Jubilant FoodWorks' Q4 & FY19 Earnings Conference Call Transcript
May 15, 2019

Call Duration : 01 hour 10 mins

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

Participants who asked questions

Abneesh Roy - Edelweiss
Amit Sachdeva - HSBC
Amit Sinha - Macquarie
Arnab Mitra - Crdit Suisse
Avi Mehta – IIFL
Bhavesh Shah – CLSA
Manoj Menon - ICICI Securities
Nishit Rathi - CWC Advisors
Pranav Tendulkar - Rare Enterprise
Prasad Deshmukh - Bank of America
Trupti Agarwal - White Oak Capital
Vishal Gutka – Phillip Capital

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Jubilant FoodWorks' Q4 & FY'19 Earning Conference Call. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. 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, and welcome to the Jubilant FoodWorks' Q4 & FY19 Earnings Conference Call for Analysts and Investors. We are 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 shall have Mr. Pota sharing his views on the progress that JFL has made operationally, strategic imperatives that lie ahead and the outlook. After the opening remarks from the management, the forum will be opened for question-and-answer session.

A Cautionary Note:

Certain statements that may be made on today's call could be forward-looking in nature, and the actual results may vary significantly from these statements. A detailed statement in this regard is available in Jubilant FoodWorks' Q4 FY19 Results Release and Earnings Presentation, which are both available on the company's 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 Q4 & FY19 Earnings Call. I am pleased to state that we have ended the Financial Year 2019 on a very high note with encouraging growth momentum in both our brands, Domino's Pizza and Dunkin' Donuts. For the last two years, we have stayed on course for our strategy that we outlined with you. Let me explain this:

We have continued to give more value to our customers. As all of you know, we have taken no price increase for over two years. We offered Everyday Value instead of occasional discounts, also took initiatives like small-town menu to give value to the dine-in customers.

We continue to improve customer experience by improving delivery time. We introduced railway ordering, all night delivery. We also launched our new store design, which has self-ordering kiosks to improve dine-in experience. This has been very well-received with our customers.

We have continued to innovate with new products, like recently launched Cricket-themed Pizzas to bring new excitement with our customers. We also improved beverage offering through the launch of Fountains with our new partner Pepsi. This will help us substantially give better combo offers with the beverage.

We have continued to invest in technology, data science and the digital infrastructure to improve customer experience and operational efficiencies. Our online sales grew strongly and now have reached a level of 75% of our delivery sales.

As promised to you, we turned around Dunkin' Donuts and brought it to breakeven as committed. This was achieved on back of a healthy growth in portfolio, shutting of unprofitable stores and cost reduction.

We continue to drive operating leverage to increase margin by increasing same-store sales as well as reducing cost at all parts of operations and supply chain. Over two years, we achieved large savings on our costs, which helped us increase margins and give more value to our customers.

Going forward, while we continue to work with these initiatives with new vigour, we also want to grow our business in clear strategic direction.

Here, I must tell you that we continue to see large opportunities for opening new stores in the existing market by splitting stores and in new markets in existing and new cities.

We will build a portfolio of brands and cuisines that allow us to address different customer segments and different occasions.Last quarter, we launched Hong's Kitchen with very good response from our customers. Our nationwide network of supply chain, our existing technology platform and deep expertise in delivery will help us to scale our new Chinese brand further. We will also continue to explore and test other cuisines for future launch.

We have also brought back focus on International market by a record-breaking launch in Bangladesh. While we develop Sri Lanka and Bangladesh markets, we will continue to explore adjacent and new markets.

Finally, we will continue and increase our investment in creating strong and focused teams to build new cuisines and International expansion of Domino's.

And as I close, I must thank our partners in Domino's International and Dunkin', all our employees, our vendors and all our other stakeholders who have been a great partner in our growth journey.

