Q1 FY2012 Investors/Analysts Conference Call

August 12, 2011

Urvashi Butani: Good evening ladies and gentlemen. Welcome to Jubilant FoodWorks conference call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights for the quarter ended June 30, 2011. I have with me on the call– Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks, Mr. Ajay Kaul - CEO and Mr. Ravi S. Gupta – CFO. We will commence the call with comments from Mr. Hari Bhartia and Mr. Ajay Kaul followed by Mr. Ravi S. Gupta. After the opening remarks we shall open the call for a Q&A session, where the management will be very glad to respond to any queries you may have. I would like to mention that certain statements that may be made or discussed on the conference call may be forward looking statements. The actual results may vary significantly from the forward looking statements made. The Company does not offer to update them publicly to reflect changes in performance. A detailed statement in this regard is available in JFL's Q1 FY2012 release which is available on the company's website–under the investors section. I would now like to invite Mr. Hari Bhartia to commence by sharing his views on Jubilant FoodWorks performance for Q1FY2012

Hari Bhartia: Thank you Urvashi. We are very pleased to report healthy profits for the first quarter of this fiscal, based on our solid financial and operating performance all around. We continue to witness a very healthy trajectory in our growth on the back of a very robust business strategy and a strong model which we have nurtured and developed over the years. Jubilant Food Works has invested resources and time to build really a complete and holistic business model and a very strong dedicated team which today stands as our credentials. We are optimistic about our plans for both Dunkin' Donuts and growth potential for Domino's Pizza. We will continue to do our best to further capitalize on our strength and I am really confident that Jubilant FoodWorks will enjoy continued growth for the remainder of the year. My colleague Ajay and Ravi will now provide you the detailed view of our results and a perspective on our story and other key developments so far. Thank you very much.

Ajay Kaul: Thank you Hari. A very good evening and a warm welcome to all present here with us. We are very pleased to deliver to our shareholders another quarter of solid revenue growth and profitability. Our Total Income for the quarter witnessed a 60% growth as compared to Q1 FY2011 to stand at is Rs. 2,169 million. Our Net Profit for the quarter was at Rs. 231 million up by 51% as compared to the same period last year.

We believe that the expertise that we possess and our deep domain knowledge remain un-matched. We are confident that our acknowledged position as a leading player in the food service industry will enable us to capitalize on the immense unlocked potential the sector presents. Our growth strategy has been focused intensely on extension of the Dominos Pizza network and towards the development of our recent initiative Dunkin' Donuts to seize on emerging and faster growing opportunities in the food service sector in India.

Our success reiterates such core business philosophies which remain well aligned to the consumer sentiment and industry dynamics. As discussed with you at the end of the fiscal, we had set a target of opening 80 stores in the FY2012, of which we have successfully opened 14 new stores in this quarter and our total presence has now spread across 93 cities in India with a total of 392 stores. During this month, we also plan to launch our maiden store in Sri Lanka under our subsidiary Jubilant FoodWorks Lanka Pvt. Ltd.

On the product front our commitment towards innovation and our desire to create new experiences for our customers remain strong. During the year so far we successfully launched side orders such as “Chicken kickers” and “Butterscotch Mousse cake”. We have received positive response and appreciation for both of these new products and are confident about their success going forward.

We are pleased to share with you that we have won the Gold Award in the category of “Family Restaurant” in the Reader's Digest Trusted Brand 2011 survey. We also have been awarded as the best managed company in India - small-cap, for year 2010 by "Asia money".

We are also very keen on the broad progress we are making on our strategic initiating with respect to Dunkin’ Donuts. As many of you may be aware, we would be catering to the all day part food segment which we believe is an attractive opportunity and has tremendous potential to grow. A systematic approach is one of the key thoughts for any of our business initiative, and thus at present we are focused on creating the foundation for a sustainable brand launch.

This will imply creating synergies for existing facilities, setting up of manufacturing facilities, supply chain competencies and processes and local vendor development along with a keen focus on development of the product offering suitable for Indian taste buds. Our store rollout for Dunkin’ Donuts will also be in a phased manner and we expect to launch the first Dunkin’ Donuts store in the first half of calendar year 2012 with the initial progress on network cities.

We are on pace for a year of solid performance this fiscal too. With our track record for execution, established leadership position and powerful brand we possess distinct competitive advantages and move forward confidently to position Jubilant FoodWorks for a sustainable profitable growth over the long run. That brings me to end of my remarks; I would now like to hand over to Ravi Gupta, our CFO for a detailed financial review of our performance.

Ravi Gupta: Thank you Ajay, and once again, a very warm welcome to all present on this call today. We reported a healthy set of numbers for the first quarter of FY2012. Successfully executing our growth initiative, our total income for Q1 FY12 was at Rs. 2169 million registering an increase of 60% as compared to Rs. 1355 million in the corresponding period last year. This increase was led by the increase in our stores across the country and also on account of increase in orders received. We would also attribute a certain extent of this growth to our newly launched products. Moreover, we are also witnessing incremental benefits of the online ordering initiative and the national single number that we have undertaken for the Domino’s Pizza.

Our same store sales growth for Q1 FY12 was at 36.7% as compared to 37% for Q1 FY2011. EBITDA this quarter was at Rs. 413.9 million compared to Rs. 251.4 million in the same. While our EBITDA margins were at 19.1% as compared to 18.5% in Q1 FY2011. Finally we witnessed a healthy profitability in the quarter with the PAT at Rs. 231.7 million, an increase of 51.6% as compared to Rs 152.8 million in Q1 FY2011.

Thus our efforts are focused on ensuring that we drive our sales with high levels of quality and service and that our cost structure is an optimal one, in order to drive profitability which is sustainable for the long term.

As we progress, we continue to scan the environment to open new Domino’s Pizza stores with the right economics and at the right locations. Momentum in the expansion of Domino’s Pizza remains solid and this quarter we set step in 3 new cities and are now present in total of 93 cities across India with a network of 392 stores. We expect to expand in to more cities in the coming quarters.

On the other hand we are investing our resources; time and effort to create a solid base for Dunkin’ Donuts too and are currently also committed to develop product offerings to best suit our customer’s and preferences.

