

Jubilant FoodWorks Limited

Q4 FY12 Results Conference Call Transcript

May 10, 2012

Urvashi Butani: Welcome to Jubilant FoodWorks Conference Call for Investors and Analysts. The call has been hosted today to discuss the financial performance and share operating highlights for the quarter ended March 31 2012. I have with me on this call today Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks, Mr. Ajay Kaul – CEO and Mr. Ravi S. Gupta – CFO. We will commence this call from opening comments from Mr. Hari Bhartia and Mr. Ajay Kaul followed by Mr. Ravi Gupta and after the opening remarks the management will be glad to answer any queries that you may have. I would like to mention that certain statements made in this call today may be forward-looking in nature and the actual results may vary from these. A detailed statement in this regard is available in the press release sent out to you earlier. I would now like to invite Mr. Hari Bhartia to commence by sharing his views on Jubilant FoodWorks performance for Q4 and FY12. Over to you Sir.

Hari Bhartia: It indeed gives me great pleasure to connect with you to share Jubilant FoodWorks' results for the quarter and the year ended 31 March, 2012. Our results are, of course, reflective of the progress that we have made executing our core strategies in a very fiscally prudent manner. For those of you who have been following our Company for a while, must be aware of our association with Dunkin' Donuts and the much anticipated launch which took place very recently in New Delhi in the heart of the city at Connaught Place. Personally I was also present there and it was very exciting to see that after almost a year of hard work the restaurant getting launched and customers walking into the store. We will continue our hard work to leverage our expertise and knowledge to take this very iconic brand to new levels of success in India.

Our experience with Domino's Pizza brand has been nothing short of special. The consistent strength of Domino's Pizza, we believe, is truly the result of our commitment to the customer and their preferences. This philosophy has enabled us to expand our network across the country and make the right investments to assure that our brand experience is optimized. The future holds tremendous scope for JFL to expand and nurture its operations in the fast paced QSR industry in India and we are investing today to capitalize on these opportunities. Thus, while we are focused on driving our results in the present, we also have our vision firmly held on the future as we continue building even deeper relationships with our customers and greater alignment with business partners especially now that we have launched our second brand Dunkin' Donuts.

I would now request my colleagues Ajay and Ravi to provide you with a detailed view on our operations, financials and initiatives.

Ajay Kaul: Good afternoon. As always I shall commence with summarizing the operating results for the quarter and I will recap key milestones attained since our last call. I will then turn it over to Ravi for a more detailed look at the financials numbers and the outlook.

Before I dwell on our performance this quarter, I want to discuss something very strategic and important for our Company. I am extremely pleased to share with you the launch of Dunkin' Donuts which took place on May 8th in Delhi at Connaught Place. This is a significant milestone for us as it validates our commitment to bringing in new and varied experiences for the customers and tap the potential in the booming QSR space. As many of you must be aware after a year long collaboration between JFL and Dunkin' Donuts of USA, we have designed and developed a differentiated value proposition, a menu that not only incorporates the western culture but is also cognizant with the tastes and preferences of the Indian consumers. I would like to take this opportunity to extend my congratulations to the entire team for their dedicated efforts which today has resulted in successful launch of Dunkin' Donuts in India.

The brand name in India has the sign of "Dunkin' Donuts & More", to signify our wide range and the unique experiences that our restaurant offers. The products will pivot around three broad categories,

Coffee and Beverages: As many of you must be aware Dunkin' Donuts is the largest baked goods and coffee chain in the world. In USA Dunkin' as a brand holds great customer loyalty and has been successfully running an advertising campaign for the last five years, 'America Runs on Dunkin'. While we are keen on bringing and popularizing the coffee, given our tropical climate we also devote emphasis on cold beverages which again will be specially tailored for the Indian market.

Apart from coffee and beverages, the two other categories which we are looking at are 'donuts' and 'all day part' sandwiches and let me speak about them. Dunkin' Donuts is clearly the leader in this category called 'donuts' worldwide for more than 60 years. Our plan is to offer to the Indian consumer a complete menu of internationally recognized donuts.

The third broad category is what we term as 'all day part' offerings driven by sandwiches. This is where our team has done considerable hard work to arrive at the right mix to devise products that are western in their structure but Indianized in their taste.

We are truly excited about this new journey and look forward to your continued support as we expand into newer stores in the future. Speaking of expanding we aim to open around 10 Dunkin' restaurants in FY13 and further over the next five years we plan to open 80 to 100 restaurants. In the initial years we will be opening Dunkin' Donuts restaurants in various formats which will be a mix of flagship stores, to high street stores, to mall stores, to kiosks and stores in food courts which again will vary in terms of size and their look. Over the next six months to a year, we want to better understand as to which format and model is best suited for the consumer and also works best for JFL in terms of profitability.

If I can now take you back to our result discussion, the fourth quarter continued to witness growth across all our key metrics. JFL's fourth quarter results were encouraging as Total Income

increased by 46% to Rs. 2,832 million while Net Profit for the quarter was at Rs. 293 million registering an increase of 52% as compared to last year. This performance is largely driven by healthy same store sales of 26.2% combined with 26 new stores that we have opened during the quarter.

Our overall theme is to grow which has connotations for us on several fronts. Growth in terms of network, business operations, profitability and customer satisfaction, a few to name amongst the many goals that we hold. JFLs operating fundamentals are definitely trending positively as we increase our Domino's Pizza store network across the country. We ended the year with a total store network of 465 stores. We had at the start of FY12, initially set a target of opening 80 Domino's Pizza stores spanning across new and existing cities. Backed by demand and potential in QSR space we expanded our targets to open 85 stores during the year and today we have successfully exceeded both targets and inaugurated 87 stores which validates our focus and drive to expand Domino's Pizza's network. We concluded this quarter and year with a total city count of 105. In Q4FY12 we cast our footprint in five new cities in India, namely Thrissur, Gajraula, Muradabad, Rudrapur and Sambalpur. While such a network enables us to remain accessible to our customers we wish to consistently extend our reach to a larger audience. Our online ordering initiative helps us exactly achieve the same. This medium has and continues to generate tremendous response. We have witnessed an excellent start to this endeavor and we are committed to further expanding and capitalizing on this positive momentum. Revalidating our convictions, were the accolades JFL received at the India eRetail Awards Ceremony 2012 organized by Franchising India and Bloomberg UTV, for the 'Quick Service Food Delivery ERetailer of the Year' and the 'Best Customer Experience ERetailer of the Year in India'.

To give you some color of what is happening with Domino's Pizza overseas, our operations in Sri Lanka continued to progress at a healthy pace. The market there presents great scope for JFL to grow and expand Domino's Pizza as a brand.

If you notice closely, our key drivers for growth continue to remain strong, one of them being our deeply embedded culture of innovation. We believe it is imperative for us to be able to listen to our consumers and then utilize their feedback to create a situation which is a win-win for all. Given that view, we continue to witness our customer's appreciation for our 3 Cheese Pizza and the innovative Nutty Choco Lava Cake. Our quest for gourmet taste does not end and as a business practice JFL culinary R&D keeps on innovating and creating new and exciting offerings for our menu. Our efforts to excel will always be strong; we continue to be encouraged not only by customers, by industry experts too. I am pleased to share that JFL was awarded the Star SME title by Business Standard and the Most Admired Food Service Retailer of the Year by the Coca Cola Golden Spoon Awards.

Looking forward we are confident that our operating strategies, expertise and execution leave us well positioned to achieve sustained profitability. We believe our focus in our key areas will allow us to continue to deliver solid results for our shareholders throughout the year and into the foreseeable future.

