Q2 & H1 FY2011 Investors/Analysts Conference Call

Thursday, November 04, 2010 at 04:00 pm.

Urvashi Butani: Thank you, good evening ladies and gentlemen. Welcome to Jubilant FoodWorks conference call for investors and analysts. The call has been hosted to discuss the financial performance and share operating highlights for the quarter ended September 30, 2010. I have with me on the call today 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 Gupta. After the opening remarks, we shall open the call for the 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 are made on this call today may be forward looking in nature and the results may actually differ from the forward-looking statements made and the company does not offer to update them publicly to reflect changes in performance. A detailed statement in this regard is available in the company's Q2 FY2011 release, which is available on the company's website www.dominos.co.in under the investors' section. I would now like to invite Mr. Hari Bhartia to commence by sharing his views on Jubilant FoodWorks performance for Q2 & H1 FY11. Over to you, Sir.

Hari Bhartia: This is Hari Bhartia, I am the Co-Chairman of Jubilant FoodWorks. Good evening and thank you for being present with us on this call today. This, as you know, has been a remarkable quarter for Jubilant FoodWorks.

Our strong quarterly results reflect our ability to outperform some of our previous milestones and create value for all our stake holders. Our results are part of a powerful continuing trend, which can be explained by the Company's longstanding strategic direction in combination with prudent efforts of our management. It is really our continuous endeavour to direct our efforts on designing and implementing strategies, which help us accomplish goals benchmarks and surpass the benchmarks we set for ourselves.

We have been able to expand our network to 79 new cities, made innovative additions to our product portfolio and have taken initiatives to improve our operational efficiencies. These will of course be explained in detail by Ajay and Ravi in their remarks.

As always I would like to specially thank all our stakeholders who have placed immense trust and confidence in us. I would also like to take this opportunity to really congratulate our management team led by Ajay and his entire group of senior people who have done an outstanding work which is visible in this quarter's results. . Before I close, let me wish all of you a very Happy Diwali. I would now like to request Mr. Ajay Kaul to take the call forward.

Ajay Kaul: Thank you Mr. Bhartia. A very good evening and thank you for joining us today to discuss Jubilant FoodWorks operating and financial performance for the second quarter ended September 30, 2010.Before I move any forward I want to wish all of you a very Happy Diwali, a very prosperous and a great year ahead. Jubilant FoodWorks, maintaining its past record continues to deliver a robust set of numbers for this quarter as well.

Let me take a few minutes to discuss the highlights for this quarter's performance. Our total income for Q2 FY2011 stood at Rs.1633.85 million with a growth of 67% year-on-year. Our Net Profit for the quarter was Rs. 184.35 million up by 137% as compared to Rs. 77.65 million in the second quarter of last year. For the first half in this year our Company witnessed a significant growth in Total Income, which stood at Rs. 2989.35 million. The corresponding Net Profits stood at Rs. 337.15 million up by 201.2% over the same period last year.

Our strong numbers reiterate our leading operating and financial position as a leader in the food service industry. Our growth during the quarter can be attributed to the addition of new stores, increase in same store sales and new introductions to Domino's product portfolio. During the quarter, we continued to focus our attention on expanding our network into newer cities and towns across the country that enabled us to increase our geographical growth coverage. Reach is the cornerstone of our strategy. There is a strong affinity for the Domino's brand in the cities where we have not yet entered. The latent and the ready potential is simply too hard to ignore. Our efforts will continue to improve coverage at existing locations while at the same time spread "Khusiyon Ki Delivery" nationwide.

The fundamentals of our business and our basic business model have not changed. Our strong results reflect successful execution of a focused business approach that we have aggressively pursued since we founded the Company. We have constantly delighted the customer with new product concepts. Feedback available to us suggests that we have got good responses thus far. This consumer salience is an important part of our model. Our healthy and delicious innovation the wheat thin crust pizza is an absolute hit with our customers and the latest addition of Pasta Italiano and Mexican wrap have received a stupendous response. Our successful attempts further encourage us to strive harder to innovate and satisfy our existing customers as well as entice new customers into trying our irresistible range of Mexican and Italian offerings and by extension the entire range on offer.

A key focus area for us this quarter has been the scaling up of our stores network and today we have a well entrenched network of 339 stores pan India in 79 cities. We at JFL wish to create a distinctive element of ‘easy accessibility’ around Domino's. Besides online ordering we have also initiated the concept of mobile marketing whereby our customers can avail personalized target coupons at a mobile platform. This is another example of Domino's leveraging innovation in marketing to deliver focused results. Both initiatives are progressing well.

We believe that the food service industry has tremendous potential for growth especially in a country like India having a diverse population with different tastes and preferences. We are geared up to capitalize on all the opportunities that the business environment offers us and are extremely excited about taking the Domino's brand to the next level.

Looking ahead, we are very optimistic about the future of our company considering our commitment to leverage our strengths that lead us to the path of sustainable growth and at the same time focus on creating an implemented strategy that will enable us create wealth for our stake holders. That brings me to the end of my remarks. I would now like to hand over to Ravi Gupta our CFO who will take you through our financial performance.

