



**Transcript of the Q2 & H1 FY18 Earnings Conference call Transcript  
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**Call Duration** : 01 hour 22 mins

**Management Speakers** : Mr. Shyam S. Bhartia, Chairman & Director of Jubilant FoodWorks  
Mr. Hari S Bhartia, Co-Chairman & Director of Jubilant FoodWorks  
Mr. Pratik Pota – CEO

**Participants who asked questions**

Abhishek Roy - Stewart & Mackertich  
Abneesh Roy - Edelweiss  
Aditya Iyer - Pico Capital  
Aditya Soman - Goldman Sachs  
Amit Sachdeva - HSBC  
Amit Sinha - Macquarie  
Arnab Mitra - Credit Suisse  
Avi Mehta - IIFL  
C. Narayanan - BNP Mutual Fund  
Harsh Shah - Dimensional Securities  
Kunal Vora - BNP Paribas  
Latika Chopra - J.P. Morgan  
Manoj Menon & Mihir Shah - Deutsche Bank  
Mayur Gathani - OHM Group  
Mitul Mehta - Lucky Investment  
Naveen Kulkarni - Phillip Capital  
Nillai Shah - Morgan Stanley  
Prasad Deshmukh - Bank of America  
Vivek Maheshwari - CLSA

**Moderator** Ladies and gentlemen, good day and welcome to Jubilant FoodWorks' Q2 & H1 FY18 Conference Call for investors and analysts. As a reminder, all participant 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 '\*' 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. Siddharth Rangnekar, from CDR India. Thank you and over to you, sir.

**Siddharth Rangnekar** Thank you. Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for Q2 & H1 of FY18. We have the senior management on the call with us, including Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Pratik Pota – CEO. We will initiate with key thoughts from Mr. Bhartia and follow that will operating and strategic direction from Mr. Pratik Pota. After that, the management will be very happy to respond to any queries that you may have.

Just to reiterate, certain statements that may be made or discussed on the conference call today could be forward-looking statements, and the actual results may vary significantly from those forward-looking statements. A detailed statement in this regard is available in JFL's Q2 & H1 FY18 results release and presentation, which are both available on the company's website under the Investor section.

I would now like to invite Mr. Bhartia to share his perspectives with you. Over to you, sir.

**Hari S. Bhartia** Thank you, and a very warm welcome to everyone who is present on the call. We are quite pleased with our performance of Q2 FY18. We made good progress during the quarter in both Domino's Pizza and Dunkin' Donuts, completely in line with our strategy. If you may recall, at the beginning of the year, we laid out our strategy and I would like to reiterate some of that. We said, firstly, we will open new stores selectively and work on driving same-store sales of the existing stores. I must say that while the market continues to show large potential for opening new stores and in new cities, our focus this quarter, actually in the last two quarters continues to get higher sales from the existing stores. Meanwhile, we have also made the selection of new store sites which are more scientific and robust.

Secondly, we also said that we will get the operating leverage back. In the last two quarters, we have made a company-wide effort to rationalize cost and have started to see the impact in the first half of the year, and I am

quite sure that more will be visible in the coming two quarters and in the next year.

We also said that we will bring back value to our customers. With this in mind, we have introduced, as you all know, Everyday Value Offer on medium sized pizzas aimed at attracting family and group of friends. Also, we gave value by way of more and better toppings and improved quality at the same price by launching our all new Domino's. Selectively, we also reduced price of products on our menu. I am happy to state that the new GST regime was implemented very smoothly in the Company and we quickly passed on the net benefits to all the consumers across the country.

In the beginning of the year, we also said that we will make increasing investments in technology. We continue to invest in technology to improve customer experience through our digital interface, voice analytics, store operations and logistics, etc. In all aspects of our business, we are seeing the application of technology. We believe that investment in food tech will help us to reduce cost as we scale our operation further and improve customer experience.

We also said that we would reduce losses to half in Dunkin'. In Dunkin' Donuts, improved performance of our donut range along with shutdown of our unprofitable stores, tight controls on cost led to sharp reduction of losses. We are now on path of achieving breakeven by next year in line with our commitment.

The performance in the last quarter strengthened our conviction on the strategy of growth unveiled earlier in the year and reinforces our belief in the potential for Jubilant FoodWorks business in the same time ahead.

With that, I would request our CEO – Pratik Pota to please take this address forward.

**Pratik Pota**

Good afternoon, everyone, and thank you for joining us on today's concall. I will commence with a summary of the quarter's performance and highlights.

Operating revenues for Q2 FY18 were Rs. 7,266 million, a growth of 9.2% over Q2 FY17. This was driven by strong 5.5% same-store growth in Domino's Pizza, lapping the strongest quarter from last year. Overall profitability also saw significant improvement, with EBITDA for Q2 FY18 coming in at Rs. 1,022 million, at 14.1% of revenue, and a growth of 59% over Q2 FY17. The EBITDA margin was the highest in the last 14 quarters. Profit after tax in Q2 FY18 stood at Rs. 485 million, at 6.7% of revenue and a growth of 124.7% over Q2 FY17. This was the highest PAT margin since Q3 FY14.

During the quarter, we opened one Domino's store and closed one. As a result, our Domino's Pizza store count was unchanged, at 1,125 stores across 264 cities. In Dunkin' Donuts, we opened 2 and closed 5 stores. Our Dunkin' Donuts network now stands at 52 stores across 13 cities.

Our Sri Lanka business saw core correction in Q2, where much like India business last year, we moved from doing frequent buy one get one and deep discount offers to rolling out an everyday value proposition. As a result, we saw slowdown in the first part of the quarter when we pull back discount, but there was a strong recovery post the launch of everyday value in August. As a result, our Sri Lanka revenues increased by 12.1% on the back of a 0.3% SSG.

Let me now touch upon some of the key fields and highlights from the quarter. Q2 of course as we know saw the roll out of GST and JFL ensured that all the benefits resulting from GST were passed on to consumers across the country.

The launch of all new Domino's which was a comprehensive upgrade of our pizza product with sauce, cheese, more & bigger toppings was supported by an aggressive multimedia campaign across digital, television, press and radio and I'm glad to highlight that this was received very positively by consumers and our product satisfaction scores improved significantly across during the quarter and we got very good feedback on social media as well. We witnessed continued traction for the everyday value offer launched in Q1 FY18 and this helped drive strong growth of our core pizzas both in dine in and delivery.