With this I would like to conclude my remarks and request my colleague, our President and CFO, Mr. Ravi Gupta to take you through our financials.

Ravi Gupta: Good evening to everyone. It has been our endeavor to capitalize on the many unfolding opportunities that the food service industry presents. Our development of the Domino's Pizza brand over the years and recent foray with Dunkin' Donuts being case in point.

If you look at our performance not only during this quarter, but also in the past periods you will recognize that we have delivered good performance consistently. This I believe serves as testament to our commitment and for the disciplined investments that we have made in our business so as to generate sustainable growth in the long term.

I think I speak for all of us here when I say that this quarter's results continue to be encouraging and I would like to take this opportunity to review some of our key financial and operation highlights for the fourth quarter and full year ended 31 March 2012.

JFL reported Total Income during the quarter at Rs. 2,832 million, which is an increase of 46% as compared to Rs. 1,937 million in the corresponding quarter last year. Key factors attributable to this growth are the healthy expansion of Domino's Pizza stores across the country, supported by the exciting product menu which helped translate into an increase in the number of orders received. I would like to mention here that innovations such as the 3 Cheese Pizza and Nutty Choco Lava Cake are unique to Domino's Pizza and continue to attract the customer's attention

Focusing on innovation, network expansion and customer satisfaction is crucial to JFL's success and requires financial prudence on our part. Our EBITDA in Q4 FY12 stood at Rs. 525 million as compared to Rs. 331 million in the same period last year. This increase is again a result of higher level of sales combined with increased operational leverage. Q4 FY2012 PAT was at Rs. 293 million, with an increase of 52% as compared to Rs. 193 million in corresponding quarter last year.

During the year, our business witnessed the impact of higher levels of inflation, which tends to be particular concern to us as a player in the food industry. However, given our scale and spread we have been able to efficiently manage such pressures. The strength of our supply chain has proved to be a key competitive advantage. By working closely with our suppliers and adhering to effective risk management practices at an organizational level, we were able to reduce this impact to the benefit of the Company and our customers. Besides, in different stages in FY12, we had taken a price hike in the vicinity of 12% on our products, which is higher than our normal range, to help mitigate the inflationary impact. Going forward we continue to manage the Company conservatively, keeping a close watch on all our costs.

Moving ahead with the full year results, Total Income was at Rs. 10,175 million, an increase of 50% over Rs. 6,783 million in FY2011. With a strong focus on execution and providing our customers with a better experience, we launched 87 new stores during the year, which has contributed to the increase in sales generated. Our innovative menu strategy saw the introduction of several new items such as the Chicken Kickers, Butterscotch Mousse cake, re-launch of new Pasta Italiano and Pizza mania, the sumptuous 3 Cheese Pizza and Nutty Choco Lava Cake, all of which have generated tremendous positive response and have also contributed to the overall increase in topline.

Our EBITDA for the same period was Rs. 1,906 million compared with Rs. 1,202 million in the corresponding period last year. The EBITDA margins stood at 18.7% compared to 17.7% in FY2011. Lastly, PAT for FY2012 was recorded at Rs. 1,056 million, witnessing a growth of 47% when compared to PAT of Rs. 720 million in FY2011. The Company continued to build on its financial strength as we were debt free throughout the year along with surplus cash on books of ~Rs. 900 million which currently is invested in liquid mutual funds. This thus provides us with a solid foundation and the requisite financial flexibility to expand our business operations.

We begin the new fiscal from a position of strength. While our journey with Dunkin' Donuts started over a year ago, with the first store launched we are now stepping on to a new phase of our journey and are confident that our focus on the customer and commitment to financial discipline, positions us well to achieve our target for FY13.

On the Domino's front, we plan to open 90 new Domino's Pizza stores in the coming fiscal. This increased number of openings reflects the potential in the industry and our efforts to continue growth in a systematic manner.

From ongoing initiatives to deliver unique customer experiences to strategies that strengthen our financial position; our business approach is clearly working. While we are pleased with our performance thus far, one can expect our focus and drive to only increase from this point onwards. With this I would like to conclude my remarks and request the moderator to open the session for Q&A. We will be more than happy to answer all the questions. Thank you.

Moderator : Participants, we will now begin the question and answer session. The first question is from the line of Percy Panthaki from Daiwa. Please go ahead.

Percy Panthaki: I have three questions; the first one is on Dunkin' Donuts. If I look at your menu, basically the donuts are at Rs. 45, sandwiches are at about Rs. 80 or Rs. 90, both these are very reasonably priced in my view but if I look at the beverages at around Rs. 80 on an average that seems to be much higher than the norm. So can you tell me the thought process behind this strategy where you have priced all your food very reasonably and beverages at the higher end, that is question one. Question two is on the pizza, can you give us some idea on the competitive landscape in terms of over the last year what has been the overall market growth, what has been your market share and increase thereof? And also in the last 12 months have you seen any kind of increased competitor activity? My third question is in the pizza consumption in the smaller towns, that is less than 1 million population what are you seeing in terms of acceptability of the pizza segment there? Once the initial euphoria of a new store opening dies down in a stable state, do you see the per capital consumption in the smaller towns significantly different from that in the larger towns? So these are my three questions. One maintenance question in Q4 what was the percentage of sales which came from products launched over the last 12 months or so? That is it from me.

Ajay Kaul: Let me take them in the reverse order. So your last question was in terms of percentage contribution by new products, we will not be able to give that information. As far as the third question was concerned with regards to how smaller towns are reacting to pizza as a category, I think well in the beginning I do agree that in the first couple of months there is a bit

more euphoria that we see but what we are more watchful of is what happens thereafter and our experience has been the Tier-2 and Tier-3 cities are still giving us very good encouraging response even in those periods. So in line with our strategy coming out of the past, year before last we had open stores in around 22 new cities then it went to 21 then last year we opened 15 new cities. We would continue going in to newer towns and cities in India, as a part of our expansion strategy.

As far as competitive activity is concerned which was your second question we are seeing some enhanced competitive activity not only in the pizza space but even going beyond into the QSR space and to my mind enhanced activity is good because pizza and pasta as a category and even if we were to go beyond into, let us say fast food segment, it is still we believe QSR is around 10% to 15% of the total foodservice market. Pizza and pasta we still believe is just about 2% of the total foodservice market, so collectively we will only grow the market and that is something which in the initial phase of any category development should be the objective of all the players put together. While I do admit that there are competitors and they are honorable competitors of ours but we are more focused on charting our own growth path and our own trajectory in terms of opening new stores, in terms of same-store growth, rather than getting bogged down by what competition is doing. Having said that, they are always on the radar screen, and we are watchful of what we are doing. I can definitely comment on market share without quoting any numbers because the Euromonitor report is still not out and there is no other report which gives consolidated market share numbers comprehensively; but we do believe that between last year and this year we would have definitely improved our market share significantly.

Coming to your first question, which is as far as pricing of products in Dunkin' Donuts is concerned. I want to make a larger statement here that while a lot of research and lot of science has gone into launching Dunkin' Donuts, whether in terms of menu mix, pricing, what kind of taste profiles, which city, which area and I can keep talking about it, we believe that we are in an iterative mode and all the research can tell you only that much and no more and lot of times it is the customer that actually tells you what works and what not. Our initial response has been fantastic and we are very encouraged although it is still early days, I must say. Secondly, as far as pricing exactly on those three or four categories which you are mentioning, we believe that the pricing right now is again based on feedback which we have received in pre-research periods before the launch and so far there is no reason for us to tweak around with that pricing and reach any conclusions. We will probably look at the data in two or three months time and reach any conclusions.

