Jubilant FoodWorks' Q3 & 9M FY19 Earnings Conference Call
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Call Duration : 01 hour 31 mins

Management Speakers : Mr. Hari S Bhartia, Co-Chairman
Mr. Pratik Pota – CEO
Mr. Prakash Bisht – CFO

Participants who asked questions

Abneesh Roy- Edelweiss
Aditya Soman - Goldman Sachs
Amit Sachdeva - HSBC
Amit Sinha - Macquarie
Aniket Sethi - Kotak
Anuj Gupta - Perfect Research
Ashit Desai - Emkay Global
Avi Mehta – IIFL
Bhavesh Shah – CLSA
Chanchal Khadelwal - Birla Mutual Fund
Krishnan Sambamoorthy - Motilal Oswal
Kunal Vora - BNP Paribas
Manish Poddar - Reliance
Manoj Gori - Equirus Securities
Mayur Gathani - OHM Portfolio
Nillai Shah - Morgan Stanley
Nishit Rathi - CWC Advisors
Pulkit Singhal – Motilal Asset Management
Raj Mohan - Individual investor
Riken Gopani - Infina Finance
Sandeep Somani - Nomura
Sanjay Singh - Pine Bridge
Trupti Agarwal - White Oak Capital
Vishal Gutka – Phillip Capital

Moderator

Ladies and Gentlemen, Good Day and Welcome to the Jubilant FoodWorks' Q3 & 9M FY19 Earning Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, Sir.

Nishid Solanki

Thank you and Welcome to Jubilant FoodWorks' Q3 & 9M FY19 earnings conference call for analysts and investors.

We will be joined today by Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Pratik Pota – CEO and Mr. Prakash Bisht – CFO. We propose to commence with perspectives from Mr. Bhartia, thereafter we will have Mr. Pratik Pota sharing his views on the progress that we have made operation wise, the strategic imperatives that lie ahead and the outlook for JFL. After the opening remarks from the management, the forum will be open for question-and-answer session.

A cautionary note: Certain statements that may be made on today's conference call could be forward-looking statements and the actual results may vary significantly from these statements. A detailed statement in this regard is available in Jubilant FoodWorks' Q3 & 9M FY19 Results Release and Earnings Presentation, which are both available on the Company website under the 'Investors section.'

I would now like to invite Mr. Bhartia to share his perspectives with you. Thank you and over to you, Sir.

Hari Bhartia

Thank you. Good afternoon everyone and welcome to the Q3 & 9M FY19 Earnings Conference Call. I am pleased to share that we have again delivered strong performance during the quarter led by our efforts on executing the growth strategy that we have outlined last year.

As all of you know, the Indian food services industry continues to evolve and there is a clear positive momentum in the category. Reduction of GST has also played a role in driving affordability and now the convenience in ordering outside food is changing the demand landscape.

We are aware of the changing consumer behaviour and we keep adopting our business in response. While our focus remains on implementing the five-pillar growth strategy that we have outlined before, we keep on shaping new programs and initiatives around these.

On new 'Product and Innovation', we have enhanced our portfolio by adding choice of 'Multigrain Crust' to our menu and four new side items.

On 'Digital and Technology', we have added few features to our app and have fully revamped PWA that is our mobile site. We remained committed to technology involving use of analytics, AI and machine learning to give all new experience to our customers.

On the cost side, especially the manpower cost, we continue to maintain sharp focus and drive operating efficiencies.

Coming to Dunkin', I am happy to share that we have attained breakeven in Dunkin' Donuts during the quarter and this stands ahead of our stated guidance of Q4 FY19.

For Domino's Pizza we had accelerated our store openings at the start of this year and I am happy to state that we have opened 35 stores in Q3. More than 50% of our new stores have been opened in the existing areas where we have split the existing stores. We believe this will improve customer service to our customers in the existing markets, improve efficiency in the long run, but we also believe in the short run, this will put pressure on the same-store sales growth.

Overall, we are pleased that with the Q3 performance, we remain confident about driving profitable growth in the future. With that, I would now like to call upon our CEO, Mr. Pratik Pota to cover the operational highlights during the quarter.

Pratik Pota Thank you, Mr. Bhartia and Good Afternoon to all of you on the call today.

Let me cover the highlights of the Q3 performance.

Operating Revenues during Q3 were at Rs. 9,291 million an increase of 16.8% over last year. This was driven by strong same-store sales growth of 14.6% in Domino's, lapping a strong quarter from last year. EBITDA during the quarter was Rs.1,706 million at 18.4% of revenue up by 24.6% over last year. A combination of strong SSG, focus on cost management and operating leverage has helped in driving the EBITDA growth and margins. Profit after tax stood at Rs. 965 million at 10.4% of revenue, a growth of 46.2% over the last year and with the margin expansion of 210 basis points.

During the third quarter, we opened 35 new restaurants for Domino's Pizza and closed two, thus taking our restaurant count to 1,200 stores across 271 cities. The new store addition was the highest in 11 quarters. We entered two new cities during the quarter. In Dunkin' Donuts, the total store count is 32 restaurants across 10 cities, which remained unchanged from the previous quarter.

In Domino's, we carried forward the growth momentum from earlier and our order growth and delivery segment remain strong.

All new Domino's and Everyday Value continue to be important levers for driving growth.

In line with the strategy of driving innovation, we introduced the new 'Multigrain Crust' last quarter. In addition, we also launched 4 new sides, viz Potato Cheese Shots, Crunchy Strips, Crinkle Fries and Brownie Fantasy.

During the quarter, we announced PepsiCo as a new beverage partner for Domino's Pizza. The partnership, we believe, will bring in fresh focus on our beverage portfolio and also enhance the experience for the customers.

A significant initiative during the quarter was the implementation of GPS rider tracking across all our stores and all our riders. This allows us to use the data generated to improve our delivery efficiency during the quarter and this would be the area of focus in the future as well.

Our digital strategy is working well and we strengthened the Domino's app in the quarter through the introduction of features such as advance ordering, order tracking, train ordering and an improved payments interface. We optimized the size of the app, which now stands at a very lean 5.6 MB. We also upgraded and rolled out our new progressive web app. Online sales grew strongly and stood at 73% of delivery sales in Q3.

Dunkin' Donuts reported strong topline growth driven by focus on donuts, beverages and profitable food. This along with a sharp focus on cost and driving efficiencies resulted in the business reaching breakeven a quarter ahead of target.

Overall, we are satisfied with the Q3 performance and remain confident about driving profitable growth in the future.

With that I would request the moderator to open the forum for questions and answers.

Moderator Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Aditya Soman from Goldman Sachs.

Aditya Soman Couple of questions from my end. Firstly, can you elaborate on the reasons for the expansion in the gross margins, especially when you had some promotional activity towards the end of the quarter? And the second question is we also saw a depreciation been down sequentially, despite significant increase in the number of stores, what is the reason for that?

Prakash Bisht So, let me first take the depreciation question. So when we close the stores at that time, we accelerate the depreciation, so when you see the last year's number and the previous quarter's number, during those quarters, last year we had closed 10 stores in the same period, so that included accelerated depreciation. Same was the case with the last quarter and this quarter since we did not close the stores, therefore you have lower depreciation**,** so that was the part one.