The macro economic scenario presents certain cost lead challenges. However, we stand to benefit by the economies of scale and operating efficiencies that we have built-in our business models. We remain committed to optimizing our cost containment practices across each area and level of business to drive continuous positive financials.

Thus as JFL grows, we will continue to invest, innovate and remain focused on providing the best possible experience to our customers while delivering greatest returns to our shareholders. We would now request the moderator open the forum for a question-and-answer session where Ajay and I would be glad to address any queries that you have. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Rahul Bhangaria of Lucky Securities, please go ahead.

Rahul Bhangaria: Sir, what is typically the Capex per store that you incur whenever you open a new store?

Ravi Gupta: Capex is about Rs. 8 million per store.

Rahul Bhangaria: And the other thing is, I just wanted to know a little bit about your supply-chain backside. From whatever I can see in the latest annual report, roughly 40% of your raw material is cheese and 15% -20% is bought outs maybe soft drinks and the remaining 40% is vegetables and other stuff that you buy. Is that correct? What I want to understand is, your creditor days are reasonably high almost close to six months. So what kind of supply-chain do we work with, just trying to get a sense?

Ravi Gupta: Where Supply-chain operations are concerned, we are centered around four commissaries. The basic objective of the commissary is to manufacture the base of Pizza and they act as a ware house for the rest of the ingredients. The stores are not authorized to buy any material directly from the market; all the ingredients are supplied from commissaries. This gives us a negotiation power because we buy in bulk and it also helps ensuring consistency in the quality of the product. Now the way to look at the creditors days is not by dividing only raw material and looking at total creditors because we get credit on all the services whether it is a service like security service, LPG, petrol & everything else which we buy, we buy on credit. So you have to consider all the expenses, and not raw material alone. If it is raw material then the credit period will be ranging anywhere from 30 to 60 days. So when we apply the total expense then you get the right number.

Rahul Bhangaria: So you are basically suggesting that a lot of other expenditures exist & you are basically getting those credits for them?

Ravi Gupta: Yes, actually all the expenses for that matter. Our business is a cash business. We start receiving the money from the consumer from day one and whereas all the expenses which are there even starting with the salaries also, they get paid at the end of the month or after that.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda of Emkay Global, please go ahead.

Pritesh Chheda: On the Sri Lankan operations side, could you tell us the potential that this market can have in terms of store additions over the next three years prospective and what one should consider in the year one in Sri Lanka?

Ajay Kaul: In this month itself we should be opening our first store. We plan to open around three stores by March 2012. There is no doubt that Sri Lanka is now clearly looking northward in terms of its consumer sentiment, optimism and overall economic vibrancy. We do believe that over a 5 to 6 year period, we should be able to open 25-30 stores there. The moment you compare, the way India is growing you may always feel that it is going to play a very small role and that probably is true but in its own right, I think it has got a potential.

Pritesh Chheda: Do we have the franchise for Bangladesh, Nepal and Pakistan?

Ajay Kaul: That is right but not in Pakistan.

Pritesh Chheda: In Bangladesh and Nepal when do we think we would start operations?

Ajay Kaul: In Bangladesh we have already made some headway with respect to doing the groundwork, understanding how the market is, and that market actually looks pretty optimistic. We believe that during the course of next financial year, I cannot give you a certain date or something on it, we should be opening our first store in Bangladesh.

Pritesh Chheda: And Nepal?

Ajay Kaul: We do have the master franchise in Nepal also. I would say however that Nepal is not immediately on the center of our radar screen because we believe that the potential in Nepal is quite minimal. And we will look at Nepal only once we have kind of consolidated or should I say have created good operations in both Sri Lanka and Bangladesh.

Pritesh Chheda: Do Sri Lanka and Bangladesh have any of the Pizza chains operating there?

Ajay Kaul: Indeed. Sri Lanka has got Pizza Hut and so has Bangladesh.

Pritesh Chheda: On the India operations side, we are now present in 93 cities. Can you help us map out the additional cities in terms of a count that Domino's is looking over the next three years perspective?

Ajay Kaul: In the last three years, ever since we decided to move into the hinterland of the country, more aggressively, we have entered as many as 50 cities. Between Q1 of last year to Q1 of this year, we have entered 19 new cities. We have mapped out at least another 40 to 50 cities in India which are at obviously different stages of evolution, size and consumer sentiment and so on. But we believe that all of them are in a state to take at least one Domino's store. But let me also tell you about our experience with the new cities that we have entered. More often than not we have got some pleasant surprises in these cities, with respect to the pent-up demand with the inherent consumer sentiments which all translates into the business they generate. So all of us are pretty optimistic about even these next 40 to 50 cities and we believe they have a lot of potential to offer. And the last statement on this question will be, that the rate at which consumers seem to be imbibing or adopting pizza product, there is room for opening one more store in the cities where we have entered for the first time may be a 1-2 years hence. So with every passing quarter there is an additional potential that comes out of the cities and you are well aware at the pace at which the metro cities and the A class cities are growing.

Pritesh Chheda: So you are indicating that the new cities where you have entered there can be a potential of more than one store that can be possible in the near future?

Ajay Kaul: Indeed, cities like Vizag where we entered in quarter one, now you may argue that Vizag entry was a bit late and I must admit that was due to the supply chain challenges, it is a little in the middle of nowhere. Approaching it from Bangalore is a challenge and even from Calcutta. Vizag clearly could have started by having two or three stores, it is a city of that size. Like we entered Patna, Bhubaneswar city last year which again are clearly on day one itself are more than one store cities. But there are others where once you do the basic category development work, they get to know what delivery is, what a pizza is, while they have seen the advertising and so on. In a very quick span you realize that there is a potential to open one more store.

Ravi Gupta: To add to what Ajay is saying that there are about 53 cities right now, which are single store cities. All these cities at some point of time will develop potential or they already have a potential to add another store.

Pritesh Chheda: On the same store sales growth side we have recorded 37% in the quarter now. How do you think indicatively the year should now pass out on this particular figure?

Ajay Kaul: It is very good number. It gives us a lot of joy. At the beginning of the year we had said that this year we are confident of achieving around 20% same store growth. With a start like that we believe we'll definitely do more than 20%.