Ravi Gupta: Adding to what Ajay said, our Coolatas start at Rs. 40 itself and if we look between the regular and large size, there is no large difference as you would have already noticed. So if a beverage is at Rs. 80 is for a small size, then larger one is maybe Rs. 90-100. So there is no significant difference between the regular and the large also. We want to encourage the consumer to move to a larger size.

Percy Panthaki: That I understood, all I am saying is that if you look at the entry level for a beverage, the hot coffee, etc., most of them are Rs.70 or Rs. 80 which is higher than I would say industry average and if you look at the food items they are very much in line with the industry average. So I just wanted to understand if there is any reason or thought process behind this?

Ajay Kaul: The reason is very straightforward - one, pre-research work done clearly tells us that Dunkin' Donuts which is internationally renowned and almost synonymous with coffee. If you go to America, 'American Runs On Dunkin' is a campaign which Dunkin' has been running for the last five years because on brand loyalty test they have always been number one. Consumers tell us that there is a premium which they can pay for us, but having said that if we took the average of some of the players in the market we are actually very aggressively priced there or even on hot beverage or hot coffee. So I do not know how you are reaching that conclusion. But having said that, what we do realize is that some categories are new in India, for example, donuts is a new category and the 'all day part' food or sandwiches is something which we are aggressively pitching ourselves on because we believe that it is a strong pillar of our overall entry strategy, 'all day-part' food and we have taken a reasonably aggressive pricing stance there because we want people to realize that Dunkin' Donuts is a destination for coffee, globally acclaimed for that, cold beverages which are being fine tuned to the Indian palate, milkshakes, Coolattas with Litchi, Alfonso, Mango kind of taste setting there, which are typically Indianized, going into donuts and again going into 'all day part' food.

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

Jaibir Sethi: First, you mentioned that you have accelerated your store opening plan slightly for the Domino's format to about 90 stores, so just wanted to understand if you have also had a revisit to the eventual store number that one can think of in this market? Whether you have done any exercise in the last year which points to a market potential per se for the Domino's format in terms of number of stores?

Ajay Kaul: Without hazarding into saying what will be year by year number, what we can safely say that 87 stores this year and giving a guidance of 90 stores next year, we believe that with all the changes that are happening in the demographic side of an Indian consumer aided with around 7% GDP growth and its manifestation into disposable incomes and the multiplier which thereby applies eventually on discretionary spend on food and entertainment and so on, we believe all these factors coupled together, we should be able to deliver 90 stores at least for some years to come. So you can probably extend that logic and see that in five odd years time where Domino's could be in terms of number of stores.

Jaibir Sethi: But what would it take in terms of signs within either in terms of market growth or in terms of consumer maturity for you to significantly accelerate store rollouts from here. So instead of 90, say open 120-150 stores a year, in the practical constraints of the Indian environment that is not really possible?

Ajay Kaul: In terms of potential we believe that the way the economy is evolving, each new year surprises you in terms of what potential sits there. And the numbers which we are giving right now of 90 stores, is what we have high confidence level on delivering. If the markets were to move at a much faster pace, you would have seen from our past track record also that we kind of try to gulp that opportunity as it comes. So right now all we can say is that 90 stores for the next year, is something that we will definitely be delivering.

Jaibir Sethi: Secondly, couple of maintenance questions, first, what was the CAPEX for this year and what is the plan for FY13? Second, any guidance on same-store growth or margins for the next year?

Ravi Gupta: Overall CAPEX what we have spent in this year is about Rs. 120 crore; next year in view that number of stores is increasing and CAPEX per store also will be increasing and then there are commissaries which we started construction last year, they will also get completed next year, so part of the capital expenditure will happen next year also and then we also have Dunkin stores coming in. Now this CAPEX we believe will be in excess of about Rs. 150 crore for FY13. In terms of same-store growth, last year our same-store growth was 29.6%, year before 37% and if we look at a five year average, it is in the range of about 23% and with this our base has been going up consistently. Next year our estimate is that same-store growth number will be about 18% to 20% range.

Jaibir Sethi: In terms of margins, because last year in the beginning of the year you had said that there would be at least flat, any similar statements for this year?

Ravi Gupta: As far as the EBIDTA is concerned we have achieved a 100 basis points improvement in this year from 17.7% to 18.7% in FY12. We believe that with the kind of operational processes that we have, 18.7% margins are sustainable for this kind of business and there are two reasons for the margins to grow, one is the ratio of the matured stores to the new stores will keep on improving as the base keeps on improving. As there are more mature stores in operation, margins can be better. Second is SG&A which typically has given us leverage over the years, will continue to give us a leverage in the future as well.

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

Deepa Mirchandani: I have one question regarding the same-store sales volume growth which you have achieved this quarter?

Ravi Gupta: Same store growth is 26.2% overall, in terms of volume when we divide it between transaction size, the transaction size is still single digit number and rest is volume growth.

Deepa Mirchandani: So we can say around 4 to 5%?

Ajay Kaul: You can say that our same-store sales volume growth is just marginally lower than our overall same-store growth.

Deepa Mirchandani: So if it is marginally lower than your same-store sales volume growth then your volume growth would be in the single digit?

Ravi Gupta: Transaction size is smaller number, the volume growth is very close to the same-store number that is what Ajay is saying.

Deepa Mirchandani: So out of this 26% around 12% must be contributed by the price increases which you have taken in the full year? So volume growth would be around 12 to 13%?

Ajay Kaul: No it is not that. The difference between the volume growth and our overall same-store revenue growth is a low single digit number that is all I can say.

Deepa Mirchandani: My second question is about your pressure on raw material cost which if you are experiencing because of the increase in milk prices are you experiencing any raw material cost pressure?

Ravi Gupta: Yes, in fact we have been saying this for a long time that there is a pressure coming from raw materials. But having said that I think that some of the quarters of the last year the pressure was that much more. That does not mean the pressure is not present as we speak. There is continuous pressure and we do believe that in an economy growing at 7% and progressively, pressure on food inflation will always exist because it is consumption led, so it is something which we have to deal with and we will have to find innovative ways of bringing in efficiency. Internally we are one of the few companies in food space which engages Six Sigma in an aggressive way. So we deploy that to keep our efficiencies in place and also make sure that our unit costs are constantly coming down. So we will continue doing that but having said that, food inflation pressures will continue and we have to find ways of dealing with it.

Sunita Sachdeva: This is Sunita Sachdeva here from UBS. I just had one small question you have just opened a brand new Dunkin's company format just yesterday and the menu does look exceptionally good, congratulations on that as well. I just wanted to know you have mentioned that you all are going to be ramping up your stores to 100 odd stores in the next couple of years. Just wanted to know how big is this format expected to be, is it the cut out format or it would depend what kind of places you get, what is the store size?

Ajay Kaul: Your question actually has come in bits and pieces but I probably now understand what you are trying to ask so let me holistically try to answer your question. First and foremost the number in next two years is not 100, it is for the next one year we are saying we will open 10 stores, over of course a five year period we are saying we should be opening at least 80 to 100 stores. Having said that, five years is a long period, let me just first say what is going to happen in the next one year. You know the menu and the pricing which we have talked about a little bit, it's looking exciting I am really happy to hear that, what is important, however, for us is to get the customer feedback not only in terms of menu and pricing but also in terms of formats, size and so on. So our first 10 stores are going to be highly experimentative. The first which we have opened is kind of flagship signature store but the next few are going to be varied, some will be malls, some will be in high streets, some will be maybe in kiosks form, some maybe in a food court, so we will get a comprehensive experience of what works more than others and what works even better and so on, and that is going to be the iterative process we will follow, also in terms of the pricing, menu etc. And then we will multiply much faster if the success rate is better than what we are anticipating right now. Maybe we will end up opening more stores also, time will prove and that will also define how fast we can go into other cities like Mumbai, Bangalore and so on. So we need to keep that in perspective. And your last point was on size, again we are

experimenting with multiple size, some are small, some large but an average store we believe would end up being in 1200 to 1400 square feet range.

