Q3 FY2012 Investors/Analysts Conference Call
February 9, 2012

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 December 31, 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 Q3 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 Q3 FY2012.

Hari Bhartia: Thank you. Good evening and a warm welcome to all present with us on this call today I am extremely delighted to present JFL's performance for the third quarter and for the nine months period which ended on 31st December, 2011. It is Jubilant FoodWorks' endeavor to be on the forefront of many opportunities that are unfolding especially in the Food service industry. We are extremely pleased with the way our business has progressed over the years which also serves as a testament our growth over the long-term. Domino's Pizza continues to grow and we will remain focused on creating unique differentiated offerings and experiences. I would like to compliment Domino's team for opening 28 stores in the last quarter and 61 stores in the last three quarters. I am pleased to inform that we have revised the target of opening of new Domino stores for FY 12 to around 85 stores.

Our recent addition to the Jubilant FoodWorks portfolio, Dunkin' Donuts have reached the final stages of development and is now close to its launch. Over the past few months we as a team have successfully implemented key business strategies to build a fortified base for Dunkin' Donuts and now look forward to unlock the value that lies ahead of us.

Given the discipline business approach and capabilities of the company, we are confident that the forthcoming quarters will be equally exciting as we anticipate healthy traction in our business. I would now request my colleagues, Ajay and Ravi to provide you with a detailed view on our operations, financials and other initiatives. Thank you very much. Over to you, Ajay.

Ajay Kaul: Thank you, Hari. Good afternoon and welcome to Jubilant FoodWorks Results conference call for the third quarter and nine months ending 31st December 2011. Jubilant FoodWorks' third quarter results demonstrate an ongoing progress of our business activities and initiatives, as we are successfully achieving growth which is sustained and consistent with our expectations. For the quarter ending 31 December JFL's total income for the quarter increased by 49% to Rs.2771 million. Our same-store sales growth for the same period is 30%. Net profit for the third quarter was at Rs. 295 million, registering an increase of 56% as compared to last year.

We continue to benefit from the strong brand identity we have created for Domino's Pizza in combination with an outstanding product quality and an expansive network which has enabled us to grow our business thus far. We believe the opportunities in the QSR segment and our success till date encourages us to continue aiming for greater heights. Our focus of expanding Domino's Pizza continues as we launched 28 new stores this quarter and cast our footprint in four new cities; Shillong, Kodaikanal, Rohtak and Burdwan. As a result, we are present in total 100 cities with a well-entrenched network of 439 stores. Our launch in Sri Lanka has received tremendous positive response and operations continue to witness healthy growth. We are optimistic about our future progress in Sri Lanka as the market presents great opportunities to expand. We wish to extend our experience in India while delivering growth at a healthy momentum.

Thus, wherever we go, our mantra is simple. Our customers' interests are our top priority. Hence, an important element in our success is customer acceptance and feedback which we value and utilize to create new offerings. This quarter we launched two new indulgent treats for our customers; the unique '3 Cheese Pizza' and the Nutty Choco Lava Cake. Our thought process behind this was to create items which simply takes the Domino's experience to the next level and I believe we have been successful in this endeavor. While we are able to create a wider option base for our customers the success of our new product launches continue to drive an increase in overall sales. Our other launches such as Butterscotch Mousse Cake also continue to be well accepted and it is such response that drives us to further expand our varieties.

We not only continue to align ourselves with our customers but also wish to provide a robust backend as we continue to expand our business base. Our supply chain management has been our focus since inception and serves as a backbone for our operations. As discussed in our last concall we are in the process of relocating our West and East commissaries and also opening a new one around Chandigarh. We are progressing well on all three commissaries and expect them to be ready for operations by the next quarter.

On a competitive basis, I firmly believe that with our talented and creative work force and our focus culture of innovation along with the robust support system, we have a strong foundation to continue our growth and expansion. After successfully opening 61 stores as of 31 December, 2011, we are revising our target to open new Domino stores to around 85 for this financial year.

As a philosophy we like to fine tune ourselves and adopt a new technologies as we grow. And to that point Domino's Pizza was the first brand in the food service industry to launch the online ordering system. We believe in this age of digitalization this initiative was appropriate for Domino's as this not only provides our customers with an enhanced accessibility but gives us the opportunity to reach out to a larger audience. This system has generated tremendous response and continues to gain traction. Further encouraging us on its endeavor JFL was accredited with the "Gold Medal" in the "Indian Digital Awards" for the "Best Search Marketing Campaign" for our Online Ordering by the Internet and Mobile Association of India (IAMAI)

This is an exciting time for us. We are optimistic about our future growth with regards to Domino's Pizza and are geared up for the launch of Dunkin' Donuts stores. As a principle, we wish to drive our performance on top of an efficient business model and for the last few months that has been our emphasis for Dunkin' Donuts too. My team has dedicated efforts to create a strong backend for this new brand with focus on creating a strong supply chain system, human resources and marketing management. And today, we are in the final stages of the launch.

With Dunkin' Donuts in India we plan to address the largely untapped 'all-day part' food segment. While we wish to bring this international brand to the Indian market, we will try to leverage our knowledge and our ability to gauge the Indian consumer's insights to design and extend a menu which will help the brand adapt and create a unique food service experience. Our efforts have been to combine Dunkin' Donuts global quality standards with JFL's knowledge and ability to create a synergistic operating environment. Looking forward, with JFL's vision, strategic thought process and core underlying strength intact, including our talented workforce our continued investment and innovation, I am encouraged that our progress and achievements of every quarter will lead to an even stronger future for JFL. At this juncture, I would now like to hand over to Ravi Gupta, our CFO and President for a detailed financial review of our financial performance.

