

# JUBILANT FOODWORKS LIMITED

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Q2 FY2012 Investors/Analysts Conference Call  
November 03, 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 September 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 Q2 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 Q2 FY2012.

**Hari Bhartia:** Good evening and warm welcome to all present with us on this call today. It is indeed my pleasure to report a very positive performance for the second quarter and over the first six months of this year. Jubilant FoodWorks continues to gain traction with the respective Domino's Pizza also Dunkin' Donuts is progressing as per our internal timeframe. At present we are committed to create a robust base for Dunkin' Donuts, since as a group, we believe it is important to design growth and expansion in a systematic approach in order for it to be sustainable in the long-term.

We continue to gain market share during the quarter supported mainly by the growth of Domino's Pizza store network along with our emphasis on innovation and as a result of which we have successfully launched new product additions.

While we remain committed to delivering growth we are aware of the challenging economic environment and thus continue to manage our resources carefully with a balanced perspective towards long-term growth and profitability.

I would now request Ajay and Ravi to give you a more detailed view on our operations, financial and strategic initiatives.

**Ajay Kaul:** Thank you, Hari. Good evening, friends and thank you all for joining us in this conference call to discuss Jubilant FoodWorks financial and operating results for the second quarter of financial year 2012.

Our Total Income for the quarter increased by 47% to Rs. 2,404 million. Our Net Profit for the quarter was at Rs. 237 million, up 28% as compared to the same period last year. Our performance this quarter results from our focus on our customers, disciplined execution of our plans to expand store network, continued brand strength and system alignment to macro environment factors. This quarter our PAT also considers Rs. 9.2 million as exceptional item as expenses for operationalizing of Dunkin' Donuts business. We will be briefly discussing all these areas as we progress with the call today.

This quarter we continued our efforts to grow Domino's Pizza on a Pan India basis. We have successfully added 16 new stores in the existing cities where we are already present and 3 new stores in new cities such as Dhanbad, Asansol and Ajmer. Thus at the end of the quarter Domino's Pizza is having 411 stores registering presence in 96 cities across the country.

We also launched our first Domino's store in Sri Lanka and are enthused by the response received by the store in its initial months. We strongly believe that Domino's Pizza in Sri Lanka was a good extension of our India advantage. We foresee immense potential for further expansion in this market given the affinity towards the brand, its taste, affordability and value.

Our overall growth is backed by a robust commissary and supply chain infrastructure and innovative marketing front end and the most important factor a strong human resource base which cumulatively helps us strengthen our leadership in the Food Service industry. Total number of employees at the end of September 2011 stood at around 13,500 as compared to 10,700 on September 2010. Moreover, we continue to expand operations given our aptitude to create and sustain a close connect with our customers. We view customer satisfaction with utmost important and hence our efforts and resources underline our prime goal of creating a unique experience for our customers. We have recently added new innovative products to our menu to provide a wider array of options. Based on the positive feedback received, we have re-launched Pasta Italiano. Our dessert addition, Butterscotch Mousse cake continues to receive appreciation and this further encourages us to be in creative in our offerings.

While the store expansion is one of our key focus areas, we wish to make Domino's Pizza a highly accessible brand, which will provide customers with an entire range of irresistible offerings. As a result, Domino's is the first brand in the Food Service industry to launch online ordering service nationally. With this endeavor we not only wish to be at the forefront in using new technologies but also hope to make ordering fast, convenient and a fun experience. This interface will give our consumers several benefits such as ability to place order without registration, easy and optional login which can be done via social media logins like Facebook and Yahoo, customize their pizza orders as per their preference, multitude of payment options like cash on delivery, debit/credit cards, net banking and mobile card, and all these facilities come with our commitment to deliver piping hot pizzas within 30 minutes. We believe the

timing of this online ordering system was perfect given the fact that eCommerce is on a rise in India.

We are also pleased to share with you that Jubilant FoodWorks was rated as "Images Most Admired Retailer of the Year: Foodservice" by India Retail Forum at the recently concluded 8<sup>th</sup> Annual Images Retail Awards.

At this point I would like to provide you with a brief on the progress of Dunkin' Donuts. As many of you aware we entered into an alliance with the world's leading baked goods and coffee chain, Dunkin' Donuts in February this year. Systematic expansion backed by strong infrastructure continues to guide our decision-making and strategic choices with regards to Dunkin' Donuts too. Hence currently, we are focused on building our base for Dunkin's operations and are progressing as per our desire.

Currently, we are in advanced stage of our menu development, our team is closely working with Dunkin' Donuts international team to finalize the best suited products for the Indian taste buds. We are focusing on identifying the best local ingredients to maintain Dunkin' Donuts international quality standards. While Donuts & coffee will remain a key item on the menu, as discussed in our previous calls also, at Dunkin' Donuts in India we wish to cater to the 'all day part food' segment. While menu development, supply chain and vendor management are progressing well, we also have our team working on other aspects such as store design and construction, equipment requirements, human resource management, which we believe a crucial elements for the successful launch of Dunkin' Donuts. Furthermore, we plan to launch our first store in the first half of calendar year 2012 with the initial focus on metro cities and with a rollout target of 80-100 stores over a span of next five years.

Overall, the first half of FY 2012 has been encouraging and we are optimistic about our growth for the remainder of the year.

The Company is confident to achieve its store expansion target for Domino's Pizza. At the start of this fiscal, JFL had undertaken plans to launch around 80 new Domino's Pizza stores, of which the Company has successfully launched 33 new Domino stores by September 30, 2011. And as on date, signed additional 29 stores for opening in the current financial year.

We continue to build long-term profitable growth for our Company and shareholders while promoting and continuous cost management culture, talent management and leadership development to support their growth in a balanced manner. And on that note, I would now like to hand over to Ravi Gupta, our President and CFO, for a detailed financial review of our performance. Thank you.

**Ravi Gupta:** Thank you, Ajay, and let me extend my warm welcome to everyone joining us today. We appreciate your time and interest.

We continue to see positive performance in our business with our Total Income registering 47% increase to stand at Rs. 2,404 million for the quarter. We continue to witness healthy consumer demand and have successfully expanded our operations by 19 additional stores this quarter. Our same-store growth for Q2 FY2012 was 26.7% over a higher base of 43.8% same-store growth which we witnessed in Q2 FY2011.

We assess on an ongoing basis the impact of high inflation levels prevalent in the economy; however, we continue to manage the Company conservatively keeping a close watch on all our costs. Given our scale and spread, we also work closely with our suppliers and contractors looking for ways to improve upon everything we do. Our work philosophy involves closely listening to what our customers have to say and then channelize this feedback towards innovative product offering. Thus, our growth is also backed by the new launch Butterscotch Mousse cake and re-launch of Pasta Italiano.

With respect to profitability during the quarter our EBITDA was at Rs. 436 million compared to Rs. 297 million in the same period last year. Q2 FY2012 PAT was at Rs. 237 million, with an increase of 28% over the corresponding quarter last year. JFL's PAT during the year considered Rs. 9.2 million as an exceptional item as expenses on account of operationalization of Dunkin' Donuts business.