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

Nillai Shah: There is no dividend that has been announced this year what will be dividend payout for the next few years?

Hari Bhartia: Yes, we have not announced any dividend and we believe we are going to watch for the next few years. We have plans for, as you know, investments both in Domino's to scale up the number of stores and in our new brands looking into Sri Lanka. So we felt at this point of time the Company would be able to utilize resources and hopefully in the next few years will be able to invest it profitably. So the board thought about it and said we will review this end of next year.

Nillai Shah: So there will be no dividend even in FY13? Is that what you are saying?

Hari Bhartia: No, we will review it but we do believe that with our scale up happening across major cities as you we are present in more than 105 cities right now. We need to invest not only in our stores but also expand the backend operations and we are watching the growth of our new brand Dunkin' Donuts. As of now we have announced that we will set up 10 stores but we will watch this carefully and review how fast we could scale it up.

Nillai Shah: You have done well over the last few years to keep competition at bay increase your market share but competition will come at you hard. What is the next strategic step that the management is taking to ensure that you can maintain this lead? Is it going to be more distribution driven, more product driven, more store expansion driven?

Ajay Kaul: Our strategy today basically hinges on three main pillars if you may ask and then there are layers on top of that. And I am here talking more about our marketing and product related which are consumer facing strategies. One is to be makers of the best quality pizzas and that obviously is inbuilt into our product innovation The second is in terms of affordability because we believe that there is a huge 'middle of the pyramid' opportunity which we want to constantly be attacking and thereby the Rs. 39 Pizza Mania and so on. And the third one, of course, is accessibility which is by virtue of the fact within 30 minutes or less you can have a hot and sizzling pizza in front of you wherever you are. To these we are building a lot of layers, one is, for example the operational layer, the supply chain which we have been able to create, the customer focus layer and as importantly in a time like today is for example online ordering which is a technology layer which is on top of that. We believe that our strategy is fairly robust, all we need to do is keep tweaking it a little bit here and there but make sure that we are mindless obsessive about making sure that our operations whether it is at supply chain level, whether it is at customer service level or it is at the operations within the store level, we are able to stay ahead of everybody else and that will help us to deliver the strategy in the way we are envisaging it and in the way the consumer wants it. And also I would put it like this, while we always keep competition on our radar screen and they are important but they have a larger role to play along with us to grow this category. As I was saying sometime back, if you would have heard, that pizza

and pasta as a category is still just about is 2% of the total food service market. If you were to extend that a bit further into a foodservice market it is still such a small percentage of the total organized business and on the foodservice market. And if you were to go by examples coming from, let us say countries which are a bit more developed than us, on the foodservice axis whether it is Thailand, or Indonesia or China as a larger example all these are only going to grow significantly. So our larger focus as an individual company and as an industry along with our competitors should be to grow this industry, because we are still 17 years into this category development. So we do not get too much overawed. For example when we have to open 80-90 stores I mean, if we were look at our opposition they are way behind so what is the need of opening only 80 stores, or when we grow at 30% the industry growth rates are far lesser, so we are driving the business at the pace at which we really need to do because consumers are accepting us, and also the category needs to grow at that pace.

Nillai Shah: Now that you have been generating a very large operating cash flow for quite some time now. What is your thought process on franchising of your stores now?

Ajay Kaul: See our answer has been no dissimilar from what it has been in the past. It is something which we always evaluate because franchisee, given this business, is globally seen as a good thing to do in most markets, but we do not have any reason why we should be franchising. We would continue following that strategy even for the next foreseeable few years where we will be opening our own stores.

Hari Bhartia: I would just add that because we are able to generate good cash flow with the investment of each store and we believe that investing in our store is giving us much higher return than franchising it to third-parties. So that is one of our strength to really continues to invest in corporate stores.

Ravi Gupta: Actually strong generation and the reservoir of the cash reinforces that we have a capability to spend the money on the CAPEX for the new stores because franchising typically is done when you have lack of capital.

Nillai Shah: My risk is coming from the fact that the more corporate stores that you open up the more you deal with human resource. Franchising is one way of basically reducing that risk and that is where I am coming from but I get your point that probably you have not reached stage yet to think about this. And the final question is online sales, what percentage of overall sales was that in this quarter?

Ajay Kaul: The number is sitting at double-digit from the time when we started around a year back, it started obviously at 0-1% level, it has already climbed to double-digit numbers and we believe it is good steady progress that we are making. We are investing reasonable amount of resources into popularizing this and we believe that it has got a big future.

Moderator: Thank you the next question is from the line of Subramaniam PS from Sundaram Mutual Fund. Please go ahead.

Subramaniam PS: If you could share with us the same-store sales growth of the stores which you opened just within the last three years and stores, say which you opened which are more than three years old, how would the same-store sales growth look like?

Ravi Gupta: We do not give separate figures, we have only one figure for same-store growth which is the stores which are in operation for full of last year and full of FY12. So they would have worked for the full year FY11 and FY12. That number is 26.2% for Q4 FY12, we do not differentiate and give separate numbers for year-wise store opened.

Subramaniam PS: But would these numbers be any different?

Ravi Gupta: They would not be significantly different.

Moderator: Thank you. The next question is from the line of Sagar Parikh from Enam Holdings. Please go ahead.

Sagar Parikh: My question was more related to the Dunkin' Donuts in terms of economics. I wanted to know what would be the CAPEX, average CAPEX per store and when will you achieve breakeven in the store in terms of achieving your breakeven?

Ravi Gupta: See Ajay has already pointed out, initially first year we will be opening the stores of all sizes and all formats ranging from signatures stores to mall stores, high-street stores, express stores, food court stores. We are experimenting to see what model and format works best for the consumer and also for JFL in terms of profitability. So, based on that in six months to one year we will be deciding what model and format works and what model is profitable for us. We believe that stores should generate positive cash flow within the very first year. We are fairly confident about that.

Sagar Parikh: Okay, but could you just provide us an average CAPEX per store?

Ravi Gupta: The CAPEX per store again will range from depending on the size, from Rs. 60 lakh to Rs.1.20 crore. If it is a smaller store or a food court store it will be lower and if it is a signature store like the store we have opened it will be on a higher side.

Sagar Parikh: Okay and in terms of your back-end operations, would it be the same as Domino's Pizza brand?

Ravi Gupta: See, the Domino's Pizza backend operations have grown over a period of time. For example, the North region commissary is right now supporting about 150 stores and West region backend operations commissary will be able to support 200-250 stores. So these are very huge kind of operations whereas the CML- Central Manufacturing Location, which is for the backend operations in Dunkin' Donuts, they typically serve one city, so in terms of size and in terms of investment they are much smaller than Domino's. So the investment also is lower but here since the shelf life of the product is lower, you need to have one smaller CML in each of the cities we operate in.

Sagar Parikh: Okay sure and also in terms of margins, I assume it will be lower than the Domino's brand because in terms of your average store size would be much bigger than Domino's. Am I right in my understanding?