During the quarter, as part of our ongoing quality improvement in packaging, we proactively upgraded and improved the packaging for Domino's Pizzas, oregano and chili flakes. We also strengthened the transportation protocol and infused a tighter shelf life and an advice device to consumers for immediate consumption. We also added several functionalities to the Domino's app, the main one being a GPS-based store locator through Google Places and a Digital Wallet. This helped drive increased app downloads, has also drive increased conversions leading to a significant increase in online order contribution. Further, we maintained a very disciplined approach towards managing our costs across all our fixed cost lines.

Lastly, we continue to reduce Dunkin' Donut losses and this was a result of introduction of value donuts, affordable donut, topping combos as well as shutdown of unprofitable stores.

Moving forward, we will continue our focus on executing the strategy for growth outlined at the start of the year. This includes the pillars of

improved product quality and innovation, enhancing value for money, ensuring the seamless customer experience, leveraging technology and focusing on cost management. As part of technology and digital thrust, I am pleased to share that we are creating the new digital team under the leadership of the Chief Digital Officer. This team will lead our initiatives in improving the customers' digital experience, drive data analytics and CRM, and strengthening our digital marketing efforts. We are confident that we have a robust strategy in place for driving profitable growth in our business and to remain extremely optimistic about our prospects for the future.

With that, I would like to hand over back to the moderator to open the forum for questions.

**Moderator** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Manoj Menon from Deutsche Bank. Please go ahead.

**Manoj Menon** A couple of questions and after that I will come back in the queue. I have got quite a few more. The first one is about the comment on operating leverage. Just trying to understand the sources of operating leverage in a quarter in which we had about 6% same store growth. So essentially tying up this question also with the largely flattish, other expenses line what we get to see?

**Pratik Pota** So I will respond to that question first. I think our 5.5% same-store sales growth and our disciplined cost management ensures that we have leverage showing across multiple cost lines, the first one being manpower where we see significant improvement in our fixed manpower leverage and utilization. Rent where both though scale and volume leverage and also through specific interventions on driving rent downwards, we saw productivity happening on the rent line as well. We saw a strong leverage growth in our G&A cost line. And all other fixed cost lines including advertising and marketing and promotions we got significant leverage flow through.

**Manoj Menon** So, you mean, to put it this way, so essentially then we are saying that most of these line cost items have actually grown obviously much lower than the same-store growth. I can understand the employee bit even though there is a bit of surprise here given that we had seen some minimum wage hikes at least in one large state. That is what my understanding is which is Karnataka. If you could just elaborate a little bit more on the rent and G&A, that will be helpful. Have there been some renegotiations anything in the pipeline? How do I look at it over the next, let's say, 12 to 18 months?

**Pratik Pota** Let me respond to your first comment on the labor. Yes, we did see inflation in variable labor on account of both minimum wage increases as

also normal wage inflation and wage increase. However, we were able to compensate for that increase through much better usage of our fixed manpower. So we had productivity coming through at the backend in our corporate office, in regional offices. So that really helped drive overall productivity on the labor line. Coming to your point about rent, we had 2 or 3 different trends play out in the rent line. One was the regular rent inflation that we see, contracted rate that increases, rent increases which played out versus last year. We also had a full quarter impact of stores open through the year last year. Compensating these increases was partly the rent on account of closed restaurants. Rent renegotiation that we drove in some places; it wasn't easy but we had some success and savings on account of GST input credits. Those are the countervailing forces which helped drive profitability on rent.

**Manoj Menon** Understood. One last question follow-up on this was last quarter there was this specific comment about a very good outlook for cost savings programs which starts benefiting us in the second half of this year. Now we have seen significant leverage benefits in 2Q itself. Is it more of a timing factor or can I be interpreting this as there is more to come in the second half?

**Pratik Pota** Manoj, I see the larger point meaning that we are absolutely focused and I use the phrase last time of laser sharp focus on driving cost and productivity. And that would continue in Q3 - Q4. Would that lead to some productivity coming through? I would say yes. But equally you must also know that we've got other investment areas, we are going to be driving in costs, for example, technology, customer experience, which will also compensate for some of the productivities as we get. So the answer is yes, we are focused on driving productivity even further, but then also the demand on money.

**Manoj Menon** Understood. Fairly clear. And secondly, on the revenue line, if you could help us understand how do I break down the SSG? I am not really asking for a volume value breakout but if you could just help us appreciate how, let's say, the realization has been at any price up or down, how is the volumes, how do you split that into the number of pizza. I know that maybe some of these numbers, like the number of pizzas, may not be relevant given that the strategy what we are driving. So from let's say a medium-sized pizza upgrading from a pizza mania. I understand that, but if you could just give us a sense in terms of how let's say each of those items are moving, realization price, volume numbers?

**Pratik Pota** Manoj, our strategy has been in the last 2 quarters and if you know the Q2 as well to focus on a core pizza portfolio. First through EDV and then through the All-New Domino's Pizza upgrades. And that strategy of going after the core portfolio has helped on several counts. First one, it helps drive up the growth and the mix of our core pizza portfolio. So that is the

first upside, number one. Number two, we have seen very encouragingly a growth bias coming towards delivery, our delivery business, which of course is a higher bill value business and most city consumers. So that increased as well. And we have also seen order growth stabilize. It is still not where we need it to be. So order growth has come back. So the highlight would be core pizza growth coming back strongly, delivery working very well for us and we need to now come back to growth. And order growth led by core pizza.

**Manoj Menon**

Understood. Just to confirm this if I understood correctly, so essentially what you are saying is that the core product mix improvement of consumer trading up to medium size pizza from pizza mania is largely cushioning the gross margins versus the let us say the price cuts what you would have taken?

**Pratik Pota**

Yes there is most certainly the movement of mix shift in favor of our core pizza and within that towards the medium pizzas that has helped cushion some of the impact, the food cost impact of upgrading a product that has certainly helped. But that is in line with the strategy and we believe that is right for the business.

**Moderator**

Thank you. We take the next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra**

First question, again on margins. I understood your point on employee cost and trend, but it seems that the biggest reduction is in other expenses. So if you could just help us give some examples of what kind of costs have you driven down here? And is there also a reduction in marketing expense that is about 5%-6% of sales at an annual level here? So that is the first question.

**Pratik Pota**

Thank you Arnab. Yes, you are right. While there has been productivity across all fixed cost lines, we have seen a sharp productivity coming through on the manufacturing other expenses line. That is due to two or three things. The first one is on account of optimization of an advertising costs and that I must point out very quickly, is because we drove a very sharp negotiation of the media buying rate with the help of media buying partner agencies. So despite the fact that we had a big activity in quarter two in the form of all new Domino's, the productivity that we drove on media buying helped reduce our A&M expenses. Number two, some part of the savings was also on account of the timing impact whereby our big activity happened in early August and therefore July we were running marketing on a maintenance mode for supporting the earlier launched 'Everyday Value'. So the full quarter impact of the new launch was not seen. So both reasons the bigger reasons being the first one. So that's one thing that we saw clear out in that cost line. We also had productivity coming through on the travel cost line and the G&A cost line. So that again



we were watching our fixed cost very closely and we put in place strong protocols and processes to control these costs. So that also led to productivity in the cost lines.

