this quarter. On Dunkin' Donuts we have launched 4 new restaurants. Supporting this was the launch of new products during this quarter. New innovations in our menu continue at a healthy pace and we are focused on being pioneer on this front. Innovations inspire us and that is what distinguishes us as a company.

Our same-store restaurant growth stood at 6.3% this quarter. This is again to be viewed in the light of the current economic scenario which has led to the constrained discretionary spends.

With respect to EBITDA we saw 16% growth to Rs. 667 million from Rs. 573 million. Main contributor of this moderate growth in EBITDA is increase in the new stores and as well as reduction in the same-store growth. Here, our effort was centered around maximizing our supply chain and scale efficiencies and also minimizing the cost. Our strong systems enable us to work and adapt to the current market situation and also associate with our partners and suppliers to create a mutually beneficial scenario.

Profit after tax for the quarter stood at Rs.340 million which reflects 5% growth over last year. There are two factors for this slow growth in PAT. First, the company is rapidly expanding its network of restaurants and also investing in commissaries to support more and more number of restaurants, thereby the depreciation expense has increased. Secondly, this year rate of income tax surcharge has increased from 5% to 10%.

On the whole, keeping in mind the business environment, I believe it is our brand strength coupled with our solid business foundation and a keen focus on cost containment initiatives which are implemented across each level of our business and has enabled us to sustain our growth keeping in mind the long run.

Brand development and infrastructure development to support our business growth and to capture the potential in the industry will continue. This will aid us in our efforts to focus on the promising opportunities for both Domino's Pizza and Dunkin' Donuts. We are confident of further



extending our brand in a new and existing market. At the start of the fiscal, we had the target of opening 125 Domino's Pizza and 18 Dunkin' Donuts restaurants which we will abide by. We are confident of achieving this target as we progress into the year. We aim to leverage our full potential, explore, refine and build our leadership position, and of course take advantage of our scale and create new exciting products, compelling value offerings and a strong brand connection with our consumers across the country.

In conclusion, I would like to add that with our passion to serve our customers, the power of our brand portfolio along with the deep connection with the consumers, we are optimistic of our long term growth and are determined to stay focused to generate more value for our business. With this I would like to conclude my remarks and request the moderator to open the forum for questions. Thank you.

Moderator: Thank you sir. We will now begin the question-and-answer session. The first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Given that the same-store sales has slowed down over the past 4 quarters, what proportion of the slowdown will you attribute to the overall economic environment and what proportion to just may be a higher level of splitting of existing stores?

Ajay Kaul: I would reckon that nearly 80% - 90% if not more, is attributable to the macro economic factors, splitting of stores is a phenomenon which is a part and parcel of our business and we believe is no different from last year. Let us say we have added 111 stores last year, this year we plan to add 125 stores in Domino's Pizza. As a proportion and thereby as their impact, I think it is not going to be too different from last year. So a short answer to your question is that it is predominantly attributable to the macroeconomic factor.

Aditya Soman: Secondly on your EBITDA margin, I believe the impact from Dunkin' Donuts was about 100 basis points as mentioned in the last call. If I were to exclude that, then the EBITDA margins on a quarter-on-quarter basis have actually gone up despite total quantity of discounting or offers having increased. So what would you attribute that to?

Ravi Gupta: We have a levy of service tax which has come in at the start of this quarter. The levy is about 5%; it is levied on 40% of the value of the goods. As a result, we get some set off also. We started receiving some set off in the service tax which is about 50-60 basis points. So that is one of the reasons



that there is some positive impact although to what extent it has impacted the sales for same-store growth, it is very difficult to work that out but there is some positive impact of the service tax set off.

Aditya Soman: Just set off of 50-60 basis points is on the service tax?

Ravi Gupta: Yes.

Moderator: The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My first question is basically on the business, now given that your SSG and margins are basically linked together, and given the very sluggish SSG, is there a Plan B in place to control cost to maintain margins at least in the near term?

Ravi Gupta: Both are linked very closely. We have very strong cost containment practices. To give an example, we are probably the only player in this industry which has a Six Sigma practice ingrained all across the functions. We have green belts and black belts and there are more green belts getting trained. The benefit is that for each of the processes and areas of business we continuously undertake projects for cost optimization. We hate the term cost cutting. We use the terms cost optimization and cost efficiency within the organization. We also extend the Six Sigma practice to our business partners, which in turn helps them to reduce the cost and they then pass back the reduction in their cost on our share of business back to us and they can keep for other businesses that margin with them. So that has become a win-win scenario for them.

Nillai Shah: The inflation that is happening on the cost front overall on a per store basis, I am not linking this to the revenues, I am not talking about the new stores open up, just the overall cost on a per store basis. Is going in a double digit at this point in time? And with SSGs staying in the mid single digits, is there a way to cut cost near term to maintain margins or you just have to take the pain in the near term?