Ravi Gupta: I don't think we can comment at this point of time because as discussed earlier, we will be looking at the profitability very closely across all the models and we are really confident that stores will generate positive cash flows from the very first year.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Barclays. Please go ahead.

Mithun Aswath: Just one question on the inflation front. Could you just take us through which products would be the most of your costs in terms of cheese and the other commodities that impact you and just wanted to see how has that moved over the last few years and what sort of price increases do you think you would need to take in the future as well?

Ravi Gupta: See, biggest ingredient cost for us is cheese, and cheese is related to the price of the milk. Inflation in milk for the past few years, has been in the range of 15 to 20% year-on-year and a similar kind of increase you can expect on cheese, although it was initially lower because our volumes were growing pretty fast, we could leverage our volumes. But in the last 15 months or so, milk inflation has been pretty high and as a result cheese inflation is also high. But last quarter or so, milk inflation has kind of stabilised or you can even say marginally reduced; but in the long term we believe that overall food inflation will be high single-digit kind of number, although temporarily over the last quarter we believed that there was little breather in inflation.

Mithun Aswath: Right, just wanted to understand how the market is taking these price hikes as you mentioned you have taken a 12% price hike in the last quarter as well. So, just wanted to understand is there some sort of point where the customer would not be willing to spend, have you seen that sort of an impact or because you have been taking these price hikes quite significantly so, and the market is absorbing it so, just wanted to understand, has competition also increased prices in the same level or how do you see this going forward?

Ravi Gupta: Let me first explain, how the price increase mechanism works? First of all, when food inflation comes to us we go back to our business partners saying that we have been growing at 48-50% CAGR which means a similar growth for the business partner too and hence when they invest back in their capacities, it translates into economies of scale for them, of which some portion is passed back to us which means there is a reduced impact of inflation which is then passed on to the consumer. So, over the last 4-5 years when there was double digit kind of inflation in the market, we have been only passing single digit inflation to the consumers like 5-6% was the price increase we have done over the last 5 years with the exception of the last year. So, in the mind of the consumers we have been building leverage over a period of time saying that this is the brand which typically offers products with focus on value for money. Now, the second aspect of it is that in India the GDP has been growing, as a result, the disposable income and discretionary income have also been growing. As a result when the discretion income is growing faster than the inflation growth we believe that consumer will not mind paying higher for those products which are in line with general inflation or lower than the general inflation in the market.

Ajay Kaul: If I may just add to that, you know while we constantly keep doing research which tells us what kind of elasticity exists, but you will all agree that any such pricing related research has always got limitations. So, our aim always is through internal efficiencies, through Six Sigma deployments, we probably are the only company in food service space who does that, how we can bring in internal efficiencies to obviate any such price increase and pass on only a nominal. So over the years we have been passing on very nominal price increases. Last year was a bit of an exception because it was an unusual year. It doesn't mean that going forward food inflation pressures are not going to be there but hopefully the worst is behind us, so a nominal 4 – 6% price increase taken in two tranches in a year, we believe is not high enough for a consumer which means there is still enough of elasticity present where a consumer can absorb that or move along with that.

Mithun Aswath: I just wanted to understand, your gross margins I think have come down this year right because your income has gone up by 50% while your RM and provisions have gone up by 53% so just wanted to understand do you see some sort of impact on margins if this inflation continues to hit you?

Ajay Kaul: Inflation will continue to hit us but not as strongly as it has in the past in any growing economy. It will always be a part and parcel of the game. So we don't know how it is going to fathom out but we believe the pressure will be there and it is one of the challenges we have to kind of handle. Our bigger delivery is on the overall EBITDA margin and as Ravi said some time back that having delivered 18.7% last year, we do believe that we will deliver at least 18.7% EBITDA margin this year.

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

Shariq Merchant: Two questions- one was on the comparative intensity again. Just wanted to understand how this is affecting our A&P expense, how we stepped up on our A&P significantly this year to counter competition?

Ajay Kaul:A&P in bygone year has kind of been almost at the same levels. We have it at probably 0.1% lower or something like that but we believe the stage in which the category is and as we are launching newer products, newer categories like pastas and Choco Lava Cakes, we have to constantly keep hammering in our positioning and our products in consumers' minds. So we do believe that while it does offer an opportunity for leverage and thereby lend something ultimately to the EBITDA margin but we would continue to spend at a higher level to keep the interest on with our customers.

Shariq Merchant: So, could you share the numbers for this quarter and for the year?

Ravi Gupta: No, we would not be able to share quarter wise numbers.

Shariq Merchant: The second question is on the price increases taken, we have taken a 12% price increase and you said that the transaction size has grown roughly say 1 or 2% almost the same as

last year. So does that imply that the customer is down-trading instead of using the same up-grading pizzas? While you have taken a price increase, you are still spending the same amount.

Ajay Kaul: We have not probably understood your question fully , the figure which you gave on order versus revenue is not too clear to us. After having taken those kind of price increases it has manifested in an order growth which is lower than our revenue growth in terms of same store.

Shariq Merchant: My question was the customer is still spending the same amount in terms of ticket size, while we have taken a price increase, if he is still spending the same amount does that mean he is buying a cheaper pizza?

Ajay Kaul: See what it basically means is that there are lot of new customers also who are coming into system at an aggregate level, if we have taken a price increase of X at an aggregate level, our net realization is slightly lower than X. And there could be plethora of reasons for that it depends on your menu mix. If you are pushing for example, you have newly launched Choco Lava Cakes and you know Butter Mousse Scotch Cakes which are also very successful today. The menu mix may change and it may result in this phenomena but it is not reflective of what you seem to be saying that there will be a drop in consumption pattern something like that. It doesn't.

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

Pritesh Chheda: We have increased the store roll out plan to about 90, this is significantly higher than what we had done say earlier to last year. What's running through the strategy now? And could you also speak about may be more than a year in terms of the store roll out?

Ajay Kaul:The strategy is very simple having opened 72 stores year before last and in the beginning of this year we had said 80, although we achieved 87, which was a good thing. We believe that we should be able to open at least 90 stores next year. And if the economy here continues being at similar growth levels and so on over the next few years. We believe doing at least 90 stores year after year for the next foreseeable few years is achievable. So, there would be a strategy at the ground level which will support all this.

Pritesh Chheda: I also want to know the 90 store what kind of cities is what we are looking at in the 90 store rollout Sir?

Ajay Kaul: See continuing from the past, we are highly excited about the opportunity which is coming from the hinterland which is typically the Tier-3 kind of cities. Having added on an average 15 to 20 new cities year after year in the last three years, we do believe we will enter another 15-20 new cities during the course of this year. So our existing large cities, the top 10 cities would probably still contribute to around 50% of the new stores expansion and existing top 10 cities will always be a large contributor and the rest 50 will come from other cities and new cities as we will enter.

Pritesh Chheda: Now have you mapped out at least in the top 10 cities obviously now we are there in the business since 8-9 years, what store potential it could be for Jubilant?

Ajay Kaul: Yes, we have been.. we continuously do that exercise, then we keep updating it every year so, we have some numbers with us. Unfortunately, we will not be able to give you those numbers as of now, but we do believe that while penetration in big cities especially the metros is fairly high, in the other top cities the penetration is reasonably okay it is not high but the real game in these places is all frequency and because these are metro locations, these are big cities with all the urbanization call it globalization, I can keep using series of those words, we believe the real game in these big cities is on frequency. And all demographic changes like working women, double income and no kids and all those kind of things happening the frequency of consumption is where the real game will be in big cities. As far as other cities are concerned there both penetration and frequency will play a role.