The second you had asked about the overall gross margin improvement. So our raw material cost has shown an improvement over the last 2 quarters, last quarter as well as the previous year. This was possible mainly due to 2 to 3 reasons. One was that the commodity cycles were soft, so we had favorability in dairy products. In addition to that as Pratik explained, we have done a beverage contract that has also contributed to the lower raw material cost and we had a better product mix, which has also contributed to the lower raw material cost. So these were the major reasons, which have resulted in our better gross margin.

Aditya Soman Just following up there, in terms of the new contract with Pepsi, does this mean that per unit cost is lower or was there some onetime inflow that we saw on the quarter?

Pratik Pota Aditya, the beverage partnership that we have with PepsiCo is for 5 years. It includes sparkling drinks, juice drinks and iced tea. The margins that we have as part of the contract; we see a favourable margin at the gross level and also we see improved marketing support.

Moderator Thank you. Next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy Congrats on good show. My question is on Dunkin' Donuts. So what has led to one quarter ahead breakeven? Does this change your store expansion plan in anyway and because of the festive and because of the overall food tech apps being very aggressive, does this lend support to your own both Dunkin' business and Domino's business from a food delivery because, culture gets more ingrained?

Pratik Pota Abneesh, let me respond to the first part of your question as to what drove the Dunkin' breakeven in Q3. I think the first point which I referred to in my opening remarks, we had a strong same-store growth in Dunkin', strong topline growth, driven by the core portfolio of donuts and of beverages. We drove a fair amount of innovation in the quarter, two innovations that I am going to call out, which have been doing well for us, one of them is the launch of tea, which is doing well for us and we had some simple food launched in stores, which again drove growth for us. Premiumization is something we drove both in the donuts' portfolio as also on the food side that has helped us drive realization. Accompanied by a very healthy increase in delivery in Dunkin', we realize that the brand strength that we have wasn't being fully leveraged given our footprint and we use therefore, delivery to drive growth. So that delivery channel growth also has helped us and I think the point we made about getting very sharp focus on costs in Dunkin'; operating cost in terms of manpower, in terms of energy and then optimising G&A as well. So all of these have led to Dunkin' breaking even in Q3.

To your second part of your question, I think it would be fair to say that this is only the first milestone. We were loss making and this was the first port of call for us, to breakeven which we have achieved now. We intend to watch the business closely before we take a call on expansion or the pace thereof.

Abneesh Roy But from 77 stores, you are down to 32 and now stable at 32 for two quarters, when do you start thinking on expansion? Second is when do you start thinking of sharing numbers because now at least you have positive margins, but your number of stores is half, so that means again in terms of revenue, it is not a great number, so do you ever see in the foreseeable future numbers being shared on Dunkin'?

Pratik Pota Abneesh, the first part, I mean the answer remains the same, that we intend to take some more time and give us more time to decide how to recalibrate the Dunkin' expansion and the pace of that.

On the sharing of the numbers, there is no plan as of now to provide more visibility on the Dunkin' numbers.

Abneesh Roy But you were sharing the margin impact, so when you say positive, is it just breakeven or there is more to it?

Pratik Pota So Abneesh, we broke even in the quarter, EBITDA breakeven absolutely.

Abneesh Roy One follow up on Dunkin' was in terms of the delivery, is it double digit as a percentage of revenue, at least that can you share?

Pratik Pota I am afraid, I won't share numbers, Abneesh. It was a significant investment and growth driver for us. I wouldn't want to share numbers because we don't do that but it was one of the growth drivers for us in Dunkin'.

Abneesh Roy My second and last question is on the EBITDA margin, 7 year high is a good thing, but now store expansion is again coming back at a very strong number. In the past, you have seen when store expansion picks up, margins could be lower because of obviously lower margins in new stores. Second, of course what is your comment on price hike? Last time you have had said you want to delay it because of the food tech apps' intensity plus inflation is happening in wheat and milk going ahead. So in all these contexts, will EBITDA margins come under pressure?

Pratik Pota Abneesh, 2 to 3 questions into one, let me talk about the first part of your question on store expansion. As Mr. Bhartia said in his opening remarks, a significant part of the stores that we opened in the last quarter were split from the existing stores, however, the good news in that is that we are seeing strong momentum in both the stores that we split and indeed in the new stores. So we have seen in the store splits done recently that the mother store, the split store returned to its original revenue trajectory in about 12 months or little less than that and both the stores together, of course, give a significant incrementality. That is number one. Number two, we see a significant jump in operational KPI in terms of delivery time taken to customers, the customer service level which translates into improved customer satisfaction scores. So that is the entire piece about store expansion and how that is impacting margins.

Moderator Thank you. Next question is from the line of Amit Sachdeva from HSBC.

Amit Sachdeva Congratulations on a good set of numbers. So Pratik, my question is that when we talk about 35 new stores, 50% being in existing locations as Mr. Bhartia also pointed out that potentially it may put pressure on SSG as you pursue the same strategy in the coming quarters as well. My question is that whether this quarter, when you opened 35 new stores and closed 2, does this quarter have that pressure on SSG, some of it already built in and if yes, in reported SSG basis, how much would that number be if you say reported is 14.6 then may be it could have been 17, but it is 14.6 because of that, some indication on that would be very helpful?

Pratik Pota So Amit, I think the first and the most important to recognise is that the pressure on the same-store growth is in the short term. The point I made a little earlier in my earlier response, with the mother store, we see recovery fairly quickly, so we don't see the pressure on same-store growth being sustained for long. That is number one. Number two, during the quarter gone by, our store opening was fairly well dispersed across the quarter and you see the impact of that translating into our system growth and into our same-store growth. Beyond that it would be difficult to dissect and say how the numbers would pan out without that, but I think the momentum is strong and we are seeing incrementality emerge in the stores put together.

Hari Bhartia And more than that what I would like to just add what Pratik said, we only split the store when we realize the store volumes are reaching at the peak level and the service level starts going down because what happens is the volume increases so much that it could lead to delay in delivering pizza or lower service levels. So when we split the stores, as Pratik said, the existing store comes back to the same level within one year and then we add another productive store and also improve customer service, so that is why we prioritize wherever we have to split the stores in the existing markets, because it is very important to keep our service levels at a very high level. So that is why I said at the short term, it definitely puts pressure on the same-store growth, but we achieve overall store growth and improve customer service and improve efficiency.

Amit Sachdeva That is very helpful Mr. Bhartia, but I sense from Pratik's answer as well that it has very little effect on your margins overall, if I can safely conclude that?

Hari Bhartia Yes, you can conclude that.

Amit Sachdeva My second question very quickly is that if you look at last 8 to 10 quarters Pratik, last four quarters we have seen other expenses, if I may take as per store basis, it has actually been growing at more than 20% almost last 3 quarters, now it is 17 and previous 4 quarters were actually flattish, what is really going on in the other expenses line, which is growing so rapidly while employee cost has risen for obvious reasons, but what is driving that strong double revenue or have a strong cost cutting program and what head is actually driving that such large number, Y-o-Y expansion?