Ravi Gupta: Thank you Ajay and welcome you all once again. I shall briefly provide you with an overview of our Company's performance for the quarter and the half-year ended September 30, 2010. It is with immense pleasure that I am speaking about another great quarter with a very strong set of numbers. In Q2 FY2011 Total Income stood at Rs.1633.85 million translating to 67% growth as compared to Rs. 977.54 million in Q2 FY2010, such growth is broadly driven by expansion of Domino's network of pan India with the launch of 18 new stores this quarter, which includes one sub-franchised store.

Moreover we also reported a healthy same store sales growth of 43.8% during this quarter. Going forward with respect to profitability during this quarter our EBITDA was reported at Rs. 297.25 million compared to Rs. 152.23 million in the same period last year while EBITDA margins stood at 18.2% as compared to 15.6% in Q2 FY2010.

During the second quarter of FY2011 we continued to execute our business strategy and made progress in a number of important areas. As we expand our network and operations we remain committed to right-sizing our cost structure across each area and level of business to drive continued positive financial results. We have over the years developed an operational system, which gives us the ability to sustain a lean cost structure and continue to invest in our growth priorities. I am confident with further extension of our business we will continue to align our expenditure prudently to our operations.

With respect to interest expenses during the quarter, interest expenses witnessed a decline in Q2 FY2011 and stood at Rs. 0.93 million on account of repayment of all the term loans. In Q2 FY2011 we reported PAT at Rs. 184.35 million as compared to Rs. 77.69 million in the corresponding period last year registering 137.3% growth, which is largely attributable to our healthy operating performance.

Moving ahead to the H1 FY2011 results, Total Income was Rs. 2989.35million registering 63.6% growth over Rs. 1827.46 million in H1 FY2010. This is primarily driven by our expansion across the country into existing as well as new cities coupled with healthy same store sales growth. Our EBITDA for the half-year ended September 30, 2010 was Rs. 548.67 million compared with Rs. 275.66 million in the corresponding period last year. The EBITDA margins stood at 18.4% as compared to 15.1% in H1 FY2010.

Lastly PAT for H1 FY2010 was recorded at Rs. 67.15 million witnessing growth of 201.2% when compared to a PAT of Rs. 111.94 million in H1 FY2010. The corresponding PAT margins were at 11.3% and 6.1% respectively.

In conclusion I would like to add that with very encouraging H1 results we have made significant strides in our business operations. We had started the year off with a target of opening 70 new stores and having successfully launched 33 stores till date, which includes two sub-franchise stores.

Simply put, our business overall has been progressing well and we are confident of growing at a healthy rate going forward. Before I conclude my remarks, let me wish all of our participants a Happy and prosperous Diwali and with this I would like to conclude my opening remarks and would like to request the moderator to open the call for Q&A. Ajay and I will be happy to address queries at your end. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question andanswer session. The first question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chedda: First if you could tell us the same store sales growth in the quarter and there after break it up as price lead and volume lead.

Ravi S. Gupta: Same store for this quarter is 43.8%. This quarter we did not increase our prices but periodically every six months or so we increase the prices by about 2-2.5%, so on an annual basis we can say the growth is about 5% in terms of price, so the rest is volume led growth.

Pritesh Chedda: In this quarter 4-5% is price led on account of the price hikes taken in the previous quarter.

Ravi S. Gupta: No, Pritesh, what happens is the price increase is done every six month and so. In this quarter there is no specific price increase but when we compare it between the Q2 FY2010 to Q2 FY2011 there are two price increases of 2-2.5% each, so in a nutshell both price increases together will give you about 5% price increase in the same store sales numbers.

Pritesh Chedda: Considering the first half same store sales growth being extremely robust and deviation from the past trend of about 16% and just your take on the market condition, is it now possible that the same store sales growth of similar level will also be there in H2 FY2011?

Ajay Kaul: See we won't be able to reflect on how the same store growth is going to evolve in future. If we for a moment look at how has the first half gone, I think based on some good advertising campaign some good product launches like Pasta Italiano Mexican Wrap, which we had launched in Q2 and also things like Chocolava Cake coming out of last year, which continued to do very well, the way the consumer has responded to these products and promotional features and added to that what we have been trying to innovate with the mobile medium, we have been offering lot of promotional offers to our customers, on the operations front we continue to be ranked as the best operations run in the world amongst all the Domino's countries, we are also one of the best employers, so if we put all of them together and the fact that we have over the years been kind of reinforcing at the store level, all our philosophy of serving customers and so on we believe that the consumer's sentiment is going to continue and they are going to strongly support Domino's in future also..

Pritesh Chedda: Having the experience for the last five years and specifically for the last three quarters, has pizza market growth deviated from the historic numbers that you have, do you think at this stage it has deviated on the upside based on the numbers that you have?

Ajay Kaul: As far as our numbers are concerned, clearly the last three quarters are better than what we have done over the last six years. To put things in perspective, our CAGR system level growth in the last five years, which is till 2010 was around 44% and in this year so far our system level growth is around 67%. If I talk of same store growth average of five years has been around 18%, this year so far it is at around 40%. I think specially coming out of year before last where there was a bit of a dip, which the whole market place had taken, because of global factors I think clearly the market is looking upbeat and the consumers are coming out of a bit of, call it recessionary space if I may say that, and they are showing that much more response to an impulse purchase product like Domino's pizza.