Pritesh Chheda: Secondly, on the Dunkin' Donuts model, if you could you just tell us the breakeven period for the store which you must have calculated now since the model and the formats is rolling out?

Ajay Kaul: It is still early days, we will probably be able to share something with you in quarters to come but we do believe that the stores will start generating at a store level positive EBITDA in the very first few months of their operation.

Pritesh Chheda: But do you think that Dunkin' Donuts model in terms of payback should eventually be equal to Domino's model in terms of payback?

Ajay Kaul: Again early days our aim is to do that because we are highly optimistic about the model and our internal norms also are pretty strong in terms of getting paybacks in three years.

Pritesh Chheda: CAPEX numbers, I just wanted to reconfirm. Ravi gave us some Rs.120 crore of CAPEX which was spent in Fiscal '12. Can you break it up into Domino's and non-Domino's?

Ravi Gupta: Yes, Dunkin' is about Rs.9-10 crore that we have spent and rest all is Domino's India.

Pritesh Chheda: And in the Domino's India how much would have gone to store roll out, replacement and commissaries?

Ravi Gupta: See we have said the store is at about Rs. 8 million a store on average, rest is for the commissaries, for the existing stores, HTR and replacement. HTR is handle the rush basically the additional equipment we have to give to manage volume and then the replacement of the stores, relocation of the stores etc of the CAPEX is for all those categories.

Pritesh Chheda: What would be that number, if you could just give the commissary and the replacement number?

Ravi Gupta: The commissaries are under construction so even if I tell you the number also it may not make sense because commissary costs will depend on what is the size of the commissary, it may range from Rs. 8 crore can go up to Rs. 15-20 crore depending on the size of the commissary. We are building huge commissaries right now and with the latest kind of automation which is possible in the commissary to handle the kind of volume which we are expecting.

Pritesh Chheda: Which means that this CAPEX number is slightly higher on account of commissary number?

Ravi Gupta: Last year part of the CAPEX was incurred on the commissaries but the commissaries are still under construction so part of the CAPEX will be spent in the next year also on those commissaries.

Pritesh Chheda: Lastly, if you could also strategize on the Sri Lanka business plan in the next 3 to 5 years perspective?

Ajay Kaul: We have already opened 2 stores last year. So this year we believe we should open at least 5-6 stores more in Sri Lanka. And we believe over a 5 year period we should be at least sitting at around 25-30 stores in Sri Lanka.

Pritesh Chheda: Should I take the capital deployed in the model similar to in terms of proportionately as we have seen in terms of India Domino's or is it going to be different?

Ravi Gupta: It will be different because there is a comparatively smaller commissary there designed to service 25-30 stores. Store investment is also typically different depending on country-to-country and hence the model also change slightly. But overall norms we are trying to work it out but still early days to say anything like similar to Dunkin'. It is only that few years of performance will tell us where exactly we are heading on.

Pritesh Chheda: And what is the idea we are incorporating JFL holding in Mauritius?

Ravi Gupta: We are basically consolidating the investment. We are looking at Bangladesh in future, so there was an idea saying that we can consolidate the investments there.

Pritesh Chheda: Non-India expansion will go to JFL Holding in Mauritius.

Ravi Gupta: Yes that was an idea .

Pritesh Chheda: And can you share the franchisee agreement with Dunkin' Donuts from the model?

Ajay Kaul: This is something which we normally do not share. So we will refrain from answering this question for commercial reasons and we also we have an agreement with Dunkin' not to divulge such information.

Moderator: Thank you. The next question is from the line of Manoj Menon from Kotak Institutional Equities. Please go ahead.

Manoj Menon: Only couple of questions. I just want to understand basically rent as a percentage of sales is broadly kind of remaining the same so is it manifestation of the fact that the model is more dine-in in the Tier-2 Tier-3 so is that the way to look at it or anything else which I am missing in this?

Ravi Gupta: I have not understood what was your question? What is the linkage between the dining and store percentage and rentals?

Manoj Menon: Okay so basically when you look at the operating leveraging part, rent as a percentage of sale, rent is actually first of all growing at almost similar rate as sale, rent as a percentage of sale is broadly remaining the same. So the question was basically is it a function of the fact that in the larger cities because it's been a takeaway you need a smaller store, in a Tier-2, Tier-3 city it is more of model itself is more of a dine-in, basically you need a larger store. Is that the way to look at it or?

Ravi Gupta: If you look at a broad timeframe, our rental has become more and more efficient, I don't know whether you're looking from quarter-to-quarter, quarter-to-quarter may not reflect the correct picture. But if you look at three years earlier our rental was close to 9% and now it is close to 7% range. So it is becoming efficient day by day because of the same-store growth which is pretty good, 23% is the average number for the last five years. But let me tell you this strategy of having a larger store. It is not limited to the Tier-3, Tier-4 cities, even in the metros when we are opening the store it has some kind of sitting space like in Mumbai kind of city it would be around 15-20 covers and Delhi kind of 20-25 in Bangalore slightly higher, in Tier-3, Tier-4 we need larger space but it is not that expensive as space in those cities.

Manoj Menon: Okay just another question because honestly I did not really understand the volume price mix discussion which was there earlier. Is it possible to split basically the price and volumes in simple numbers, if possible the mix also?

Ravi Gupta: We will not be able to share that number.

Moderator: Thank you. The next question is from the line of Nitin Saigal from Bridger Capital. Please go ahead.

Nitin Saigal: When you talk about transaction counts per store, it looks like your transaction counts are already quite healthy on a tickets per week basis. Just wondering as you continue to forecast 18% plus counts; does that start to be a logistical worry for you as you are trying grow larger through volume growth, does it present any pressures on the store count that makes you want to take price mix up more than transactions?

Ajay Kaul: I don't know whether we understood your question fully but what we would say is today when we look at the country as a whole, 465 stores, the total spectrum of transactions being handled by let's say every store is a wide range. So there are stores which are five times the size of let's say the smallest store. So we believe that we at the upper end of the spectrum, the stores which are efficiently managing and growing same-store not too dissimilar from some of the other stores. So we do believe there is a lot of headroom for all stores to still grow at the same-store transaction level. Having said that, a good amount of our investment also goes into 2 to 3 things, one is relocating some of the stores which we can identify- which may have some bottlenecks of the nature which you were trying to allude to, so every year we relocate some 20 stores as much as we have plans this year. We also sometimes take extra spaces in the existing stores to again debottleneck them in some ways and third and foremost is the new stores which obviously doesn't

affect same store but obviously lot of new stores we actually equip keeping these large transactions in mind. So from a holistic perspective It's not going to pose severe bottlenecks, although there will be challenges and we will find ways to sort them out.

Nitin Saigal: The second question is the stores that you're opening in the smaller cities, how do they compare to your larger existing stores in terms when they mature do they get to the same level of cash profits per store, total amount not margin?

Ravi Gupta: Our principles internally are that payback for the store has to be three years. So whether we open in a metro city, whether we open in Tier-4 cities or Tier-3 cities our principles do not change and we have been consistently getting those kind of returns even from smaller cities and that encourages us to open and go much more deeper, like we have gone to 15 cities last year, 21 cities last to last year. So, principles do not change and we have been consistently getting those kind of returns from those cities as well.

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

Hiren Dasani: First couple of small data points. You are presently saying that Rs. 90 crore of cash whereas if you look at the statutory release you have about Rs. 92 crore of current investment which I presume is treasury related and you have about Rs. 12 crore of cash and bank cash balances. So, is there some misunderstanding here?