Ajay Kaul: There are two aspects to this. As Ravi was rightly saying we believe that while there is a temporary blip in the economy and I only hope that it proves me right that it is only a temporary blip. We are optimist as far as this part is concerned. We do not thereby use the word 'cost cutting' we are talking of cost optimization or bringing in efficiency into the system. The other side to the story is the growth story. We believe that the India growth story and how it translates for Domino's Pizza and Dunkin' Donuts and more so Domino's here is still intact. Last year we opened 111 stores,



you are aware, this year our guidance is that we will open at least 125 stores; that story is intact, and not only it is intact in terms of numbers but even qualitatively the kind of stores which we are opening.

We have entered 5 new cities in this quarter, the kind of sales they generate, the kind of profitability which they generate, is giving us tremendous confidence of opening more and more stores this year and even in the years to come. We are supporting this by increasing our capital expenditure spending on our factories; you may be aware last time around when we met in a similar forum, we had mentioned that we had spent around Rs 60 odd crore on capital expenditure for creating new commissaries or factories in Mumbai, Kolkata and a brand new one in Chandigarh. As we speak this year we are looking at creating 3 new commissaries. One in Central India, one in South India which will help the Bangalore commissary and one in the North East along with relocation of our Noida commissary to a much larger state-of-the-art facility. Now all this capital expenditure is being done and it obviously brings in some other costs along with, but it is basically fueling this medium term strong growth story. So we believe that while in the short run, cost cutting may be one of the options you are suggesting but that is not the way we look at it. Cost optimization brings cost efficiency into the system but keep investing back into the business from an investment perspective because the story is in the future and that is intact.

Nillai Shah: My second question is on the gross margins for this quarter. On a YoY basis it has gone up, which is surprising given the sluggish SSG and also the fact that your price increases were delayed during this quarter. Can you throw some light on that?

Ravi Gupta: Our supply team has done a remarkable job in deferring the impact of inflation. So two things; one is deferring the impact of inflation, other is negotiating with the vendor that since our volumes are increasing with them, they can spread their overheads over the larger volume base. So inflation which was there on the ingredients has not been fully passed to us and in turn our margins have improved in this quarter. When you look at it, the impact is only in the first quarter. Q2 onwards actually last year, the food cost was around 26% and it has stayed around that figure. So two price increases plus there is a lesser impact of inflation has helped us for the improvement in the gross margins.

Nillai Shah: Do you expect this to remain where it is more or less or you see pressure on it?



- Ravi Gupta:** As far as the full year is concerned I think it should remain around this level but there will be pressure during this year.
- Nillai Shah:** Basically what is your guidance on SSG for the full year, any change out there?
- Ajay Kaul:** We have been consistently talking about 8%-10% same-store growth for the year, and we maintain it at that level and that we should close the year at a figure anything from 8%-10%. I think that is the short answer to your question.
- Moderator:** The next question is from the line of Kalpesh Makwana from Quant Capital. Please go ahead.
- Kalpesh Makwana:** Ravi, you could probably help me better understand the SSG number. Last quarter we reported about 7.7% and this quarter we are at 6.3% but this also has the impact on service tax started from this particular quarter. So would it be correct to calculate that overall consumer SSG was 11.3%, 6.3plus 5%?
- Ravi Gupta:** This is one of the ways you can say that yes we have collected more money from the consumer and that money amount is around 11.3%, including around 5% Service Tax.
- Kalpesh Makwana:** But only thing is I am trying to derive at, if I look at your price inflation run rate, historically we have actually done a 5% or 6% price hike and on top of that we used to do very high volume growth. Now if I were to look at last quarter 7.7% SSG and price of say about 8% that actually takes us into a negative volume territory and for this particular quarter probably 11.3 minus 8% is my estimated price hike run rate for the company right now and then probably on a same-store basis now we are in a volume growth territory. Is that a right assumption?
- Ravi Gupta:** I can talk about realizations from the consumers which were higher. 6.3% plus the service tax portion which is 4.94%. So in all about 11% increased cash collection from the consumer was there, but I cannot really say that the sale was 11% higher.
- Kalpesh Makwana:** Let me ask this same question in a different way. What are we seeing in terms of volume on same-store basis? Are we seeing volumes revival in this quarter or in the month of July or things have continued the same way as last quarter?