Pritesh Chedda: So is it fair to then conclude that at there could be a deviation from the historic trend.

Ajay Kaul: We definitely believe that there is upbeatness at the consumer level in the market.

Pritesh Chedda: We have introduced two franchisees now. We have an extremely robust cash flow. What is the rationale behind sub-franchisee and why don't we utilize our cash only for faster ramp up?

Ajay Kaul: As a part of our thinking which has been consistent over the last 15 years we believe that we should run these stores ourselves because then the whole operation, the whole training machinery, the quality of the product, the sanitation hygiene all that is within our control and given our country I think these are of paramount importance, we attach lot of importance to this, being a cornerstone for our success in India. Now these two particular stores which are franchisees are more out of design than choice because for anybody to operate at airports, these are two airport stores, one in Delhi and one in Mumbai you have to necessarily go through what we call a food operator and the way it operates in India as well as worldwide is that you have to become our franchisee of that particular food operator. So let me answer this in short, if given a choice we would have opened this store also on our own, but structurally how these contracts are done we are forced to be a franchisee of a food operator.

Pritesh Chedda: How are these contracts structured and what would be the revenue booking?

Ravi S. Gupta: There are two kinds of revenue booking that happens for this, one is we charge a franchise fee to franchised stores and second kind of revenue booking is we sell food to them, all the ingredients are supplied by us to these two franchised stores, so we have revenue from the sale of the ingredients.

Pritesh Chedda: Okay and is the fee income as a percentage of revenues?

Ajay Kaul: Yeah it is a percentage of revenues.

Pritesh Chedda: What is the percentage?

Ravi S. Gupta: We will not be able to share the exact number with you.

Pritesh Chedda: Each new SKU that you have launched Chocolava, Mexican Wrap, Pasta Italiano, if on a three to four year perspective what could be the revenue size that these SKUs can become, so it is easier for us to extrapolate for incremental SKU sizes.

Ajay Kaul: It is hard to predict, but we can say three to four things - One by launch of these products we have been able to make our menu more holistic from the customer's perspective. Because when we did our research the customer would say we love you, but give me also a couple of more side options and also a dessert, which was previously missing from our menu. So since I would say last year, in August when we launched pasta for the first time, then we did Choco Lava in December and this year we launched the Wrap, we believe now these are products, which have become a part of our menu mix. Now going forward we are at the end of the day a pizza company, so our focus on pizza will never change. You will see lot of our innovation actually happening around pizza rather than the side orders but the side order and the dessert will continue finding their place. So are we expecting these dessert and side orders to become so large that the pizza percentage will go down, I do not think so. They will coexist and they will all form a part of the stomach share of the consumer.

Pritesh Chedda: Any ballpark figure or idea on the size of each SKU that it can become over the next five years may be not as a percentage of revenue but absolute size, a Rs .30-crore palette or a Rs. 50-crore palette.

Ajay Kaul: Without giving a number to it, they are fairly sizable and in percentage terms pizza will always tend to be the mother of all of them.

Pritesh Chedda: Last two questions the ad and promotion expenses as a percentage of the sales what it is and what it should be and what is the employee inflation that we are facing at this stage?

Ajay Kaul: We can't actually share with you what our advertising spend as a percentage is, but it is consistently growing year after year and we believe that while we have been doing some cut through advertising, which has reached the far-end and corners of the country and which has reverberated by the fact that when we enter lot of new cities like this year so far we have gone into 10 new cities and if the pent-up demand by virtue of the product already having reached there at least at the mind level and then getting executed when we physically enter the city demonstrates that advertising has already reached there. But we still believe that we have to grow our advertising to continuously communicate with our customers so that is going to grow, without sharing the numbers with you. The second question was with respect to employee inflation. As you are probably aware we are the ninth best employer in India by Hewitt Employer Survey; as a great place to work we are also amongst the top 25 in India. We believe in constantly getting back to our employees because we have more than 10,500 of our own employees today who are the happiness ambassadors as we call them. Recently in September we have done a salary increase of our team members, people who work in the stores and we can proudly today say that we are leading the pack in terms of salaries at that level, this obviously brings in that much more motivation and so on for them to further satisfy customers. Similarly we also increased salaries of our associate and store managers in the store in September that is again going to go a long way in motivating them to satisfy our customers. So we are very much in line in terms of giving increments much more than what the inflation is to our employees.

Pritesh Chedda: On the ad and promotion expense, has that direction as a percentage of sales improved over the last 2-3 years at least if you could give on the direction side?

Ravi S. Gupta: We can say that it is improved marginally and consistently it has been improving year by year.

Moderator: The next question is from the line of Naveen Kulkarni from MF Global Sify Securities Pvt. Ltd. Please go ahead.

Naveen Kulkarni: I would like to understand the 44% same store growth rate for this quarter, could you tell us what is the growth rate for mature stores, which are three or more than three years old?

Ravi S. Gupta: Actually there is no significant difference between stores, which are less than three years and stores which are older than three years. They are marginally different. The reason why they are marginally different is that bigger stores, need to be split periodically, whenever stores grow to a certain size and above, to serve the consumers better, we open another store also in the vicinity because the customer service starts suffering at the fringes.