**Arnab Mitra** Right. And just as you said, you have passed on most of the input credit benefit on GST through the product refresh. But since the product refresh kind of happened in August mid, should we expect that the full cost implication of that will actually come in the December quarter? So in that sense this quarter's margin could be slightly higher because you had the GST benefit for the full quarter but you took the steps probably only in August to take the product refresh?

**Pratik Pota** Arnab, that's a good question, but the answer is that our product upgrade actually happened at the start of the quarter itself. We spoke about it in early August but on account of ensuring that we have right training and protocols in place, the new product actually had begun going into the market from week one July itself. So you would not see any further dilution of gross margin going forward, on account of the food cost.

**Arnab Mitra** Okay. That's good to know. And just one last, technical question. The same-store sales growth that you have reported, is this at a consumer price level or is it at your net realization level? Why I ask this is that I mean whatever price cuts you would have taken on the headline rates, are they reflecting in the SSG or is it at your net sales level?

**Pratik Pota** No, it is reflecting. It is the net realization that we have.

**Arnab Mitra** So it is at your net realization level after netting off all taxes?

**Pratik Pota** Yes.

**Moderator** Thank you. We take the next question from the line of Amit Sinha from Macquarie. Please go ahead.

**Amit Sinha** My first question is on your SSG and you have highlighted that the part of reason for a strong performance in this quarter was on account of launch of all new Domino's Pizza campaign and not only the product and the campaign itself. So my question is, was there a significant divergence between the SSG before the launch of the campaign in the mid of August and after the campaign was launched?

**Pratik Pota** Amit, thank you. You're right. The all new Domino's was a significant reason why we had strong SSG coming through in Q2. We saw very clear increase in our SSG post the launch. If you look at the period from 1st July through 10th of August and 10th August to September 30th there is a very clear delta in the same-store growth and that's flowing through across all parts of



the business, delivery, dine in orders, timing, menu, etc. So we could very clearly see the impact of all new Domino's on the business.

**Amit Sinha** And a related question is do you think the later or the recent momentum which you have gained after the launch of the campaign is sustainable that kind of a growth which you are seeing, let's say, in September month, is it sustainable going forward?

**Pratik Pota** Amit, you are aware that we do not give guidance about the future. So without talking about specific numbers vis-à-vis September, I would like to just make a more general point that we remain very, very focused on driving profitable sustainable growth in Domino's and Jubilant and that will happen through driving all the pillars I talked about earlier.

**Amit Sinha** Okay. Secondly, sir, can you provide us with a comparable revenue number and help us understand the GST accounting? This quarter on a reported basis we have seen 9% revenue growth. Just wanted to understand how this number would have looked in pre GST regime?

**Pratik Pota** So, Amit, the prices that we have reported is net revenue result. The delta is output, GST was anyway being charged over and above the bill price. So that was passed on in any case. So the results that you see here does not reflect the GST factor.

**Amit Sinha** Yes, I understand that. But post GST there has been a netting out of many other small state-level taxes as well, where the revenue number of other companies have come down. So was that not the case with you guys?

**Pratik Pota** Not really, Amit. That wasn't a factor at all.

**Shyam Bhartia** You see, we have always reported revenues without GST, without tax earlier, sales tax or anything that was extra

**Amit Sinha** Okay. That's very helpful. My last question is on the government recent announcement as in the government is now mulling a 12% tax without input tax credit (ITC) benefits. I just wanted to understand now since you are one quarter into the GST regime and you would have done calculation on ITC etc., I just wanted to understand how do you compare the two tax, one 18% with ITC and second 12% without ITC?

**Pratik Pota** Amit, before I respond to that question specifically, I just want to underline and highlight that every single benefit is coming out of GST implementation and input credit have been passed on by Jubilant to consumers across the country. It's very important to table that and highlight that. Having said that, we are aware of course that the group of ministers is deliberating on the possibility of reducing GST from 18% to 12% and also looking at input

credit and looking at doing away with it. I think we are very clear as an industry that reducing GST from 18% to 12% on AC restaurants would be extremely welcome move. It would drive up consumer affordability and therefore consumer demand, lead to overall industry growth, and therefore drive job creation. So we would absolutely welcome a move like that. However, doing away the input credit would impact the industry adversely. It would hurt small businesses and entrepreneurs and restaurants most and negatively impact job creation. We have therefore made representations through NRAI, CII, FICCI as industry bodies to the prominent authorities in this matter. Now this matter is being discussed right now and we are very hopeful that our point of view shall be heard and heard patiently and that it will be recognized that it has merit. So I would not like to speculate beyond that as to the outcome of those discussions but we are absolutely engaged in presenting our view to the group of ministers as also to all the other authorities as we speak.

**Amit Sinha** Thanks for the detailed answer, but my question was more from your calculation basis, I mean from Jubilant FoodWorks point of view, that which scenario will be cost effective or in fact, price effective for Jubilant FoodWorks?

**Pratik Pota** We believe very clearly, Amit, that having input credit is an integral part of the concept of GST and a very core part of the industry economics. So having input credits continue is very important for preserving industry economics, and that is the way we look at it.

**Moderator** Thank you. Next question is from Arnab Mitra, from Credit Suisse. Please go ahead.

**Arnab Mitra** Sir, one follow-up question from my side. So the store addition has really slowed down this quarter and the beginning of the year you had looked at 40 to 50 kind of target for the year. So in the context of how much you have added this quarter, do you still stick by that? And therefore what would be the kind of CAPEX expectation for FY18?

**Pratik Pota** Thanks. I think very important Arnab, first to share with you that we continue to have a lot of expectations about driving growth in this industry. We see a lot of potential for opening stores, both in existing towns and in new towns. The reason why you've seen a slowdown in Quarter two is because we spent a lot of time strengthening our store opening process, bringing a lot of science and data and rigor to it, putting in place a mathematical models and looks at economic data, demographic data, local infrastructure, growth of urban clusters, all of these data points to arrive at a model that helps us open profitable stores. We feel confident that our phase of store opening will resume in this quarter and the next Q3 and Q4, that is, and we expect to open between 30 to 40 new Domino's stores this

year, as opposed to what we have said earlier which was 40 to 50. So I'll say a little lower than what we said at the year beginning, but our optimism and our confidence remains, and the pause that you saw was for making sure we have the right processes in place.