Ajay Kaul: We will not be able to comment about July because that will be like giving future guidance but let me give you two qualitative statements. One is we believe at a general level that the second half of the year will be better than the first half. Part of it is driven by us being a bit more optimistic on shape of things to come. The second is also driven by the category which we are in. We believe in a purely impulse purchase Rs.300-400 category like ours, you cannot hold consumers away from spending on it for too long. Once the consumers come to terms with let us say high capital expenditure at his personal level, let us say typically a consumer durable or a car or something like that, spending Rs.300-400 of dining at home or going out, you cannot hold it for too long. So that is one part. The other part is that even when if you were to granularize let us say this quarter between May, June and April, clearly June is better than May and May is better than April. I will not give you numbers but this will tell you that there is some sort of some action happening. We do not have research to bear us out, we do not have other surrogates kind of tell us that this is the reason but June is better than May is better than April is also giving us some optimism.

Kalpesh Makwana: Last question, of the new 3 commissaries what are the timelines and how much do we plan to spend on them?

Ajay Kaul: The work for these is going to start during the course of this year. Obviously, these are longer projects so they will get completed only early next year or middle of next year, the one in Noida which is a mammoth project may take a bit longer. The total expenditure we believe this year will be in the vicinity of Rs 50 crore to Rs 60 crore.

Kalpesh Makwana: And something will trickle the next year also?

Ajay Kaul: Yes, certainly.

Moderator: The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just had a question on Dunkin' Donuts, from store one till date, do we breakeven on EBITDA and secondly what is the target for the current year, are there any changes for the same?

Ajay Kaul: As far as the target is concerned that is more direct an answer, I think we have said we will open at least 18 new stores, of which 4 have already opened in this quarter and we are confident that we will open at least 18 new stores. We also have aspirations of going into one more region, work for that has started, we cannot tell you which region it is going to be, but



we are evaluating it right now. As far as the first question is concerned I would still say that yes, some stores are clearly generating profit, some stores are going through the typical grind which happens for a new store. So I think overall story is that while we are very confident about the way stores are evolving, but we are also doing a lot of iterations in formats as we had said in the past - small stores, big stores, signature stores, mall stores, there are a lot of other iteration in terms of equipment inside the stores and so on. So the modeling is on. We are yet to arrive at what we believe is the final kind of model which will tell us that this is it and this is going to kind of deliver similar payback periods as Domino's did after being in operation for a few years. So that is the phase we are going through right now.

Kunal Bhatia: As you were mentioning that raw materials expenditure currently is constant that on 26% to sales, with the help of these additional commissaries, going forward do we expect it to remain in the same range or in H2 and next year will there be some benefits going in further?

Ajay Kaul: Again, without giving any numbers and giving future guidance, new commissaries are definitely going to bring in advantages in terms of economies of scale, also most importantly the ability to handle the next 100 stores followed by another next 100 stores and so on and so forth. The larger objective of commissaries is to be in a position to have supply chain more in control of ourselves. Since we are easily the largest player in this space, we are the largest and the fastest growing, we have to also ensure that all the infrastructure and ecosystem around us also starts moving at that pace and we cannot wait for the ecosystem to come up on its own. So the larger objective of these commissaries is to make sure that the supply chain is so much more in our control that we are able to fuel this growth when I talk of 125 stores every year and so on.

Kunal Bhatia: And you were mentioning about innovative products in case of Domino's, so currently, what percentage of the sales is coming in from these innovative kind of products? And how are the margins different?

Ajay Kaul: Before we launch any new product, we are very stringent about what the food cost is going to be, we also make estimations in terms of what sales level is it going to achieve and we look at that number in various ways and we obviously also look at the cost involved, especially the marketing cost and so on and then work out the product P&Ls. Any product which is not lending healthy margin and profitability to the P&L will not get launched. So that is maybe a general answer to your question. But the more realistic answer is that every such product has to lend ultimately to the overall profitability and even in terms of percentage margins to the P&L. So it goes



through the usual grind. We are obsessed with return on investment for even product launches and it goes through all that grind. And if I were to give an example of recent two product launches in Domino's for example, one being Lebanese Rolls, it has been a runaway success, it has reached what we call 'incidence level,' it is an internal norm, of upwards of 10% which is fantastic even in a seemingly downturn period like this. So, we are very, very upbeat about launching new products. So there will be for example, more products launched in the near future and also Pizzas which are obviously, what we stand for as a pizza company.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My first question was what was the impact of Dunkin' Donuts and margins in the quarter?

Ravi Gupta: It is about 100 basis points. It has increased by about 20 basis points from last year.

Latika Chopra: So it was about 20 basis points incremental impact during the quarter?

Ravi Gupta: Yes.

Latika Chopra: The second one was on employee cost. They have been pretty stable between Rs. 70 to 75 crore now over last 3, 4 quarters. Are you planning to take any yearly pay hike in coming quarter and what will be the likely quantum for the same?

Ravi Gupta: Annual pay hike is always done in July. For all the people except team members working in the stores, the hike is on-schedule, and will happen in July, so every year Q2 you will see that bump coming in. As far as team member is concerned, we have not yet taken a decision as to when to increase and how much to increase the salary for them.