Naveen Kulkarni: So also if I were to look at these quarter numbers the quarter-on-quarter growth rate is in the range of around 20.5%, which probably would be quite a high number, so is there any kind of seasonality that you see over the four quarters I would probably imagine Q3 would be the strongest quarter. Is that a right assessment to make?

Ajay Kaul: If you look at last year, I think you probably will have access to last year numbers, what happens is as the year progresses our new stores keep adding along so they probably color a little bit, the concept of seasonality. If we were theoretically not adding any stores during the year then you would probably get a true indicator of seasonality. But having said that you are right, December as an exception and may be to some extent half of January are months where seasonality is demonstrated very well, consumers are in a very joyous and a pompous mood, corporates actually at the time of the year are also in a good mood to reward their employees and hold pizza parties. So as a result December tends to be a big month, January half of if also tends to be a good month. Other than that I think there is a steady business, which comes almost throughout the year but there are occasions for example when there is Durga Puja in Kolkata the sale will pick up when there is a Ganesh Chathurthi in Bombay the sale does pick up, during the Durga Puja Dusshera, etc. So there are pockets where on a few days sales are high or low, but by and large seasonality is not there, it is missing.

Naveen Kulkarni: Okay and also in terms of growth rate coming from metro's versus non-metro cities are they different or how do we look at those numbers?

Ravi S. Gupta: They are not significantly different actually. All cities practically are growing by a good set of numbers and there is no major difference in metro versus non-metro.

Moderator: The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: I have a question on what is the sustainable EBITDA margin going ahead over the next 1-2 years and same for tax rate and last one is what is the average ticket size right now versus last year?

Ajay Kaul: Okay let us start in the reverse direction. Ticket size is something which we will not be able to share with you. As far as EBITDA margins are concerned for the first two quarters it is around 18.3%, which is a significant 2.6 to 2.7% improvement over last year. We believe that given the first two quarters, where we have managed to grow our sales by a very handsome 67% at the systemic level and around 40% at the same store level. We have been able to grow these margins and our outlook for the future is that with customer response coming in the way it has been in the past we will be able to deliver hopefully good results.

Manish Jain: You expect them to sustain and improve further.

Ajay Kaul: It is difficult to comment at this juncture and to look at the future. We will obviously strive to improve.

Manish Jain: Thanks and last one was is on the tax rate.

Ravi S. Gupta: Tax rate for this year will be around 20%; this is in view that we had carry-forward tax losses as well as book losses and from the next year. We will come back to you by the end of this year on what will be the tax rate, but as of now it seems like to be a full-tax rate.

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

Hiren Dasani: On the same store sales growth if I look at the commentary as per the last earnings call, the actual numbers have clearly surpassed much more on the upside. So I am just wondering that within a three-month span how can we be so materially different from what we were expecting about three months ago.

Ajay Kaul: If you look at our five-year same store growth on average basis it is around 18% and if you look at our last two quarters in particular this has jumped to as high as 44%,so these are unprecedented numbers. So at the end of the previous quarter also when we had discussion we knew that there was upbeatness in the market. The consumer is responding very well, 44% you know has clearly beaten our expectations also and we are very happy to report these numbers.

Hiren Dasani: Again for the full year you are still saying that the same store sales growth will be in the range of 18-20% only?

Ajay Kaul: We will not be able to comment about the future. However what we will say is that the consumer seems to be reacting very well to the various stimuli that we throw in the market by way of our promotions, by way of products, by way of the various schemes that we have whether it is a mobile coupon or through the Internet, online ordering. A mix of all these, as a function seemed to have responded pretty well so far during the course of this year. That is all we can say.

Hiren Dasani: Okay, I mean basically you have stopped giving any guidance as far as the same store growth is concerned?

Ajay Kaul: Probably.

Hiren Dasani: What about store openings for the current year?

Ajay Kaul: Till first half this year, we have opened 33 stores and we are upbeat about our full year guidance which we had given - that we will open 70 stores by the end of March 2011. And we are on track for that and we will definitely open around 70 stores by March 2011.

Hiren Dasani: Sure and may be one should expect similar numbers for the next year as well.

Ajay Kaul: As and when we decide our budgets and our targets and objectives for next year we will be very happy to share them with you.

Hiren Dasani: Can you tell me what was the Capex for the quarter as well as for the half year?

Ravi S. Gupta: Capex for this half year is about Rs. 28 crore.

Hiren Dasani: Largely on the stores only?

Ravi S. Gupta: That is largely attributable to stores. A significant portion of this relates to the stores opening because of 31 company owned stores that we have opened. Although we require some balancing equipment for the commissary that happens periodically, we also need to add on equipments within existing stores also but that is smaller portion.

Hiren Dasani: Sure, if I look at the employee number just dividing simply the number of employees by the number of stores, it looks like the number of employees has gone up quite a bit during this quarter, any explanation?