**Moderator** Thank you. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy** On Dunkin' Donuts how are things moving on the cost savings front? Three quarters back, number of stores came down by 10, then it was 8 and this quarter 3 stores. So are the number of stores stabilizing? And if you could give the number in terms of EBITDA dip also, which you give every quarter, that will be very helpful.

**Pratik Pota** Abneesh, on Dunkin' Donuts, we have at the beginning of the year shared with you that our focus would be on driving donuts and coffee, donuts and the beverage portfolio, and looking at smaller-format stores for profitable growth. I am pleased to share with you that our focus on donuts is working well for us and we are seeing significant growth in our donut portfolio. That's number one. Number two, we are seeing the growth of donuts, coffee combos which are helping drive both coffee consumption and also driving the habit of consuming a donut and a coffee together. So we feel enthused by the progress made in Dunkin' and the drag of Dunkin' on the Jubilant P&L which was 244 basis points in Q2 FY17 has reduced to 135 basis points in Q2 FY18. So we are on track to achieve our stated goals of halving Dunkin' losses this year and reaching breakeven by next year.

**Abneesh Roy** So there the number of stores to be closed, is that now finally coming to an end? And burger, also is it kind of defocused because earlier we have seen lot of advertisement for burger and Rs. 25 donut, is that a low gross margin versus the main product? If you could elaborate on that?

**Pratik Pota** Okay. So there are 3 questions. We will answer first one really quickly. On the store closure is dynamic process depending on the performance of the stores and if the momentum continues then there will be no need for closing stores. But that's a dynamic number that will happen based on the quarter's performance. So I wouldn't want to commit a number on that right now. On your value donut, your point about Rs. 25, the gross margins are not dilutive. They are same as the other donuts. So growing value will not dilute the margin, number two. Number three, yes we have made a very deliberate choice of focusing on donuts and beverages and that has led to a lower mix on burgers compared to what we had last year, but that is a very deliberate strategy and that is working for us. Going forward, we will be looking at a rationalized food portfolio what we call as simpler food portfolio, which allows us to serve food that doesn't require a lot of assembly and lot of labor in the store.

- Abneesh Roy** So my second and last question is on your gross margins, which I couldn't really understand fully. Your 9% sales growth, 12% increase in raw material prices and you haven't taken much of price increase which implies that most of that 9% sales growth should have been volumes and these volumes is not related to number of pizzas. This will be the raw material, say in kg for example. If we see cheese prices have moved up sharply, toppings you are putting more which is seen in the advertisement also. We are using some imported raw materials also. More cheese, higher cheese prices. In all this context, why should raw material price increase only by 3 percentage points higher than the sales number?
- Pratik Pota** Yes Abneesh. So, our raw materials cost increased vis-à-vis same time last year on account of two things. One was of course like we said the product upgrade, which led to a significant increase in terms of both toppings, sauce and the cheese. There is also food inflation. The countervailing costs will pulled down the overall food cost increase, was on account of the improved mix towards core pizza, number one. Number two, reduction in discounts compared to same time last year. And number three, some amount of input credit. So net-net our increase was only 70 basis points versus same time last year.
- Abneesh Roy** Sir, you are able to quantify that discount part, because that is the key number I think which is moving this.
- Pratik Pota** Yes, Abneesh. I understand that. I appreciate the question. But we haven't in the past as you're aware shared discount numbers and won't be able to do so now. But yes I think discount has been a contributor as well in the way the food cost has panned out.
- Moderator** Thank you. We take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman** The first question is on CAPEX. What was the total CAPEX incurred in the first half so far?
- Pratik Pota** Just one second, Aditya. You had another question?
- Aditya Soman** Yes. This year you generate free cash flow for the first time, given that your store expansion is a lot lower and your CAPEX won't be equal to your sort of cash generation. So what is the plan with regards to deploying this free cash flow?
- Hari S. Bhartia** This is Hari Bhartia. As of now, as you rightly said, the cash is getting accumulated in the last 2 quarters and presently we have in the immediate sense, not looked at deploying this cash. So as you know in future we do want to start growing our store numbers and we will deploy in growth a

number of stores in the coming quarter as well as next year and Jubilant continues to look at new opportunities also. So as of now we cannot give you a real, that how we are going to deploy this cash right now.

**Pratik Pota** And Aditya your first question, the total CAPEX spend in H1 FY18 was 49 crore.

**Moderator** Thank you. We take the next question from the line of Mitul Mehta from Lucky Investment. Please go ahead.

**Mitul Mehta** So my question is pertaining to Dunkin' Donuts. I'm not sure if you will share this, but can you share the losses in Dunkin' Donuts? Is it possible for you to share?

**Pratik Pota** Mitul, on Dunkin' Donuts, like I said earlier, we are focused on reducing losses and we will be reducing losses by 50% this year and breakeven next year. We have not in the past shared Dunkin' Donuts numbers.

**Hari S. Bhartia** But Pratik, you said it that the impact is to the extent of 1.35% in this quarter. So I think that gives you an idea that the losses have reduced quite substantially from the same quarter last year, as Pratik said.

**Mitul Mehta** And Sir if we recall in Q1 we had a SSG growth of 6.5% and Q2 we had a slightly lower percentage point SSG growth of 5%. So this do we have to read too much into this and does this attribute totally to, as you rightly pointed out in terms of strengthening of stores and putting more focus on the store in terms of infrastructure, getting the system and processes right?

**Hari S. Bhartia** What you read is that, in this quarter we are comparing against the best quarter of last year. While quarter on quarter we have still grown at 7%, so you can interpret that the sales performance has continued to improve from last quarter. So when we are comparing this quarter is, against 4.2% same store growth in the last year. But quarter on quarter we have also grown at 7%.