Moderator: Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead

Percy Panthaki: Just wanted to understand the competitive context now that the same-stores sales growth for you has come down, the gap that you had versus Pizza Hut delivery that has basically reduced. So do you think that the competitive intensity is increasing?

Ajay Kaul: No, I do not agree with your first statement. Competitive activity, you are right has increased, and this is not recent, this has happened over the last



one-odd year, I think people obviously are excited with luckily the success we have had, but our view always has been that at the life stage in which this industry is, Quick Service Restaurant, Fast Food, and even within that if you look at the subset of Pizzas and Pastas, it is better that if more and more competitive activity happens, because it helps to overall grow the market and that is if you have a more holistic view and not a myopic view to the whole thing, but you will be surprised if you look at the latest Euromonitor results, our market share in the Pizza space has increased from 62% last year to 67% this year. So I beg to differ from your statement that whatever that company which you named is kind of getting closer to us, on the contrary we are actually gaining more market share and probably largely at their expense where we have increased market share by 5 percentage points or 500 basis points. But our outlook is not just gaining market share, we already had leadership position. In a tough environment how do we help the market to grow, how do more and more people consume pizza and pasta as a category as far as Domino's Pizza is concerned and how do people consume more and more burgers and doughnuts and sandwiches, and coffee as far as Dunkin' is concerned is our prime objective. And once this whole market is growing and the consumer sentiment comes back and they kind of spend more, is what we are more concerned with rather than just market share gains.

Percy Panthaki: My second question is how is revenue per store for the new stores as a percentage of that same metric for the existing stores and how has this changed on a YOY basis?

Ajay Kaul: Without giving exact absolute numbers we have always maintained in the past that new stores open at a sale which is marginally lower than old stores which have been in the system for a longer duration.

Ravi Gupta: It is actually 70 to 80% level of the system average.

Percy Panthaki: Given the current slow macroeconomic environment do you see that this 70% which you generally take as a norm, has this come down?

Ajay Kaul: No, in fact, it has not come down, to the contrary our experience in the first three or four months is that it has actually improved a little bit. Now this can sometimes depend on the type of stores where you are opening and those kinds of things. So we are not reading too much into it, but if you were to just look at absolute sale of the stores compared to stores which we have opened last year in the same quarter, new stores that is, there is a good increase in their average weekly sales or average monthly sales. So as I have been saying earlier, that the medium term growth story based on factors like these, we are very gung-ho and positive about it, and that is



where all the investments in these new stores, whether it is in new cities or it is in old cities, supported by lot of capital expenditure in our new factories; this confidence is coming from there only.

Moderator: The next question is from the line of Shiv Sheth from Anvil Stock Broking, please go ahead.

Shiv Sheth: My question was on the lowest price point pizza. What we understand is for the same amount of money you are offering larger sizes of pizzas, is that correct what we understand?

Ravi Gupta: I think our prices remain the same, we have not changed any price or size of that range of pizza, it is Rs.44 Pizza, I think you are confusing between the competitions.

Shiv Sheth: Our size remains the same at the same price point?

Ravi Gupta: Right.

Shiv Sheth: Sir, about the same-store sales growth, you are still guiding for 8 to 10% kind of same-store sales growth run rate for the full year. For that we probably have to grow at close to 11 odd percent for the next three quarters on an average. So given the weak macro conditions, do you think that is something which is achievable for this year?

Ajay Kaul: We did try to answer this question a little while back, again, let me kind of for your benefit give two statements; one is qualitative, we do believe that since the category that we are in is typically very impulse, low ticket, the outlay of any transaction is around 300, 400, 500 rupees at best. We do believe that and there is evidence from the past also when we go back five years, Lehman Bros. crisis and so on, within six months the situation just turned on its head. Now I am not saying that Lehman Bros. at that time and the situation we are in right now are akin or they are similar, but the consumer sentiment, it does not hold them too long away from such small value transactions. They may defer the capital expenditure endlessly like buying a fridge or whatever, car or something, but not these. Still a qualitative statement is that within this quarter, which is Q1, while we have done 6.3% same-store growth, June has been better than May, May has been better than April. So we do believe that this also is some indication of how things are and a shape of things to come.

Shiv Sheth: Sir, you all would not like to comment on the volume growth for this quarter, same-store sales?