Ajay Kaul: Yes, it is very simple. When you look at the same store basis, we have grown at around 44% at a same store level you need to beef up the same store employee base by at least 15-20%, so if you look at our existing same store employee base for getting a 44% same store growth you require those many more motorcycles, those many more people who can go and deliver pizzas, so that is one part of the employees base growth. The other is that every store normally requires around 25 odd people and the 33 odd stores that we have opened this year so far, we have had some fantastic performance by these stores and they have opened much higher sales than the stores in the past have and as a result they have required not 20-25 but maybe 30 people on an average. So if you add all of them together so there is a fairly high increase in the number of employees. But trust me if you look at how they have grown against the actual growth that we have had they are all contributing to the tremendous growth and success that we have had.

Hiren Dasani: Definitely that is pretty much evident from the numbers and lastly any updates on any potential joint ventures, franchisee agreements beyond Dominos.

Ajay Kaul: Not yet, as we had said last time also that discussions are on, and I must admit that discussions are still on. These are things which do not happen overnight and obviously apart from the commercial and the strategic sense which the brand should make to each other, the philosophy and culture also of the organization should meet, so it is going through due diligence from all sides, from both sides and as and when there will be anything material to report and obviously we are bound by nondisclosure clauses so we cannot even give you a hint, so as and when something material happens we will be more than happy and glad to come back to you.

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

Manav Vijay: Good evening gentlemen. Could you please tell us what was the sale from the two new products that we had launched during the quarter, Mexican Wrap and Pasta?

Ajay Kaul: It will be difficult for us to single out what exactly was the sale contribution but I must tell you that qualitatively they have done exceedingly well. What we have realized is that the share of the stomach as far as Domino's Pizza is concerned has only grown up. Apart from pizzas, the consumers have also given us a share of the stomach as far as side orders are concerned. So both Mexican Wrap and Pasta Italiano have found their place in the minds of the customer as well as his or her stomach.

Manav Vijay: Sir the basic reason why actually I was asking for that number is because 43.8% same store sales growth, I understand that some part of it has actually come from the introduction of new products. So as and when let us say the Company introduces new products in the future we will have a base same store sales growth for our bread and butter business of pizza and so we will be in a better position to put a number for new products as well, so if you can share that, it would be really helpful?

Ajay Kaul: I definitely will not be able to share those numbers with you.

Manav Vijay: Okay great, how many new cities we added in this quarter.

Ravi S. Gupta: In this year so far we have added 10 cities and 5 cities in this quarter.

Manav Vijay: Five in this quarter and five in last quarter.

Ravi S. Gupta: Yes that's right.

Manav Vijay: We have done close to 40% kind of same store sales growth. Now considering the fact that the third quarter includes apart from lots of festive season and periods and days, would it be possible to actually beat this number in Q3. Would you be in a position to comment anything?

Ajay Kaul: We will not be able to comment on how Q3 will unfold, all we can say is that going by the last two quarters where the consumer has responded very nicely to the various stimuli that we have thrown at them in terms of new products as well as existing products, our various promotions, and all other things that we have done for them in terms of operation, customer services, that is really encouraging for us that the customer is responding to the stimuli and they are really finding the value proposition of Domino's meeting their standards and requirements.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from Kotak. Please go ahead.

Madhuchanda Dey: My question pertains to the same store sales growth, which is kind of deviated from your erstwhile trajectory given that this has happened for whatever measures that you have taken, there must be a kind of physical capacity utilization also of your stores which would at some point in time get exhausted, so I just wanted some sense on that as to what kind of growth can be sustained without creating a new store in the vicinity or adding physical stores just by adding manpower as you have been doing in the last two quarters?

Ajay Kaul: Even as we speak, we have let us say a 44% same store growth in a quarter, if I were to pick up all our same stores, you know there is a fairly sizable 200 plus stores sitting they are spread in a continuum, there are these really high volume stores, to the medium sized stores and to the smaller stores and all of them are growing as we said earlier at an equally stupendous rate, 44% being the average. So as far as capacity is concerned that is already getting tested as far as the large stores are concerned. And clearly the large stores are doing well and there are no such big visible constraints for us; however having said that we on our own realized that as a store starts becoming big in terms of volume handled when you look at the customer service indicators in terms of how fast we reach to the customer’s doorstep we have a commitment of reaching in 30 minutes or less, but the internal norm is far lower than that so how often are we delivering late in those kind of stores or at the periphery of the delivery area of those stores our customer services may start falling or dropping and which sometimes has a clear bearing on the repeat purchase order of people, so given all that is the time when they realize that some of these big stores need to be split. So it is not as much the capacity, the capacities do not come up as a constraint, it is our own indicators in terms of customer service, customer experience and thereby repeat purchase, which drive us to split stores and create new stores out of them.

Madhuchanda Dey: So how many of your stores are about to reach that stage, I mean, if you could just give us a sense of that?

Ajay Kaul: It is a small miniscule number as we speak right now, since our base has become fairly large, we have now 339 stores, this number is fairly small compared to the whole base.

Madhuchanda Dey: But that number would contribute to what percentage of your total sales?

Ajay Kaul: I won't able to reflect on that, but what these numbers do, I would say they do for example, the 44% same store growth includes the split stores, which means if you were to take away the split stores out and look at the rest of the universe, the same store growth is probably even higher than this number. So this 44% includes the sales share of these split stores also.

Madhuchanda Dey: I am just hypothetically asking you this question, should your FY'11 same store sale growth turn out to be similar to H1, would you have to rework on your capacity addition plans?