Pritesh Chheda: On the operating leverage side you tend to surprise every quarter, so how much is there in the system which can be tapped if one has to know that?

Ajay Kaul: There is no definite answer to how much is still left there but there are definitely leverageable pieces left there which can be, till the point we are able to generate enough same-store growth, and clearly 37% kind on numbers go a long way in helping the cause, we believe, we should be doing better than the 17.7% EBITDA margin that we delivered last year.

Ravi Gupta: Just to add to what Ajay has said, the ratio of the old store to new-store keeps on improving, margins will be better as a natural consequence of more mature stores in operation. And SG&A would continue to provide additional leverage to help improve the margins.

Pritesh Chheda: Is 19% an indicative number which we have in the Q1?

Ravi Gupta: I do not think that we should see this as a benchmark kind of a number. But what we can say is that definitely we would deliver better than what we have delivered last year which was 17.7%. We will deliver better than that definitely.

Ajay Kaul: Also we could add a concluding thought on that. The place where we are currently in terms of growth, we intend adding 80 stores this year, we added 72 stores last year if you recall. We are obviously investing a lot on people. We are a poaching ground for all other companies because none of them grow at the same pace. So human resource continues to be a challenge. All the investments will happen now as we speak. So as much as you would have witnessed last year that in the Q2-Q3, the human resources, the personal costs actually were eating a bit into our margin. So that investment had to be made as we are growing at the pace. But we believe that on a full-year basis compared to 17.7% last year, we should deliver a number better than that.

Pritesh Chheda: My last question is to Mr. Bhartia. This model is generating substantial cash flows now. Have we formulated a dividend payout policy?

Hari S Bhartia: No, the way I answered it last time also**,** that we want to watch till the end of this year. At this moment we are also trying to accelerate the implementation of Dunkin' Donuts, which would really start from the last quarter effectively. And I think the Company would need to take a call at the end of this year in terms of how fast we want to grow in both the brands in India as well as outside India like in Sri Lanka and Bangladesh. Based on the total capital requirement and the excess cash that we are generating, I think we should be able to take a view as to what should be our dividend policy. And we will share it with you before the end of this year.

Pritesh Chheda: Mr. Kaul, if you could tell us the Capex requirements for this year and the following year?

Ajay Kaul: I will not be able to specifically comment. Last year we had spent around Rs. 70 crores of Capex, which has gone into building 70 stores which we have created last year and additional investment in existing stores. This year our target is to open 80 stores. Additionally, we are planning to relocate our factories or commissaries, in Mumbai as well as in Kolkatta. And we also plan to make one new commissary in Chandigarh. And over and above that is obviously the maintenance Capex and other requirements from IT. So we believe that we should be spending substantially more than last year on Capex for Domino's alone. Additionally there will be an amount which we will spend on Dunkin' Donuts. Because the capital expenditure will have to be incurred now on the base we are trying to build and some of the stores that we will try to create. So the capital expenditure this year would be significantly higher than last year.

Pritesh Chheda: If you could tell us some indicative idea, how much typically is the maintenance Capex that you incur per stores, that is the figure?

Ravi Gupta: It depends on the age of the equipment and what is the lifecycle they are in. Bikes they will be five years, the air-conditioner would be replaced every 7 years. The major renovation taken place for the store after 9 to 10 years when their lease expires or we may decide to relocate the stores. So it depends on the age classification or the age profile of the assets at that point of time and based on this we take a call on the maintenance Capex.

Pritesh Chheda: And relocation of the commissary and the new Commissary, what is the expenditure there?

Ravi Gupta: Commissary typically costs between Rs.6 to 11 crore depending upon the size.

Pritesh Chheda: And the commissary would be Rs. 6 to 11 crore..?

Ravi Gupta: Rs. 6 to 11 crore depending upon the size of the commissary and the size of the commissary could range from 50 stores to 250 stores.

Pritesh Chheda: Lastly what would be the Dunkin' Donuts Capex that would be incurred initially on the set up?

Ajay Kaul: We are still in the midst of working some of these plans out. I presume by the next quarter when we meet again, we should be in a better position to share some of these numbers with you.

Moderator: Thank you. Our next question is from the line of Jaibir Sethi of CLSA, please go ahead.

Jaibir Sethi: Two things which I wanted to check on. First, we have been hearing from a lot of discretionary spends from consumer companies that there have been some signs of slowdown particularly in June-July, they are increasingly a bit less confident about the H2 of this year. Have you seen something similar in your business and what is your outlook for the next few months?

Ajay Kaul: We should not be commenting about this quarter because we are already sitting in it. But honestly we are not seeing in terms of order counts any statistically significant movements, coming out on June into July. While we also heard similar things, but in our business we have not seen it, as we progress we will get to see and hear and learn more about it.

Jaibir Sethi: Does the lack of sporting events have any impact at all or is it just a normal course of business for you?

Ajay Kaul: Sporting events like if you go into March-April-May this year, then there was initially the World Cup and thereafter we had the IPL Clearly that has got a positive impact on our kind of business. Any other sporting event like an Olympics or World Cup football has a marginal impact. But the interesting thing is that we always compare business YOY which is in terms of same-store growth and so on. So IPL normally happens almost at the same time of the year every year. So comparisons become easier. If you're looking at July, and if you're looking at the last quarter, let us say April-May-June, we did a 37% growth this year over last year, but there was also IPL last year. World Cup final was on 2nd April, so to that extent the impact of World Cup in this quarter was little. So to answer your question in a very straightforward fashion, sporting events, especially cricket do have an impact, but YOY as far as we are concerned does not show because IPL was there last year also.

JaibIr Sethi: The other thing which I wanted to check was you had the Rs. 300 million of inter corporate deposits at the end of FY11. Just wanted to know a status update on that and has there been any addition to that number or deduction from that number since then?

Ravi Gupta: There is no addition or deduction in that number, that money was given for one year and we are committed to bring it back after one year.

Jaibir Sethi: So no additional ICD's?

Ravi Gupta: No.

Moderator: Thank you. Our next question is from the line of Manoj Menon of Kotak Securities Ltd., please go ahead.