Pratik Pota There are 3 or 4 drivers that we see impacting our manufacturing and other expenses cost line. The first one as you can imagine, is the increase on account of just the volume growth and the volume expansion. I mentioned in my remarks that we have had lot of growth coming through orders and that obviously has a cascading impact on volume linked cost increase. That is the first point. The second point is that we are seeing some inflation in some of these cost lines. The third part is loss on account of and this is more vis-à-vis same time last year and earlier, loss of input credit which again has put some pressure on these costs and the fourth point is a very specific investment we are making in brand marketing and in advertising and you saw it played out through this year, for example, in quarter 1 when we invested behind IPL and we drove investments behind that. So this is a very specific investment we are making to strengthen the brand as we grow.

Moderator Thank you. We take the next question from the line of Vishal Gutka from Phillip Capital.

Vishal Gutka Congratulations on a good set of numbers. Sir, I have two questions. First question is on railway platform. If you can just comment qualitatively what are you seeing on that front and what are the challenges you are facing with regards to scaling up the growth for railway platform? And second question is on Pepsi. Is it possible for us to install fountain or vending machines at dine-in restaurant of Domino's?

Pratik Pota To answer the first part of your question, we are very encouraged by the response that we see to our railway ordering functionality. As you can imagine, it is logistically a complex exercise to provide the pizza to a customer in the train, given sometimes the fickle nature of train timing, but I think the operations team has done a really good job in ensuring that we deliver pizza to the customers. The response has been very positive, I would say unambiguously positive and that has led to a significant increase in both the railway orders and therefore the revenue. Our customer satisfaction scores in train ordering are very strong and this is something that we intend to invest behind and to grow, part of it is as awareness grows, part of it is, as habit builds, but this we see as continuing to grow in the future. To respond to your second part of the question, putting in fountain machines is very much an integral part of our beverage transition plan and you will see the leading stores, the large stores in the metros which have the sufficient scale, deploying fountain machines pretty much starting this quarter.

Moderator Thank you. The next question is from the line of Amit Sinha from Macquarie.

Amit Sinha My first question is on your gross margin expansion which has happened in this quarter, but going forward do you see commodity inflation kind of impacting the gross margin on a sequential basis?

Prakash Bisht Amit, we answered at the beginning of the call about the gross margin, so we actually explained that the reasons why raw material cost was lower and one of them was obviously the softer commodity prices, but having said that we have various programmes running which would ensure that we would get the best of the raw material prices because we always are trying to spread our supplier base. We are geographically also expanding and this improves our logistics cost. So all those initiatives are in place to take care of the future cost increases, which may come into this line item. At the same time, we also drive efficiencies by reduction of wastage, whether it is in our stores or whether it is in our commissaries, so all those cost efficiency parameters are there, at the same time we are also doing parallelly our efforts with the suppliers, so these are our efforts through which we hope that we will keep this line item under control.

Pratik Pota Just to add to that Amit, we talked about 3 things as the reasons for gross margin expansion. One was the benign environment in dairy cost, number two was mix improvement, the third was the beverage impact. Even if there is some cost pressure on the commodity line going forward, the other variables are available to us to make sure we contain the impact of that inflation.

Amit Sinha And secondly, on the new store addition, are you giving any new target for FY19 and any run rate for the next year?

Pratik Pota So Amit, we don't have a target number out there. I think we are encouraged by the performance of the stores that we opened so far this year. We are excited that the prospect and the potential that we see ahead, both in existing markets and in green areas where we don't have presence right now, so we will be investing in store expansion. I am not going to give you a number right now. It will be an area of focus for us going forward.

Amit Sinha Sure but this quarter, run rate is clearly on the higher side, that is all I wanted to know?

Pratik Pota It is the highest that we have seen in 11 quarters.

Moderator Thank you. Next question is from the line of Avi Mehta from IIFL.

Avi Mehta Earlier we had said that like BOGO was off and we said that we would not give these one-off offers, of giving discount to customers and EDV would be the key platform, but I see that we have now kind of started offering some of these discounts back to customers on selective dates, whether it is a weekday or so? So I just wanted to understand the reason for the same. Was it competition, what was that?

Pratik Pota

Let me step back and reaffirm what we have been saying in the last few calls. Our strategy remains to focus on delivering fundamental everyday consistent value to our consumers and therefore EDV will remain the focus of all our investment and all our efforts as far as value for money is concerned. Discounts that you may have seen in the last quarter would have been tactical choices made by the team either for specific customer cohorts, maybe lapsed customer, a customer whose frequencies have dropped, so very targeted discount were given to customers, or indeed to drive up sales on specific big days, but very tactical objective that may come and go, but the strategic theme will remain on driving everyday value. And I think as Mr. Bhartia also called out the fact that we see the demand environment being robust and that is reflecting in our same-store growth that we delivered last quarter, so it wasn't sales or a number pressure that led to discounting. These are tactical things that we do once in a while. The strategic pillar or value for money as delivered through EDV will remain relevant and will remain in play going forward.

Moderator

Thank you. Next question is from the line of Manish Poddar from Reliance.

Manish Poddar

Could you probably elaborate the SSG numbers, how was it for the October, November and December because this taxation change happened in the base, so I am just trying to understand how were the numbers in the month of December which are normalised numbers?

Pratik Pota

Unfortunately as you are aware, we do not give the month-wise dissection of same-store sales growth or indeed of any of the numbers intra-quarter. The numbers that you see are the numbers that we delivered through the quarter. 14.6% SSG was delivered on the back of strong growth in orders, strong performance of delivery channel, strong performance of online ordering channel, our focus on cost. These are basically the 5-pillar strategy that we unveiled last year, those pillars remain the growth drivers for us. Beyond that we won't be able to dissect the numbers and give you disaggregated number of growth by month.

Manish Poddar

And just one more bit, if I look at Domino's in the FY09- FY11 period, that time you were somewhere adding 60 to 80 stores which you are adding this year and going ahead, I believe for the next 12 to 18 months at least, so at that time, your margins and EBITDA were somewhere in the 17- 17.5% range which you are currently clocking and there is not a big material difference between the gross margins and it is primarily the other expense and the employee cost which are generally offsetting. Are there any other levers which you believe are there to aid margins going ahead or should we believe these margins in this 17-18% are at the sustainable range going ahead?

Pratik Pota

If I may respond to it at two levels, first of all, as you are aware we do not give a guidance on margin, so it won't be possible for us to hazard guess on what the margins could be in the future, but equally I think it is important for us to state and underline that we have a lot of focus on driving operating efficiencies, managing the cost, containing inflation, extracting productivities. So those work streams are very much in play right now. Even as we expand and we get operating leverage; where the balance will lie in the future between cost pressure owing to inflation, etc., operating leverage owing to growth and productivities that we drive in the business, I cannot tell, but we are focused on driving profitable growth.

Moderator Thank you. Next question is from the line of Anuj Gupta from Perfect Research.

Anuj Gupta Sir, some Newspaper headline suggested that Jubilant is trying out a Chinese fast food line, so could you please throw some light on this news and also if you could share your long-term vision to bring other global QSR brands to India or start a new QSR brand in house? And my second question would be what is the current market share of Domino's, in pizza category and plus how many further cities can we expand it to and what will be the revenue percentage from dine-in and online delivery orders from our own app?