Ajay Kaul: Just cannot comment, it is a hypothetical question, we will not be able to answer this question at all.

Madhuchanda Dey: But in your assessment if this trajectory of same store sale growth continues, you have to continue adding employee in the rate you have been doing in the last two quarters?

Ajay Kaul: In fact if our same store growth is 44%, our employee growth in the same store increases at a far lower base and thereby you are able to leverage and improve on our marginsso theoretically if our same store growth were to continue at the same pace our employee growth will only be a subset of them, it will be far lesser than that number.

Madhuchanda Dey: At the end of the day, you will be able to improve upon this 18.5% kind of a margin?

Ajay Kaul: That is something which we will not talk about right now because it is dependent on several other factors. Lot of things can be leveraged to look at your margins or have a bearing on your margins. This is one of the levers which can contribute to that EBITDA margin.

Madhuchanda Dey: So my understanding is what you suggested is you still have the lever with you of adding proportionate amount of employee and maintain the same store sale growth trajectory, right.

Ravi S. Gupta: No, I think we need to rephrase that completely, if the sales growth requires then we can add employees; employee addition cannot bring a same store growth. We can add employees that will be the right phrasing actually.

Ajay Kaul: One thing which we have done and I want to say here is that in the month of September we took a salary increase for all the key set of employees working in the store for us. To start with the team members we increased their salary significantly because we realized that we had to attract lot of this talent and all over the country. Similarly at the manager level within the store again we increased their salaries. The idea was to improve retention rates there and make sure that all these employees are ready for the big months like December and any other such growth that may happen in the future.

Madhuchanda Dey: You have already created the buffer in your system in Q2.

Ajay Kaul: I would not call it a buffer but we have done our preparations for the big months like December and we are having a recruitment strategy accordingly.

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

Jaibir Sethi: I just wanted to get a sense of the movement seen in your working capital, particularly the liability figure seems to have gone up a lot as well as the loans and advances figure, could you give us some color on what is going on there?

Ravi S. Gupta: Loans and advances basically reflect the security deposit which we give for the new site and whenever we relocate a site. So all those security deposits form part of the loans and advances so that is the reason you will that this keeps on moving. So in September 2009, this number was about Rs. 27 crore, by March it was Rs. 36 crore and now Rs. 48 crore. In terms of liability, liability pertains to all kind of expenses which also periodically keep on going up. Although we are not delaying anybody's payment, since we buy on credit and sell on cash, as more the sales accrued, the liability grows and that is how we get a leverage in our working capital continuously. In past also we have indicated that we will continue to leverage our working capital, this is one of the strengths of our model that we buy on credit and sell on the cash.

Jaibir Sethi: We will see this negative working capital number keep expanding. on the store basis as the number grows?

Ravi S. Gupta: As the number of stores keeps on growing this will keep on expanding. Although it will move slightly here and there between quarter-to-quarter or something but overall trend will be positive.

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

Amnish Agarwal: My first question is regarding the employee cost, where you are indicating that you have raised the salaries of the key people in various stores. So can we assume that these key people are the usual delivery boys and all those involved in the store or only a few select set of people.

Ajay Kaul: No this is everybody inside the store; we have done two different types of salary increases. One for the team members, which includes everybody who is involved in operations other than the supervisors which means the front-end people, delivery boys, people who make pizza, who take orders and everything and this is a fairly sizable number of people this is like around 7000-8000 employees. Then we have also done a salary increase for our associate assistant managers, store managers and store managers so we have also done some sort of a correction there, so there are two different sets of people but all pertaining to the store.

Amnish Agarwal: Can you quantify that how much could be the quantum of increase?

Ajay Kaul: I am afraid we will not be able to tell you the quantum of increase, but we can safely say that we are at the team member level one of the best paying company in line with our philosophy that we want to become one of the best employers. We as it is are the ninth best employer by Hewitt Survey; we are one of the great places to work as per the Great Place To Work Survey, so keeping in line with that we have taken some of these steps.

Amnish Agarwal: My second question regarding the same is, can you share with us the number of employees we have particularly at the store level?

Ajay Kaul: At the store level, I reckon we will be having around 9800 employees.

Amnish Agarwal: My second question is regarding the same store sales growth which has been accelerating from past 3-4 quarters. And we actually were operating in quarters where the base was very low, for example, last year first and second quarter we were roughly at say 13-14% kind of level, which has increased significantly during the third and fourth quarter and subsequently the first quarter of this year, so now with the same store sales growth at 43% during this quarter, as earlier the management was saying that something like your mid-teens or high-teens kind of a growth would be the one they would be comfortable with but looking at the situation now do you think that despite high base effect the third and fourth quarter can give us some more surprise?

Ajay Kaul: We will not be able to reflect on the future quarters but having said that I must admit that 44% same store growth, 40% for the first half of the year are unprecedented, they are very good numbers, even by our own standards. If you look at our average same store growth for five years before this it was around 18%. I think the first half performance is reflective of the response of the consumers to the various stimuli that we provide them in terms of the products, promotions, advertising, our customer service, our training which reflects in the way we handle customers and so on and we are very pleased that the customers are responding very well to all the stimuli that we are throwing.