Manoj Menon: Just a specific question to Ajay. If you could just help me understand any change in the consumer behavior you would have observed over the last let us say two years. Obviously considering that it is a 20% CAGR to SSG and stepping up to 40% currently. Something would have obviously happened at the industry level. Could you just walk us through because it is almost 2 years into, it is actually happening?

Ajay Kaul: As far as Domino's is concerned; I do admit that we have had a fantastic 2 year run, while we have done 20% same-store growth over a good 4-5 years period, other than the one year where there was a bit of a downturn where we did 6% same-store growth, we had been continuously doing 20%. In the last year we did 37% and this year 1st quarter is again 37%. So Domino's is having a good run. Now speaking about the industry, I think you have access to the industry numbers as much as we have, although there are no published AC Neilson kind of reports that come out. But we believe that the industry's same-store growth is far lower. So it is for you now to make your judgment in terms of what is happening in the industry and what is happening with Jubilant FoodWorks. Speaking qualitatively on consumer evolution, there is no doubt in the fact that year after year and if you go by any NCAR, NRS any such report, you would start seeing a statistically significant, shift on a YOY in a lot of parameters like ages at which people have started working to double income, no kids, to working women, the pocket money which kids have started getting, all these factors to my mind in some way are lending positively to discretionary spends on items like ours. What impact and to what extent at an industry level is for you to judge and I cannot quote any numbers unfortunately; but if you go by Domino's numbers clearly there is a lot of positivity in the last especially two years.

Manoj Menon: In that context that there is a trajectory of how the market share gains, that to a very strong market share gains, so in that sense the expansion of 80 stores planned for this year compared to let us say 70 odd in a couple of years, on a higher base, it seems to be a little on the lower side. So is there any reason why given this explosion in growth which is happening for you and maybe for the industry as well may be a little lesser, why only 80, why it is not in a much bigger number at this point of time with the evolution of the industry?

Ajay Kaul: If you have seen over the last 3 to 4 years, we have been stepping up our new store opening plans incrementally but the deltas have not been too large. We just ensured that for our incremental beefing up of costs, delta has not been that high, thereby not lending a big adverse impact on our EBITDA and PATs. If we had to kind of beef it up to. Let us say, to go to a number far higher than 80, we would have had to make a stepladder incremental cost to bring it into the system. We are cognizant of the fact that over the last three years, we have improved our EBITDA percentage from 12.6 to 15.6, last year we did 17.7. And we are answerable to our shareholders, we have to constantly deliver numbers so that is why we are looking at a number of 80. I must also admit that we are a company which believes in committing something and ensuring that we have fulfilled that commitment.

Hari S Bhartia: One more comment I would just like to add. Two things, (a) the more and more we are going into newer cities, you also have to incorporate infrastructure, whether it is people related infrastructure or support infrastructure on the backend side. So probably opening 80 stores three years back in less number of cities, to opening in newer cities and I think it does require operationally more management and control of costs. So I think to that extent we also try to maintain operational excellence, so that if you over expand sometimes you can lose that. (b) Secondly, on the same-store growth, we have had a great run this quarter and I think we will have a good run this year. But to some extent we also take that call because sometimes when store sales are extremely high, we also open other stores nearby. So while our total sales continue to go up the same-store sales may get affected because we want to capture a much larger market by opening a new store near an old store. So to some extent it is also based on the decision that we take of where we open the stores.

Manoj Menon: The only thought there was that given the status of competition, there is actually an opportunity to completely capture the volumes so that you grow so much so big that competition really does not really stand a chance. Just one last question, on the gross margins, what we saw in Nestle and Glaxo was a reduction in gross margins and they attributed that predominantly to the milk prices. Is it really the same and I was a little surprised, Ajay had come in the morning CNBC about that he is expecting inflation to accelerate, if I had heard him correctly on the gross margins?

Ravi Gupta: As far as the gross margins are concerned, I remember in the last call also, we had explained saying the gross margins have declined a little bit because the food costs have gone up. And considering that we have increased the prices in April itself, to take care of the inflation. Due to that our gross margins are kind of consistent and the food costs is at 25.5% same as last quarter. But what we believe is that prices of the milk specifically should stabilize. That is kind of estimates we have, although we have just heard last week that Amul has again increased its prices. So it can put pressure and that is the reason we have discussed earlier also that if we have to take another price increase also, we will review that.

Manoj Menon: The last question the 5% price increase in April, do we have the full impact for the quarter or it is only for a few months?

Ajay Kaul: Full impact.

Moderator: Thank you very much. Our next question is from the line of Rishi Maheshwari of Enam Asset Management, please go ahead.

Rishi Maheshwari: I would like to know your strategy on taking the franchise route over this. So far you have managed on your own but is it viable to give this to a franchisee given that your botheration and working capital will also get reduced. And can you monitor this and leverage in your brand strength at the back of the franchise route?

Ajay Kaul: When we embarked on our Domino's relationship 15 years back, the idea was clearly in the first 5 to 8 years to build a brand, to build the category and on our own and then thereafter to look seriously at franchising options. This is a trajectory which most Domino's countries or for that matter most brands take in any part of the world. When we reached that stage of around 60 to 80 stores, we realized that we had by then created a model which was robust enough to firstly, start being positive in terms of store profit, almost from day one. We have our internal norms in terms of how fast the store should pay back the capital investment that has gone into it and that is of three years. And we realized that were doing better than that and at that juncture nearly 5 to 7 years back, What also we realized is that in a country like India and I do not want to demean our own country here but clearly the sanitation and hygiene standards, overall, the human practices, and the quality standards in general, we did not want to leave anything to chance especially when in an evolution life you are trying to stabilize or establish a category. You did not want the consumers to enter the categories the wrong way, and where they would say this pizza tasted better than what it was last time or it tastes worse than it was doing last time. We wanted consistent quality, high sanitation standards and good human practices. And ever since we have been opening our stores we have realized that they have been paying back in less than what our internal norm is. We have created a machinery of training, operations, projects, Business Development and everything which delivers these 70 to 80 stores consistently year after year. And thankfully over the years, we also had the need for capital which could be another consideration why you sometimes do franchise, has also dwindled because today if you see we are debt free, we are cash surplus and there is no need for us to borrow money from anybody. Having said that we do constantly evaluate the franchising option. It is not that we have kind of put it on the shelf and we do not at all look at it and if at some stage we believe that there is a humongous opportunity & there are some compelling reasons, we may take the franchisee route but as of now our answer to the franchise question is what I just said.