Ravi Gupta: Thank you, Ajay and good evening to everyone. We are pleased to have the opportunity today to review our third quarter and nine months business performance and the progress we continue to make. New product launches, geographic expansion and traction in existing markets have all translated to a healthy financial growth. Our total income during the quarter was at Rs. 2771 million that is 49.2% growth from Rs. 1857 million last year. Store expansion continues to witness growth as we opened 28 new stores this quarter. Same-store sales growth for this quarter was at 30%.

During the quarter and throughout the year we continued to invest for future growth through a stronger product menu to cater to all customer preferences. We have received positive feedback for the unique ‘3 Cheese Pizza’ and also the new Nutty Choco Lava Cake.

Moving on to our profitability for the quarter, increase in sales combined with improved operating efficiencies generated 62% increase in EBITDA to Rs. 524 million as compared to Rs. 323 million in the same period last year. Throughout the organization we remain focused on cost rationalization, which is a reflection of the consistent initiatives taken over the past several years.

With increased capabilities and opportunities created by our continuous improvement initiative, we have enhanced our ability to monitor and thereby proactively manage our operating margins. At JFL, we have close collaboration with all business partners to create a scenario which is mutually beneficial to all. This has not only enabled us to leverage our scale and create efficiency but also helped us to create a distinctive business model.

In view of the impact of inflation on our raw material costs, apart from leveraging our volumes and the scale that we have built in our business, we had increased our product prices by about 5% during November 2011. This, along with our other measures of cost containment have enabled us to drive continued positive financial results. The inflation trend has softened towards the end of the quarter and we expect it to continue the same way in the current quarter.

Moving on to Q3 FY12, PAT was at Rs. 295 million with an increase of 56% over the corresponding quarter last year. JFL’s top-line growth and the combined effect of the cost reductions and improved operating efficiency together had a positive impact on our profitability.

Moving ahead with the nine months results, total income was at Rs. 7343 million, an increase of 52% over Rs. 4846 million in 9M FY11. The results reflect our concerted efforts to grow Domino’s Pizza network coupled with several new launches throughout the year. Our EBITDA for the same period was Rs. 1381 million compared with Rs. 871 million in the corresponding period last year. EBITDA margin stood at 18.8% compared to 18% in nine months FY11. Lastly, PAT for the nine months FY12 was recorded at Rs. 763 million witnessing a growth of 45% when compared to PAT of Rs. 527 million in nine months FY11. As Ajay discussed, we are confident about achieving our store extension target that we have set for opening Domino’s Pizza stores, that is opening around 85 stores in this fiscal.

In conclusion as I look to the future we have ample opportunities to further strengthen our revenue levers and improve our operating execution. We will continue our dedicated efforts to further drive our competitive edge through scale advantage, constant innovation and financial discipline. With this I would like to conclude my remarks for today and request the moderator to open the floor for Q&A session. Thank you.

Moderator: Our first question is from the line of Prerna Jhunjhunwala from HSBC Invest Direct. Please go ahead.

Prerna Jhunjhunwala: First one would be your Other Expenses have risen by 53% against a sales growth of 49%. Is there any such cost which has led to certain increase in other expenses?

Ravi Gupta: Prerna, if you remember in the last concall in the month of November, we had indicated that we are stepping up our efforts towards marketing and the background was what you are reading with regards to market slowdown. So we had indicated that we will be taking all this on the front foot and increasing our efforts and marketing spends. So, in a nutshell, that is one amount which we have increased and hence marketing expense as a percentage has gone up in this quarter.

Ajay Kaul: Just to add to what Ravi just said, the marketing efforts have gone into all the tools, vehicles that are available to us apart from advertising which is more conventional. We have also put in our money into below the line activities, the things which we do at the local store level and most importantly, as you may have heard even during our presentations, is the launch of the online ordering system. Being the first company in the space to have launched online ordering where you can order a Domino's Pizza, have it delivered to your home through the net with a 30 minutes guarantee. We also pumped in a bit more money into that. The idea was - that as we were hearing that there may be a simmering downturn - to play a bit aggressive and go into the space and it has paid dividends for us.

Prerna Jhunjhunwala: My second question would be how has the traction on online ordering been? What percentage of your total orders would be coming from online ordering?

Ajay Kaul: It is still a single-digit number but it is growing week after week and what we learn from experience of Domino's in other countries- where online ordering was launched a few years ahead of us this number is looking very, very encouraging. We obviously intend to publicize this number more frequently in future, maybe we will even advertise it and so at that time we expect this number to be even much, much higher than what it is currently.

Prerna Jhunjhunwala: When we compare our online ordering model with telephone call ordering model, is it more cost saving than the telephone line ordering?

Ajay Kaul: Right now, when the numbers are still, as I said, they are growing, they are still single-digit, but just for reference, in countries like let us say, Australia, UK, USA which is the largest market ,online orders can grow up to even 20, 30, 40% of your total business. So it has that kind of potential. It has already reached those levels in those countries. Where your numbers are large you get scale and you even get these transactional savings and so on. It is too early to speak as far as our transactions are concerned but as I said it is a high single-digit and the numbers are growing every week.

Prerna Jhunjhunwala: And my next question would be on raw material cost. You have been successfully able to control that cost given the price hike and measures you have taken. Just wanted to know is there any product mix change or efficiencies that are playing role in cost containment on raw material front as well?

Ajay Kaul: Let me answer the second question first. As far as efficiencies are concerned, we will not be able to pinpoint to any one or two but let me tell you, once we were having pressures coming from the ingredient cost line, obviously we are seeking for efficiencies, even otherwise but more so in the case when there are such pressures in all aspects of our business. We are probably the only fast food service company which engages Six Sigma in a very aggressive way to look at efficiency across the business. I want to make a point before we come to price increases, yes, the price increases during the course of last year have been all put together in the vicinity of around 12%. Normally, in all of the previous years we take one or two prices increases adding up to a maximum of 5-6%. We believe that is nominal, we believe 5-6% does not hurt our consumers. At the end of the day we are in the consumer business and we do everything for our consumers before anything else. So, when we have to in a year increase our prices by let us say 12%, it does not give us joy at all but thankfully, I think it is a concerted view that the worst of food inflation is behind us. If at all the food inflation we will see in future or near future is not expected to be significant but will be nominal in nature and that is something which we can handle more easily. Having said that yes, price increase has played a role in Q3 in terms of margin improvement.