Pratik Pota There are four questions. Let me try and take them on. The first one, you are referring to the media article that emerged about a Chinese foray?. Without referring to and responding to market speculation, I think couple of things I think I want to state that, Chinese is the second largest cuisine in the Indian market after North Indian. So for us as a food business, it is an exciting area for us to evaluate. Number two, we have experiments going on to look at different kinds of cuisines, Chinese, certainly is one of them and we have got test kitchens going where we are looking at different kinds of Chinese foods. We do not have a specific plan yet of getting into the market, but we will come back to you as soon as we have something specific on this to share. So that is the first question.

Your second question was about Domino's market share. As you are aware, there is no syndicated study available which gives market share across channels, but we believe our market share in the pizza category remains at robust 70%.

Number three, how much we can expand to, we believe that Domino's as a brand and the business has a relevance across many more cities, we don't have a number to that but the number is very large, we can go to many more cities and many more locations because we see that demand for us being far more widespread than where we are right now. As a straw in the wind as an indicator to sort of validate that, our small town growth is very robust through all the quarters of this year. It remains very strong. So we believe that the objective of expansion remains very compelling and very strong and we are excited by it.

Your fourth part of the question was about our contribution, both sales and orders of our own platform. We do not divulge that number as you are aware, but you can be sure that our platforms and our own assets are very big drivers of growth for us and will be an investment area for us going forward.

Anuj Gupta Sir, like basically in this, I wanted to understand what is the percentage of revenue that you are getting from your own application orders and the food aggregators?

Pratik Pota Right Anuj, I understood the question and as I said, we do not share those numbers, but our assets and our own channels contribute to the majority, a dominant share of our total business.

Anuj Gupta Sir, the last question was are you planning to bring any global QSR brand to India or start a new QSR brand in house?

Pratik Pota See Anuj, we keep looking at growth opportunities of different kinds and different types. You asked me the same question in the context of Chinese a little while back. So yes, we keep looking at ongoing opportunities, whether it is looking at brands from outside or building our own brand. There is nothing specific on the anvil right now, but we shall circle back to you as soon as we have something concrete.

Moderator Thank you. Next question is from the line of Ashit Desai from Emkay Global.

Ashit Desai My question is again on the expansion, since we are not giving any guidance on the expansion rate. But looking at this quarter's expansion, it seems that the pace has gone up quite a lot, so just wanted to know historically when we had very large expansion rate, we were adding around 150 stores on the base of 700-800, it did impact our SSG and profitability, so as per you what is the comfortable level of expansion rate that you would look at?

Pratik Pota Ashit, I think it is important to understand and of course to reiterate the context for the store expansion and Mr. Bhartia called it out in his remarks as well, we are opening stores in two kinds of context. The first one is in existing store areas, where on account of the significant order growth that we have had in the last couple of years, we see a pressure on existing stores in delivering to customers with consistent service level. That allows us to start a new store of a reasonably strong base and therefore improve customer service to both, in the old store, in the mother store and also in the new store areas. So that is one kind of area where we see stores opening. The other area is new suburb areas, the suburban markets and towns where because of the growth of these urban markets and sprawl, we have a vacuum and we have an opportunity, so that is the other area where we see an opportunity and the third is of course new markets and as I mentioned, we opened two new cities in the quarter just gone by and then many more cities where we can expand. So in all of this context, the encouraging part that we have seen is that as we are opening stores in response to these stimuli and the context, we are seeing both the mother store and the new store do significantly well. We had not seen any material impact on margins of our store expansion and going back to your question of the pace of comfort, we have delivered the pace last quarter because we are comfortable with that. So this pace is what we are comfortable with and I don't have a number for you for the future, but our store expansion efforts that we have seen right now and the performance is very encouraging.

Ashit Desai So if I look at current expansion, it is around 6 to 7% and broadly at that expansion, your SSG should not be affected by more than 2 to 3%. And just my second question is on the cost inflation, you had a favourable impact of commodity prices, but does this quarter also have an impact of higher crude prices and which has come off now?

Pratik Pota Crude, Yes, we have had benign commodity environment like we talked about earlier. There has been some impact on account of crude increase, but that is very marginal impact if not a material impact in the larger scheme of things.

Moderator Thank you. Next question is from the line of Nishit Rathi from CWC Advisors.

Nishit Rathi Just a couple of questions. One was, is it fair to say that Dunkin' model has finally been fixed to some extent and with the data that we possess with respect to Domino's and other learnings that we have had about Dunkin' over the last couple of years, we can expect Dunkin' to scale up significantly? This is the first question. Second is with respect to your cash deployment, the amount of cash that we are generating every year, every quarter, for some reason we decide not to expand stores very aggressively, then we will be sitting with the significant pile of cash and would love to get the cash numbers at the end of this quarter, and just one follow up would be the e-commerce policy which just recently got announced. Does it also apply to the food aggregators with respect to discounting, would love your thoughts on that?

Pratik Pota I will answer the first and the third question and request Prakash ji to add and fill in on the second part of the question. I think in response to your question about Dunkin' and is it fixed like you said, I think what really encourages about Dunkin' Donuts' performance is that it came on the back of a very strong growth as also very disciplined cost management. And the growth was delivered by the core portfolio of donuts and beverages as also recovery in growth on the food platform. So it was a very strong growth led performance apart from, of course, disciplined cost management. So that gives us confidence about Dunkin', however, it is only breakeven right now and we obviously need to drive a profitable portfolio out of Dunkin'. As I said in response to question earlier, we will watch Dunkin' for some more time and then take a call on the pace of expansion and how we scale it up. That is for the first question.

Your third question was about e-commerce policy and the recent press note that was issued. I think it is fairly clear and straight forward and unambiguous that the press note applies to e-commerce entities engaged in the business of selling goods and services and therefore, we believe that the food aggregators are covered under the ambit of this policy.

Nishit Rathi Pratik, just one follow up on that, all kind of discounting that is going on where they are using their own funds, it will be much harder for them to do that from 1st February going forward, right?

Pratik Pota I guess they will have to figure out and understand the implications of the press note on their own for action on discounting etc. and other practices, but yes if you look at the press note, it does pose some very clear guidelines and guardrails for e-commerce entities and they will have to comply with that.

Nishit Rathi And the Dunkin' breakeven, when you say breakeven, it is after absorbing the corporate overheads, right?

Pratik Pota That is right Nishit, it is an EBITDA breakeven post corporate overheads.

Prakash Bisht Your other question was on the cash. It is a happy situation to be in a situation where we are generating cash, so obviously we have published the balance sheet, so you can yourself calculate. Last quarter, we had given the balance sheet. The exact number keeps on fluctuating, but it would be in the range of Rs.550 to 600 crore. We keep on evaluating the expansion plans and all. So based on that, we decide that how to utilize this cash most efficiently.

Pratik Pota And going back to the point that I think we have been saying and that is the recurring theme that this market is growing and is growing rapidly and as India's largest QSR player, we have strong expansion plan and therefore, this cash corpus will help us drive aggressive expansion and aggressive growth as well.