- Ajay Kaul:** Invariably, if you look at the last few years, our volume growth lags our revenue growth by a few percentage points. So even this year there is a small difference between our revenue and volume growth without actually getting into numbers. So there is that growth, but it is lagging the revenue growth.
- Shiv Sheth:** Any price hike undertaken in July for Pizza?
- Ajay Kaul:** Not in July, but we took a price hike in the month of June, it was a nominal 2.5 to 3% price hike and why we take small price hikes is because we realize that they do not have, we believe, any untoward impact on the consumption patterns or the consumption behavior.
- Moderator:** The next question is from the line of Vivek Maheshwari from CLSA, please go ahead.
- Vivek Maheshwari:** Your statement June is better than May, and which then is better than April, but this is exactly opposite to what even staple companies are saying, where the ticket size is far lower than what Domino's Pizza ticket size is. So why such a difference between this trend and that trend?
- Ajay Kaul:** We have no answer to what is happening in the staple industry, we are giving you some data points of our industry, and that is giving us confidence.
- Vivek Maheshwari:** Ravi, on the Dunkin' bit, 100 basis points margin impact, do you think you will be able to cap it to 100 basis points in fiscal 2014 or there is a possibility of this inching up further, the negative impact?
- Ravi Gupta:** I think it will remain around the same ballpark, maybe another 10 basis points here and there.
- Vivek Maheshwari:** Gross margins will have a benefit of service tax, or that will be captured in other heads?
- Ravi Gupta:** It will be captured in respective heads actually, where the service tax is levied.
- Vivek Maheshwari:** Which we would have taken the credit of?
- Ravi Gupta:** You are right.
- Moderator:** The next question is from the line Arnab Mitra from Credit Suisse, please go ahead.



Arnab Mitra: My first question is on all the new products, which are not in the pizza segment. So how large is this non-pizza, if I may call it in terms of revenue for you and is it growing faster than the pizza segment and anything here that really looks promising to you in terms of which can become big product going ahead?

Ajay Kaul: This is clearly growing very fast, and qualitatively speaking faster than Pizza, I would argue, because their percentage representation of the total portfolio is increasing. Now, this trend started not now, but I would say three or four years back, when as a part of our strategy we got first into sub-categories like pasta, we added a couple of good desserts to our portfolio like Choco Lava cake and Mousse Cake, and subsequently, we also brought in some products only for our dine-in business. So the percentage growth has been higher than pizza and they are doing exceedingly well, but at the end of the day we are a pizza company so our pizzas has a still lion share of our total portfolio. Amongst these products there are some outstanding winners which also in terms of margins, in terms of profitability and all that are doing very well. So we will continue them on our menu and we will also continue replacing some existing ones and giving newer and newer news to our consumers because our consumers like new news. Like we do in pizzas, we keep launching new pizzas, similarly in the sides we will keep launching them, so that is basically the story.

Arnab Mitra: Just would the share be less than 10%, just to get a very broad sense of how much they contribute?

Ajay Kaul: No, it is not less than 10%.

Ravi Gupta: Pizzas are still occupying the lion's share, it is between 75 to 80%.

Arnab Mitra: Coming back to the employee cost question that was raised earlier, so I understand that salary hike a bit, but if I look at the last 4 quarters, where you have added so many new stores, why is the employee cost kind of sticking around, is there some kind of better utilization of existing manpower or is it just incentives not getting done?

Ravi Gupta: We have a strong variable incentive scheme and since the same-store growth was lower than what our estimate was, so variable incentive was low.

Arnab Mitra: In terms of the slowdown, are you seeing lesser in terms of new consumer requirement, in terms of people who are for the first time coming into your stores, has that been hit more, or is it the existing consumers who's growth has been hit more, if you could qualitatively comment on these two?



- Ajay Kaul:** It is kind of equal, as we have said for four quarters now, we are getting new customers, we are also trying to improve frequency of consumption in existing customers, but the slope of that line actually is reducing, if you understand technically what I am saying, that the rate of acquisition of new customers and the rate of increase of frequency is not as much as it was a year back, and this is a trend now for almost four quarters. This was one of the first signals we saw of drop in consumer sentiment.
- Arnab Mitra:** Right, your EBITDA margin guidance remains at 16.5% for the full year?
- Ajay Kaul:** That is right.
- Moderator:** The next question is from the line of Rahul Bhangadia from Lucky Investment Managers, please go ahead.
- Rahul Bhangadia:** I just needed two things; one is, the average operating number of stores in Q1 FY14 was roughly about 24% higher than Q1 FY13 but the rent cost went up by about 40%, how do we understand that?
- Ravi Gupta:** The rent cost has five, six reasons for growing up, let me take it one-by-one, rent has a normal inflation, that is first and foremost, which is like typical inflation, which is built in all the agreements, around 15% every three years, that is one factor. Second factor as you already mentioned are the new stores which are getting added. Now when new stores get added, since their efficiencies are lower, they are at 70 to 80% of sales level as compared to the system average that is why in percentage terms, the rental increases.
- Rahul Bhangadia:** No, my question is only on the absolute terms?
- Ravi Gupta:** Third factor which comes in, expansion of the stores, because when the volumes goes through the roof, we need to expand the store, we need to take extra areas or we need to relocate the store. That is the another factor, fourth factor comes as certain stores has a variable rental, which means they will go purely in line with the growth in the sales which we have.
- Rahul Bhangadia:** What percentage of stores would be with that particular arrangement?
- Ravi Gupta:** We typically do not share this number. The next reason is, two commissaries which have come in operation from the fourth quarter last year, so their rental is also included in this figure. And last is, the Dunkin' Donuts typically has a higher rental as compared to the Domino's, both in percentage terms as well as maybe in absolute also, because of the