Prerna Jhunjhunwala: My next question would be on the Dunkin' Donuts stores. Since you would be launching maybe in Q1 of FY13, what are the concrete plans on the store metrics and stuff, anything that you would like to add to affirm the previous concall?

Ajay Kaul : What I would say is that there are activities happening on 4-5 fronts together. Our factory which is called (CML) "Centralized Manufacturing Location" it is like the commissary which we call in Domino's, it is nearing completion, it should start production, trial run very soon. The first few stores have been identified, plans are done and they are under construction. Ingredients have been finalized, contracts have been signed and right now menu development and all that is also almost frozen, so all these various things are converging towards some point in Q1 of the next financial year when we will be opening our first store, it will be around Delhi I can tell you that. Exact numbers and other specifications, we are not in a position to share with you at this moment.

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

Jaibir Sethi: Just wanted to understand that in the last conference call you had mentioned that you are seeing perhaps early signs of a consumer slowdown. That slowdown has hit home for a number of other discretionary consumer companies and yet, you have remained immune. So, what do you think has driven the sort of level of same-store sales growth that you achieved, particularly in the backdrop of a softening consumer environment? And what do you expect will help you sustain this going forward?

Ajay Kaul : Going forward is something which we normally do not comment about, but let me answer your question. I think our outlook towards the downturn, the issue or the subject of downturn remains almost the same. It is not a full-fledged downturn but some early signs are visible of something happening at the consumer level. It is obviously affecting some categories and even more within the consumer space. I think within these fast food, low ticket our space it is affecting that much lesser but probably, there is still something happening there. As we explained earlier, because we probably saw it coming, we clearly tightened our marketing, we look at either some exciting product development, we launched some exciting products in the last two or three months. If you look at Q3, we launched a '3 Cheese Pizza' which has done very well; we also launched a new variant of a dessert that also has done exceedingly well. We also looked at some much more innovative marketing which is in form of advertising, at the same time below-the-line activities and I cannot give you all the details here but all of those have helped us to obviate any imminent impacts of the so-called 'downturn'. You would recall that after several quarters of 30% plus same-store growth, we had done 27% same-store growth in Q2 and that was some sort of an indicator that maybe there is something happening at the consumer level and that is what has then pushed us to f take some kind of aggressive positions.

Jaibir Sethi: The signs that you mentioned, do you think that there has been a step down and the consumer environment is now stable or do you think things are getting worse?

Ajay Kaul : We are not fortune tellers but we believe there is some sentiment at a consumer level which is not positive, but it is no different from what it was two, three months back, so it has not worsened but all is not hunky-dory is what our assessment would be. But having said that, you also read a lot of stories about how suddenly a lot of companies are very positive about the outlook, returning out of day work there was a lot of companies which were very positive. So, we are optimists by nature, so we would rather look at it positively than anything else.

Moderator: Thank you. The next question is from the line of Mr. Gautam Chhaochharia from UBS. Please go ahead.

Gautam Chhaochharia: A quick question, it is a price hike that you saw last year over nine months, can you break it up into what broad quantum price action you took and when?

Ravi Gupta: In April, it was 4%, in August it was 3% and in November it was 5%, in all it sums up to 12% increase which we have taken.

Gautam Chhaochharia: Do you see any need for taking more price hike and how have you seen the last --?

Ravi Gupta: As I explained earlier, we are seeing the inflation is softening during this quarter, we do not expect the inflation to trouble us anymore in terms of raw material prices and considering that even in the next 3- 4 months we do not expect any price increase.

Gautam Chhaochharia: But we would not look to do price increases to take margins even forward. You are happy with the current margin levels from a pricing point of view.

Ajay Kaul: Margin management obviously is important for business but everything emanates from the customer. As I said a little while back, like in all of the previous years, at best - after doing all of our margin management, we believe that 5- 6% nominal increase of price during the course of the year is okay for the customer. Anything more than that we believe it is not good for the customer because the category is still new, per capita consumption of Pizza is still not very high, we still have to go to so many new cities in the country, we have to further penetrate and if prices keep going up crazily, it is going to affect all these indexes. So, keeping this in perspective price increases have to be of a certain level and we would hate to increase the prices again by 12% in years to come, let me be honest about it. We would rather keep it at a nominal level and hope that it all translates into high order growth which will again lead to good results.

Ravi Gupta: To add to what Ajay has indicated, we keep on building our efficiencies continuously, but the target for raw material is that it should be around 25-26% of the sales, that is the benchmark. So, in case, our inflation again hits maybe in two years from now, probably we can definitely look at higher increases but as of now we do not foresee that situation.

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

Rahul Bhangadia: Two or three balance sheet questions. If you could help us with your cash and cash equivalents as of December?

Ravi Gupta: It is about Rs. 90 crore . It is all invested in the liquid mutual funds.

Rahul Bhangadia: And if you could help us with your current liability number which was Rs. 141 crore as of September?

Ravi Gupta: I do not have that ready information right now. Probably I can share with you offline.

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

Amnish Aggarwal: I have a few questions; my first question is that can you share with us what could be the same-store volume growth during the quarter?

Ajay Kaul: It is a number which is a few percentage points lesser than our revenue growth.

Amnish Aggarwal: Because in the last quarter concall you had indicated that if we look at say the same-store sales growth of 27%-odd then 5 - 6% could be the price element.

Ajay Kaul: It is in a similar zone.