**Mitul Mehta:** You mean to say SSG, because it shows 5.5%.

**Hari Bhartia:** No.

**Mitul Mehta:** 6.5% is versus last year, but quarter-on-quarter you are saying 7%.

**Hari Bhartia:** Yes.

**Mitul Mehta** Okay. Great. And sir, second half what would be the likely CAPEX?

- Pratik Pota** Our full-year CAPEX plan that we have shared on the last call was what we said would be Rs. 130 crore. So then number would be a little lower than going forward because I talked about slightly lower store opening guidance. It will be between Rs. 110-115 crore, full year.
- Moderator** Thank you. We take the next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah** Just one question. Can you share that how much of the SSG was contributed from the late-night sale that was started recently?
- Pratik Pota** Thanks Harsh Shah. Our late-night delivery model has now rolled out across multiple cities. It is in Bombay, Gurgaon, Noida, Bangalore and it just got launched in Pune and we are going to be entering other markets soon. It is helping us expand our day-parts appeal and I think drive incremental customers. We won't be able to share specific numbers of this but its an important part of our effort to touch more customers and drive growth.
- Harsh Shah** So of this 5.5% would it be substantial amount the contribution from late-night sales as of now?
- Pratik Pota** Not going to share specifics, but I would say that more than the number, I think that the fact is that helping us reach customers in our day-parts when we are getting food delivered to them and helping us therefore increase the customer connect significantly. Our feedback from daytime delivery has been very positive and the repeat customers are very healthy as well. So it's a very important part of the customer outreach program. And on revenue we can't share any more numbers beyond that.
- Moderator** Thank you. We take the next question from the line of Latika Chopra from J.P. Morgan. Please go ahead.
- Latika Chopra** Most of the questions have been answered. Just one clarification, looking to, number of employees actually increased on a sequential basis by almost 6% Y-o-Y. Is it linked towards higher number of orders that you're witnessing in existing stores?
- Pratik Pota** Latika, two reasons. One was that we had a higher delivery bias like I said in the beginning of our orders and that led to incremental labor deployment, number one. Number two, as we were migrating towards the all new Domino's Pizza to ensure that we had absolutely superlative customer experience, we erred on the sign of caution and put some more labour in store to make sure that we will serve the customers faster.
- Latika Chopra** Sure. So you talked about enhancing your investments in the food tech space. Would that influence in any manner your strategy in terms of taking

technology help or guidance from the parent Domino's? Would that influence your terms of trade with them in terms of royalty fees or anything extra that you will need to pay them?

**Pratik Pota** Latika, it did not impact the terms of trade or royalty fees, but we are absolutely talking to them and learning from their experience. As you are aware there have been using technology significantly in the US and use that to drive growth. So we talk to them and we learn from them and we get best practices. But it will not impact the terms of trade in any manner.

**Moderator** Thank you. We take the next question from the line of Prasad Deshmukh from Bank of America. Please go ahead.

**Prasad Deshmukh** First question, there has been a decent reduction in the number of Dunkin' stores. So first of all what is the reaction of the parent that is the brand owner on this kind of sharp reduction? And could you help me understand what is the journey for this format going ahead in terms of number of stores? When do you start adding back the stores?

**Pratik Pota** Prasad, our association and relationship with Dunkin' Donuts global is very strong and they are completely empathetic to our journey of reducing losses in Dunkin' and attempting to arrive at the profitable model. We talk to them and they are helping us arrive at different pilots and different ways of working to get to this profitable model. So the work that we are doing in terms of donut focus, coffee and beverage focus as we spoke about earlier, is done in collaboration and with help received from them,. So that is number one. Number two, in terms of the second part of the question on store opening for Dunkin', I talked earlier about the fact that we will be opening 5 stores in Dunkin' this year and in the next 6 months we will be continuing to focus on donuts, beverages and simple food and make sure we arrive at a profitable scalable model for Dunkin' and that will allow us to add outlet stores next year. So the journey in the next 6 months as it has indeed been in the last 6 months would be to arrive at a profitable model and scalable model for Dunkin' Donuts. And in that journey, we are getting a lot of help from Dunkin' International.

**Prasad Deshmukh** So do you have a right to sub-franchise if the need be, in the agreement with Dunkin'?

**Pratik Pota** Yes, we do.

**Prasad Deshmukh** Second question, is there any regional or area wise variation in the SSSG that we have seen in this quarter in terms of central, east, west, north, south?



- Pratik Pota** No, I think that encouraging part of SSG pattern across regions, across town clusters is fairly uniform and we saw similar trends play out in Q1, as well. So that helps us in a marketing program that we are doing with an everyday value or for all new Domino's. Therefore fairly consistent and a uniform appeal across the country.
- Moderator** Thank you. We take the next question from the line of Mihir Shah from Deutsche Bank. Please go ahead.
- Mihir Shah** Just a couple of follow ups here. One, are there any sourcing gains or any renegotiations with suppliers or any such savings which is contributing to the gross margins?
- Pratik Pota** Driving productivity and rate productivity and efficiency is an ongoing process and that's pretty much played out in Q1 and Q2 as indeed in earlier quarters. So that exercise is an ongoing one and there is nothing that has been done in Q2 that has spiked numbers on that count.
- Mihir Shah** So the reason I asked because I heard from some networks about some renegotiations, some new vendors and so you're saying that there is nothing material which has actually happened which you should be.....
- Pratik Pota** Yes, absolutely Mihir. That is an ongoing process and our supply chain team is engaged in that all the time with different vendors across the different products and driving their productivities. And there is nothing material or substantive in this quarter that has played out, essentially.
- Mihir Shah** Okay. Got it. And secondly, what explains the sequential decline in depreciation, which is a material number? It is some 30% decline, I mean.
- Pratik Pota** So that's a good question and we will respond to that. Last quarter when we were planning for the rest of the year we had expected to close a certain number of stores based on the profitability trends that we saw at that point of time. However, thereafter we saw a strong growth revival in many of these stores and therefore the actual store closures that we took were far lower than what we had planned for in Q1. So what you will see in Q2, the lower depreciation is on account of some reversal of depreciation that we had taken in Q1. On a normalized basis you will see the depreciation in Quarter one and Quarter two as Rs. 35 crore approximately. So it's a consistent fact across both the quarters, but there is a delta that you see on account of right track of accelerated depreciation from quarter one..
- Mihir Shah** Very clear. And lastly Pratik, on Dunkin' Donuts, when I just go back about maybe a year or 18 months back, the comment was at that time that the hero product in the outlet was burger. And what I do hear now is about the

donuts and beverages which is what Dunkin' otherwise stands for in its core market, etc. So two questions here. One, what in your view is the medium-term outlook on Dunkin' in general in terms of the positioning and what have been the learnings of the last couple of years, etc.? And then obviously once that clarity or stabilization comes the expansion can take care of itself.

**Pratik Pota**

So we have had a very interesting journey on Dunkin' Donuts and we have some niche learnings come to us. Based on those learnings we have identified our portfolio strategy which is to drive donuts through both value donuts intervention as also premium donuts or signature donuts as we call them, number one. Number two, drive our beverage range led by coffee and number three, like I said earlier, offers simpler food portfolio. So that's the portfolio strategy for Dunkin' Donuts going forward. Within that, we recognize that our burgers have traction and therefore we will make sure that as we build a simpler food portfolio we retain the consumer franchise. So Dunkin' Donuts will be led by donuts and coffee with a simpler food portfolio.