Amnish Agarwal: My final question is regarding our entry in Bihar, where we have launched a store in Patna recently, so what is your expectation and how has been the initial response to the store in Patna and how do you think your expansion strategy will now be particularly in Eastern India, where we have been relatively weaker in comparison to other parts of the country?

Ajay Kaul: Patna as a city with potential was always known to us- Our entry to Patna was delayed for some other reasons; however, Patna has responded very well in the first 20 odd days. It is only 20, 25 days old, the consumers have responded very well, it is very visible that specially among the youth, the young executives and I would say even the children and so on. The pent-up demand by virtue of having seen Domino's advertisements, knowing what Domino's was always there, there is also that aspiration, which we often talk about. So all those factors have led to a very good Patna opening and I cannot share any numbers with you because it has opened not in Q2 but in Q3. So technically it belongs to this quarter and not the quarter we are talking about right now. Talking about Eastern India, Patna definitely, kind of makes us upbeat about Bihar but as far as Eastern India is concerned over the last one year, one-and-a-half years we have consistently gone in to Eastern India in various directions we are in Gangtok, we are in

Siliguri, we have already gone into Ranchi and Jamshedpur and we are definitely looking at a lot of other places in Eastern India. In Q3 results when they come out we will be able to share with you some more places in Eastern India, where we have entered.

Moderator: Thank you, the next question is from the line of Kalpesh Makwana from Quant Broking. Please go ahead.

Kalpesh Makwana: I just have one question, out of these 79 cities how many of them are single store cities?

Ajay Kaul: We would reckon that more than 50% of these are single store cities.

Amnish Agarwal: Extracting operating leverage from employee cost now going forward is going to be difficult than earlier, am I correct in concluding the same?

Ajay Kaul: You are not correct in concluding because salary increases we have taken in the past also, but this time around we have taken a salary increase in December 2009 and we have taken one more increase in September 2010. So temporarily it does tend to kind of increase the labor percentage a bit more. But having said that, it also has a strong bearing on our retention of these employees. Our attrition levels fall and as a result our training costs go down and all these over a period of time lead to employee productivity, our machinery productivity our training becomes more productive and as a result labor percentage gains do come over a period of time.

Moderator: The next question is from the line of Amrita Basu from Kotak Securities. Please go ahead.

Amrita Basu: Just few questions, one is could you give us an update on the Sri Lanka operations, second is how do you describe the movement in key raw materials cost in this quarter and third is which are the five new cities that you have entered and fourth is in terms of strength, why has the rent as percent of sales gone down continuously this quarter so how do you attribute that to?

Ravi S. Gupta: Let me take the last question first, rent as a percentage of sale has gone down that is primarily because of robust same store growth of 44%, which we have achieved in this Q2 and 40% in the first half. So that is the main reason behind decrease in the rental cost so that is an answer to question number three - In terms of the cities, which we have entered in this quarter, they are Mahabaleshwar, Jalgaon, Jamnagar, Bhatinda and Trichy these are five cities which we entered in Q2.

Your first question is regarding raw material cost, see what happens is in the market, the raw material cost is going up consistently, but considering that we are growing at CAGR of about 44% and this year we have grown by about 64% we are able to leverage our volume with the vendors and trying to maintain the extent of the increase which the vendor requests for by leveraging our volume. That is the reason you will see that consistently our raw material cost is under check and we believe that considering that our volumes will continue to grow in future we will be able to keep the raw material cost under check in the future as well.

Amrita Basu: My other question about Sri Lanka operation?

Ravi S. Gupta: As far as Sri Lanka operation is concerned a 100% subsidiary company has been formed. We will be opening about 2 -3 stores this financial year itself. The team is getting set up and we will be working on setting up the commissary and stores.

Amrita Basu: These will be owned stores?

Ravi S. Gupta: These will be owned stores, through the subsidiary. So the stores also will be owned by the subsidiary, we are not franchising or sub-franchising in Sri Lanka.

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

Aakash Manghani: I wanted to know what is the Capex per store and secondly your guidance on the numbers of stores you plan to add in 3-4 years also thirdly I would like to know what is the break-even time for a particular store and when does the store achieve the level that a regular store has?

Ravi S. Gupta: The number of stores we have opened, 60 stores, two years back, last year we opened 65 stores and this year we plan to open about 70 stores. We have not worked out our plans for opening for next year and probably will come back to you for that may be early next year. In terms of Capex per store, it is about Rs. 7 million per store and as for break-even is concerned most of our stores have a break-even on day one, they start generating positive cash from the day one of the operations, except for the pre-operating expenses we charge, if we leave out that, from the clean operations they are profitable from day one, so you can say the break even is on day one.

Aakash Manghani: When does that achieve the same type of sales that a regular store would have?

Ravi S. Gupta: Typically it takes time to grow the sales so different stores take different amount of time, typically they open between 75-80% of the same store sales but they grow pretty fast.

Aakash Manghani: Capex figure for this quarter was it is Rs. 28 crore

Ravi S. Gupta: Yes, Rs.28 crore for this half year.

Aakash Manghani: And that will be attributed mainly to the opening of the new stores?