Ravi Gupta: We do not say price element, because price increase we have already separately indicated to you. 30% is the overall growth in the sales. So, the transaction size increase is about 5- 6% that is what are we saying, rest is order increase.

Amnish Aggarwal: And secondly, we have opened a couple of stores in Sri Lanka. So, how is the operation there? Are we running it under the franchisee route or are we running it on our own? And if we are doing it on our own then are those numbers also included in this?

Ravi Gupta: Sri Lanka numbers are not included in this. We consolidate Sri Lanka on an annual basis. In Sri Lanka, as of now, there is one store, and we are pretty happy with the kind of performance that one store is doing right now. The opening of the second store is slightly delayed. Second store should be there by end of this year and we have already signed third and fourth store and they are under construction. So we will be announcing how many stores we will open next year for Sri Lanka but in this year we see only one more store coming up in Sri Lanka. It is not done through franchise route, it is our own subsidiary we have set up and all the stores are being managed directly by our subsidiary.

Amnish Aggarwal: How much money you have invested into this subsidiary?

Ravi Gupta: About Rs. 8 crore total till date have been invested which includes setting up the initial commissary, the office and the store which is there right now and some stores under construction.

Amnish Aggarwal: And our Dunkin' Donuts now, we are very close to launching our stores. Can you give us some idea that what could be the size of the initial stores or what sort of menu items you are looking at? Because globally Dunkin' Donuts is more like your 50 - 60% coffee, but here we want to position it more like a food store with all day food kind of stuff. So, can you throw some light on how the menu will look like or what are your initial expectations and what are you looking at more in the light of the fact that now Starbucks is also coming into India shortly?

Ajay Kaul: I wish we have had much more concrete things to tell you, probably in a month-and-a-half - two months from today, we will be in a much better position to throw light on all these interesting subjects which you just spoke about, but let me still try to give you a bit more qualified answer on your various questions. You are right, without giving you exact menu specifications, we are looking at an all-day part food program which is over and above the coffee and donuts that Dunkin' Donuts is known for. In most parts of the world, outside of the

US, Dunkin' Donuts sells Coffee but more importantly, Donuts is one of the main things. In India, we believe there is a big opportunity for this all-day part food program and as a result that also going to be the third pillar of our positioning in India apart from coffee and donuts. I think you are questioning about store sizes and so on, honestly, our aim in the beginning is to open various types of formats, because there is flexibility that is there, experiment a bit, as much as we did in Domino's, we are not in a hurry to open let us say a big number of stores and hope they will do well. We would rather open limited number of stores but on different types and they will all give us a rich experience in terms of what works, what does not work and so on and so forth. And once we get a good handle of that in the first couple of years we will then scale it up. As you are aware, our minimum commitment is to open 80 to 100 stores in five years' time. You may argue, it is not very aggressive but we want to go in a steady fashion, make sure that it kind of finds and gravitates towards the right model, the right menu, the right pricing. And once we get answers to all those questions then we will scale this whole thing up.

Amnish Aggarwal: Do you have any definitive CapEx plan for Dunkin' Donuts in FY13 that how much you will just spend on that in terms of CapEx and also any in terms of say, advertising, some other media a year?

Ajay Kaul: As we are speaking actually, we are in the midst of finalizing our budget for Domino's Pizza also and with whatever limited information we have even for Dunkin' Donuts but we are not in a position to firstly share anything with you right now because it is still in the process of being made and at the appropriate time although we do not like to make any forward-looking statement we will definitely reflect on it and give you some information.

Moderator: Thank you. The next question is from the line of Rakshit Ranjan from Ambit Capital. Please go ahead.

Rakshit Ranjan: First one, in terms of growth in your marketing spend in the third quarter, beyond the slight consumer slowdown signals that you talked about or driving it, has it also been driven by any increase in competition that you expect in the space?

Ajay Kaul: I would say, no. There are two parts to your question. There is enhanced competitive activity which is happening, which is a good thing for the industry if you ask me, it needed that kind of competitive activity. But, our own stance was more to do with a seemingly simmering downturn and thereby our attempts to let us say a bit more aggressive and see whether we can get some consumer off take and the consumer has responded to that and our 30% same-store growth is a testament to that.

Rakshit Ranjan: But just one on your dividend strategy, any updates on that yet in terms of when you are expecting?

Ravi Gupta: Rakshit, dividend policy will be discussed in the next Board meeting when we present annual results. So Board will be discussing and after the dividend policy is formulated probably we will be able to discuss in detail.

Rakshit Ranjan: One final one, in terms of your new store launches, the run rate that you are clocking at the moment, what proportion of new stores in the coming quarter or coming 12 months you expect will be from the top three cities?

Ravi Gupta: What we can share with you is about half of the stores come in the top ten cities and rest half of the stores of approximate comes in the rest of the cities including new cities. So, there is a ballpark range we operate in.

Rakshit Ranjan: And that run rate is expected to ease? That split is expected to be maintained?

Ravi Gupta: We are seeing a good amount of potential developing in the existing cities as well as the new cities. Although we are going to the newer cities we are opening second stores in the cities where we have one store, that all is happening but since in the existing cities also quite a lot of potential which is emerging, we cannot ignore that and that is the reason you find that about half of the new stores are opened in the top ten cities as well.

Moderator: Thank you. The next question is from the line of Naveen Kulkarni from MF Global Limited. Please go ahead.

Naveen Kulkarni: I have three questions; one is what is the current number of franchisee operated stores and what is the plan ahead for this segment? Secondly, could you give us the details of the CapEx incurred year till date and how much will be closed for FY12? And thirdly, when we look at the growth for this quarter, we saw a very strong same-store growth of 30%. In terms of performance the top 10 cities versus the rest of the cities, how are they faring , is there a substantial difference in performance between the top ten cities versus other cities or in terms of growth or in terms of the throughput that you are seeing?