Nishit Rathi I think that is the only point we as shareholders are really looking forward to a plan to that effect. With Rs.600 crore of cash in the balance sheet and you generating close to Rs.150 to 200 crore because your OCF is almost close to 100% EBITDA, so with that kind of cash generation that is coming up, we are really excited to see if you are confident enough to kind of say that we can deploy this cash to get further growth and capture a lot more of this QSR pie. That is what we are trying to understand actually?

Last 3 or 4 years, our operating cash flow is almost being twice profit, probably because of negative working capital and depreciation being added back, so we had just seen that the cash generation versus PAT is significantly higher.

Pratik Pota I just wanted to repeat what I said, that I think we are excited by the prospects and the growth potentials of this category and we are looking at ways of driving faster and profitable growth.

Moderator Thank you. Next question is from the line of Mayur Gathani from OHM Portfolio.

Mayur Gathani Just two questions. What would be your dine-in and delivery percentage?

Pratik Pota So Mayur, the delivery and dine-in contribution is roughly equal and that is what we said earlier as well.

Mayur Gathani And would you look at setting up cloud-kitchen kind of concept to manage delivery because so much of this is coming online, would you have that kind of thought in mind?

Pratik Pota So Mayur, the exciting part of our business is the model that we have where we have a combination of dine-in and delivery in equal measure. It allows us to acquire new customers in both channels, it allows us to deliver customer connect and experience in both channels differentially and we see therefore dine-in and take away as an integral part of our model going forward. We have seen that where we try to open very small stores, the dine-in business ends up being significant as well, so we do not see dine-in being divorced from our business model going forward. We had varied the store sizes depending on the context and contours of growth, but we believe that dine-in is actually a source of terrific or tremendous strength for our business model and we don't intend to disaggregate that significantly.

Mayur Gathani And anything on the commissary expansion, you did one last year in Greater Noida, so with the growth now coming back and new stores coming up, would you look at any other expansion on the commissary side in the next one year or so?

Pratik Pota Mayur, I think when we invested in Greater Noida commissary last time, we mentioned that we were invested for driving significantly higher store expansion. As of now, our capacities are adequate for driving both same-store growth and store expansion but this is an area, as you can imagine, we keep looking at a real time basis and as soon as we feel the need to trigger capacity expansion, we will circle back and we will make sure we invest in that.

Moderator Thank you. Next question is from the line of Riken Gopani from Infina Finance.

Riken Gopani I just wanted to understand firstly, you elaborated for the gross margin expansion, there was contribution from richer mix of sales as well. If you could elaborate more and certain trends that you are witnessing that is helping in an improved mix in the portfolio for you?

Pratik Pota Yes, as you mentioned, improvement in mix was one of the drivers of GM expansion and specifically in this quarter, two of the things that helped us drive mix improvement. One was the promotion that we ran on 'Cheese Burst' crust, than 'Choco Lava' cake that helped us drive up the mix. We also introduced a new side and the growth of that also helped us deliver a beneficial mix. So those are the two big drivers of mix impact.

Riken Gopani So these are more initiatives that should continue to drive, what is your longer term thought process on the improvement in mix, also you have launched 4 new sides and the new crust options. Broadly, if you could highlight the thought process on how these things should evolve for your gross margins in the medium term?

Pratik Pota I will not be able to speculate on what the gross margin impact will be but the larger point being that we will continue to drive mix improvement, driving premiumization, driving attachment of side, these are the fundamental growth drivers for us and we will keep doing that. It may happen through innovations like it did in last quarter partly. It can happen through promotions, tactical promotions like it happened partly last quarter, it will happen through data mining, consumer insighting and using the power of data to drive intelligent upselling and cross-selling. So we will do all of those things that will help us drive a beneficial mix going forward.

Riken Gopani And, just the second question is with regards to the comment on growth outlook, so while there is some pressure which may come because of the splitting of stores, but given that it may be a small proportion, otherwise we are still outlining that the end consumer demand trend continues to be robust within our category, would that be a correct assumption?

Pratik Pota That would be an absolutely correct statement. I think we are seeing our growth being driven by orders, we are seeing growth being driven by delivery, we are seeing the growth being driven by online channels, by all pop strata towns, but especially smaller towns, we are seeing growth coming in the core pizzas and we are seeing therefore the demand momentum is continuing.

Riken Gopani And, just one last thing I wanted to put in, with regards to attrition, how are you seeing, which you called out last quarter regarding the employee cost, how are these two elements panning out for you now and where do you see those?

Pratik Pota

Riken, we are happy with the way we managed our manpower and the manpower cost in Q3. There were broadly three big themes that we drove. The first one was we used technology to drive an improvement in our delivery efficiency. I refer to my opening remarks of deploying rider GPS functionality across all our riders, all our stores and that has helped us drive an improvement in delivery efficiencies. So that was the first one. The second one was, we had a very focused and a very concerted and a broad-based hiring effort that we expanded the prospective talent pool that we went to and improved and strengthened our hiring efforts. We also had the third point, better retention of our existing manpower through highlighting of the Domino's EVP, underscoring that and making sure that our employees knew our team members, knew that they had a future at Domino's beyond just being delivery boy. So all of these three put together helped us manage and contain the manpower cost last quarter. We believe that the worst in terms of challenge of manpower cost is behind us and we do not expect to see any major challenges on manpower cost going forward.

Moderator

Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund.

Chanchal Khandelwal

Congrats on a good set of numbers. My question was on the employee cost which you have answered mostly, but just to understand the cost of a delivery boy, today you have all the delivery boys in your payroll? How do you manage that and with the food aggregator paying them high and even the e-commerce website looking to hire them and get more employees, this cost item you believe will not go up, I heard that but I am just trying to understand how much you pay them and what is the annual inflation we can project here?

Pratik Pota

So Chanchal, going to the first part of your question, all our delivery staff and all indeed our store staff, they are employees on the payroll. They are an employee, they have access to all the benefits that a normal employee has and while we saw some pressure and we pointed out in last quarter, this quarter's performance that you have just seen and what I just talked about should tell you that between driving efficiencies, between increasing our talent acquisition efforts and hiring efforts and going to a broader talent base and ensuring that we contain attrition, we believe that we got the right algorithm now put together to manage our manpower, to both support our growth aspiration and to manage that within the cost guardrails.

Chanchal Khandelwal

And the second part, how much annual inflation can you project here?

Pratik Pota

The inflation will happen to the extent of minimum wage inflations happening from state to state and we had inflation during this quarter which hit us and as you have seen the numbers, we were able to contain that and manage that by driving productivity and efficiency.

Moderator

Thank you. Next question is from the line of Sandeep Somani from Nomura.

Sandeep Somani

Just wanted to ask one question on promoter pledging. It is almost like 18.4%, I want to check what is the thought process around it? Do we expect it to go up or probably go down in future?

Hari Bhartia

No, we only expect it to go down. There is no reason for it to go up.

Moderator

Thank you. Next question is from the line of Kunal Vora from BNP Paribas.