difference in both the models., Dunkin model is a footfall-driven model so the store has to be like on high street or maybe in the mall, where typically rentals are higher. So there are five, six reasons for the rental to grow faster than what absolute numbers suggest in terms of number of stores.

Rahul Bhangadia: While I completely appreciate all these points, what I was trying to get to is, at 24% extra stores, we are at 40% extra rent, so there is a big gap of 16% and the fact that this particular phenomenon is not for this particular quarter or last two to three quarters, this has been around for four, five years, where the number of stores went up by 20 to 25% but the rent went up by 40 to 50%. Now even if we assume that 15% every three years is the increase in rentals, it is hardly 5% p.a., whereas the difference between the number of stores that you add and the way the rent goes up is almost double, it is 20 to 25 and 40 to 50, so I was just trying to get a sense of that?

Ravi Gupta: I shared with you a number, and all the reasons why the rental goes up.

Rahul Bhangadia: How much CAPEX would you have done in the first quarter?

Ravi Gupta: Actually we have not done a huge CAPEX, for the first quarter, it is around Rs.30 to 35 crore.

Rahul Bhangadia: And you stand by the full year CAPEX guidance of Rs 250 odd crore?

Ravi Gupta: Yes, basically more the CAPEX is more for the commissaries which is like we have said, Rs. 50 to 60 crore we will spend, so there is one segment we spent around third quarter before December, we prepare our stores for the larger volumes to have the high volume mentality for December month, so that expenditure gets incurred in Q3 itself. So we are on plan, we should be spending around Rs. 250 crore.

Moderator: The next question is from the line of Mr. Riken Gopani from Infina Finance, please go ahead.

Riken Gopani: Firstly, on the same-store sales growth itself, what percentage of our older stores, if you could just qualitatively help me understand fall into flat territory or are not growing, and how has that proportion changed over the last say two to three quarters?

Ravi Gupta: I am sorry Mr. Gopani, we do not share this information, but I will tell you the reasons why some stores move into negative territory because we split them, there is an impact of splitting. So practically we have seen if we do not split the stores there is no significant variation in the same-store



growth because older stores have this tendency of getting split and there is a competition store also getting opened next to it, for some time the same-store growth gets impacted, otherwise if we take out those two factors out, no significant difference in the same-store growth across the stores.

Riken Gopani: Even the older stores are still growing at the proportion the stores which would have opened recently in the last one year or two years?

Ravi Gupta: There is no significant difference in them. But those two factors you have to keep in mind.

Riken Gopani: Could you share the proportion of stores now which would be in split, in our total store count?

Ravi Gupta: Sorry, we can't share this information. But I can give qualitative information, all the stores in the metros and cities where we have more than one store, practically will have some kind of splitting. In metro stores definitely the extent of splitting could be larger, because we are already covering significant areas. In cities where there are only two or three stores, or five stores, the extent of splitting could be lower. And what we have been saying this, out of all the stores we open, about half of the stores will be opening in the top ten cities. So qualitatively you can say that for those stores definitely there will be some element of split which will be there.

Riken Gopani: And in terms of the store opening guidance, that still remains at the same number or is there an increase?

Ravi Gupta: Definitely, there is no increase, we are fairly confident of achieving this 125 number for Domino's and 18 for Dunkin' Donuts.

Riken Gopani: Could you share the cash number at the end of the quarter?

Ravi Gupta: We had around Rs.150 crore at the end of the quarter.

Moderator: The next question is from the line of Pulkit Sinha from Tree Line Investments, please go ahead.

Pulkit Sinha: I just wanted to understand from a four to five years perspective and in this year quite clearly you are going to be utilizing all the cash for building commissaries but this is from a four to five year perspective. So you are going to then start accumulating cash, you will have free cash flows, etc. so what would be the strategy for that cash going ahead I mean are you going



to purchase properties or are you thinking of starting a new line of business of your own or maybe a tie up with some MNC outside?

Ajay Kaul: Without trying to kind of conjecture too much we would say that clearly, growth within these brands in India is going to take a lot of this money. And that is our first priority. Apart from that, yes, we are constantly evaluating other brands whether these are international brands we are in discussion with them. So as and when that happen they will again entail a bit of investment so that is what is the way we would like to answer this question and this is for the next one or two years perspective. And the way the dynamics are, you will never know for change, but getting into some unrelated areas of business which you were just mentioning is clearly not what we want to do.