Ravi Gupta: Naveen, to answer your first question, we have just two franchise stores; one at Delhi Airport and the other at Mumbai Airport. We have the benefit of very strong operating cash flows and well-developed operating processes to take care of the store expansion. We favour our own store model in view to consolidate the value in-house, in view that our stores are delivering great returns and it offers us flexibility in terms of our operations. Having said that, we periodically evaluate the option of franchising. In fact, as we already shared the two franchises stores are already there. Second question was regarding the CapEx. This year we are opening 85 stores. One store CapEx is about Rs. 8 million. In addition, we are relocating two commissaries, which is the West commissary and East commissary and starting one new commissary around Chandigarh. In addition, there is a Dunkin' Donuts CML plus a couple of stores for which we will be procuring equipment so that we can make them ready. All in all, our CapEx will be in excess of about Rs. 100 crore in this year. On the backdrop that last year it was about Rs. 70 crores. Third one, you asked us whether top 10 cities perform differently than other cities. The answer is that almost all the cities perform in a similar way. When you look at the same-store growth of 30%, we cannot differentiate saying that some cities are growing faster than the others. Yes, there will be some difference in month-to-month, some variation will be there. But the broad direction of the growth across the cities is similar.

Naveen Kulkarni: What is the cash flow year till date for the nine months?

Ravi Gupta: About Rs. 90 crore cash in hand which is lying in the liquid mutual fund.

Naveen Kulkarni: What is the free cash flow that we generated in the first nine months of this fiscal?

Ravi Gupta: In the beginning of the year I think we have about Rs. 50 crore, Rs. 50 crore is the free cash flow which was further generated during the year.

Moderator: Thank you. The next question is from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Given that we have increased guidance for a number of stores for this year, just wanted to understand does the high volume growth seen on a same-store sales prompting us to take this step because that would mean more splitting of stores because they are doing fairly well or it is that we see opportunity in newer markets?

Ravi Gupta: Same-store growth like last year was 37%, this year 30%. Splitting is included in this. Five additional store do not increase the proportion of the split stores.

Vikash Mantri: So are we seeing that tendency because given that we have two years of very high growth do we need to do that more?

Ravi Gupta: No, that is not the background. We are seeing more potential and our execution has been improving quarter-by-quarter and that encourages us to revise this number upwards.

Vikash Mantri: Second, in case of Dunkin' Donuts model, will we have a similar set up of commissaries that we would need across the country or it is more of production at the store level itself?

Ravi Gupta: The model is similar. We will have a commissary. It is not called "Commissary" in Dunkin' language. It is called 'CML' i.e Central Manufacturing Location. So each of the cities where we will operate will require a CML. Although CapEx investments in the CML are lower than the CapEx investments which are done in a Domino's model. This is because we require one commissary for each city in case of Dunkin. Moreover, it is a smaller commissary as compared to Domino's.

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

Hiren Dasani: I have two questions; one is on the Dunkin' side. As you alluded earlier that you are looking to about 80 to 100 stores over a period of five years. When we heard that Starbucks announcing almost 80 stores opening in the period of one year itself. So in light of that don't you think that you are going a little more conservative?

Ajay Kaul: The answer to that is the success of Domino's is a testament to the way we do our business. I would not say we do not get overawed by competition. They are always on our radar screen. But in the life cycle of any category including Coffee which we are talking about right now or these categories in which we will operate, I think getting customers used to changing habits is a much, much more important thing. From a model and a brand perspective we are more answerable to our shareholders and our customers. So the idea is to build the brand and the model in a steady fashion, in a profitable fashion, get all the learnings on board and then scale it up. If you see in the Domino's business also, in the first I would say 10 years or so we had just about probably built 100 stores and it is in the last 5-6 years that we have actually added another 300 or so. So, we would rather have a good profitable business because we are answerable to our shareholders or investors or stakeholders.

Hiren Dasani: The next question is on the same-store sales growth. I have been listening to you for almost two years now and then the guidance between 16 to 18%, obviously, we do much better than that and we are happy for that. Last full year we did about 37%, this year for the nine months we are at almost 31%. So, do you think that probably we can look at structurally for somewhat a higher same-store sales growth than 16 to 18% guidance which you typically give?

Ajay Kaul: We as a Company would not want to give any forward-looking statement but for this full financial year I think we are confident of delivering in excess of 25% same-store growth. But talking about FY 2012-2013 we will not be able to give any statement right now because we are also in the midst of preparing our budget, our forecast and so on. We will be in a position by the next conference call to share some numbers with you as to what our expectation is.

Moderator: Thank you. The next question is from the line of Mr. Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir, you had mentioned that the commissary is being relocated. So, when will that be operational?

Ravi Gupta: All the three commissaries will be operational on or before next quarter.

Mayur Gathani: So currently also they are working but there is another one being made, right?

Ravi Gupta: Yes, you are right.

Mayur Gathani: Sir, you mentioned that the break-up of the price hike was 4%, 3% and 5%. 3% was when, August?

Ravi Gupta: It was mid-August.

Mayur Gathani: And can you share with us your plans for opening how many stores in FY13?

Ravi Gupta: We will be able to share in the next concall. Along with the annual results we will be giving the guidance for the full year next year in terms of number of stores. To add to this, having opened like 72 stores last year and 85 stores this year, definitely, you will not expect lesser than that number in the years to come.

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

Percy Panthaki: My question is what is your thought process on capturing the consumption in out-of-home and out-of-office, basically things like movie theatres, malls, etc.?

Ravi Gupta: We are already capturing that kind of consumption to some extent, although movie theaters is where we are not present. Out-of-home if you can clarify further what do you mean by out-of-home because we are a delivery focus company?