Rishi Maheshwari: So what could be the humongous opportunity, and the compelling reasons which will make you look at the franchising route, is it the restriction of your own inability to venture in to a particular town or city or is it that the person whom you are giving the franchise has to be very strong franchise holder?

Ajay Kaul: One obvious example is we have two franchisee stores by the way and these are both at the airports. Now by laws of the land, the way it is structured with the airport owners we cannot on our own enter the airport. So it has to be through a what we call a consolidator or a food operator. So suppose there are humongous opportunities which emerge tomorrow let's say on highways, at airports and lot of other places where we have to necessarily go through some food operator. There may be lots of franchisee stores that may come up. But thankfully these food operators are known quality conscious companies. Some of them are multinational and to that extent some of the consideration which we have like sanitation and hygiene, human practices will not get compromised upon. Now outside of this, it is a hypothetical question, if somebody told us that there is a room to open 500 stores tomorrow in India and we know we can't open 500 stores in the next two months, we may take that route but it is a totally hypothetical question.

Moderator: Thank you very much. Our next question is from the line of Manav Vijay of Edelweiss, please go ahead.

Manav Vijay: After a 5% price rise that we had in the month of April, is there any further price hike apart from regular to 2.5% that we take in second half lined up?

Ajay Kaul: Indeed it is lined up in the month of August, later in the month we do plan to take a nominal 2.5% to 3% price hike.

Manav Vijay: Secondly the kind of salary correction on the positive side, which we have taken for employees last year. This year shall we build-in a normal kind of a rise for our managers or the competition is so tough that we will be increasing salaries further?

Ajay Kaul: 2-3 angles to this question, one is, being the fastest-growing, the largest food services operator MNC brand, I'm not including cafés into this, we are a constant poaching ground for rest of the people, so there is a constant threat. Also when you're performing at a same-store growth of 37% and so on, expectations of employees are also there and you know that we are year after year being rated as one of the best employers in India. I mean, even in this year in the same quarter the Hewitt Best Employer Survey rated us among the top 25 best employers in India and same for Great Place to Work Institute, So we do invest on our people, we do invest in bench strength; we are constantly training these people, so there is what we call a financial impact of what we pay our employees. Now if you look at going forward at the team member level, which is the people working inside a store, there is a constant, impact also because of revisions in minimum wages which are happening all over the country and they come unannounced, so to that extent they are unbudgeted and they may impact us. But on our own accord also we may actually make some moves in the next few months, only keeping in mind that we are recruiting, we are net positive, we bring in around 2500 new employees all over the country every year, so when the numbers are so huge you definitely have means of attracting them, keeping them, retaining them and so on.

Manav Vijay: The Sri Lankan stores that you're talking about, I believe, since they would be in the subsidiary company so going forward we will be announcing results on the quarterly basis standalone or we will also start announcing console numbers?

Ravi Gupta: We will announce consolidated numbers at the end of the year. We are not consolidating on a quarterly basis right now.

Manav Vijay: Advances as a percentage of rent that we pay has been coming off consistently in the security deposits. In the year FY09 it was 79%, in FY10 it came down to 71% and then FY11 62%. Security deposit as a percentage of rent paid, so this has been consistently coming down. Is there any specific reason, I was not able to comprehend this decline?

Ravi Gupta: Let me admit that this is first time I am hearing this kind of relationship but let me try to answer that. Security deposit is given at the beginning of the agreement. It is certain percentage of the rental in the beginning. Now typically the agreements are for nine years and they are scheduled to increase rent every three years. So if you do the same percentage after six years of the agreement where the rent is already increased obviously the percentage could be down.

Manav Vijay: Okay so there is nothing much to read into it.

Ravi Gupta: No actually, the deposits are paid based on what the markets practices are, like in the North and East we pay 6 months deposit and in South and West 10 to 11 months deposit because we need to follow the market practices.

Manav Vijay: One last question, couple of months back we made an announcement with the regards to ESOPs. Is there any kind of specific target number that we have in mind for FY 12 to issue the number of shares?

Ravi Gupta: See, the ESOPs policy what we sent for shareholders approval, it permits up to 25 lakhs options to be given to the employees over the period of time. At one point in time how many options will be given, that will be decided by the compensation committee. The options can be given for all who are in the grade of managers and above in the company. There are about 80-90 people which are there in that category right now in the company. So those people will be eligible for ESOPs and finally for the compensation the committee to decide how much ESOPs out of those they will like to give.

Manav Vijay: So 25 lakh is the total number that the company intended to issue, am I right?

Ravi Gupta: Yes.

Manav Vijay: And let's say the number of shares that could be issued over one year or could it be 5 years as well?

Ravi Gupta: The compensation committee intent is that they will issue options on a staggered basis. The grant of option itself will be over a period unlike last time where we have given grant in one go and vesting was over five years. The compensation committee intent is that they will give a grant every year and vesting period will be three years.

Moderater: Thank you. Our next question is from the line of Gautam Chhaochharia of UBS Securities (India) Pvt. Limited, please go ahead.

Gautam Chhaochharia: Quick question on the margins. What is the philosophy, because the gross margins are under pressure because of raw material prices going up, while you had a highest price hike compared to your past history in the beginning of this quarter and still margins are going up. So how do you look at your pricing strategy as well as margins?

Ajay Kaul: We believe that the last 6-9 months inflation have been a bit more unprecedented than other years. We don't believe going forward, there is going to be similar pressure as we have witnessed in the last 7-8 months. We do believe that our 2% - 3% price increase, twice a year, should normally suffice to take care of any impact of food costs. Having said that if you see the way we gave 5% increase in April, any amount of research didn't show us that there was any impact whatsoever at the consumer off take level, our same store growth number is a good reflection of the same thing. So we believe that even going forward with these kind of price increases, we should not see consumer sentiment or consumer off take numbers change.