Moving ahead with the H1 results, Total Income was Rs. 4,573 million registering 53% growth over Rs. 2,989 million in H1 FY2011. This is primarily driven by our commitment to execute growth initiatives of building Domino's Pizza network and penetrating new and existing cities to reach out a larger audience and make Domino's Pizza a highly accessible brand.

Our EBITDA for the half year ended 30 September 2011 was Rs. 857 million compared with Rs. 549 million in the corresponding period last year. The EBITDA margin stood at 18.7% compared to 18.4% in H1 FY2011.

Lastly, PAT for H1 FY2011 was recorded at Rs. 468 million witnessing a growth of 39% when compared to PAT of Rs. 337 million in H1 FY2011.

I am pleased to see that our team's effort and our business model proved resilient in a scenario of rising inflationary pressure. We believe expansion with systematic alignment of cost is imperative to drive long-term profitable growth. We are thus progressing with Dunkin' Donuts in the same manner and as Ajay earlier discussed, we are happy with the progress we have made so far.

As we enter the second half of the fiscal, we intend to continuously improve our operational execution. We target investments in both our brands to deliver high earnings and continue to carefully manage our operating expenses with a focus on profitable growth.

With this I would like to conclude my remarks for today and request the moderator to open the floor for a question and answer session. Thank you.

**Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Rishi Maheshwari from Enam Asset Management. Please go ahead.

**Rishi Maheshwari:** Thanks for taking my question. My question is largely related to the food inflation that you have seen in this quarter. Has that subsided or you can give us some trend on how is it behaving now?

**Ajay Kaul:** The food inflation which we have witnessed this year, I must admit, has been one of the most severe in the last few years. But if you notice over the last two or three years, by growing at around 50-60% annually, we have been able to work closely with our business partners to offset a lot of impact because of economies of scale gains and we have tried doing that this year also. As far as our outlook going forward is concerned I think probably the worst has been behind us but the food inflation pressure will remain and is a part and parcel of this industry and we have learned over the years to work with our business partners to tide over it.

**Rishi Maheshwari:** The same-store sales growth was slightly lower than our expectation. Was it the result of probably cannibalization of stores which you have opened in the same vicinity or is it a result of the seasonality that happens in the second quarter?

**Ajay Kaul:** It is partly a mix of all these and I will give you three reasons for that, but I think the most dominant factor has been comparison with the same period last year. If you can bear with me for a moment, in Q1 last year our same-store growth was around 37% and in the subsequent quarter which is Q2 of last year it was as high as 44%. That is one of the highest growth ever done. So when you compare it with this year, in the first quarter our same-store growth was 37% and this quarter we were comparing ourselves with what I would arguably say was our best quarter 27% may look a smaller number but I think it is basically a reason of comparison. Second factor, there is always a bit of cannibalization because we do keep opening stores by splitting some of the older stores, so there is a marginal impact of that but I would not call it substantial. So I would say it is more of a reason of comparison with a last year for same quarter which was our best quarter.

**Rishi Maheshwari:** Right. So does it indicate that the same-store sales growth should come back to on the previous levels or maybe in the 30s range in the given season ahead?

**Ajay Kaul:** If you look at the last six or seven quarters now, average our same-store growth probably is in the mid-30s, so these are numbers which are unprecedented for the industry and are even very high by our standards. Now, on whether we will continue delivering these kind of numbers, we will not hazard a guess in that direction, but I would reckon that progressively it will probably become tough to sustain 37% kind of numbers. Our guidance for the year is that we believe we are confident of delivering 20% plus same-store growth on an annualized basis.

**Rishi Maheshwari:** Fair enough. This is my last question, of your experience in the smaller towns, you have opened stores in three smaller new towns that we have seen. Have you seen any difference in the average revenue per store that you opened in Dhanbad, Aasansol or Ajmer than the other 16 that you opened elsewhere?

**Ajay Kaul:** The answer to that question is, when we open stores today in bigger cities, where the chances are that they will open larger, invariably what happens is there are existing stores and there is a little bit of splitting which happens here or there. When we go to the cities where we are already present let us say typically Patna or Lucknow these are places where we are already present and then there are new cities. But if I have to randomly pick up example, I think stores have surprised us in new cities, they have opened at high sales. So by and large statistically speaking I do not think so there is a big difference.

**Moderator:** Thank you. The next question is from the line of Jaibir Sethi from CLSA. Please go ahead.

**Jaibir Sethi:** I just wanted to get your perspective on two things. First, you have seen a bit of a drop in gross margins in this quarter. Are you planning to take some price hikes to address this and if yes, do you think that will have an impact on volumes or do you think underlying demand is strong enough to absorb it?

**Ajay Kaul:** Yes, we intent taking one more price increase in the month of November, we are still contemplating how much that should be. But our past experience over the last year and a half, in fact, longer than that, has been that, the consumers' behavior towards Domino's Pizza is fairly inelastic. So to that extent we do not expect it to have any significant impact in the way they consume Domino's. So we do not expect it to impact orders.

**Jaibir Sethi:** And second sir, the broader consumer environment does seem to be slowing down a bit and have you begun to feel that to any extent in your business or do you think so far give a smaller ticket sizes you have been immune from it?

**Ajay Kaul:** I would say that we are by and large immune from it, some very early signals are probably coming but it is too premature for us to reach any conclusion. From our perspective we are increasing our marketing spend, we are increasing the investments in engaging our customers whether it is a social media or through other interactive media. So we are putting our best foot forward and hoping that there is no such thing happening and we deliver better results.

**Moderator:** Thank you. The next question is from the line of Deepa Mirchandani from UBS Securities. Please go ahead.

**Deepa Mirchandani:** Actually, I have a few questions; one would be the exceptional item which you are reporting regarding the Dunkin' Donuts. Why is it below the EBITDA line, why are you not capitalizing the same? I know it is pretty small amount but just I wanted to get a sense.

**Ravi Gupta:** As per the Accounting Standards regarding the Capital expenses, it does not allow us to capitalize any such sort of expenses. So all the expenses for setting up of any kind of business need to be charged to revenue. So in that context, we wanted to provide investors with the correct and complete information as to how much we are spending on Dunkin' Donuts because in our interactions with analysts, we have been encountering questions related to the quantum of money we are spending on Dunkin' Donuts. So in order to put to rest those kind of observations we have started reporting this number separately.

**Deepa Mirchandani:** So can we call it as 'Exceptional'?

**Ravi Gupta:** As per reporting purposes of Clause 41, specifically, this is the only option which is available right now to disclose it separately. Although we could have only provided the notes to accounts, but the best option was to report like this as an exceptional item and give complete details on what kind of expenses we incurred under this.

**Deepa Mirchandani:** My second question was on the staff cost. It has increased 40 basis points. Is it because of the new store opening?

**Ravi Gupta:** Typically, every year in July, we increase the salary of all the fixed staff. At the store level, it is store manager and above, whose salaries are increased post an annual appraisal and for all the regions and the support staff also the salary increase period is July only. When you look at the similar period last year also you will find an increase and that increase was actually higher than this. The reason was in the last year same quarter we had increased the salary of the team members as well, which we have not done this year. We have increased team members salary only to the extent where the requirement was there because of minimum wages, beyond that we have not done a correction as yet.