**Mihir Shah**

So would it be fair to say that if I understood you correctly, menu simplification is a key priority area in Dunkin'? Would that be necessary even in the pizza product portfolio also, that you actually believe that is there a necessity to reduce the number of, let's say, products or variants or whatever? So two questions, one on Dunkin' on the menu simplification, but does the same template is needed in Domino's also?

**Pratik Pota**

In the case of Dunkin', I would say very clearly the answer would on the food side be yes that there is a case for us to look at a simpler food portfolio. And that work is absolutely going on. On Domino's, it is not a theme that we see play out very strongly. However, that said, we believe that portfolio rationalization and portfolio rechecking is an ongoing expense in any business, but is that an urgent priority for also Domino's the answer would be no.

**Moderator**

Thank you. We take the next question from the line of Aditya Iyer from PICO CAPITAL. Please go ahead.

**Aditya Iyer**

A couple of questions. The first one would be, I noticed on-the-go campaign both in railway stations as well as the slice pizzas which was started? So the scalability of the market seems to be huge. If you could just throw some more light on it in terms of what exactly are you looking for plus any kind of scalability that you would look for there in terms of store extensions?

**Pratik Pota**

Thank you Aditya. I absolutely agree with what you said. I think driving the transport and travel channel is going to be a key part of our Domino's strategy going forward. We see growth coming from there and we actually

had a first move advantage in this space in the railway space and we intend to build on this and drive it further. Specifically and just to highlight, we added 51 railway stations in Q2 FY18, taking our footprint across the country to 185 stations, and that is a significant footprint. We are seeing growth come through in the railways channel. We also investing in growing our airport channel, both on Domino's and to an extent in Dunkin' as well. So, going forward, we do see the travel and transport channel as with greater urbanization as people are increasingly on the move. We are increasing source of growth for us.

- Aditya Iyer**                      Okay. So is there any CAPEX or incremental spends etc. which are required? Or is it like largely margin accretive, the sales from a new channel, be it the slice pizza or so?
- Pratik Pota**                        Certainly in the case of railways and the airport channel, I think it is margin neutral. It is not margin dilutive.
- Moderator**                        Thank you. We take the next question from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani**                    Are there any one-off costs for closing down the 6 stores? And can you quantify that?
- Pratik Pota**                        Yes, we did have a one-off costs in this quarter on account of the closure of 1 Domino's and 5 Dunkin' stores. And that seems to about a crore and a half.
- Mayur Gathani**                    So where does this highlight on the results, sir?
- Pratik Pota**                        Depreciation. That's the point I made earlier Mayur about the numbers from last quarter to this quarter changing. So this quarter specifically we have the accelerated depreciation cost of Rs. 1.6 crore sitting in our depreciation line on account of the closure of these 6 stores.
- Mayur Gathani**                    Okay. 1.6 right? Sorry. I missed the number, sir.
- Pratik Pota**                        1.6, you said it.
- Mayur Gathani**                    Okay. And on the packaging issue that we had some things that were highlighted in the media, what have we done, what are the steps taken? Can you throw some light on that?
- Pratik Pota**                        I think on once the problem came to our attention as you can imagine we did a complete deep dive on all oreghano across the supply chain, across the value chain, be it in our factories, in the transport channel or in our stores. And we were reassured to see that there was no such incidence of

infestation anywhere in our supply chain and then this was an extremely rare occurrence and a one-off occurrence. However, as part of both our ongoing quality improvement exercise and by way of abundant caution, we went ahead and did a number of steps on the quality improvement front. We upgraded the quality of our packaging for our seasoning both oregano and chili flakes and indeed of our pizza boxes as you would have seen. So that was the first thing we did, number one. Number two, we moved to refrigerated transport and storage of all our seasonings to further eliminate the risk of infestation. We went ahead and you would have seen on the pack, tightened the shelf life from 6 months to 3 months. And we also flagged up on the pack, advised to consumers that the seasoning was for immediate consumption because we know that they have sometime habit of storing this and using it subsequently. So we did a lot of these things. We also made a lot of changes at the back end as well, in terms of storage and transportation protocol. So all of these were done proactively and we believe that these are good and that they will work for us.

- Mayur Gathani** Okay. And this product that comes from your commissary or it is an outsourced product? Prior to what happened, the oreganos.
- Pratik Pota** These products are from outsourced partners and Yes, come from commissary.
- Moderator** Thank you. We take the next question from the line of Kunal Vora from BNP Paribas. Please go ahead.
- Kunal Vora** There was a news report that you taken interest in McDonald's north and east franchise. Any comments you can make on that?
- Pratik Pota** Kunal, we do not comment on media speculation and reports like this. We are very fortunate to have a very strong growing and profitable Domino's business. We also have our agenda on Dunkin' business. And I would like us to focus on those two for the time being. Everything else is just pure speculation.
- Kunal Vora** Sure. Has the tax compliance level post-GST implementation helped smaller restaurants? Have you seen an increase in tax compliance levels?
- Hari S. Bhartia** No I think our competition is equally tax compliant I suppose. So I don't think our compliance, full compliance does not give any special advantage to us.
- Kunal Vora** Okay. But the smaller restaurants might not have been charging VAT and have you observed anything like that, wherein restaurant which are not charging VAT earlier are now charging GST or no such change has been observed?

- Hari S. Bhartia** No because of that we are not seeing any advantage, nor we have observed such things.
- Kunal Vora** Understood. And last question, sir, on the packaging seasoning issue. Did that have any impact even temporarily?
- Pratik Pota** I think as I mentioned earlier the issue of seasoning was an isolated one and while it did get some visibility in social media, it did not have any material impact on our business performance.
- Moderator** Thank you. We take the next question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.
- Abhishek Roy** The percentage of wheat flour that is used in making pizzas and donuts. So what is the percentage of revenue which it contributes in the raw material?
- Pratik Pota** Percentage of what?
- Abhishek Roy** Wheat flour.
- Pratik Pota** Wheat flour. As you aware, we never give such detailed information for many reasons. So it is difficult to say.
- Abhishek Roy** Okay, sir. But any way, like any approximate numbers or figures for that?
- Hari S. Bhartia** No. As you know we have never given such numbers before. Specific raw material consumption details we don't provide.
- Abhishek Roy** Okay. Sir my next question is regarding the retail space area of these stores, both for Domino's and Dunkin' Donuts. So can you just provide us what is the actual retail sales area for these stores currently, the stores you have?
- Pratik Pota** Abhishek, the size of the store is a function of the format of the store, whether it's a food court or a high street store or a mall store or a kiosk. If I were to average out, I would say that the average size of Domino's stores between 1,350 to 1,450 square feet and a Dunkin' Donut stores on an average is about between 800 to 1,000 square feet.
- Abhishek Roy** And sir what are the number of stores that you own? And how many of these are rented?
- Pratik Pota** We don't own any store. It is all rented.
- Abhishek Roy** So all of these are rented stores?
- Pratik Pota** That's right.