Gautam Chhaochharia: So the underlying driver is the actual consumer demand growth rates?

Ajay Kaul: Absolutely.

Moderator: Thank you. Our next question is from the line of Vishal Shah of Allard Partners, please go ahead.

Vishal Shah: My first question is on the same-store phase growth, like the overall number for this quarter and even for the last year has been very strong, 30% to 35% plus. Would it be possible for you to share the number for the stores which are five years plus or your first 100 stores. What kind of same-store sales growth are these stores seeing? Is the same-store sales growth trend much stable here than what we are seeing the overall number because earlier it was 18% to 20% and now we are seeing a much higher number?

Ajay Kaul: We have done, but not such intricate analysis but we do go deep into this zone. I can safely tell you that all pockets of our business, whether you look at them in terms of aging of stores, whether you go by virtue of geographical spread, they are performing equally well. So there is good news sitting there, it is not just one region or one set of store or that are actually driving this growth. It is coming from all pockets that we have. So it is a very distributed growth and thereby hopefully the risk in it is also lower.

Vishal Shah: At least the number for the mature store would be slightly lower?

Ajay Kaul: Marginally, it is not statistically significant.

Vishal Shah: Similarly on the margins set up. Overall EBITDA is right now 19.1% obviously as in the initial years and new stores dragged down the average margin. So say further, with many more mature stores what is the indicative profitability there indicative of, at least that would be stable and as the percentage of new stores to total stores decline as we have seen the profitability has increased over the last two years. But the profitability of your mature stores, what level would that be?

Ravi Gupta: What you said is correct but will not be exactly able to share the exact numbers but the concept which you explained is perfect.

Vishal Shah: Okay but indicatively like those margins are more stable, like they are not increasing, although the overall margins are increasing?

Ravi Gupta: No, overall margins are increasing for all the stores. I mean, look at the last quarter to this quarter. 17.1% was the EBITDA in the last quarter and quarter-on-quarter basis when you look at it now, it is 19.1%, so obviously only few stores cannot ride this kind of EBITDA growth. It is growth which is there in across all the stores.

Vishal Shah: Okay but it won't be possible for you to give an indicative number, as what your top 10 stores, what sort of profitability number would that be?

Ajay Kaul: No Vishal, that would not be possible.

Vishal Shah: And lastly on, what you perceive as a long-term opportunity in terms of stores additions in India as of now we are close to 400 stores say from a 8 to 10 year perspective. Have you in terms of number of stores, what is the potential which you see in Domino's in India?

Ajay Kaul: Last time when we had this discussion, I think a year and a half back when we were going public and we had also engaged Dominos International into to this to asses potential of the maximum number of stores which we could have opened let's say 1.5 – 2 years back when we were trying to go public. The number at the time which came around was 700-750. Now we do believe that, in the last two years lot of quarters have flown below the bridge, so that number should be far higher but we need to do this analysis again to come and tell you. So when you look at 392 versus whatever that big number potential is, there is still a lot of room for us to grow.

Vishal Shah: As you have entered in the smaller cities are you seeing any pressure on the pricing point, the price which is selling the metros or the top cities, are you seeing any pressure when you enter the new city and you are thinking you may enter this at slightly lower prices in the smaller one?

Ajay Kaul: There is no such feel that is coming from the consumers or from these new cities research, nothing is being shown up as a word of caution because as I was saying earlier, when we have entered new cities, we have had far more numbers of positive surprises than negative but one of the reasons for that also is that if you look at our pricing strategy, we have an entry-level pizza at Rs. 39, which is the Pizza Mania and to the value seeking consumer, clearly that is a good entry point, it is a good door opener but then we have a full suite going up even to Rs. 400. So we have called it a pricing option for all types of customers and depending upon what price they want to enter they can take it. If our new city experience is anything to go by, we still don't feel a reason that there needs to be any differential pricing strategy.

Moderator: Thank you. Our next question is from the line of Ashit Desai of Batlivala & Karani Securities India Pvt. Ltd., please go ahead.

Ashit Desai: If you could give us the price hike component in your overall same-store growth? Secondly, out of the total employee addition, if you could tell us how much is for the new stores and the existing stores?

Ajay Kaul: See, while we have taken almost a 5% price increase; how it manifests itself is in terms of the menu mix changes and lot of other things but there is a 3% difference between our revenue, same-store growth, and our order same-store growth, 3% to 4%.

Ashit Desai: But if I remember, we had a 5% price hike in April?

Ajay Kaul: Yes, that's what I am referring to, 5% price hike has led to 3% to 4% difference between our same-store growth, on revenue and same-store growth of orders.

Ravi Gupta: I think your question was specifically what is the total price impact on the same-store growth.

Ajay Kaul: It is the same thing, the difference between the two is basically the pricing impact, at a very-very broad level you can assume that.

Ashit Desai: We had some price hikes taken in the Q2 or Q3 last year. What is the cumulative price hike impact on the same-store growth?

Ajay Kaul: It is a good question which we need to answer. In our business where there is a portfolio of products, there could be hundred SKUs or more which a consumer is buying. There could be a change in a menu mix, there could be more pizza sales happening this month, there could be more Chocó Lava cake sale happening in some other month. So it is never a like-to-like price comparison which can ever be done. All we do is, we look at the overall movement on let's say the ticket size and that tells us that what is the overall impact because of price, because of menu mix changes and everything else and that we believe in this quarter was around 3 to 4%.

Ashit Desai: And the second question was on the employee addition for the new stores and existing one?

Ajay Kaul: These new stores specifically in this quarter, we would have added net new people around 500 people.

Ashit Desai: If I look at comparison to your Q1 last year, there is an addition of 4000 employees?

Ravi Gupta: Actually you are right. When you are comparing from the last year in the first quarter then there are about 72 new stores which have commenced but Ajay was explaining vis-à-vis previous quarter, so what you are saying is right, they are 4000. We have about 72 new stores which have come during that period.

Ajay Kaul: And 72 stores would probably translate into around 2200-2500 employees roughly and the rest of the employees would be additional employees required in existing stores and a few inclusions that would have come at the regional and at the corporate G&A level.

Ashit Desai: The corporate and regional levels would it be significant?