**Deepa Mirchandani:** Just one more question if I can squeeze in. Have you seen a competition teaming up in this quarter or for that matter I know you have explained why the SSG, how we should look at it. But just trying to get a sense are the consumers going to restaurants because of this environment, I was just reading an article in the newspaper saying that they have reduced because of the increasing EMIs and the home loans. So are you seeing a reduction in the demand?

**Ajay Kaul:** You are asking two, three questions together. Let me try to answer all of them. First is at a macroeconomic level, are we seeing any consumer offtake issues? I would say by and large no. There are some early signals but to me as I was saying earlier also we are taking this on the front foot. As I was saying we are upping our advertising spends, we are upping our investment on people, product launches and everything because we believe we can clearly beat our last quarter 26-27% same-store growth number. Now, as far as competition is concerned I think it is for you to kind of understand what competition is trying to do but our view on competition always has been that the categories are still so new in a country like India, that there is a room for everybody, more brands to come, more companies to grow, so in fact we find it good that more companies are trying to get aggressive and open stores. As far as we are

concerned we are committed to opening 80 stores this year. Out of which 33 we have opened in the first half and the interesting thing is that we have already 29 stores under construction. So which means 62 stores clearly will be up and running in the next couple of months and so commitment of 80 stores we are bingo on that, so we would continue at our pace and we would keep investing on new products, on stores, on advertising and we are optimistic about the space.

**Deepa Mirchandani:** And just one more small question. How frequently do you go for major renovation of these stores and what is the cost involved, is there sort of a we can say that after every year and how do you account for it?

**Ravi Gupta:** There are multiple types of renovation what we do for the stores. Every 4-5 years, there will be kind of smaller renovation in the store based on the need there but after 9-10 years there could be major renovation. Because 9-10 years is kind of expiry of the lease also and when you renew the lease at that point of time there would be major renovation of the stores. In some cases, it may result in, relocation of store also because the store would have grown so much by the time that you might need additional space or the location preference would have changed by the time. So in that case there will be major renovation and our expense would be about Rs.40-50 lakh at that point of time. But for minor renovation it is about Rs. 3-5 lakh what we would spend. Apart from that we also keep on replacing the assets of the stores, in a sense when the useful life of the assets is over, we keep on replacing those assets.

**Moderator:** Thank you. The next question is from the line of Amnish Aggarwal from Motilal Oswal. Please go ahead.

**Amnish Aggarwal:** I have a couple of questions; my first question is regarding the same-store sales growth. Here you have shown 26.7% during the current year, so can you share with us what are the same-store volume growth for the quarter?

**Ajay Kaul:** Same-store volume growth is marginally lower than this because there is a bit of increase which we have also got through a price increase which we have taken in August.

**Amnish Aggarwal:** So if you have to reduce say the pricing impact from this 26.7%, how much would that be approximately?

**Ravi Gupta:** When you look at it actually, between Q2 FY2011 and this Q2 FY2012, there have been three price increases including the one this quarter. 2.5-3% price increase was in November last year, about 5% price increase in April and mid-August we took another price increase of about 2.5-3%. So in a nutshell you can say about 8-10% could be overall impact of inflation.

**Amnish Aggarwal:** So it means that your volumes from the same-stores are up by nearly 16%?

**Ajay Kaul:** It is more than that.



**Hari Bhartia:** The question is you are asking about this quarter what is the additional increase that has taken place because of price increase.

**Amnish Aggarwal:** No, I am asking that what was the throughput increase on a like-to-like basis?

**Ajay Kaul:** In excess of 20%.

**Amnish Aggarwal:** And if we have to look at the same number in Q1 of this year how would that be placed?

**Ajay Kaul:** The differential between volume and orders is similar.

**Amnish Aggarwal:** So it means that that was around say 30%?

**Ajay Kaul:** Yes.

**Amnish Aggarwal:** So this 10% gap which has happened do you think there is some actually some sort of an impact on the consumer offtake because of the way the prices have been going up because you said yourself that 10% is the price increase which has already happened in the past nine months or so. So do you think that there is some impact on the consumer demand due to that because the throughput growth rate has come down?

**Ajay Kaul:** We do not think so it has got anything to do with the price increase. We increase price only as the last option, not as something which we would, because consumers' interest are obviously paramount on our mind. This year has been a bit unusual I must admit because our quantum of price increase has been a bit more. But any price elasticity study that we do, clearly has reflected that there has been no difference, no change by and large, in the behavior of offtakes. Having said that, you may wonder that how come our same-store growth is at 27%, significantly lower than the previous quarter. You need to look at two things; one is you need to compare this with the previous year which was arguably our best quarter in terms of same-store growth. We did a whopping 44% same-store growth in July to September period last year. So, in comparison to such a stupendously good quarter whatever may have been the reasons, any comparison, even 27% which ordinarily, is a good same-store growth but it does not look as good. If you put the two years together last year in the first quarter we did 37%, this year also we did 37%, so collectively, maybe 74%. And similarly, if you put last year's 44% and this year's 27% it comes to around 71% growth collectively. So there are similar ballpark. To that extent looking at two years in combination the difference is not significant at all. Now, I will still at this juncture, however admit that at a general economy level while there are no reasons of concern in terms of consumer off take overall, we do believe that some very early signal are available but as I have been saying we are playing this game absolutely optimistically, we are increasing our advertising spend, our money is on new innovations, for example, the internet ordering which is a new thing we have been pioneers or the leaders in launching online ordering, which is gaining traction every single week and this has been out for months, we are increasing our

advertising spends , we are increasing spend on what we call direct marketing with our customers, where we send them offers directly and kind of elicit their response, I think we are very very optimistic that whatever may be happening in the environment, we will be delivering as good results in future.

**Amnish Aggarwal:** And my second question is regarding your same-store sales growth if we have to look on QoQ basis, if my estimation right, then in terms of throughput from the same-store second quarter was lower than the first quarter?

**Ajay Kaul:** Which is not right.

**Ravi Gupta:** No, same-store growth Q-to-Q also has been growing.

**Amnish Aggarwal:** Q-on-Q throughput is higher?

**Ravi Gupta:** Yes.

**Moderator:** Thank you. The next question is from the line of Rahul Bhangadia from Lucky Securities. Please go ahead.

**Rahul Bhangadia:** I have just two small book-keeping questions; one is what is the percentage between the dine-in orders and the orders which are taken out, actually delivered to the home in terms of turnover?

**Ajay Kaul:** The delivery piece is bigger than dine-in but they are not substantially different.

**Rahul Bhangadia:** So about 55-45 is the good ratio to assume?

**Ajay Kaul:** Your guess is not too off the mark.

**Rahul Bhangadia:** Second is if you could just help us with the breakup of the current liabilities that you have shown in the quarter, Rs. 140 crore in terms of sundry creditors and whatever it is?