- Moderator** Thank you. We take the next question from the line of Nillai Shah from Morgan Stanley. Please go ahead.
- Nillai Shah** Just two quick questions. Any adverse impact on account of the earlier onset of Navratri for this quarter on same-store sales growth for pizzas?
- Pratik Pota** Navratri has an impact, as you're aware. And in the Navratri period we do see a softening of sales, so that just played out in this quarter. But we also have an early onset of Diwali during the quarter. And the run up to the Diwali period came earlier as well. So I would say yes the Navratri period did play out in the quarter.
- Nillai Shah** Okay. And second question is, when do you revisit your store expansion plan for the next fiscal year?
- Pratik Pota** Our budgeting process kicks off in December and gets finalized between February and March. So that will be the opportune time for us to look at next year store expansion number.
- Nillai Shah** Okay. And just if you could help me understand, this cut in store expansion plan what is the management reason behind this? Why would you have done this, especially against the comments that you made that you were planning to shut down more stores but given that the SSG picked, up you haven't done that now. So what was the real reason at your end for cutting down the store expansion?
- Pratik Pota** So Nillai, the reason that I mentioned earlier was indeed the real reason. I think we were focused on strengthening the new store opening process during the quarter by applying a lot more of rigor, a lot more of data and modeling to plan new store expansion. I must once again underline that we are very optimistic about the future and having got the store model right, we see us going back and increasing our store expansion in the balanced part of this year.
- Moderator** Thank you. We take the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari** A couple of things. First, on GST. A basic question but what exactly have you done after GST? So price cuts would have been around 2%, the rest input credit has been given in the form of higher value to customers. Is my understanding correct?
- Pratik Pota** So Vivek, on GST, the first point which you touched upon is absolutely right that our GST incidence was 18% down from 20-odd-percent in the VAT regime. That obviously was passed on automatically to consumers. Input credit, every rupee benefit that we got was passed on to consumers in

several ways. The first one was of course giving increased value for product upgrades of all new Domino's Pizza without having any corresponding price increase, number one. Number two, the continuation of the 'Everyday Value' promotion that we had in Q1. Number three, our regular food inflation that played out, we absorbed that without passing on any price increase to consumers. And number four, in some parts of the country, specifically in small towns, we have differential pricing that we introduced which again gave more value to consumers. At aggregate level, once again to repeat, every single benefit that we got from input credit of GST, was passed on to consumers and have been passed on to consumers.

- Vivek Maheshwari** Got it. Second, on the SSG of 5.5%, given that you have not taken up product prices, this will be pretty much volume-led?
- Pratik Pota** It's a combination of orders and BPO, absolutely right.
- Vivek Maheshwari** Got it. Third, Noida facility, is it up and running? Because I don't see that number in depreciation. So what am I missing?
- Pratik Pota** So Vivek, the Noida facility is ready for commercialization. And once we get that we can start the production. So it is very much on the card and you will see that playing out this quarter.
- Vivek Maheshwari** So there will be a depreciation impact because of that?
- Pratik Pota** Yes, there would be. It is not visible in this quarter, as in quarter two, but there would be, yes.
- Vivek Maheshwari** And it's a very large commissary, so initially as you ramp up there will be a negative impact initially as the plant will take time to or commissary will take time to ramp up, there will be inefficiencies, which may impact operating margin although temporarily. Is that a fair way of thinking about it?
- Hari S. Bhartia** No, the commissary will ramp up very fast. And we will close down our old commissary. So we don't see and we hope to bring in more efficiencies here going forward. So the impact of moving will not be substantial.
- Vivek Maheshwari** I see. I'm sure the fact that you had guided in the past that you're building this to drive efficiency but we shouldn't worry from a third quarter perspective some negative impact because of this, that's what you mean?
- Hari S. Bhartia** Yes, you should not worry.
- Moderator** Thank you. We take the next question from the line of Amit Sachdeva from HSBC. Please go ahead.



**Amit Sachdeva** Many of my questions have been answered, but Pratik I just have a bit of a conceptual question from you in terms of how you look at store openings and closures for Domino's for example. So the question is that what would be more beneficial whether to continuously very aggressively seek out stores to close and actually improve SSG and economics for the rest of the stores nearby and also invest in product development or versus go to the old template of again growing the area first? It looks like the conservative strategy actually has delivered much stronger results for you and the right focus. I don't have a number but I assume that given the growth that has happened in the past, a lot of cannibalization has also crept into the system and competition has increased but actually closing a few more stores more aggressively might actually do great job for you. I don't know what's your reaction to that would be and before we really look at store expansions in more aggressive way.

**Pratik Pota** I think Amit, the most important thing for us to remember and I want to highlight that we are in a growth business. We are here to drive growth, both same-store growth and net-store growth. And that is what we are focused on. We are not focused on shutting stores. So our strategy of getting unit level economics right and making sure same-store growth comes back is an enabler for us, is a starting point for us to increase our store expansion and store network. So that is the primary focus that I and my team are working on right now. That said, wherever we will see that there is no line up at the profitability, we are taking those calls but that is not the focus for any of us. Our focus is on growth and will remain on growth. This is a growth industry, this is a growth company and will remain that way in the foreseeable future.

**Amit Sachdeva** Sure. My only question was that say for example stores opening in new areas such as new towns and where the opportunities are slightly higher versus where it is already crowded out. Maybe would that remain in focus for more time because you see that there is no store added in the last 2 quarters but now you're looking at 30 stores addition over the next 2 quarters. Would that mean that the full exercise is over or you are really looking at store closures again? And how do we think about this in terms of expansion in FY18 and FY19, as well?

**Pratik Pota** So, like I said earlier, Amit, the quarter was about making sure we have the right processes and the right science and spend some time in channel for store expansion and that was the work that we were doing in the last few months. Going forward, I talked about the increased pace of store expansion and where that expansion happens will be a function of what that model throws up, whether it will be in existing towns or in new towns.

Number two, we recognize and we're aware that as the largest QSR player in the country, we have to expand the pizza market in areas where the

market is underserved. Therefore, going to new towns will of course be a key part of our strategy and the economics of the store. So that will be a very much a part of the agenda for most H2 of this year and next year.