Percy Panthaki: One part of it is definitely the delivery, but people do eat Pizzas even in movie theaters and that is clearly one of the areas of consumption that you are not present in. So would you sort of like to be present in things like Food Courts and movie theaters and stuff like that? Or would you say that that is not your focus area and you will concentrate on out-of-home only?

Ajay Kaul: Normally, when you refer to out-of-home that is where we got a bit confused. It talks about both delivery, which means food which is not prepared at home is referred to as out-of-home. But I guess you mean more in terms of going out and eating somewhere. As a part of our evolving strategy while we are clearly a delivery-centric company that is what our genesis is and that is the position we will never leave. But we have also realized that a lot of consumers in Tier II, Tier III cities in particular, for that matter, even in metros, like stepping out and going and eating on-premise or something like that. So, over the years, a fair bit of our stores also are coming up in malls. They are coming up in high transient points where a lot of traffic is moving and progressively the percentage of these stores is only going to go up in our total portfolio but will that become the main part of our strategy? The answer to that is 'no'. But they will also be there. There will be the malls stores, there will be the stores which are in corporate houses, there will be stores which maybe in educational institutes and so on and so forth. If you are aware that in all Infosys campuses there is a Domino's store, in almost all of them.

Percy Panthaki: My question was exactly on this point only. So, can you give some idea as to currently these kind of stores would be what percentage and how much do you think they can scale up to in five years?

Ajay Kaul: Currently, it clearly is in single-digit in terms of percentage but going forward it is going to clearly increase from there but our focus, as I will again say will always be stores which can deliver, which are like in high street locations but malls sometimes can restrict you from delivering, so we will not want to be getting into those kind of stores a lot, because delivery as a part of the overall part of the promise has to be there.

Ravi Gupta: To add to what Ajay has indicated, there are two portions; one is exclusively food court stores, that is the single-digit number Ajay is indicating but the second part is how many stores have dine-in facility. That is a substantial number. We can say 90% plus stores have some kind of dine-in. Now, extent of dine-in will vary from city to city. Mumbai kind of city will have lesser number of covers; one chair is one cover. But when you go to Tier III, Tier IV cities our covers can go up to 80 covers also. Now, having said that let me also add that our delivery sales is just marginally better than dine-in and take away.

Moderator: Thank you. The next question is from the line of Pratik Biyani from Standard Chartered. Please go ahead.

Pratik Biyani: Just one question on your run rate of store additions per year. Actually, just went through some results of your competitors in Yum! and they opened some 100 stores last year and they plan to open nearly 100 stores next year. And in China, for example, they opened some 650 stores in a year. So, just wanted to understand one, what can be that number for us in India? And if you have done any study how is China market different from India and can they replicate that similar China like pace of growth in India?

Ajay Kaul: All your questions are asking us to predict the future and as a company policy we do not make too many forward-looking statements at all. We believe in making some statements and hopefully, delivering on them. Now, coming to this question of China, China, is clearly a market which is a few years if not a decade ahead of India, there are some very successful QSR brands that have been created there and we get inspired by China and hope that we are able to replicate China's success in India someday at a very, very broad level I can make the statement. As far as India is concerned, there is an enhanced competitive activity. Some of those numbers which you just say are actually not correct from what they have done, but for an enhanced competitive activity as I was telling you earlier in this stage of development, it is only good for the category and the industry because it only changes habits of people, it only leads to more people shifting from conventional foods to fast food and so on. So, we are actually happy that there is more enhanced competitive activity in this area and I mean it.

Sanjay Singh: Just wanted to know, your side orders have improved significantly in the past two years. I think in the last year we were at something around 21% of sales all the side orders, where would this number be currently in the nine months during this quarter?

Ravi Gupta: Pizza overall is around 80% of the sales.

Sanjay Singh: So it is still around 20%?

Ravi Gupta: All the side orders are around 20%. Ballpark figure is what I am giving you. A couple of percentage here and there.

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

Neeraj Saxena: I like to understand how is the margin different at a store level in small towns, Tier II Tier III cities vis-à-vis that of your other metros because there clearly, you have a benefit of rent as well as manpower cost.

Ravi Gupta: I am sorry, we will not be able to share the exact numbers, but having said that let me tell you rent advantage in those cities is not there, because we want to be present in those cities at a kind of high street location or have stores where we are very visible and that is the part of our strategy change we have done about six, seven years back. That our stores have to be a little big for people to sit in there and second is that our stores should be visible, because consumers want to come and visit our stores and enjoy the Pizzas there on the premises specifically in the smaller cities. So, stores are bigger in those cities, we have 70 - 80 covers and the location is also pretty good. So in terms of rental we do not get a significant advantage.

Neeraj Saxena: But if we look at the margins, are the margins better in the Tier II, Tier III cities vis-à-vis that of metros?

Ravi Gupta: Let me explain, how we look at this. We look at what is the payback the stores generate. In terms of payback our target is that stores have to give a payback of three years or better. I will give you an example. Without going to Tier III, Tier IV cities, maybe if we take the example of Mumbai, which I frequently give. Take a store at Mira Road and take another store at South Mumbai, say Church Gate, they will be differential in rentals. Can we say 1:4 ratio? Rs 1 lakh versus Rs. 4 lakh rental between Mira Road and Church Gate. Now, to generate a three year payback, for both the stores, the sales level which we require is completely different. Suppose, sales level for the Mira Road store is Rs. 10 lakhs, then to generate a payback of three years, you require an EBITDA of approximately Rs 2 lakh. So, 20% margin you have got. But for the same Rs 2 lakhs profitability from South Mumbai stores, you would need much higher sales and by the percentage it will be lower profitability. Can we compare these two stores together and say one is better than the other?

Neeraj Saxena: Your point taken, because you are inching say 50% of your stores in top ten cities and 50% in new cities, right? If we are looking for say a payback period for a new city, then what is it normally? The three years or less than that?