**Ravi Gupta:** First thing, typically, I get this question quite often. Let me explain that all those liabilities represent not only the purchase of raw material but also include the creditors arising due to rendering of services, whether it is electricity, telephone, LPG, petrol, advertising, everything would be what we are receiving comes on credit and also creditor for capital goods. So when we look at the days creditors then we need to include all these expenses as well as the raw material. The only exception for this is rental. The rent typically is paid in advance. So that is not part of the creditors and rest all those expenses is part of the creditors.

**Rahul Bhangadia:** That is agreeable, sir, that is not a problem. The only thing is that staff cost and everything the maximum that you can probably show is one month creditor.

**Ravi Gupta:** No, staff cost simply is not there, because we pay by end of the month except for bonus, incentives etc.

**Rahul Bhangadia:** Exactly. So staff cost is the biggest cost that you have, rent is the other big cost, so roughly the biggest chunks of the cost are out? So you are hardly left with anything to have creditors on, so that is why I am asking that question.

**Ravi Gupta:** No, our EBITDA is 18% approximately. And if you take out these two costs, which is about, one cost is about 7.5-8%, another cost is 20%, still be more than 50% of the overall sales which is left out and everything comes between 30 days to 60 days as a credit period. Add to this capital expenditure also.

**Rahul Bhangadia:** What is the credit period on the actual raw material that you source?

**Ravi Gupta:** Between 30-60 days.

**Rahul Bhangadia:** And if you could just help me with that breakup number in a sense that as of March you had Rs.10. crore bank overdraft, is that still outstanding, just a small question –

**Ravi Gupta:** Actually, it was a book overdraft. What happens is we keep on issuing the cheques before even the money arrives in our bank and that is the reason at times the situation of book overdraft is there. While there is a positive balance on bank but on the books at times there is a overdraft.

**Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

**Pritesh Chedda:** Two questions; one on the gross margins front, in the last 2-3 quarters, we have seen some moderation here. So, is it the case that partly it could also be attributed to the product mix change that we had at the store level in terms of the new products for the SKUs that we have launched or nothing of it could be attributed to it?

**Ajay Kaul:** Practically, nothing can be attributed to the mix change.

**Pritesh Chedda:** So Pizza Mania will also have a similar gross margin as what your other larger price SKU will have?

**Ajay Kaul:** It is not identical but it is indeed different but it is managed in such a way that it would not have a material difference.

**Pritesh Chedda:** Okay. But if you put it in a way that it does not have a material difference that means there could be some impact on gross margin on account of the mix change?

**Ajay Kaul:** The number of SKUs in the system are I would now say 100. So, there will obviously be variations from one to other and if you see our business and our industry there is always a new product getting launched, emphasized, advertised in a certain quarter, so the incidence of that certainly just shoots up and the moment you started advertising something else the incidence comes down. And these too have changes but these are also orchestrated by us because we want new news for the customer, we want to give them reasons to kind of see our advertising and then maybe order that product or anything else, but reasons to call us. So it does not necessarily manifest exactly in the way at which you are putting it. Mixes do change a lot and they are orchestrated by us, but by and large the answer to your question is that if you are witnessing some change in margin, whatever is not basically based on any dramatic mix change and so on.

**Ravi Gupta:** Impact primarily is because of the inflation impact, especially, the prices of milk products and basically it impacts cheese and all related products there.

**Pritesh Chedda:** So as a strategy do you have a target in mind when you launch a particular SKU or a product into the chain in terms of the gross margin targets?

**Ajay Kaul:** Most certainly. Any new product does not get launched without 2-3 reasons. One is what is the food cost at which it is going to operate at and this normally new products are also supported with promotion and a lot of other things. So there can be a bit of discounting also. So what is the net of discounting margin that it is leaving behind. So it has to be in sync with the rest of the business and so on. That is the decision which is taken at the highest level. Supporting that of course is advertising and what will that advertising lead to in terms of incidence, and what is the ROI as a result of that is again something which is kind of KRAs of people they get signed off by me and so on and so forth. All this is scientifically driven; it is not that is somebody's guess work.

**Pritesh Chedda:** Secondly, just I have asked this question earlier also, what kind of operating leverage is still there in the system if you could identify the drivers and the extent of leverage in terms of basis points?

**Ravi Gupta:** Let me give the same old answer there are two leverages which are there in the business; one is that leveraging of SG&A, we believe that in years to come, this year SG&A will not grow at the same pace at which the business will grow. So they will continue to give leverage. Second is as the ratio of the older stores to new stores keeps on improving the margin should be better as a natural consequence of more mature stores in operations. Now, the million dollar question is by how much will margins expand. The answer is that we do not have any benchmark whether in India or abroad where we can say, that these are the kind of margins we can expect. We are fairly confident that margins will expand how much that is the question we have not been able to answer right now.

**Pritesh Chedda:** But have you targeted any particular improvement every year?

**Ravi Gupta:** Yes, we do have a target.

**Pritesh Chedda:** And what would be that?

**Ajay Kaul:** It is more an internal number, there are obviously stretch factors in that but we want to kind of improve our margins year after year. If you look at last three years we have moved from 12.1% to 15.7% to 17.7% last year. Now, guidance for this year is that we should be doing at least what we have delivered last year + 17.7%.

**Pritesh Chedda:** Last two questions here. One, you said that Sri Lanka you opened the first store?

**Ajay Kaul:** That is right.

**Pritesh Chedda:** And secondly, for FY13, what kind of store opening is planned?

**Ajay Kaul:** FY13 is next year?

**Pritesh Chedda:** Yes that is next year. This year it is 80 and what should be the good estimate for next year?

**Ajay Kaul:** Having opened 72 last year, 80 this year, we believe we should be doing similar number next year also.

**Pritesh Chedda:** And what would be the Sri Lanka's ramp-up plan?

**Ajay Kaul:** Sri Lanka over the next five year period, we should be able to open at least 25-30 stores.

**Moderator:** Thank you. The next question is from the line of Manav Vijay from Edelweiss. Please go ahead.

**Manav Vijay:** I just have a couple of small questions; the exceptional item that you have provided in this quarter, now, as the first store is actually expected to open by the first half of calendar year 2012, these expenses should move up as we move closer to the first store opening?

**Ravi Gupta:** Yes, they should. The moment we open the store the line will go away and it will get merged with the normal expenses.

**Manav Vijay:** Okay. Secondly sir, we have seen in the last few quarters, at least I just assume once the efforts by company to reach customer has increased dramatically, either in terms of distribution of pamphlets or the frequency of SMS-es, we can see the discount the company offers either for a different time has increased. So something that Mr. Kaul mentioned in regard

to early signals. So these efforts are for that or are we trying to improve the average 35% kind of a growth that we have done or we are trying to better that or we are trying to maintain that number?