Ravi Gupta: No, there is no misunderstanding. The press release says that around Rs. 90 crore of cash which has been invested. the actual number is 92 you are right. There is a cash balance of Rs. 12 crore but there is a book overdraft also of similar amount so which is appearing under the current liabilities so it's a net of both the book overdraft and cash balances in hand, so net-net we are around Rs. 90 crore.

Hiren Dasani: Is there any capital work-in-progress which is reflected in part of the loans and advances, the long term loans?

Ravi Gupta: Yes, it is about Rs. 5 to 5.5 crore which is there.

Hiren Dasani: And the ICDs remain at about Rs. 30 crore only right?

Ravi Gupta: No there is no ICD. ICD has been completely repaid last year on the due date. All the money is lying in the liquid mutual fund.

Hiren Dasani: I am referring to the one which was invested in last year so that has been fully repaid?

Ravi Gupta: Yes, fully repaid on the due date.

Hiren Dasani: Thirdly I mean is your Rs. 150 crore guidance on the CAPEX side, I know there has been some discussion earlier but if you were to exclude the commissary related, then obviously

commissary related you have to think it more in terms of capacity building over 2 to 3 years, it will not recur every year so if you build commissaries for next year and then how many stores it will support in terms of Domino's?

Ravi Gupta: Overall about 600 to 650 stores it can support based on volume today because it is at one point of time. When we say 600 to 650 stores it is at one point of time when the volume increases obviously the number of stores will decrease.

Hiren Dasani: But is it fair to assume, that for every additional let's say additional 100 - 125 stores, one has to build a commissary related CAPEX also maybe Rs. 15 -20 crore?

Ravi Gupta: Actually not 100 to 125, depending on how many stores we are expecting in that region over five years period. That is the size of the commissary typically you will build up. So it depends on, Western commissaries we are building 250 stores there, it is a huge commissary, where in Mohali we are building about 100 stores commissary.

Hiren Dasani: And that would cost how much for 100 stores let's say?

Ravi Gupta: The range is between Rs.8 crore to 20 crore right now depending on its size.

Hiren Dasani: Okay and thirdly this Rs. 150 crore you're not including any CAPEX related to the Lanka right?

Ravi Gupta: No, this is Indian CAPEX.

Hiren Dasani: And Sri Lanka do we plan to invest substantially over the next 12 months?

Ravi Gupta: See Sri Lanka we have two stores and there is a commissary still under construction there. We plan to open about 5 to 6 stores in Lanka and complete the construction of commissary. Right now there is a backend commissary working for the supply to the stores. So there will be investment in Sri Lanka by next year definitely to have all the stores opened there and the commissaries gets constructed there.

Hiren Dasani: And the Rs. 80 lakh per store kind of CAPEX for Domino's and you said that CAPEX per store will also to go up next year?

Ravi Gupta: No, the CAPEX per store will go up to about Rs. 9 million the next year, it is partly due to inflation and partly also that as Ajay mentioned earlier that we are equipping our stores to handle more volumes so an increase in equipment. Also we will be using some more initiatives, like digital menu boards in the stores, so the stores look more funky and the maintenance costs also reduces there practically. So quite a lot of other initiatives, consumer facing initiatives are also there in that increase in the CAPEX.

Hiren Dasani: And lastly there has been some change in the consumer sentiments for worse in the last kind of 6 to 8 weeks. Are you sensing that on the ground, whether you have assessed the guidance of 18 to 20% kind of dip that kind of slow down.

Ajay Kaul: You know coming out of two years where we did 37% and 30% same store growth to continuously kind of repeat those kind of numbers, it will as it is be a challenge. Having said that 26% same store growth in quarter 4 is in itself a very good number but to us it is a bit reflective of a certain mild change in the consumer sentiment we believe. When we look at new customer acquisition and the growth in that and when we also look at frequency of consumption of our regularly trading customers at the rate at which it grows we believe that there probably is a bit of, I would still call it an early warning signal, that there may be a bit of a change in that. But having said that we are very optimistic that with 7% GDP growth and its translation into disposable income that I have said this before and that into a multiplier which applies for discretionary spend on items like food, we are optimistic that these are small, temporary changes but overall environment is still very optimistic, so, that is how we would like to play it, our 18-20% same store guidance, we believe is something which we definitely will achieve .

Moderator: Thank you. The next is from the line of Sanjay Singh from Standard Chartered. Please go ahead.

Sanjay Singh: In case of Dunkin' Donuts, if I recall the conference call post announcement, it was said that the CAPEX per store will be significantly lower than the CAPEX per store for Domino's. But here the number what you're saying a Rs. 60 lakh to 1.2 crore is quite similar to the Domino's store. And the reason given earlier was that there will be no kitchen in the Dunkin' Donut's format because everything will be ready-made and hence the CAPEX will be lower, so is there a change in the thought process something that has led to the change?

Ajay Kaul: If you look at a traditional Dunkin' model, there the emphasis on kitchen is quite less because the dominant focus is basically on coffee and beverages and donuts where again there is international leadership in both these categories. When we decided to bring in Dunkin' Donuts into India one of the key things which the research was telling us that there is a gaping hole or call it there is a big need gap in this format which could provide in a good young youthful environment and reasonably quick service, food options which are there for throughout the day. When you look at the café's, the coffee shops while they have done a good job in terms of promoting coffee-culture but they have stopped at that. People don't go there for food, their hangout places and so on. And then there are the QSRs which are typically offering limited variety but in a very highly transactional and clinical fashion and somewhere in between, exactly in between these two is the sweet spot which we are trying to hit. When we embarked on trying to find out what all we could do in this space, did we realize that the investment actually will be a bit more than we had originally envisaged. And your observation is right so as a result our store CAPEX by virtue of some turbo-shaped ovens and all that which we put in the store have only gone up to some extent. Having said that we have still not arrived at the final format what we believe is the best format, with what all equipment and so on which should go into the kitchen or inside the store, the range right now may be from Rs. 60 to 120 lakhs but it will be after 4 to 6 months that we will be in a position to answer this question. Whether as to what is typically the capital investment that should go into the right size stores which will be also profitable because that is one of the key measures that we will be looking at.

Sanjay Singh: And you are still maintaining a three-year payback period which is equivalent to what you do in Domino's per se?

Ajay Kaul: See, internally for the group that is a yardstick which we always follow and we would obviously want any brand including Dunkin' Donuts to kind of align to. But we will have to look at the numbers as they unfold over next 3 to 5 months. The formats as we keep making them. Eventually obviously we would want them to align to this three year payback policy.

Sanjay Singh: I know you wouldn't like to share numbers on Dunkin' because the format is also variable and changing as of now but any thoughts on what the typical store sales would do or can you share what you feel café plus kind of store would do?

Ajay Kaul: I wish we had the answers, we have guesses but we can't share those guesses with you. We have obviously done a lot of our number crunching but at the moment we will stay silent on that. We have no idea.

Sanjay Singh: Okay, so let me be a little more blunt here, Coffee Day typically as per my assessment, is much lower than what a Domino's store does and hence the margins are much lower for a Coffee Day. So do you think that the model of Dunkin's will be very much different that it will be able to do a higher sales per store and at a higher margin?