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 a very warm welcome to all of you joining us on the call today. I will begin with the Key Financial Highlights of Q4 and the FY19 performance, starting with the quarter: Operating revenues during Q4 were Rs.8,652 million, an increase of 10.9% over last year. This was driven by same-store sales growth of 6% in Domino's Pizza on a base, as you will recall of 26.5% from last year. EBITDA during the quarter was Rs.1,476 million at 17.1% of revenues, up by 15.5% over last year and with a margin expansion of 70 basis points year-on-year. Profit After Tax stood at Rs.739 million at 8.5% of revenue, a growth of 8.6% over last year.

Turning to the full year:

Operating revenues for FY19 were Rs.35,307 million, an increase of 18.5% over the last year. This was on the back of a strong same-store sales growth of 16.4% in Domino's Pizza, which was the highest SSG in the last seven years. EBITDA during the financial year was Rs.6,078 million at 17.2% of revenues, up by 36.2% over the previous year and with a margin expansion of 220 basis points. This is the highest EBITDA margin in last six years since FY '13. Profit After Tax was Rs.3,228 million at 9.1% of revenue, a growth of 56.4% over the last year and with a margin expansion of 220 basis points as well.

Now let me turn to share some operational highlights of the quarter and the initiatives that we have taken:

For Domino's Pizza, in India, we opened 30 new restaurants and closed three, thus taking our restaurant count to 1,227 stores across 273 cities. During the quarter, we entered two new cities.

We also scaled up our innovation focus with the launch of 10 new International pizzas as part of the 'World Pizza League' offering. These were launched just ahead of the busy cricket season and have received very positive feedback from customers.

Online sales during the quarter grew well and now stand at 75% of the total delivery sales.

We rolled out the new Domino's store design in Q4. We believe that this warm and contemporary design will help improve our dining-in experience, and going forward, all new stores will carry this new design.

In Dunkin' Donuts, we closed one store, taking the total store count to 31 restaurants across 10-cities. Dunkin' Donuts delivered yet another solid quarter marked by strong SSG and the second straight quarter of breakeven performance.

You are aware that we launched our first own brand Hong's Kitchen during last quarter. Hong's Kitchen marks our entry into the large Chinese food segment and addresses the vast gap and chasm between street vendors and premium fine-dining restaurants. Our first restaurant has been opened in Gurgaon and has got off to a very promising start.

This quarter also marked the launch of our entry into the Bangladesh market. The launch received a very encouraging response with the Domino's Pizza Dhaka store breaking the world record for the highest number of orders by any new Domino's store in a market, in its first week as also in the first month of operations.

Given that this is the start of a new financial year, I want to take this opportunity of sharing the longer-term vision and strategy for the next year and beyond.

Owing to a number of economic, demographic, consumer and technology trends that are serving as strong tailwinds and that are known to all of us, we believe that the market for non-homemade food will grow on a sustained basis over the next many years, as consumers seek more and more convenience. In this growing market, we believe that the levers of sustainable, competitive advantage would be:

#1, Brand strength, one that is built on trust, easy accessibility and good customer experience.

#2, Delivery Expertise: The ability to deliver professional experience in delivery at the right cost.

#3, Innovation: The ability to offer a variety of food options to consumers for different occasions, for different segments and indeed for different day parts.

#4, Technology: that drives a superior customer experience and also helps improve efficiencies.

And, Insights: the ability to use data to arrive at precise and actionable consumer insights.

At JFL, we put together an exciting strategy to grow our business over the next five years, which Mr. Bhartia talked about in his remarks. The strategic themes are:

- Build a Domino's fortress in India through high quality products, continued value for money and an omnipresent network;
- scale up Hong's Kitchen and further build a portfolio of brands across cuisines;
- nurture and build a strong International business in Sri Lanka, in Bangladesh and beyond;
- invest in building a great customer experience especially in delivery, but also in dine-in;
- invest in technology and data science and transform JFL into a strong food tech company.

To sum up, we are pleased with the performance in FY19, excited with the opportunities that lie ahead of us and working on what we believe is the right strategy to drive sustainable growth in our business and to create value.