**Ajay Kaul:** Early warning signals are still too early, honestly. You keep reading about it in the newspaper more than witness it in your own business and let me be honest on that. We are not just witnessing it as much in our business as we keep reading around us. So, what we have decided is that we will actually take this whole thing 'bull by the horn' I should say, we have upped our marketing spend in October, that is what we will do in November also, we are going aggressive on opening of stores, so as a result we also realize that we need more and more people, so we are actually going to increase salary of our front-end team members, starting from October-November, so again while that mean a bit of an extra cost, but what it is going to facilitate is the inflow of people who we can train immediately and who can then go and take over our new stores and so on. So we are actually looking at this space more optimistically, putting our best foot forward, increasing on our investments consumers as well as internal consumers which are our employees and let it span out. If there is actually some sort of a market downturn happening we are still taking the market on the front foot and if there is nothing like that then our same-store numbers should do even better.

**Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** I have two-three questions; first of all is there any increase in the ICD levels which is the Rs. 30 crore as of March '11?

**Ravi Gupta:** No, there is no increase in the ICD level and ICD which was even last year is due to be returned this quarter and will get closed this quarter.

**Hiren Dasani:** So ICD remains at Rs 30 crore?

**Ravi Gupta:** Yes.

**Hiren Dasani:** Okay, in that case, can you just explain what is leading to the increase in the loans and advances between March and September?

**Ravi Gupta:** Actually, we need to read loans and advances between last September and this September. That set out is the correct comparison rather than comparison with the March. When you look at last September to this one, there is an increase from Rs.48 crore to Rs.90 crore.

**Hiren Dasani:** Of which Rs.30 crore is explained by the ICD?

**Ravi Gupta:** And rest is deposits, which we have given towards opening of the stores and the commissaries which are finalized. This year we will be opening one new commissary plus

relocating two commissaries plus all the stores which we have opened from last September to this September, so all the deposits are there.

**Hiren Dasani:** And the other thing is considering that we have opened about 33 stores in the first half, are we confident of meeting the guidance of 80 stores opening for the year?

**Ravi Gupta:** Definitely. Not only confident of meeting it, we are confident of beating the estimate.

**Hiren Dasani:** That is good to know. And third thing on the margin side, as you were saying that you need to probably do a little bit more to stimulate the demand by way of advertising and promotion and all. Would that put little pressure on the margin going forward?

**Ajay Kaul:** No, it would not because it should pay for itself.

**Prashant Khemka:** Sir, this is Prashant Khemka, Hiren's colleague, I had a question on stock options which we issued earlier in October. Want to check is there any policy that firm follows in terms of the dates on which the option prices would be determined?

**Ravi Gupta:** The date of the meeting was finalized about 10 days back on 5<sup>th</sup> October and somehow it was just incidental that the price on that day was kind of one of the lowest. You may notice that the meeting of compensation committee happens every quarter in first week of the quarter for allotment of shares under ESOP.

**Ajay Kaul:** To put any speculation to rest honestly it was not orchestrated in that way at all and there are Directors involved who come from different parts of the city, so you have to give them advance notice and it just so happened that it happened to be that day, it would have been the highest day, so we would have been wondering what to do now.

**Ravi Gupta:** Actually in fact what happened is because of this price, we have to revise the number of options downward because we wanted to give a certain gain to employees and that is the reason that the number of options which we granted also reduced substantially.

**Prashant Khemka:** And just a suggestion from our side, given that management has much better insight at the end of the quarter and how the quarter has gone compared to investors, would be our humble suggestion that the price for the options we struck after the quarter is reported so that proper dissemination of the results is made and the proper prices discovered in the following date. If the meeting could be instead of let us say October 4, so your meeting could be like a month later in November you are reporting on November 3 or 4 then there will be no speculation amongst investors as well.

**Moderator:** Thank you. The next question is from the line of Sahil Shah from Allard Partners. Please go ahead.

**Sahil Shah:** What kind of investments are we making this year like other than the investments being made on store opening, any investments on the commissaries, etc.

**Ravi Gupta:** Yes, there are two commissaries which we are re-locating this year which is Mumbai commissary-West commissary and the East commissary and we are also opening another commissary in Chandigarh, so these are three. Apart from that there is Dunkin' Donuts commissary which we call CML is also being opened this year. So these are the investments in these and rest of the surplus are invested in the liquid mutual fund or they are invested in the fixed deposit with the bank.

**Sahil Shah:** Would you be able to quantify the investments been made on the commissaries?

**Ravi Gupta:** The typical investment in a commissary is between Rs. 6 crore to Rs.11 crore depending on the size of the commissary, like western commissary is a very large commissary as the investment will be at peak Rs.11 crore whereas the other two commissaries will be smaller.

**Sahil Shah:** Okay. And say typical commissary where you spent around Rs.10-11 crore, how many number of stores is it able to support?

**Ravi Gupta:** Rs.11 crore will suffice about for 200 stores.

**Sahil Shah:** You mention about your online strategy. How has been the response so far and initial results, percentage of sale coming from that form?

**Ravi Gupta:** The response has been pretty encouraging and we have started digital marketing only from this year in a kind of integrated manner. Month-by-month we can see traction and ordering on internet growing. So our efforts will be continued in this direction because this is a new online platform for attracting the consumers and getting more traffic to the Domino stores. In long-term when the percentage goes substantially higher like in UK and Australia where the percentage of online orders have reached 40-50% level, it also starts giving benefit in terms of the manpower cost in the store. Because you will not require an order taking customer service employee at the stores.

**Sahil Shah:** Okay. But as of now what would be that number for us?

**Ravi Gupta:** It is still a single-digit number.

**Moderator:** Thank you. The next question is from the line of Amman Fester from Standard Specific Capital. Please go ahead.

**Amman Fester:** I just have a follow-up to the early signs that you are seeing of consumer slowdown, if you could help quantify that to some degree is it the average ticket size is coming



down or maybe the frequency at which the loyal customers are ordering, what is it exactly that gives you that impression there are some early signs of a slowdown.

**Ajay Kaul:** I think it's manifestation in terms of existing customers very, very marginally. As I have been reemphasizing during the course of our answers also, it is still very, very early still not as much visible in our business, it is more what you hear from outside and what you hear of similar companies, consumer industry and so on and so forth. So I would say while this month or this quarter at 26.7% same-store growth the lowest we have done in the last 7 quarters, may kind of seem dramatically different from others and thereby you may reach a conclusion. But I think it is still early, I will not be able to answer your question statistically or in a quantified fashion in terms of where the changes are, I have reasons to believe that it is too early and we should be able to reverse this trend if we are able to play our cards right which is what we are working on right now, in terms of increasing our advertising and everything else I spoke about.

**Moderator:** Thank you. The next question is from the line of Jigar Sawla from Enam Holdings. Please go ahead.

**Jigar Sawla:** Just wanted to know what is the QoQ same-store sales growth?

**Ajay Kaul:** Clearly, in this quarter we have done much better than what we did in Q1.

**Jigar Sawla:** What I was asking was on from Q1 to Q2 basis if it is available?

**Ajay Kaul:** That is a number which is not readily available but I can tell you we have done, as we do every year we have done better than Q1.

**Jigar Sawla:** And what would be the ideal level of the stores that you will be looking at targeting? Say by end of FY12 your number of stores will be around 400?