Ajay Kaul: Most certainly. Even without batting an eyelid we can say most certainly because again going back to something I was saying a little while back, there are three big pillars on the food side. One is Coffee per se, Dunkin' coffee, Dunkin' Donuts as a brand in coffee in the US and a lot of other markets is clearly a leader. America runs on Dunkin's which you must have heard about, is an old campaign running five years undisputed and in brand loyalty they are number one in US. And we see no reason why that supremacy in coffee will not lend us higher revenue. Coupled with that is cold beverages which is unique to India to some extent because we have done a lot of research there and a lot of milkshakes which are normally not in Dunkin' arsenal but they have been launched here they have Indianized to a large extent and they are also going to play a very key role. Donuts, which is not there with anybody, we are undisputed market leaders country after country and that's going to be big in itself and last but not the least which I was trying to emphasizing a little while back was on 'all day-part' food. As I said, they are also coffee places have done a great job in promoting coffee culture but the buck has stopped there they have not moved thereafter and today they are trying to bring in food, they are trying in some ways to bring in food into their menu but people only go there for coffee, we don't want to be one of them and clearly 'all day-part' food is going to be a very strong pillar of our menu mix. So given all these we believe the typical Dunkin' stores will be a few times bigger than a typical of the names which you just mentioned.

Sanjay Singh: Okay and finally, I understand that with Domino's we have a clause that you cannot do anything which is delivery, home delivery correct me if am wrong.

Ravi Gupta: It is fast food delivery not delivery alone.

Sanjay Singh: I am sure there will be certain clauses that will come with Dunkin' also, so putting it very simply what kind of other formats are open to you with these two clauses which are now closed? What kind of other brands is possible, I am not saying you are getting those brands, that is possible with the universe now?

Ajay Kaul: Okay what we would say to that question is, that by virtue of having created arguably one of the best food service brands in India, a lot of these internationally renowned companies are in discussion with us. They believe that they can get into a partnership with us. Of course signing a deal takes that much more and we are nowhere close to signing any deal right now but having said that, the larger priority for us right now is to get establish Dunkin' Donuts in India and also do a good job with our Sri Lankan operations. So for the foreseeable one to one and a half years we are in no hurry to announce one more such association, very clearly. But having said that, there are discussions which are happening, there are various stages but none anywhere close to be announced and we are in no hurry.

Sanjay Singh: So what am trying to say is, let's assume it is all hypothetical in nature so let's assume that Burger King approaches you for a deal for a JV. Now, as per your agreement with Domino's as well as Dunkin' will it allow you to take a JV with your Burger King?

Hari Bhartia: With the existing two agreements we have enough flexibility to look at many brands. We are really not worried that we are constrained in any manner and to be fair to our own existing brands we would not like to bring a brand which competes with our own products. So as long as we don't do that, I think we are open to bring in brands which will add to the market.

Sanjay Singh: On the normal numbers for Jubilant because this year the number of employees per store have increased at a much slower pace than it was in the last couple of years. As per my numbers, in the last couple of years the employees per store which is if I divide the number of employees divided by the total number of average stores for the year what's increasing in mid-teens, now this year it has been a low single digit number and the growth has come from number of orders not from a bill value or price increases. So how do I read it, was there some excess capacity, there has been some efficiency, how do I read this now?

Ravi Gupta: See last year our same store growth was 37%, so if you compare our last year versus this year was 30%. So, definitely the number of employee addition will be lesser in this year compared to the previous year. But if we go backward when we had a growth of about 18-20% then obviously the increase in number of employees will be even lower than the current year. So it is in relation to the number of orders, the growth in the employee happens although always there is an efficiency which comes in because, what this incremental manpower is used for is not for the fixed work stations, like fixed work station is pizza making and order taking and what is incremental is always for delivery and for you can say incremental order taking . The managers , floor managers are fixed manpower.

Sanjay Singh: But there is quite a difference because if I see this year your same store sales growth is 29% and you are saying mostly if it is from orders and your average employee is only increased by 3.5% per store, so there is quite a difference which is there anyway we will leave it at that.

Moderator: Thank you. The next is from the line of Kaustav Kakati from PUG Securities. Please go ahead.

Kaustav Kakati: My question is basically on the future of the Domino's, just the Domino's format growth, what I understand is you are well established and well penetrated in most of the metros

so going forward you are talking about an average of around 60 to 70 stores every year at least for the next couple of years. Would I be right in assuming they would be mostly in Tier-2, Tier-3 geographies?

Ravi Gupta: Actually we already answered this, 90 stores guidance we have given, about half of the stores will be in the top 10 cities and rest of the stores will be in other cities including the new cities.

Kaustav Kakati: Actually why I was asking is that if the greater proportion of new stores comes from basically non-urban centers or rather non-metro centers, would there be any impact on the average transaction size, would that actually see some reduction?

Ravi Gupta: See what we look at is not the transaction size, what we look at is the payback that store gives, whether it is open in Tier-3 or Tier-2 cities or metros. So long as return on investment is there we do not differentiate between transaction size because transaction size can vary. Their sales level can vary. What we are worried about or we always measure it by saying that what is the kind of return which we get from the investment made in whatever kind of stores we are doing?

Kaustav Kakati: The second question is also on the competitive landscape. I think part of it was already answered earlier, you were saying that not only in pizza but the competition is sort of become strong in the whole QSR industry as such, I think one of the young brands is talking about nearly doubling its revenues in the next couple of years. So, do you think that, for Jubilant, would it be possible to sort of match that kind of scale or you think that doubling it in next couple of years looks very difficult?

Ajay Kaul: See some of the things which you are talking about, are our honorable competitors we wish them good luck. More certainly if you see in the last few years Domino's or Jubilant FoodWorks has followed a trajectory which if you see is fairly insulated from what opposition is doing. We believe if there is an opportunity in the market, if we are able to create a good brand, a good value proposition based on value for money, great taste in products and also the convenience factor in terms of 30 minutes and everything that we bring along with our brand. If that is fine we will only have to grow the market. If you look at any set of any comparison with market share evaluation of such categories has happened, collectively our effort should be to grow the market, more and more people who convert from the traditional Dal-Roti and Vada-Sambar, Idli, Pav Bhaji to pizzas and burgers and stuff like that, that is a task right now. So I'm sure there is a room for everybody to grow. We believe that whatever numbers we have been saying is something which we will be able to deliver at least and we believe that if others want to grow at a good pace, there is enough room for them to build a category and move on.

Kaustav Kakati: I guess what I basically was trying to also imply was, 2% contribution that you are talking about in Pizzas of the entire QSR industry, do you think that can be increased to let's say about 4-5% in the next 3 to 4 years?

Ajay Kaul: Statistically speaking if that becomes 5%, math will mean there will be some 1500 Domino's stores in three years' time. If you are talking of 4% means, this means that even if the whole market was stagnant, the market has doubled for pizzas. The point is at whatever pace it

has, if you take any leaf out of what has happened in similar markets who are a few years ahead of us say typically a South East Asian market or whatever with all modern and organized retail as it comes in, it only helps to catalyze this whole thing. So, same thing will happen with organized retail and we are a part of that organized retail. So we will also grow and pizza and pasta from 2% will move on to become may be 3% and so on. Secondly and as importantly is lot of work which we do ourselves proactively is going to make this transitional change in people's mind and lot of internationalization with a lot of international travel, globalization that is happening. Consumers themselves are actually bringing up this change. They have accepted this kind of food more and more. So, lot of factors working together to increased the component of pizza and pasta as a percentage of the total market.

Moderator: Thank you. That would be the last question. I would now like to hand the floor over to Mr. Ajay Kaul for closing comments.

Ajay Kaul: We would like to thank all the participants and people who joined us today in this call. It was very exciting even from our side. It was a pleasure interacting with you and should you have any more queries please do get in touch with us and we would be more than happy to address them.

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