Ajay Kaul: It is marginal as I said. It is a marginal increase at corporate and regional level. Maximum people come in at the store level.

Moderator: Thank you. Our next question is from the line of Amnish Aggrawal of Motilal Oswal Securities, please go ahead.

Amnish Aggarwal: I have a couple of questions; my first question is regarding the EBITDA margins of the company. Just want to know , there is some seasonality in the margins of the company, that in the Q1, margins are higher and as you go along date, their tend if cool down a little bit mainly because of new stores opening or something like that sort?

Ravi Gupta: Typically Abneesh, it doesn't happen like that. When you look at the sales trend, then you will come to know that it is typically not a seasonal business. When the sale is not seasonal obviously the margin should not become a season based. Now that depends also on the cost structure or policy decisions you have taken about the cost structure. Like last year, end of Q2,we have increased the salary of the team members and that is the reason the Q2 margins got impacted and in Q3 we had a full year impact of those increases. So I will say that the business is not seasonal and that is reflected by the sales growth. Quarter by quarter the sales growth has been pretty intact, whereas the cost structure gets impacted by the decisions which are taken for the future.

Amnish Aggarwal: we usually take annual salary increments in the Q2?

Ravi Gupta: Other than the team members, we take a salary revision in July that is effective from July every year. For team members there is no fixed time period when we take a call about it. It depends upon various legislations in terms of minimum wages and we keep on reviewing them constantly and then we decide at some point of time, based on our HR survey also, what kind of increase we need to take. As Ajay had earlier explained to you, , since we are the largest and the fastest growing food-service brand in India, we are a easy poaching ground for other players and to protect ourselves, we need to lead the pack in terms of salary. We are also one of the best employers and we need to keep our employees motivated so that they can deliver operational excellence and considering all those factors we need to continuously keep ourselves glued to the salaries and we do that.

Amnish Aggarwal: I want to know that in July, the increment which happened in July, is it for your employees who are working in the store or is it for the rest of people?

Ravi Gupta: In the store team, it is only for store managers not for a team. For Rest of the team, the decision is taken little later.

Amnish Aggarwal: Okay, for the team it happens in which quarter?

Ravi Gupta: There is no specific quarter actually. Two years back it was on a Q3, last year it was in Q2.

Amnish Aggarwal: My second question is regarding the same-store sales growth, which we have 37% last year and around the same number in the Q1 of this year. Sir, for example if the sale were up by 37% last year. Then the stores which were considered for calculating the same-store sales growth, what proportion of total sales would have come out of that?

Ravi Gupta: Last year there were 241 stores under the same same-store category and they delivered 37% growth. This year, those 241 were intact and on top of it, 65 other stores were added to that list and those 306 stores have delivered sales growth of 36.7%. So we don't compute this separately, that how the 241 even stores have done and how 65 stores have done. Although we do quite a lot of permutation and combination for the internal working, but for the sake of discussion, we report the same-store growth for all the 306 stores together.

Amnish Aggarwal: No, that I'm fine, what I am trying to get some idea is that the stores which are considered for calculating the same-store sales growth, what proportion of total sales would these be accounting for?

Ravi Gupta: Around 80% for Q1

Amnish Aggarwal: My second question is regarding your couple of cost elements are as per the annual report, for example the cheese cost last year for us has gone down actually in per kg by around 7%. So can you throw some light on this, that it is caused by which factor?

Ravi Gupta: Cheese prices have gone up during last year. Cheese could be combination of Mozzarella cheese and the liquid cheese. So basically two kind of cheese, so if this combination changes then weighted average price may appear to have gone down but whereas the price is going only one direction i.e. upwards.

Amnish Aggarwal: So it means that, we presume that it is because of the growing volumes in the pizza mania?

Ajay Kaul: Depending on what period you are looking at. If you're looking at Q1, yes Pizza Mania in this quarter has done exceedingly well far more than what our expectations were. We have also looked at developing new suppliers for cheese and sometimes third suppliers, on come at a more competitive price and that also gives us a little bit of leveraging. But speaking in general about cheese which is directly correlated to the milk prices, it is only looking northwards, it is not looking in any other direction.

Amnish Aggarwal: Finally just one thing, can you throw some light on how is the consumer behavior with respect to your ticket size because last year your realization per pizza has actually gone up by nearly 14% and are people are opting out for bigger sizes pizza or more of your value added variants. Any observation which you would like to share with us from that?

Ravi Gupta: Computing realization per pizza is a very complex job, because of the various sizeof pizza we sell, whether it is a small, medium, large and what are add on items we sell. So computing the realization is very difficult. So when we increase the prices, on an average about 5% every year although this year it is slightly higher, typically the realization should also increase by our similar ballpark and if it's showing a different trend ,it means the combination between small, medium and large has changed.

Moderator: Thank you. Our next question is from the line of Hiren Dasani of Goldman Sachs Asset Management, please go ahead.

Hiren Dasani: Just one question on the Capex. On the last call I remember, you were saying about Rs 7 million per store and now you are saying about Rs 8 million stores, where is the difference?

Ravi Gupta: Actually last year also we explained, it used to be Rs 7 million per store, it has increased by about Rs. 1 million due to two reasons- one is inflation and second one is we are providing a better infrastructure to the stores to handle more volumes and to make them handle more wear and tear.

Ajay Kaul: All basically gearing up for future. When two years in succession you are growing by 37%, you can imagine you are almost doubling the volumes which the store was doing two years back. So keeping that pace in mind, we believe that we should be building stores for future and not just looking at this year or the next year and that is why this extra investment in the store.

Hiren Dasani: On the ESOP issuance you said that you issue up to the manager level, right?

Ajay Kaul: No not the store manager, actually manager designation, the manager grade which is internally above the deputy manager and where the manager starts.

Ravi Gupta: There are only 80 to 90 people only who are eligible under that plan.

Hiren Dasani: 80 to 90 people, out of 12,500?

Ravi Gupta: Yes.

Moderator: Thank you. Our next question is from the line of Percy Panthaki of Daiwa Capital Markets India Pvt. Ltd please go ahead.

Percy Panthaki: My question was that, what would be your inflation on your nonfood expenses assuming that no new stores are added. So, what would be the YoY growth in the expenses, if the stores had remained constant?