**Ravi Gupta:** No, we are at already 400 + level.

**Ajay Kaul:** It is already 411.

**Jigar Sawla:** It will be 500?

**Ajay Kaul:** We started the year with 378 stores and we believe we should be able to open at least 80 stores by the end of the year. So our count if we are able to do that 80 where we are optimistic about it should be at 458 stores. Now in the first half year we opened 33 stores which seem like lower than what our numbers should have been, should have ideally been at 40, but as we speak, we have already signed 29 more stores which are under construction so 33 and 29 takes account to 62. So 62 stores are already under construction and we will open in the next one or two months and the rest 18 we are hopeful of signing in the next couple of months.

**Jigar Sawla:** Sir, what I was trying to understand is what would be the kind of ideal stores size that you will be looking at say maybe 4-5 years from now? So you would be keeping adding 80-100 stores every year for next 4-5 years?

**Ajay Kaul:** Having done 72 last year and this year we are hopeful of 80 we believe we should be doing at least those numbers in the years to come.

**Jigar Sawla:** You have guided for 20% kind of a same-store sales growth on an annualized basis when you have already done about 30% for the first half. So you are expecting just 10% in the second half?

**Ravi Gupta:** We are definitely doing excess of 20%. Now you need to appreciate but it is very difficult to give an exact number but we are fairly confident and after the June performance although we said we will do definitely in excess of 20%. It is a question of how much in excess which we can't exactly quantify.

**Moderator:** Thank you. The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.

**Prachi Kodikal:** I just wanted to know what is your average ticket size, what would be it approximately?

**Ajay Kaul:** We are afraid we do not give that information, Prachi.

**Prachi Kodikal:** All right, but can you then share with me how it has grown maybe over the last year, QoQ, YoY?

**Ajay Kaul:** It is definitely shown a growth, while impact of price increase is also built into that, as a bit of mix change but it has definitely grown quite well over last year.

**Prachi Kodikal:** Because what I was trying to get at is everybody has been talking about consumer behavior, so from your point of view say if a customer buys something worth Rs. 500, he buys three pizza's, but given the factoring the price increases has his behavior changed that he keep his total spend at around Rs. 500 and maybe just buy two pizzas, which is not gone up to 550.

**Ajay Kaul:** No, it has actually gone up and we do not have clear cut statistics or internal analytics which kind of proves what you are trying to say.

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

**Vijay Chugh:** My question was I wanted to know what sort of consumer base does Domino's enjoy and what sort of annual addition are you seeing in this consumer base?

**Ajay Kaul:** It's a big question in terms of what our base but it turns to be million actually.

**Vijay Chugh:** But do you measure that in terms of growth, what sort of growth you are?

**Ajay Kaul:** We measure that in terms of growth stores by stores. So we have store by store data in terms of what the net new additions are, how the frequencies of each group is changing, people who are new guys, people who consume once, people who consume us 1-3 times, 4 plus times and also the frequent consumers. So we have all that data store-by-store.

**Vijay Chugh:** Okay. Let me just ask the question, people consuming more than once either in your sort of, I do not know, 3 or 6 months it denotes loyalty, how would that be as a percentage of sales?

**Ajay Kaul:** As a percentage of sales hard to answer while those statistics are present somewhere but clearly over the years we are seeing that the frequency of consumption of our customers is only growing up, which only means that each group is becoming that much more loyal to our brand, the salience and everything. And that has been if you ask me, one of the cornerstones of our success or manifestation of what things we are doing right, leading for people to become more loyal to the brand. So, that is all improving but I cannot share the numbers with you, that it moved from 1.5 to 1.7 and those kinds of things because for each group it is a different frequency number.

**Vijay Chugh:** Okay, alright. Thanks, thank you so much.

**Ajay Kaul:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani:** Hi, good evening everyone. Sir, just wanted to know the Sri Lankan franchise, is it our franchise or you are doing it yourself?

**Ajay Kaul:** We are doing it our self.

**Mayur Gathani:** Okay, we are doing it our self, and commissary wise you are saying, you are relocating the East and the West one, and having a new one in Chandigarh.

**Ajay Kaul:** Yes.

**Mayur Gathani:** So, that's three, and for Dunkin' Donuts you would have one more.

**Ajay Kaul:** That's right.

**Mayur Gathani:** Okay. And sir, your same stores would be contributing approximately 80% of the top lines, still?

**Ravi Gupta:** It is a fairly big number, and it will be around that number.

**Mayur Gathani:** And, total price hike taken from let's say last November till date would be approximately 10%? I just missed the point; I mean you did mention it.

**Ravi Gupta:** Yes, it was close to 9% - 10%.

**Mayur Gathani:** And we are still looking at another hike in this month?

**Ravi Gupta:** Yes.

**Mayur Gathani:** Okay. Thank you very much, and all the best.

**Ajay Kaul:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Nikhil Upadhyay from Equirus. Please go ahead.

**Nikhil Upadhyay:** Sir, my first question is, if you see our inventories over the previous quarter, Q2 it has just doubled. So, I just want to know whether it is more of due to price increase or are we going for a change in the procurement policy in order to give rise to this increase in the food inflation.

**Ravi Gupta:** It is actually a mix of both of them. At times we procure in advance, and create a build-up for a high season, that is one. And, second is also to deflate the impact of inflation at times we procure a little early.

**Nikhil Upadhyay:** Okay, if we see our inventory it's like around Rs. 19 crore.

**Ravi Gupta:** Yes.

**Nikhil Upadhyay:** So, and as I understand can you give me a division like how much would be more of towards the Diwali effect and more of towards the inflation effect. The reason I am asking is like, if we are more of towards the food inflation side then, maybe our margins can be sustained going forwards, so our gross margins can be sustained to some extent, so...?

**Ravi Gupta:** I think it is less of inflation, and more accumulation of stock because inflation when you consider even 15% inflation hypothetically, Rs. 10 crore could have become Rs. 11.5 crore, . Not more than that.

**Nikhil Upadhyay:** Staying on with this more of the festive season a build-up of inventory Diwali has just ended up, I just wanted to know in the last one month how is the growth in sales you have seen, how was it because, most of the consumer companies have or the consumer durable or auto companies have said that the festive demand was not very strong this year. So, what was your view, how you have seen it?

**Ajay Kaul:** Yes, we won't hazard any answer for October, because that is going into the next quarter. As a company we would not want to talk about a quarter which is we are not reporting results for. But, at a very general level what you spoke about other companies we don't seem to be witnessing that.

**Nikhil Upadhyay:** Okay. And, my next question is, two years back if we see, more of the stores which we were opening were more concentrated towards Tier-1 cities and now we are more of trying to enter into the Tier-2 and Tier-3 cities. So, is there a difference in the sales which we were witnessing in Tier-1 cities two years back and the sales which we are witnessing in the new stores now? Is there some difference or are the sales at same level

**Ajay Kaul:** Two parts to that answer. One is, it is not that we are entering Tier-3 cities now, in fact, if you look at last three years, we entered around 13 cities, which was four years back, then we entered 22 cities, then we did 21, and this year so far we have entered 6 new cities. So, on a relative scale we have entered lesser new cities so far than we have done in the previous year twenty one and twenty two before that. So, the mix actually has not changed by and large of Tier-2, Tier-3 cities or new cities, vis-à-vis our existing cities. But in a broader scale if I were to answer that question, that are we seeing any big changes or differences between, actually it is a mix bag, but at an overall level we are not seeing big changes.