Pulkit Sinha: So you would not try to start off your own kind of brand, you will always look at trying to be with someone?

Ajay Kaul: Without kind of giving a very direct answer to that question all these options are being considered as we speak, none of them are at a place where we can actually confidently say that this is what we will do but rigorous internal discussions, strategy meets and all that, we keep doing, we will be having these discussions, so international brands bringing them to India and maybe even looking at creating our own brand.

Pulkit Sinha: My second question is more trying to understand these two particular costs, that is power and fuel and freight and delivery expenses. Could you help me understand, for instance the petrol used in the delivery bike which categories is that coming to, for instance, the diesel used for instance from the trucks that is delivering from commissaries to your stores where is that going into ?

Ravi Gupta: The delivery costs include two kind of costs; one is delivery from commissary to the store, all the foodstuff and also includes cost of delivery from store to consumers which is the petrol costs in the bikes. So these are the two costs in the delivery cost, and in the power fuel we have electricity, diesel we use for gensets and then we have LPG also there.

Pulkit Sinha: So because on a per store basis the power and fuel has been growing at like from FY11, '12, '13, 17%, 14% and then 25%. What would be the reason and how do you expect that to go ahead in the next one two years how do you see that?

Ravi Gupta: As far as electricity is concerned you might be aware that there is a good amount inflation which is there. Across the states inflation has been



double-digit going maybe 12% to 15% in some year, maybe 20% inflation is also there in the electricity cost. LPG prices are linked to the market when the dollar goes to Rs.60 and the oil prices also goes up, LPG prices also shoot up because we are buying the commercial cylinders, where there is no subsidy which is involved. So as the prices keep on fluctuating the impact of inflation gets reflected on as I said.

Pulkit Sinha: And lastly on the freight and delivery expenses do you actually expect to benefit because of having more stores now because of splitting of stores obviously there is negative impact on sales but are you also seeing positive impact on this line item?

Ravi Gupta: As far as the petrol cost is concerned the more we split the stores the distance to the consumer keeps on getting reduced. So per delivery there could be positive impact; however, because of petrol cost are going up right now it will not be visible at all. When the petrol cost stabilizes or reduces or something like that obviously then there should be positive impact. As far as logistics is also concerned which is from commissaries to stores that also as we open more number of commissaries there will be efficiencies which will be coming like after we opened our Mohali commissary. So whatever stores come up in upcountry north the logistic cost gets reduced for them.

Moderator: Thank you. The next question is from the line of Niraj from BNP Paribas. Please go ahead.

Niraj: I can understand the macro is down and the competition is heating up and our focus is more on the growth part. But as whatever I am seeing in the media campaign and whatever promotions you are doing it is about gaining more and more. Sir, what about the existing client base? We have a huge client base. Do we have any strategy where we are planning to do more on the client mining like we have some loyalty schemes and loyalty programs and other things?

Ajay Kaul: The amount of analytics we use in our business to do data mining and throw the right kind of offers at our existing consumers, when ticket sizes are just Rs.300-400, it is my submission that there will not be very many companies who do that kind of analytics without trying to sound boastful. So be rest assured that at the ground level every single consumer is like a data point for us. It is not a clustered approach that we follow or many analytics companies follow. Every single customer is like a data point and we throw offers which are most suitable for them based on whatever, predictive modeling and so on. So it is happening. Specifically talking about these loyalty kind of things, we do not have a loyalty program because we



believe unlike certain categories where loyalty programs do well, ours probably is not. But being a part of a larger aggregated loyalty program where there are multiple partners and various buy burn and earn kind of options we are ideally suited for and that is what we are aligned to; we are already part of a couple of such programs and that is giving us good results.

Niraj: How do you see the trend going forward, do you still think that the absolute amount growth could be higher than the store addition for the reasons that you have mentioned?

Ajay Kaul: I think those reasons are likely to continue.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities, please go ahead.

Binoy Jariwala: How much of the slowdown in the same-store sales growth is due to macroeconomic conditions versus the splitting of stores where you have mentioned about 80, 90% is attributable to macroeconomic slowdown? So you've maintained that the new stores that are coming up are typically opening at 70, 80% kind of sales at system sales level which you had maintained earlier also? So in case of macroeconomic slowdown why shouldn't this particular number be suppressed? And therefore I would want to think that probably more of the slowdown in the same-store sales growth is due to splitting of stores, can you throw some light on this?