Ravi Gupta: We believe this should be in line with what the economy is experiencing in terms of inflation right now.

Percy Panthaki: In the line off about 10% or so?

Ajay Kaul: We do not want a hazard guesses here honestly. I wish we had an opportunity to come back to you after 10 to 15 minutes or maybe after an hour. It would have come up if it was a big surprise. I would reckon that it was a single-digit number but if it is a bit of a wild guess. Because you watch the costs very closely in all our forums, whether it is stores, regional or at a national level and at regular periods. But if it would have been abnormal it would have come up. But I think it is a single-digit number.

Percy Panthaki: The reason why I was asking this and correct me if my hypothesis is wrong, your margins will keep expanding till such time as your same-store sales growth remains higher than your inflation on overheads?

Ajay Kaul: Right, absolutely.

Percy Panthaki: So, it seems that it could be the case at least in the foreseeable future?

Ajay Kaul: We believe that the same-store growth will be pretty robust. We will not be at the level of 37% and in all that which we are going through right now, but it will be a definitely double-digit.

Percy Panthaki: The next question is, I do not know whether you look at it this way but within the catchment area of a particular store, immediate catchment so let us say 1 or 2 km, what is the per capita spending which you are seeing and have you tried to benchmark that to slightly more developed geographies, that is the first part of the question. And the second part of the question is again what is the average bill size or ticket size per order and again how does that benchmark to slightly more developed countries than us?

Ajay Kaul: Comparing us with the developed markets is a thing which we constantly do but we have realized that not much comes out of that for various reasons. We are at various stages of evolution; the consumers are at various stages of evolution, so it does not kind of take us anywhere. For example if I need to give you an idea, the pizza and pasta forms just about 2% of the total food service market in India. Plenty of our customers, nearly 50% of our customers in a full-year consume only once a year. The frequency of consumption of pizzas in other countries let say in the UK or US or Australia or whatever, is far higher, so it is not fair to compare in that way and that neither the comparison would be fair in terms of ticket size, because it is related to the ability of people to pay, you have to bring in purchasing power parity is into the equation and so on. But on a standalone basis let me tell you that some of our stores are doing orders or all of our stores collectively doing orders more than any such developed market in the world.

Percy Panthaki: Sorry I did not understand that last part?

Ajay Kaul: The number of orders which our stores are doing is comparable to lot of developed markets in the world. But our per capita consumption is still very small, even if you were to put a filter of urban area in this, still the per capita is miniscule compared to let say what happens in developed countries.

Percy Panthaki: Would you be at liberty to tell us, what is your average order size?

Ajay Kaul: No, we will not be able to share that information.

Percy Panthaki: My last question is, if you can give some color on what would your operating margins be on pizza which is delivered versus pizza which is consumed within the stores, so basically the interplay between your rentals, electricity, etc., of the restaurant versus the cost of delivering the pizza?

Ajay Kaul: They are kind of similar, that is the answer which we can give you.

Percy Panthaki: There is nothing which says that one route is more profitable than the other?

Ravi Gupta: No, in one route there is a manpower cost, delivery cost, petrol cost, bike cost and all that and in other route there is a rental cost, there is air-conditioning cost and again there is housekeeping guys are also there. So practically both are almost similar.

Moderator: Thank you. Our next question is from Ramnath Venkateshwar from Birla Sun Life, please go ahead.

Ramnath V: Just wanted to understand one particular issue from your side, if you look at the pace of growth that you have had, the employee addition has been fairly strong at your place, now going ahead when you look at it how do you think that particular leg of your business expansion is going to look like because you already employing around 10,000 to 11,000 people or so how do you see that particular metric going forward? I was just saying that given that your employee base is fairly large now currently at around 11,000 odd people.

Ajay Kaul: 12,500.

Ramnath V: Yes, when you're looking at a massive expansion over the next 4 to 5 years or even a decade ahead, how do you see this particular ability to manage this huge number of people actually begin to play out and how do you see yourself having the capability to manage a very large employee base in fact?

Ajay Kaul: Managing a large employee base is not a challenge, there are organizations which manage even a lakh of people and so on and we have enough examples after the BPO explosion in India. Now talking about how we plan to beef up our employee base. That is why if you look at our last three or four years, we have been very methodically growing our store numbers every year. The new store numbers from 52 to 60 to 65 to 72 last year and this year it is targetted at 80. And we believed by such delta increments which are not too monumental, the training infrastructure that we have created which is regarded as one of the best models in the whole Domino's world, is robust enough to bring in extra people for these 80 stores. If we were to theoretically open 150 stores, hypothetically we take it as a challenge and the answer to your question will be that yes, we need to go definitely know something on the training side and on the infrastructure side. But moving from 70 to 80 is no challenge.

Ramnath V: Just coming back again to the same point about the scale benefits kicking in, in terms of the EBITDA levels, my question is more on the working capital side, as you grow in size your ability to manage the working capital, does it improve substantially in terms of bargaining power do you see the benefits actually flowing down to you from a negative working capital actually expanding for you as you expand?

Ravi Gupta: I think as the company's sales grows and as we've our sales realization mostly in cash while all the payments for the expenses happens later and that is the reason as the sales grow, we'll have more and more negative working capital. Although our bargaining power also will increase but we will use the bargaining power further in order to influence the pricing with the business partners can give it to us, rather than increasing the negative working capital.

Ramnath V: But just by mathematics like for example if you are able to maintain your gross margins and say for example it goes from 100 to 150 and the fact that you are delaying this amount of payment for him by the same period without changing the creditor days, you are able to actually expand the negative working capital quite substantially, is that a fair way to look at it?

Ravi Gupta: Yes.

Moderator: Thank you. Ladies and gentlemen to the time constraints that was the last question. I would not like to hand over the floor back to the management for closing comments.

Ajay Kaul: It was really delightful to talk to all of you some very insightful questions and hopefully we have been able to satisfy most of you, in fact all of you. Thank you very much for joining us today, should you have any more queries please do get in touch with us and we would be more than happy to address them.

Moderator: Thank you. On behalf of Jubilant FoodWorks Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.