**Ravi Gupta:** To add to what Ajay said, about 50% of the stores, which will open this year, will be opened in top 10 cities and the balance stores will open in the rest of the cities including new cities.

**Nikhil Upadhyay:** Okay, so just staying on with this same last year or through last year, we saw that majority of sales were coming from our top three or four cities. So, has that equation changed substantially or still we see the same things panning out?

**Ravi Gupta:** See, the big cities still contribute substantial chunks definitely, and if you look at the top 10 cities, all those store wise it will be about 60% - 65% of the stores, revenue wise that will be about 65% - 70% of the revenue.

**Nikhil Upadhyay:** That's all, thanks a lot sir.

**Ajay Kaul:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Sanjay Ram from Motilal Oswal. Please go ahead.

**Sanjay Ram:** Hello.

**Ajay Kaul:** Hello Sanjay.

**Sanjay Ram:** Hi. I just wanted to check a couple of things. One, I want to understand, when you go into the Tier-2, Tier-3 towns are you seeing lesser ad intensity which is required, compared to let's say an urban center that you enter into?

**Ajay Kaul:** There are two things. One is our national level advertising policy does not change. So, to that extent whatever viewership is there channel wise present in those small cities that's what is the exposure, but having said that there are two-three things that happen. One is, we have in the last couple of years started advertising also on regional channels quite actively. And that is giving us some good dividends, and these regional channels obviously are catering more to the hinterland, which means the Tier-2, Tier-3 cities. Second thing which I would mention is that, we put a lot of emphasis when we are going to these Tier-2, Tier-3 cities in terms of the marketing which we do at the ground level by way of door hangers and other things. So, there we make it that much more an intensive marketing activity.

**Sanjay Ram:** Right. But, what I am trying to ask you is that, you get more bang out of every rupee spent when you go to rural India vis-à-vis urban India.

**Ajay Kaul:** It's a mix bag, I mean it's a mix bag in the sense we will not be able to very clearly say that it is more beneficial, we have been getting, I think nine times out of ten from all stores that we open whether it is Tier-2, Tier-3 or existing cities we are getting our returns.

**Sanjay Ram:** Okay. And, secondly I just wanted to check a lot of FMCG companies during times of very high inflation started reducing the size of chocolate and stuff like that, so do you think that if the price increases become a problem you will also have to go that way probably, there is space for you to bring down the amount of cheese that you put in, or stuff like that, have you thought on those lines?

**Ajay Kaul:** Fortunately or unfortunately, while being in a quasi FMCG space, that is an option not available to us. Reducing sizes and stuff like that is something which we kind of look at other companies doing and laugh about because, we cannot do that. Now, as far as ingredients are concerned merely internal policy, it is a no-go. Once our consumers have given us an overwhelming response to the perfect mix of the various items that go on to our pizza, whether it is an interplay of cheese, the sauce, the various chicken and all those kind of things, any variation there can affect the taste which can then lead to a much severe impact in the consumer behaviour level. The size per se does not change the taste profile of the product, which you understand. So that's a no go zone for us. So the play available to us is basically around price, but as I have been saying despite a quarter where our same store growth came down a little bit, we still grew by 47%, first half we had grown by 53%. By way of these high growth numbers, we are able to work closely with our business partners to give the economies of scale by way of which we are able to obviate or lessen the impact of an imminent ingredient

cost increase and thereby necessitating a price increase. But, this year has been a bit abnormal and we hope we have seen the tail of the whole thing, where we have had to take two to three price increases and not small 2% - 3% but a bit more than that. But, we are hoping that we have seen the tail of this thing.

**Sanjay Ram:** Okay, just one small question. What will be the proportion of credit card versus cash?

**Ajay Kaul:** It's a single digit number, so it's very small.

**Sanjay Ram:** To credit card over a single digit.

**Ajay Kaul:** Yes.

**Sanjay Ram:** Thank you.

**Ajay Kaul:** Thank you.

**Moderator:** The next question is from the line of Manoj Menon from Kotak. Please go ahead.

**Manoj Menon:** Hi team, good evening and congratulations for a good set of performance.

**Ajay Kaul:** Thank you.

**Manoj Menon:** Three questions. One, sir on the price increase this 9% - 10% price increase, if I understand correctly historically the Company has restricted it to about 6% price increase per annum for a very long period of time, so point number one, is there any fundamental difference in the way you are looking at the price increase, at the lever, so that's one. Point number two in terms of the market share you alluded to in the current call as well as in a couple of earlier call as well. Basically just want to gauge the confidence of the company in terms of sustaining or even improving the market share momentum. Point number 3, if I heard you correctly the rates between delivery and dining you seems sort of satisfied. I presume it also substantially depends from what it used to be earlier.

**Ajay Kaul:** There is a lot of disturbance Manoj as you are probably on the road driving or getting driven in a car or something, so if we understood your questions correctly, let's take it in the reverse order. 55 - 45 approximately, that mix has not changed over the last two or three years. The dine-in business surprisingly is growing as well, as our delivery businesses, while most of our advertising energy is always focused on improving delivery business. So, that probably gives you an idea as to how the brand has come of age in the minds of all types of consumers who have so much of faith in the product that they don't mind coming to our store and consuming it. Obviously, we have made lot of investments in the way we have, kind of improved our dine-in image, the quality of service, the attitude of people and everything.

**Ravi Gupta:** Now, your first question, was with regards to price, in terms of price, the way our outlook is that our raw material cost should be in the round of 25% - 26%. That is the target we have in mind. And, although we do not want to give a big price increase to the consumers at one go, and that is the reason for 1 or 2 quarters we may absorb the inflation impact with us, with the overall target that the raw material cost should be in the range of 25% - 26%. So, that is the key fundamental we follow when we look at the price increase. With respect to market share, which was the second question you had Manoj, what we are doing is, we will be opening 80 stores and we will be growing in excess of 20% definitely this year. And, market share is the resultant impact, or is the result out of all these activities. So, we are not targeting a particular market share, but because the inactivity of the competition we are gaining the market share right now.

**Manoj Menon:** Okay, understood. Sir, only one follow-up question on the price increase. Has the Company faced a similar sort of hyperinflation in food cost in the past and how you would have looked at the price at the level? Let me put it much more straight here what I am just trying to understand is, that if your confidence level of pushing through a price increase is much higher than the history of the company.

**Ravi Gupta:** if you look at the past three-four years, we have been able to pass formally 5% - 6% increase to the consumers, and as Ajay explained, we have been working as business partners the vendors to minimise the impact of inflation to us, as well as for our consumers. Over a period of time we have built a significant leverage vis-à-vis competition, and when we increase prices we are that much more confident. We made the price increase in the context that when the consumer is encountering double digit price increase in food, the consumer takes that much more openly.