Ravi Gupta: Our target is three years or lesser than that.

Neeraj Saxena: Definitely, your margins will be different for the top ten cities and the new cities. So if your margins are better in the new cities, then probably we can expect that the margins can move up in future.

Ravi Gupta: As a ratio of the matured stores, I can say old stores to the new stores keeps on improving, margins will be better because of more matured stores being in operation. The new stores typically open at about 75-80% of the sales of the system average. So, if we have more matured stores in operation, obviously, margins will be better.

Neeraj Saxena: But you consider, say a store, which is more than 12 months as a matured store, right?

Ravi Gupta: No, the matured store definition is something that we do not use actually. Right now we are just using it as an example. We use terminology such as same-store, new stores and stores opened last year. These are the three categories we have.

Neeraj Saxena: So is it not possible to just give any number by which we can check that what is the difference in the margin in say top ten cites and the new small cities? Because then it will be a little easier for us to understand where we can expect the margins to move in future because your expansion, say, as policy, 50% is for new cities.

Ravi Gupta: I am sorry, we will not be able to share these numbers.

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

Manav Vijay: I have one question; just wanted a sense that in the current structure the commissary that we have, we cater approximately 50 to maybe 100 stores from one commissary but you mentioned that in a model of DD you would require one CML in every city. If you could explain that statement in length that will be helpful?

Ravi Gupta: First to correct the statement, the Domino’s commissaries can be stretched or you can have any size of the commissary for Domino’s business. Like at present we have some commissaries which manage 100- 200 stores, North commissary right now manages about 150 stores and with the new West commissary which is being set up we will be managing about 200 to 250 stores. So we can scale up the commissaries to the level which we want. That is one. Second is, in Dunkin’ the shelf life of the product is lower than what it is in Domino’s. So the logistics has to be minimal in the transportation of those products and that is the reason you need smaller commissaries or CML in each of the city. But the cost of the establishment, say, CML is also much lower than Domino’s.

Manav Vijay: What I understand is that you have an approximate costing of around Rs. 8 to 10 crore depending upon the size of commissary that you intend to have. What kind of costing we will have as far as CML is concern? Because I remember that in Q2 or in Q1 you had mentioned that the costing of one DD store is going to be approximately 25-30% of a Domino's store.

Ravi Gupta: As far as Dunkin' Donuts is concerned we will be discussing all those numbers when we announce the Dunkin' Donuts launch but it will not be 25-30% - that number probably is misplaced right now. So we only said that it will be lower than Domino's at that point of time but exact numbers we will be sharing about Dunkin' Donuts business, what kind of sales we are expecting, how many stores will be there, what is the CapEx plan all this we will be announcing at the time we announce the launch of the Dunkin' Donuts which will be somewhere next quarter.

Moderator: Our next question is from the line of Varun Lochab from Religare Capital. Please go ahead.

Varun Lochab: Congratulations on a great set of results. My question was on the same store volume growth, if you could give us a sense of first nine months maybe quarterly if possible, how has been the trend in terms of splitting that by number of orders versus transaction size or volumes versus pricing?

Ajay Kaul: Between our orders and actual revenue growth there has been a single digit difference**,** orders being lower than revenue, consistently quarter by quarter. This difference is explained by the increment in our ticket size. This increment in ticket size can come because of price increase partly and partly because of any menu-mix changes. So when we said that our same store growth in this quarter is around 30-31% nearly 5-6 percentage points lower than that is the order book.

Varun Lochab: And was this number similar in the first two quarters as well?

Ajay Kaul: Similar ballpark by and large similar, give or take a couple of percentage points here or there.

Moderator: Our next question is from the line of Deepa Mirchandani from UBS Securities. Please go ahead.

Deepa Mirchandani: Hi sir, this was of follow-up question from my side on the 5 to 6% increase in ticket size which you talked about. Since you have taken price increases close to 12% in one year, how come the ticket size like your realization is just 5 to 6%, shouldn't it be higher?

Ajay Kaul: Firstly these price increases are taken at three times in a year so you have to look at weighted average year-on-year basis and you can't just add them up and say that that is the price increase for the year. However, still at a conceptual level, your argument is right. But what happens a lot of times is, as you increase prices, your menu mix changes. Some customers align towards a certain kind of product, they start eating certain types of pizzas more or size or whatever and as a result of all that the net impact on your ticket which is coming is around as you are saying 5-7% so that is the number which is the ultimate effect of price increase as well as menu mix changes.

Moderator: Our next question is from the line of Aakash Manghani from Girik Capital. Please go ahead.

Aakash Manghani: What is the employee count at the end of this quarter?

Ajay Kaul: It is about 15,049.

Aakash Manghani: How many would be temporary employees , is it generally higher for Q3?

Ravi Gupta: Typically, there are about 25 to 30% which are part-time employees, actually we don't use the word temporary, they are part-time employees. But this is there at any point of the time or all the time.

Aakash Manghani: What is the attrition that you have currently for an annualized basis?

Ajay Kaul: The attrition at different levels is different, at the team member level and I think that's probably your question it is as high as 7-8% monthly which means annually it comes to around 80 to 90% and this has been no different over the last so many years and surprisingly this is similar to even lot of other countries where Domino's is or for that matter even other QSR brands are.

Aakash Manghani: You had mentioned in the previous conference call that 80% of your top line generally comes from the same stores, would it be same for this quarter or you on newer stores have done better?

Ajay Kaul: Without going too much into detail the numbers will not be too different.

Aakash Manghani: Also with the IPL coming up in April, do you foresee any increase in marketing spend going forward online, print or advertisements?

Ajay Kaul: I don't think so there is going to any special increase in our marketing spends. As much as IPL was there last year so to that extent on the comparable basis it will be whatever we did last year we will do similar things this year also hopefully. But we don't run specifically promotions or anything non-advertising below the line activities related to IPL as it is.