Kunal Vora I wanted to get your thoughts on region-specific menu as well as regional pricing, like say in different cities, different menus, some changes in the menu as well as different pricing in different cities. What are your thoughts on that?

Pratik Pota As of now Kunal, as you are aware, we have for the small towns a super value menu that has been in place for the last year and a half and that is helping us drive growth. We are open to looking at innovations and tapping into regional palette differences and preferences and using that as a lever for innovation. As soon as we have something specific you will see, but that remains and as I called out one of the first of the 5 pillars was innovation and product, so this would be part of that theme. India is a very complex and a very diverse market from a palate and taste point of view and we keep looking at these opportunities and see if we can customize the menu by region, etc. Going back to the second part of your question about Gujarat, we went live with 100% veg in Gujarat in week one of October and the context for that just to recap was that non-veg was a very small part of the mix in Gujarat and also all our consumer data showed that having non-veg was a barrier to growth both for prospective new customers as also for driving frequency. It has now been in the market over 3 months and pretty much the whole quarter, last quarter. What we saw was a significant increase in new customer's acquisition and new users addition in Gujarat compared to the pace before this. We also have seen existing customer numbers increasing and the frequency increasing. I think what really encouraged us was this translated into Gujarat being one of the faster growing markets in last quarter basically. In addition, we keep hearing and talking to customers both in the stores and through our customers set measurement systems, the anecdotal feedback and the feedback from customers in the stores has been very positive.

Kunal Vora The second one, can you share your thoughts on the growth of food delivery market? Like we are seeing strong growth both for food aggregators as well as for your own online ordering, are you seeing some changes in customer behaviour? Is it discounting? What is really driving this massive expansion in the food delivery market?

Pratik Pota I think if I can dissect the growth of food delivery into two parts, the first part is the democratic sustainable growth that is happening on account of larger factors which are driving this growth. The need for enhanced convenience. The increase in the number of working women that you see now in the workforce; number three, greater traffic and more congestion in the urban market; working couples, going back to my second point. So all of these are very fundamental and long-term drivers of the growth of delivery and the need thereof. This has been superimposed with deep discounting that is acting as a growth accelerator, but we believe that deep discounting can never be a sustainable way of building a market. It can drive short-term growth, but what will drive long-term growth will be the fundamental enablers of that behaviour. We are excited because we see the fundamental market being enabled in delivery on account of this larger macro factor.

Kunal Vora My only question was that fundamental factors have always existed like many of the earlier factors which you mentioned have been around, but still like last 2 years, the market has really exploded, like mobile phones, data penetration, is it discounting? What do you think are the drivers in last two years?

Pratik Pota I think I would keep discounting out of this. Going back to the point where sustainable growth drivers, I think the fact that the technology is becoming much more ubiquitous. There are smartphones, with people having access to apps and convenience being given to the food ordering, food tech players and the variety of cuisine, all of that is an encouraging customer experimentation and customer ordering. So that certainly is one of the fundamental growth drivers apart from discounting, which we believe is not sustainable, but that is of course adding to short-term growth.

Moderator Thank you. Next question is from the line of Sanjay Singh from Pine Bridge Investment.

Sanjay Singh Congrats on a good set of numbers. On the dine-in, you mentioned that 50:50 is the dine-in to delivery ratio, will it be by value or will it be by the number of orders?

Pratik Pota Sanjay, that is the value contribution from delivery and dine-in.

Sanjay Singh And will it be fair to say that delivery order value will be more than dine-in?

Pratik Pota We haven't shared those numbers. The contribution is 50:50 and the ticket size in delivery tends to be larger because groups and families are ordering. Beyond that we would not share any more numbers.

Sanjay Singh No issues and how has it changed in the last, may be 2 to 3 years, would it be same or would it be higher in favour of delivery?

Pratik Pota We have been saying Sanjay in the last few calls that our growth has been more delivery biased, so the mix has moved a little bit in favour of delivery over the last few quarters.

Sanjay Singh And would you be able to share what would be the average delivery time currently?

Pratik Pota No, we don't do that Sanjay. You are aware of our delivery promise of 30 minutes and I think we are doing a reasonably good job of delivering to that promise, in fact faster than that. We have not shared specific numbers on operations KPI and we won't be doing that, but I think we are doing very well on delivering to our customer satisfaction level and within the timeline that we promised.

Sanjay Singh And delivery time would be more or less constant in the last few years, or it would have changed in either ways, if you give it directionally, not the time, per se, would it be sustained?

Pratik Pota I think improving our operations KPI is an ongoing effort and we called out earlier in this call, one of the reasons for doing the store split is to make sure we sustained the KPIs and the KPI improvement. This is the area of constant focus for us and it becomes very important that we deliver to our customer's expectation within the timelines even as the load on the stores increase and even as we have more stores, so that remains an ongoing effort and that has been area of focus for the last many years, it is not just now.

Sanjay Singh And lastly on the delivery boy thing, delivery payment, is it now someway shifting to per delivery payment or is it still a salary based mode? Are you experimenting with the per delivery payment?

Pratik Pota We have tried variety of models Sanjay. We have a combination of full timers in the stores, part timers in the stores and we have also experimented pay-per-delivery and this is a dynamic balance that we keep trying depending on delivery efficiencies and the cost of delivery, but we believe that based on our learnings in the last quarter that we had a good place in the mix that we have between various kinds of manpower.

Sanjay Singh And lastly on delivery thing, is the utilization of a delivery, let us say a full-time delivery employee for you would be significantly different from that of a food aggregator or it will be more or less similar?

Pratik Pota I think the advantage that we have Sanjay also is that our delivery staff tends to be and we increasing look at multi-skilling them, so we end up having them deployed inside the store when the pressure on order is less or when the orders are not there. That is the advantage of I think full timers, they are of course appropriately trained, they have the right skill sets, but that said, driving delivery efficiency, both amongst full timers or part timers and our pay-for-delivery staff is a very important priority for us and as I mentioned earlier in the call, the fact that all riders now have GPS on their smart phones will allow us to have a very specific information on efficiencies and thereby improve them further.

Moderator Thank you. The next question is from the line of Trupti Agarwal from White Oak Capital.

Trupti Agarwal I just have one small question. I would like to know what are the trends in the non-metro or the smaller cities with respect to dine-in versus delivery preferences, how is the growth in the delivery been in outside the metros?

Pratik Pota Trupti, historically, I am talking of 2 to 3 years back, we were seeing the smaller towns being led a lot more by dine-in and not as much by delivery. I think very encouraging part of the growth contours this time is that even the small towns are seeing a strong growth in delivery as also in dine-in, but delivery is growing very strongly in small towns as well and that points to the indicator we talked about earlier, the macros also impact in these small towns and the enhanced need for convenience, so what we are seeing is delivery as a market is growing in small towns as well.

Moderator Thank you. Next question is from the line of Manoj Gori from Equirus Securities.

Manoj Gori Couple of things. One would be on the employee cost. So if you look at during the current quarter, we have added approximately 35 stores and also this being one of the strongest quarter, so we do hire more part-timers also during the December month. So despite doing this, our employee cost on Q-on-Q basis has increased only by Rs. 7 crore, so I just wanted to understand especially when the worst is over, but just wanted to understand the reason behind this?