Ravi S. Gupta: Yes, it mainly pertains to opening of the new stores.

Moderator: The next question is from the line of Raj Mohan, an Individual Investor. Please go ahead.

Raj Mohan: Mostly my questions have been answered but again trying to dwell a bit deeper on the same stores trying to comprehend the longer term implications of your strategies on same stores, don't you think there are some internal factors, which are in your control like introduction of new products at periodic intervals, better bang for the buck kind of marketing that you have increasingly resorted to, shouldn't those take your same store sales growth range significantly higher than what you have indicated previously of 16-18%, I am talking about generally medium term, over the medium term the implications of your strategy on same stores.

Ajay Kaul: If you look at in the past, our average seems to have grown for nearly five years, before this year concluded it was around 18%.Other than one year, where the downturn happened a little bit it has been clocking around 20 odd percent, This year so far it has been clearly higher than that coming out of Q4 of last year where we did in 30s and this year what we have done in the first half has been around 40%. I think it has been a cumulative response to our various stimuli that we throw as a consumer from our products to our historical suite of products to the various promotions that we are doing and so on and so forth and the results are very much encouraging. Going into the future how the customer is going to respond to the stimuli it is hard to predict but we believe the customers are fairly upbeat about our suite of products and services that we are offering them.

Raj Mohan: So you are also saying that you have attributed the improvement in same stores to improved order sales and increase in number of orders which obviously would be associated with the general well being of the economy you see that sustaining at least in the foreseeable future?

Ajay Kaul: Without giving any numbers out the order growth is as exciting in the first half, as the revenue growth, which is reflective of new customers coming in as well as existing customers increasing their frequency. And that is the response to the various initiatives that we are doing marketing and operational initiatives and that response is fairly encouraging.

Raj Mohan: Sir essentially your 19%-20% growth that you tracked to the last 3-4 years that is seriously at risk because that is obviously positive for the company but that is seriously at risk of overshooting?

Ajay Kaul: No comments.

Raj Mohan: Next on the profitability though you have refrained talking about future profitability in the call you have mentioned enhancing profitability as your key focus in the coming quarters in your presentation. As you are into your busy season December quarter should not we be in a position to capitalize on the volume dynamics mix, cost efficiencies because the salary increases have already happened in September and the general robustness of the Indian economy to sort of improve on your EBITDA in the second half?

Ajay Kaul: We will not be able to comment on how our EBITDA will take shape in Q3 and Q4, but the volumes in Q3 and Q4 are obviously higher than they were in the first two quarters, there is more volume in these particular quarters so that sometimes helps in leveraging but having said that we have also taken as recent as first September substantial salary increases which are also going to play their role in terms of affecting the margin. So as a sum total of all this how it is going to manifest it is very difficult to say.

Raj Mohan: But then since you have taken already your salary increase in September which should have been reflected, okay, so that will be reflecting in the next quarter is what you are saying?

Ajay Kaul: Yes full quarter in fact will be the next quarter.

Raj Mohan: I am asking since you mentioned you would not be able to specifically talk about talks with global F&B majors generally wanted to know are we any closer than when we were at the beginning of this financial year?

Ajay Kaul: Most definitely we have moved forward.

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

Hiren Dasani: Just on the employee number per store, as you said rightly the same store same sales growth of 43% needs to be supported by may be 15%-20% higher employees, some of them are on contract basis. So can you reduce the employee base if the sales are not happening in the same fashion?

Ajay Kaul: Most of these employees are actually full time on our roll employees however their mix can be in terms of full time and part timers, but that does not mean we can reduce them just as you would do with the contract people. These are people taken with a strategy in mind, with a plan in mind as full time employees who are going to be aligned to the growth that we expect and what we are going to achieve now and also in the coming months.

Hiren Dasani: Would it be fair to assume that initially to take care of the growth, the recruitments would be on the part time basis and then maybe they can be absorbed in the full time fashion?

Ajay Kaul: There is nothing like that because in India part timing is a concept still it is very, very primitive, it is not like what it is there in the western world or wherever so it is not easy to get part timers but we have a fair mix of both part timers and full timers but there are all on our pay rolls, so they are our employees.

Ravi S. Gupta: To add to what Ajay is saying actually there is never a need to reduce because we are growing, we are opening 70 stores. Each of the stores means 25 to 30 people and we are present in 79 cities, so whenever you open a store in the cities we can relocate the people also if need be, so we need the same people all the time, so this helps us to relocate the same people pretty fast, so practically there is never a need to reduce the manpower strength.

Hiren Dasani: Sure as long as you are opening more stores in the same city, okay that is it thank you.

Moderator: Thank you. As we have no further questions I would like to hand the floor back to Mr. Ajay Kaul for closing comments. Please go ahead Sir.

Ajay Kaul: Ladies and gentlemen it was great talking to all of you. You have been patient listeners and some really exciting questions came our way, which we were more than happy to answer. We have had an encouraging half year and remain optimistic about the remainder of the year. Should you have any more queries at hand, please get in touch with us and we would be happy to address them. On behalf of Jubilant Foodworks Ravi, Hari and myself we wish you all a very happy Diwali and a great successful year ahead. Thank you very much.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen on behalf of Jubilant Foodworks Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.