**Manoj Menon:** Understood sir. Thank you so much and all the very best.

**Ajay Kaul :** Great, thank you.

**Moderator:** Thank you. The next question is from the line of Tarun Surana from Sunidhi Securities. Please go ahead.

**Tarun Surana:** Sir, how much of revenues would be coming from dine-ins versus takeaway as of now? And has that changed over the years when you have entered more in Tier-3 cities, where probably dine-in may be giving you more revenue. Is that assumption is correct?

**Ravi Gupta:** Tarun, this was the answer we just gave for the last question to Manoj. Ajay has categorically said last two-three years, this percentage has not changed. Delivery is just marginally better than takeaway.

**Tarun Surana:** Okay. But, what would be the revenue share versus I just need that number actually?



**Ravi Gupta:** I think estimate wise you can say 55 - 45 ballpark figure.

**Tarun Surana:** Sure, okay sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Sangam Iyer from AlfAccurate Advisors. Please go ahead.

**Sangam Iyer:** Yes, just wanted to understand as you move into Tier-2 cities, is the average square foot per store reducing anything like that?

**Ravi Gupta:** In fact, in Tier-2, Tier-3 cities our store sizes are bigger because, we have more covers in those stores. Typically, in those cities initially when we entered the delivery concept is not prevalent. That is the reason initially the the business comes to dine-in and then with our dedicated efforts delivery picks up and keeps on growing.

**Sangam Iyer:** So, what would be the typical size, if you could just give us some idea on that?

**Ravi Gupta:** Our average size nationally is about 1300-1400 square feet. But, those cities can go in excess of 2,000 square feet also.

**Sangam Iyer:** Okay. And, sir I was trying to do the rental calculation. Has it gone up this quarter, on a per square foot basis for us?

**Ravi Gupta:** Not really, we don't look at per square feet actually. Because, when you look at, suppose an example of Mumbai, suppose you hire a place in Churchgate or Nariman Point vis-à-vis you take a place in Dahisar, obviously the rates in Churchgate will be higher. Hence we don't look at that way.

**Sangam Iyer:** Okay, okay. Great sir, thanks a lot.

**Ravi Gupta:** Thank you.

**Moderator:** Thank you. The next question is a follow-up from the Rahul Bhangadia from Lucky Securities. Please go ahead.

**Rahul Bhangadia:** Thank you for taking my question sir. I just need one small follow-up on the clarifications that you had given earlier on the current liability side. Now, as you said that you roughly get about 30 - 60 days of credit for your raw material, and for the expenses other than your salary and rent. Now, if I just do some rough mathematics for the first six months, your raw material consumption was roughly Rs.120 crore and your other expenses were Rs. 130 crore. Even if I assume that you get a 60-day credit on your raw material which is about, on Rs.120 crore it is roughly about Rs. 40 crore. Now, so we are left within the current liability a Rs.100 crore number for other expenditure of Rs.130 crore which is surely not 60 days. So, is there something I am missing out here?

**Ravi Gupta:** Actually if you look at what is our average sale in this quarter, is about Rs. 80 crore. Okay, and as you rightly said, Rs. 40 crore out of that is you can say 50% expenditure which we got out. Now, out of the personnel expenses also, there is few heads which are payable as arrears. I will just highlight a few of them. One is bonus, if you pay to the employees, typically it is paid at the Diwali time next year, till that time we keep on accumulating this. Second is incentives, and performance bonus. Performance bonus to the support staff is payable after the end of the next year. And, when we look at quarterly incentive which we pay to the Store Manager also, that is paid after the end of the quarter, which is typically there. So, instead of 50% cost which we earlier discussed it is kind of 60% - 65% cost which will slowly move in that category.

**Rahul Bhangadia:** So, if your employee, your first half employee cost was roughly Rs.90 crore, how much of this will be on accrual basis?

**Ravi Gupta:** I don't have right now, the ready statistics, probably off line we can discuss and I can give you the statistics.

**Rahul Bhangadia:** Will that entry, even if out of Rs.90 crore even if Rs.15, 20, 25 crore number even if it is that, that still does not, will that probably justify that 60 days credit number?

**Ravi Gupta:** Some of the liabilities are even 90 days also, like the franchisee fee that we pay to the Dominos International. It is actually more than 90 days credit we are getting there. So, some expenses are beyond 60 days also in that.

**Rahul Bhangadia:** Okay. I took 60 days as a maximum because for all the food expenses you won't be getting 60 days, right?

**Ravi Gupta:** You are right. And the capital expenditure is also part of this.

**Rahul Bhangadia:** In the current level?

**Ravi Gupta:** In the CapEx we are incurring this year; outstanding of that also gets reflected in the current liabilities.

**Rahul Bhangadia:** Also, it gets reflected and the creditors for goods, is it?

**Ravi Gupta:** Yes, these are on the current liabilities only because, there also we are getting credit.

**Rahul Bhangadia:** Okay. And, just one final thing. If you could just give me a break-up of the loans and advances which has gone up from Rs.70 crore to Rs. 90 crore in the first half of this year?

**Ravi Gupta:** Actually the way to look at this Rs.70 crore to Rs.90 crore from September last year to this September. Last year September, the figure was about Rs.48 crore and this year is about Rs.90 crore so it is about Rs. 40 crore. Out of that Rs 30 crore is ICD which we have given to a company outside the book and Rs. 10 crore approximately is the increases in the deposits which we give for the stores and opening of the commissaries and other operations.

**Rahul Bhangadia:** But, if I have to look at it from a March to September point of view, even March the Rs 30 crore too were outstanding right?

**Ravi Gupta:** Yes.

**Rahul Bhangadia:** So, out of that Rs 70 crore, Rs 30 crore was already accounted for so we have gone from Rs. 70 crore to Rs. 90 crore in the first half. Is all of that accounted for by deposits only?

**Ravi Gupta:** What we have to compare is actually from same period last year to this year, because that is an identical period.

**Rahul Bhangadia:** No, that's fine sir. But, I am just saying incrementally we have put in Rs. 20 crore, I am just asking if that is accounted for all from deposits or is it something else?

**Ravi Gupta:** No, this is not all deposits. There is an amount recoverable from one of our business partners who contributes to the marketing fund, that is also added to this.

**Rahul Bhangadia:** How much would that be?

**Ravi Gupta:** That is in excess of Rs. 10 crore, which we receive annually in advance with them. So the invoice is raised typically in this quarter, and we receive the money and only in advance.

**Rahul Bhangadia:** Okay. Thank you, thank you sir.

**Ravi Gupta:** Thank you.

**Moderator:** Thank you. The next question is a follow-up from the line of Pritesh Chheda from Emkay Global. Please go ahead.

**Pritesh Chheda:** I just had a follow-up here, what would be the approximate revenue per store, if you could share, for the older stores.

**Ravi Gupta:** No, Pritesh we will not be able to share that.

**Pritesh Chheda:** Okay, no problem sir. All the best to you sir.

**Moderator:** Thank you. Thank you everyone. I would now like to hand the floor over to Mr. Ajay Kaul for closing comments.

**Ajay Kaul:** Thank you, all friends on the investing world. It was a pleasure talking to you. Thanks for your time and hopefully talk to you soon. Thank you very much.

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