Pratik Pota There are four themes as far the personal cost and manpower costs are concerned. The first one Q-on-Q, of course, as you can imagine, was impact of volume increase that led to a cost pressure as we hired more people to service the enhanced volumes. There was an inflation impact on account of minimum wages been rolled out in a few states, especially in the North East that impacted the cost upwards. This was mitigated by two things, one was improvement in employee productivity, which we called out couple of times on the call earlier. I think optimization of fixed costs as well in manpower and of course, operating leverage. So those were the three countervailing factors which helped us mitigate the impact of volume increase and inflation.

Manoj Gori Secondly on the revenue front, so if you look at 14.6% SSG for Domino's with strong performance coming from the Dunkin' Donuts as well, so if we do some kind of backward calculation, what I understand that the revenues like from the newer stores which are not considered under your same-store sales stores were relatively impacted during the quarter. Was it something to do with the timing of the store openings or can you throw some more light on this?

Pratik Pota Yes Manoj, I mean the difference between what you see as same-store growth and what you see as overall system growth is the function of largely store expansion and the timing thereof. There is also some noise on account of Dunkin' where we had higher stores same time last year and we have fewer stores now, but it is largely driven by the timing of store expansion.

Manoj Gori During the last 30 days or 45 days, the full impact has not been captured, which should come in from the Q4 onwards?

Pratik Pota As I mentioned Manoj earlier, that the store opening was distributed through the quarter, so we had some stores opening in October, some in November and some in December as well, so to the extent that some stores opened towards the end of the quarter, you haven't seen yet the full impact of those stores play out in the quarter, just a combination of all kinds of things.

Moderator We have the next question from the line of Raj Mohan, Individual Investor.

Raj Mohan Congratulations on the robust numbers. On expansion, Domino's US in their Investor Day, 10 days back indicated incremental store growth in the BRIC nations would be 3,500 plus stores by 2025. Based on our dynamics, where we are miles ahead of the other 3 BRIC nations in the Domino's platform, would it be a realistic to expect an excess of 1,000 store additions from India by 2025, also being validated with accelerated store additions in the recent past and in this context, could we expect the new store additions to contribute materially to sales growth from FY20?

Pratik Pota As we said earlier, we are excited about the momentum that we have in the Domino's business. We are excited about the way the growth has been delivered. Its growth that is order based. Its growth that is democratic across towns, across pop strata. It is both in delivery and dine-in but a lot more in delivery, so we remain very excited about the prospects for expanding the store network in Domino's. We see three kinds of opportunities. One is given the growth in the large towns and especially metros, we feel that there is opportunity for us to open more stores both to relieve the pressure on existing stores and also to tap into new micro market as they are emerging in these towns. That is number one. Number two, we see the need clearly to go to new towns and we opened two last quarter but many more that we can go to. We also see room for opening up stores in new channels, whether it is corporate parks, whether it is college campuses, travel and transport channel. Yes, there is opportunity for expanding our footprint across all of these areas. We won't be able to put out a number in terms of what that count would be but we believe this market has got tremendous potential and tremendous depth and we are excited by it.

Raj Mohan And as I asked, could you expect the new store additions to contribute materially to sales growth by say, FY20 or later?

Pratik Pota It would be fair to say that as we expand our store network and as the full impact of the stores we have added this year plays out, you will see an increase of delta between same-store growth and the total system growth expand. Yes, the new stores will contribute more to overall topline expansion going forward.

Raj Mohan Any breakeven assessments you could objectively give on the new stores in the form of period fall in generating, say unit level positive cash flows in split stores as well as new stores? Also is there further room for driving operational efficiencies in the existing stores?

Pratik Pota So Raj Mohan, there is always room for driving operational efficiencies and that is the work that we never tell ourselves is finished, it is WIP. It has to remain so going forward, number one. Number two, the new stores that we open, open profitably, open strong and they build from there. Our payback we said in the past is in the region of 3 years. We have seen in the recent past, that the better stores are having a faster payback than that as well and of course there is usually, I think the beneficial impact on customer satisfaction and improved operational KPI. So it is a win-win in that sense as we open more stores, we get more revenue, we get more customers and we get happier customers.

Moderator Thank you. We take the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management.

Pulkit Singhal First one is on the kind of opportunity in railway ordering. If you could just share in terms of the sales per store which you are currently observing on those stations, is it much higher than what you have overall or is it still long way to go to reach there and to that extent, how many stations could you kind of expand this opportunity to?

Pratik Pota So, Pulkit, we are seeing a very encouraging response to our railway ordering proposition. As I mentioned earlier, we are seeing a significant increase in orders and in revenues over the last quarter. As you are aware, we rolled out a TV ad towards the end of Q2 and early Q3, talking about the railway ordering functionality. That has also driven awareness and trials. We also are seeing very good customer satisfaction levels on railway ordering. We are seeing a very positive social media impact whenever we deliver in the train and make customers happy. Typically, this leads to repeat orders, we have seen repeat orders come faster because customers are happier. So that said, we believe this is still the start. We have a long way to go. The railway market is very large and we have barely scratched the surface of it. So we see this being our engine of growth for us in the future as well.

Pulkit Singhal So how many stations would you be currently serving?

Pratik Pota We cover close to 160 stations right now.

Pulkit Singhal And this would be like your stores at each of these stations, you need to have a store at each of the stations to solve this.

Pratik Pota Yes, we have a store proximate to the station, not necessarily in it, mostly in fact not in it, but close to the station and we have people who are runners from the store to the station depending on the order flow.

Pulkit Singhal Second question, particularly when you dissect the growth in terms of new customers versus higher frequency from existing customers, particularly in the last one year, are you seeing a higher growth in new customers?

Pratik Pota Pulkit, I think I talked about what encourages when you see the growth profile. One thing that encourages us also is that we are attracting more new customers and also growing frequency of existing customers. So in the last quarter, we saw an increase in the growth in addition of new customers to our franchise. We also saw an increase in the frequency of our core customers telling us that the proposition that we have between the product and the value and the customer experience that we provide is working both for new customers and to attract them as also the existing customers.

Pulkit Singhal I am sure growth is coming on both aspects, it is just that in the last I think 6 to 8 months, the number of mobile app downloads are lot higher and also I am just trying to evaluate whether this food aggregator market is bringing new customers to you, so is there a reason to believe that this new customer growth would have been much faster than what you witnessed previously?

Pratik Pota There is certainly the impact of technology and data access, driving new customer acquisition, but what you see in OLO is movement of channel migration from voice to online. That is also sitting in the numbers that you see there, but both our own efforts, our own organic platforms, our assets and our marketing advertising initiatives are helping drive new customer acquisitions as also is access to more smart phones, more technology, etc.

Pulkit Singhal Lastly, when you evaluate all these new opportunities, I mean in terms of Chinese or other cuisines, will you be able to use your existing network of Domino's or will you have to do this completely separately if at all under a new umbrella?

Pratik Pota I think right now that question is still little hypothetical Pulkit. As we see it, the one strength that we can leverage in our expansion as we are indeed doing in Dunkin' right now is the network of commissaries that we have across the country. There will be common and shared assets. Beyond that, we will have to see how that plays out, but the commissary network will be a source of strength for us.