Aakash Manghani: Lastly, all these others line items of Rs. 82.3 crore, what is your ad marketing spend exactly?

Ravi Gupta: Aakash we will be able to share on an annual basis only this number, we do not share this number on a quarterly basis.

Aakash Manghani: What is it as a percentage of sales?

Ravi Gupta: I think it is the same question you're asking again so let me give you the same reply.

Moderator: Our next question is from Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: First thing I wanted to understand is that your employee cost on a sequential basis seems to have grown lesser than your top line in fact that is where you have some savings as well. If I'm not wrong last quarter you were saying that you are supposed to give some increments as well to the front end team this quarter. Just wanted to understand is there any reason why the cost is lower this quarter, I mean the growth in employee expense is lower?

Ravi Gupta: You are right, we had indicated this last quarter. We have increased the salaries of the team members in this quarter. The impact is only there for two months not for all the three months; so full three months impact will come in the next quarter but having said that the price increase impact which is there on these numbers also gives leverage in all the costs, be it manpower cost, be it any other cost. So when you look at that, in August we have taken a 3% price increase so full price increase impact was there in this quarter for that increase, plus 5% price increase half of the quarter impact was there in this, so both the factors together have contributed to efficiencies in the labor cost as well. Having said that we have not given a very high increase this time to the team members and we will look at again next year seeing that what kind of increase we need to give. Nutshell, we want to say that in manpower on a long term front we should not see much efficiencies coming in because we expect the inflation in man power to continue to be pretty robust. So please do not look at the quarter to quarter kind of variations in these numbers because December is a big month also, so it gives quite a lot of efficiencies in the manpower and December being in the Q3 that's why it will get reflected in this quarter. Last year we have taken a very good increase in the month of September and the full quarter impact had come in the December quarter and have adversely impacted the manpower costs.

Rikesh Gopani: And would you be able to share as to generally what has been the kind of increase that you have given this year, throughout the year what would have been the kind of increase that you would have given on employee?

Ravi Gupta: I think we have given about 10% increase to the team members. Team members is what I'm talking about because for rest of the people the increase happens in the month of July which was already factored in the second quarter results.

Rikesh Gopani: Secondly wanted to understand there will be a lot of revenues that you would generate out of bulk orders that maybe getting delivered in BPOs or large size orders on certain events. Is there any number that you could share as to what could be these kind of large bulk orders to your overall revenue?

Ravi Gupta: No we cannot share.

Rikesh Gopani: I wanted to understand what would be your average transaction size, is that possible to share?

Ravi Gupta: No we do not share that number also.

Moderator: Our next question is from the line of Nishith Rathi from Trust Capital. Please go ahead.

Nishith Rathi: I just have one question, just wanted to understand the Sales that you report are they gross of discount or net of discounts?

Ravi Gupta: These are net of discounts because in our case all is a trade discount. Discount which happens at the time of sales so the sale is accounted for net of all the discounts.

Nishith Rathi: So all the coupons that you give and the online booking that are made so the discounts that are there that are already net of whatever, the sales that is there that is the net of all those figures?

Ravi Gupta: Perfect.

Moderator: A next follow-up question from the line of Amnish Aggarwal from Motilal Oswal. Please go ahead.

Amnish Aggarwal: We so far are opening our own stores whereas if you look globally in Domino's, I may not be aware about larger players in the QSR segment the only point everybody has gone in for a franchisee based model. So if you look today with around 439 stores growing by 80 stores on an average also and having around 15,000 employees so if you take a slightly longer term viewpoint where do you see up to what level, do you think Domino's in India will grow with a own store model? Secondly do you think for example if you are having double the size number of stores you will be having 30,000 employees so are the employees in Domino's unionized and thirdly do you see a possibility that over a period of time how robust is the system to handle so much of manpower in the company?

Ajay Kaul: For the foreseeable 2-3 years, we do not see any business compulsion or reason to go the franchisee route and I think Ravi earlier did mention or and our previous con call he has said why we do not want to go through the franchisee route. So one off store yes, for example we have two franchisee stores today which are the airport stores and because the way the airports operate and the way those contracts are given out, we have had to mandatorily appoint a franchisee there, but given the choice we would have zero franchisees and for the foreseeable 2-3 years we do not see franchisees coming into the system. Second question with regards to employees, there is no union in Domino's and as the numbers of employees grow as you rightly said to 20 and 25 and 30,000, we believe that, in fact whenever we go to new places we create opportunities and jobs for youngsters. Every time we enter a new city there is so much of excitement and the youngsters are enthused in that city that some company has come which is creating 30 to 50 jobs. So on the contrary, we actually find it like a social responsibility also to create so many jobs in the country and people are very excited about it.

Amnish Aggarwal: Sir, it means that in the near term you will continue to have your own store model?

Ajay Kaul: Yes.

Amnish Aggarwal: But if we take a slightly longer view 5 years down the line operating 1000 stores, can you indicate was it all this global majors have they gone into franchisee routes after gaining certain scale or how has the transition been there in those countries?

Ajay Kaul: People tend to franchise out much earlier, there it is a normal thing that when they open few stores they tend to franchise out, if I'm going by other Domino's operations example. UK for example today is almost 100% franchisee stores.

Amnish Aggarwal: So it means that the companies who have done it from the very beginning they go in for the franchisee basis?

Ajay Kaul: Not absolutely beginning, they do open their own first few stores and then once the brand is established they tend to go in that direction.

Moderator: Thank you sir. I would now like to hand the conference over to Mr. Ajay Kaul.

Ajay Kaul: I would thank all the participants today for being with us. I hope we have been able to satisfy you with the right answers. I know there may be still questions in your mind which will come up and we'll be happy to answer them offline at later dates but in the meantime thank you for being patient with us and good day.

Moderator: Thank you sir. With that we conclude the conference.