**Amit Sachdeva** Sure. So just very quickly, can you comment on like how much is the Dunkin' store sales as a percentage of total sales now, if you can give some indication? And how should we think about this?

**Pratik Pota** I understand the question but as you are aware we don't give these numbers out. On Dunkin' I just want to repeat what are we saying all along, which is that we've got a very clear strategy that seems to be working for us, which is focused on driving and developing the donuts market, number one. Number two, strengthening our beverage portfolio and while doing that ensuring that we reduce our losses this year and work towards breaking even next year. And we are absolutely working very sharp way on that strategy.

**Amit Sachdeva** That seems like a sensible thing to do, reducing the store sizes and driving what sells more. But what I was wondering was that in old template and the new template, how your basically revenue per store and how we should think about this as you sort of grow? And on what basis we should sort of think about revenue stream from this business?

**Pratik Pota** It's a fair question, Amit. Without sharing numbers, I think, like I said, the focus is on profitability and profitable growth. So regardless of the format size and the store size, we will ensure that the stores are profitable, the economics between the revenue that the store generates and the cost of the store will have to balance out. The equation has to balance some way and that is the work going on right now.

**Moderator** Thank you. We take the next question from the line of C. Narayanan from BNP Mutual Fund. Please go ahead.

**C. Narayanan** Just on this late-night delivery aspect, wanted to understand the unit economics in terms of, is the increase in employee count on account of that? Or what's the other related costs which you're having to incur with regards to this entire proposition?

**Pratik Pota** As you're aware, our night delivery right now is confined into a few markets, number one. Number two, not all stores in those markets do all-night delivery. Post 11 pm, we recut the served areas and match them to stores on which we are doing all-night delivery. So not all stores in Mumbai, for example, or in Bangalore for example would do all -night delivery. So that's number two. Number three is the cost versus the incremental business that we generate from 11 pm to 3 am, we are seeing that the business for all-night delivery works out well. So there is no drag on account

of all-night delivery on the P&L. If anything, we have seen, like I said earlier, a strong improvement in customer feedback and satisfaction scores after we have introduced all-night delivery.

**C. Narayanan** Sure. But the employee count which has increased, I think some other participant also asked on that, is it to do with this or it's normal course of business?

**Pratik Pota** It's more to do with the normal course of business. We have seen an increase of 4% in store days compared to same time last year, 6% for Domino's. And that's one of the reasons why the count has grown, apart from the fact that within the growth like I said earlier, we were at higher bias on delivery. So that is normal course and it is not because of anything else.

**C. Narayanan** And at any point in time would you explore the use of third-party delivery services? Or you don't want to look at that?

**Pratik Pota** We do have pilots going on with third-party delivery partners and that pilot is very much going on. So we are open to those partnerships but it would be fair to say that the bulk and the pre-dominant portion of our delivery experience would be controlled by us. We have seen some pilot work so far, the experience the customer gets from a Domino's end to end delivery is far superior to what you would get from any other partner. But if you have pilot, we see Domino's delivery being front and center.

**C. Narayanan** Okay. And last question from my side is on the CWIP, the large proportion of the increase is to do with the commissary in Noida or is it higher store count, as well, which is driving that increase?

**Pratik Pota** We couldn't hear the question. Please say again?

**C. Narayanan** The capital work in progress number, the increase in that, is it driven largely by the Noida commissary?

**Pratik Pota** Yes, that's right.

**Moderator** Thank you. We take the next question from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta** Your base for SSS growth is improving, I mean it is becoming more favorable. Your cost reduction initiatives you indicated that more of the product benefits would flow through. Would it be fair to assume then that the margins are likely to, you see more upside from here on? Or you are just being conservative when you say that there are some downsides. What am I missing over here, sir?

- Pratik Pota** Sorry. We didn't talk about margins going down, we did not express pessimism just to clarify. I think we said two things. The first one is that our journey of driving productivity and margin improvement will continue and it's continuing, number one. Number two, that said, we have to invest and deploy money in several areas aimed at improving the customer experience, be it technology and digital, be it value and the delivery and be it in other parts of value chain. So both of that will be playing out simultaneously and I guess that's how the margins pan out. We do not give any guidance as you are aware.
- Avi Mehta** No. Fair enough, sir. So the way I should say is that from tailwinds point of view have these benefits and from a possible headwinds or investment point of view you have customer experience and second would be a possible investment or drive from new stores. Would that be a fair understanding?
- Pratik Pota** That would be a fair understanding and I would agree with that.
- Avi Mehta** Okay. And the second, sir, just a clarification you said that the budgeting plan would be period when you will review store expansion, when was that sir? When would be that be doing? Towards the end of the year?
- Pratik Pota** That would be towards the end of the year for next year, absolutely.
- Moderator** Thank you. The next question is from Naveen Kulkarni from PhillipCapital. Please go ahead.
- Naveen Kulkarni** Most of my questions have been answered. Just a couple of questions. One is on the gross margin. You said that the product mix has stabilized from July. So there is not much of headwinds which we are likely to see in terms of product mix change impacting margins. But do you see any sequential inflation in the raw material which might impact the gross margins, going ahead? And if so, is there any plan to take any price hikes? That's my first question. Second question is a bit of clarification on the depreciation number. You indicated these steady state depreciation number is going to be for this quarter should be around Rs. 35 crore. Is my reading correct on that?
- Pratik Pota** Naveen, let me answer your first question. I think it would be fair to say that we have no intentions of taking pricing in our business. And in fact when the year began, we had said very clearly that we wouldn't be taking any price increase this year and that remains the same position. We intend to pass on value for money to our consumers. So that remains our stated strategy and we are committed to that. Inflation, if any, would be absorbed by us in our fixed cost line. In any case, like we said earlier, we do not see any further increase in food cost happening, going forward, in Q3 and Q4 -

aggregate food cost. That's the first part of your question. The second part of your question was about depreciation and the answer would be correct that we expect normalized depreciation to be around between Rs. 35-36 crore.

- Naveen Kulkarni** Okay. And last quarter, the depreciation was higher because of the store closures you indicated, right?
- Pratik Pota** That's right.
- Moderator** Thank you. That was the last question. I now hand the floor back to the management for their closing comments.
- Management** Thank you everyone for joining us on the call today. We hope that we've been able to answer and address all your queries and of course if you need any more information please reach out to us and we'll be more than happy to help. Thank you.
- Moderator** Thank you. Ladies and gentlemen, on behalf of Jubilant FoodWorks that concludes the conference. Thank you for joining us. And you may now disconnect your lines. Thank you.