Ajay Kaul: Splitting of stores is a phenomena we have been watching like hawks for years now, it is an integral part of the retail business anywhere in the world. And we know how much that is because we have control groups, we have control groups of five types so we can de-layer that or deconstruct that very, very easily that number is not changing my dear friend. That number is exactly at the same place where it was a year back, two years back and all that. So there are reasons for us to believe that it is not same-store growth splitting and we have been saying this for four quarters now where we could clearly see this downturn coming and it is reflecting in the overall same-store growth number.

Ravi Gupta: But to add to what Ajay has indicated, what happens is when same-store growth is down for the same stores, it also has an impact on the system average sale because that average also does not grow by same number, as a result the new stores keep the same momentum. Second aspect which Ajay has earlier mentioned in his remarks that new cities specifically when we are entering there is a huge pent up demand we are observing and that gives us confidence to enter into new cities as well. So both these factors



are basically indicating that right now we will probably remain in the 70, 80% space.

Binoy Jariwala: I am actually arguing on the absolute number of the sales per store not the growth number, I understand let us say on a base of 100 if the same-store sales growth is 5%, so the sales figure is 105 and therefore the new store opens up at 70, 80% of that but that is still higher than the 70, 80% of 100 figure. So had there been significant macroeconomic headwinds probably you could have seen a much more suppressed number?

Ajay Kaul: We do not know that if there would have been a suppressed number and what that would have been. All we are saying is that new towns actually where we are opening, in those towns despite of what may be happening in the macroeconomic environment, you know that one mall and that first multinational food brand and Domino's Pizza which they have been seeing over the years on TV delivered at home, all that is such a big talk in the town that all the pent up demand, the latent demand call it led by aspirations, call it led by small town mentality, call it whatever is clearly showing us trends which are defying gravity, in this case gravity being the downturn that is what our submission is. We are seeing it more in the last four, five months than we have seen it in the past. So that is giving us confidence on the growth story and we are going to run after that.

Moderator: Thank you. The next question is from the line of Subramaniam PS from Sundaram Mutual Funds please go ahead

Subramaniam PS: My query was on your opening of stores in new cities, if I just look at some longer term trends say over the past three or four years, what we see is that lot of your growth is actually coming from increasing density of stores rather than getting into new cities. I appreciate that you are getting into another 15 cities every year but if I just look at your stores per city, that number seems to be going up over the past two years and it is actually a reversal of trend because prior to that that number was actually coming down. So just wanted to understand in terms of the potential for you to get into more cities, is that kind of slowing down?

Ravi Gupta: We have been entering about 15 to 20 new cities every year and if you look at the last four years, also I think the trend has continued. In the first quarter also we have entered five new cities. So as of now in our list there are about 40 to 50 potential cities where we can enter. Our team keeps on doing recce and at an appropriate time we plan to enter those cities but as far as one year is concerned, we consider as I think 15 to 20 cities is a ballpark number for this year also you can expect.



Moderator: Thank you. The next question is from the line of Rahul Bhangadia from Lucky Investment Managers, please go ahead.

Rahul Bhangadia: Sir if you could just give us a sense of what would be the average size of stores and maybe the top 10, 12 cities and the average size of stores beyond that?

Ravi Gupta: Rahul, what we can share with you is the average size is around 1500, 1600 sq. ft. at the system level that is the range. Splitting between top 10 cities and other cities will not be feasible for us although we have all the information.

Moderator: Thank you. The next question is from the line of Sunny Agrawal from Aditya Birla Money please go ahead.

Sunny Agrawal: Sir, just want your perspective on if we are splitting the store, I mean the main objective is to take the load out of the main one store located in a particular locality, are we thinking on a line wherein we set up only a delivery centre which is located not on a main street but in some arterial area of that particular locality wherein you will take only order but walk-in customers are not entertained so that you save on the rent and probably improve the efficiency?

Ajay Kaul: We evaluate all types of models and yes, what you are saying is also something which we consider, but what we see is that the rental differentials do not actually substantiate or make a strong case for building these kinds of stores. And as we have always maintained that return on investment payback periods is so sacrosanct for us that anything which does not measure up we are not interested in. So we sometimes do split the hair too much but that is only for the benefit of the business because whatever model, whatever tweaking we do and it gives us the best return, is what we are interested in.

Sunny Agrawal: Are we looking on this line to adopt so in that case?

Ajay Kaul: We have always considered this.

Moderator: Thank you. Ladies and gentleman due to time constraints no further questions can be taken I would now like to hand over the floor back to Mr. Ajay Kaul for closing comments. Over to you sir.

Ajay Kaul: Thank you very much for joining us today. It is our pleasure to interact with you every quarter. Should you have any further queries please do get in touch with us and we would be happy to respond to that.



Ravi Gupta: Thank you.

Moderator: Thank you. On behalf of Jubilant FoodWorks Limited that concludes this conference.