Moderator Thank you. Next question is from the line of Nillai Shah from Morgan Stanley.

Nillai Shah My first question is on the SSG. You had said that more than 50% of the stores are in existing cities and hence expect some pressure on the same-store sales growth, but the question really is that we are talking about a very tiny fraction of the stores on the base of what is 1,200 plus stores, so why was it a need to call this out. I am not quite certain about it because mathematically it can have a very tiny impact on the same-store sales growth?

Pratik Pota I think Nillai, it is important for us to call it out because the stores that we opened, those 50% plus store splits that we did are for reasons of the store load being high, so these are high revenue, high order growth stores and that is going to have some impact, may be marginal**,** but it is important for you to know that, what is driving store expansion is not just opening up a new market, but also the need for us to split existing markets to service customers better.

Nillai Shah Pratik, second question is on the press note clarification that you gave on the e-commerce press note, have we sought any clarifications from the government or got a legal opinion on this to suggest that the food aggregator will be included in this particular clarification that has come through?

Pratik Pota Nillai, I think the assessment that we have internally of the press note is very clear. I think there is no ambiguity in that and if you read the press note, the clauses that have been put down here are fairly straight forward. So, we have absolutely no doubt that food aggregators would be covered under the purview of the press note.

Nillai Shah And the final question is on the OLO numbers which you gave in your presentation and the mobile ordering as a percentage of OLO, would that be for the Domino's app per se or for all the online ordering orders which you get?

Pratik Pota Nillai, this is for Domino's.

Moderator Thank you. We take the next question from the line of Vivek Maheshwari from CLSA.

Vivek Maheshwari This is Vivek. A lot has been asked about store splitting. I also have been carrying forward from the earlier question. If store splitting has a small impact on SSG mathematically speaking, it should also have an impact on margins because the existing store revenues go down and it is a very fixed cost intensive model. Why do you say that there is no impact on margins, something I am not very clear about?

Pratik Pota So Vivek, we are talking based on our experience from the third quarter and the performance and what we see as the impact of new stores both on topline and on margins. Our new stores have opened strong, both that we last quarter and earlier in the year. The new stores have opened strong, the old stores have gone back in under 12 months, to the original trajectory of growth and sales and therefore, the combined stores are showing a healthy increase in both sales and an overall profit and we don't expect the store opening in the future to impact materially the margins adversely.

Vivek Maheshwari And one more thing on store splitting and competition, when your own store kind of cannibalises an existing one, with billion dollar raised by Swiggy and talks of Zomato also raising $1 billion, when your own store can create a bit of a competitive pressure or cannibalization, does that worry you when food aggregators are raising, let us say billion dollar number when you come across these things? And my question is purely from a short-term perspective, long-term I concur with your view that market will expand its sector but from a short-term perspective?

Pratik Pota Vivek, on that, there is no ambiguity. Whether it is a long-term or the short-term, our primary purpose at Domino's is to ensure we delight and satisfy our customers. If we see and wherever we see that the pressure from existing stores is coming in the way of delivering the superior customer experience, it is incumbent upon us to make sure we split the store and go back to giving customer experience that we give them normally. So that is an absolute area of focus, regardless of what the static environment is, regardless of what your other food tech players do, what capital they raise or not, our focus is on our customers and in delighting them and that will remain an area of consolidated focus for us, regardless.

Moderator Thank you. Next question is from the line of Rohit Desai from Kotak Securities.

Rohit Desai I had a couple of questions please. Pratik, you are almost a company obsessed with CSAT scores that comes across in a lot of yours comments. Now, my question is on whether you measure this internally? Do you do some external NPS studies and if so, what are the trends therein, not so much the absolute numbers, but have you seen them improving?

Pratik Pota Yes, we absolutely have NPS, Net Promoter Score as the measurement system that we use and we track it very closely, we track it at the store level, we track it at the aggregated level at various trucks, we track it whether it is week days or weekends, so we have a lot of sciences and lot of rigors that goes into tracking the customer satisfaction scores. I think what encourages us is that we have seen progressively in the last few quarters, our customer sat scores improve across both delivery and dine-in.

Rohit Desai My second question is a little more micro in nature. If you are talking about these stores which are peaked out in terms of your ability to deliver from a volume standpoint, how should we think about per store capacity, what is the bottleneck there, have you been unable to expand your oven, is it lack of taste, is it just inability to expand the delivery man staff, what is the bottleneck and over time does this pose pressure on your ability to deliver SSG, just the physical constraint on this in the store?

Pratik Pota Rohit, whenever we feel a pressure in the store given the order growth, the first attempt of course is to debottleneck the existing store by putting in more infrastructure, by putting in more riders, putting in more manpower to make sure we are able to deliver to the increased order load from the same store. So that is of course the first attempt that we do. Only when we realize that after adding more ovens, after adding more riders outside the store, after debottlenecking the kitchen itself, we are not able to serve the load, it is only then do we split the store. So lot of stores that we see in our smaller towns are right now not getting split, despite having very high delivery growth and order growth because there is enough room for us to extract growth from the same store, partly by adding infrastructure, partly by improving the kitchen flow, partly by improving training, partly by adding more infra and more riders outside the store. It is only when that becomes difficult, then we move to splitting the stores.

Moderator Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities.

Krishnan Sambamoorthy Most of my questions have been answered. Just one query on the payback period. I know you have not added a lot of stores over the last year and half, but even when the stores that you have added, given the momentum that is continuing in terms of QSR, your own initiatives as well as delivery, have you seen a reduction in the payback period compared to the past?

Pratik Pota

Krishnan yes, answer is very clearly yes. We have seen an improvement in the payback period in the stores opened more recently.

Krishnan Sambamoorthy

And how significant is that, can you quantify that number, earlier we used to get data on the payback period. Has there been a material increase?

Pratik Pota

We have quantified that. Earlier we used to say that our breakeven or payback period was 3 years. It had slipped to a little later than that when we had challenged SSG. Now, our payback period has improved to a little under 3 years, faster than 3 years.

Krishnan Sambamoorthy

And can you call out what is the escalation in terms of per store lease rentals that you are witnessing now?

Pratik Pota

You have seen the impact of variety of these factors into the rent cost line. There is, of course, some inflation that we have seen play out, there is also an impact of volume growth and revenue growth, whenever we had rentals tied to revenue and then there is of course some impact of productivity that we have and closed stores wherever we shut them vis-à-vis same time last year for this also the impact of input credit loss that is sitting out there.

Moderator

Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Management

Thank you everyone for joining us on the call today. I am hopeful that we were able to answer and address all your queries. Should you feel the need for any clarifications, any further questions, please feel free to reach out to us or to CDR India. Before concluding, let me once again reiterate that we are happy with the performance in Q3. We are confident of sustaining the momentum and delivering profitable growth going forward. Thank you once again and have a good evening.

Moderator

Thank you. Ladies and Gentlemen, on behalf of Jubilant FoodWorks, we conclude today's conference. Thank you for joining us. You may disconnect your lines now.