With this I would like to request the moderator to open the forum for questions please.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-answer session. We take the first question from the line of Arnab Mitra from Crédit Suisse.

Arnab Mitra: My first question was on the same-store sales growth in Domino's which has come at 6% vs 14% last quarter. Just optically looking at it, it looks like a significant slowdown. So, how would you look at this number in reference to what you have been doing in the last few quarters? And then, your comment that you are confident of good growth in this coming year, would you expect the growth rates to improve from these current levels that you have delivered this quarter?

Pratik Pota: Arnab, thank you for the question. Let me respond to your question and comment about same-store growth last quarter. I think as you look at the number of 6% SSG, it is important to frame it in the context of the same quarter last year where we delivered 26.5% same-store growth. So, one of the reasons for this number being optically low is the fact that we are cycling a very high base growth quarter from last year, that is the first point. The second point which we talked about last time as well and it is important to underline, is that a lot of our store expansion, in fact, more than 50% of our new stores have been deliberately and carefully opened in existing store areas, they are split stores, and they have been opened to improve the customer experience to help us manage the store load better. This, in turn, while it improves the customer experience, brings down the same-store growth number optically. And the third point which is an important point to also acknowledge is that as customer behavior evolves to being more delivery-centric, we are seeing pressure in dining in, as customers move more towards delivery. So, those are the three points that you need to sort of underline with respect to the same-store growth from last quarter. Our comment about us being confident is absolutely spot on. We are confident that the long-term prospects of this industry and of this category are strong, and we have what we believe is the right set of plans and strategies to leverage growth in this growing market. I do want to comment on quarter-to-quarter outlook, but like I said, our optimism remains as confident as ever.

Arnab Mitra: The second question was on gross margins. You have seen a strong expansion not just Y-o-Y but even sequentially between the third quarter and fourth quarter. So, other than the change in the beverage partner, what are the other elements driving gross margins? And incrementally, are you seeing more pressure because we do hear about inflation in dairy and wheat flour prices, so is incrementally the pressure higher on the gross margin side now?

Pratik Pota: Arnab, you are right, the gross margin expansion has been strong and robust. I think there are two reasons why we have seen the gross margin expansion vis-à-vis last quarter and vis-à-vis last year as well. The dairy prices, the dairy commodity prices have been soft, and that has been a tailwind, and the second reason is that our beverage margins have improved post the transition to the new beverage partner. Going forward, we may expect to see some headwinds on commodity costs, but we believe that we will have some further headroom to grow our margins and mitigate that headwind through beverage margin improvement, reduction and management of wastages and inefficiencies, and therefore, we do not expect to see a material impact on gross margin going forward.

Arnab Mitra: Just one question on IndAS 116, this new accounting standard on 'leases'. Is there likely to be any impact in your reporting, positive or negative, because of this coming in?

Prakash C Bisht: Arnab, as you may be aware that IndAS 116 becomes applicable from next year. So, the way the standard has been designed, there will definitely be a change between the line items because the fixed rent item goes off from the face of the P&L. And since you capitalize the cost of the leases, it gets charged through depreciation. The way the standard has been designed is that the front loading of interest is higher in the initial years, and in the later years, the interest is lower. So, yes, in the initial years, there will be a little change at the bottom line level because the interest cost would be higher in the initial years, but in the later years, it is only issue of timing because as it is purely accounting, it does not affect any cash transactions. So, therefore, in the initial years, there will be a little impact on the PAT, but in the later years it will be higher.

Moderator: Thank you. The next question is from the line of Manoj Menon from ICICI Securities.

Manoj Menon: Hi, Pratik, just a couple of questions here. One, if you could just talk a little about the changing landscape of aggregators and the equilibrium with which your business is with them. The reason I am asking this is,let us say if I take a step back and look at 24-months back, you had probably 27,000, 30,000 delivery boys, today ex you the others itself is probably 400,000. So, how is the equilibrium changing and how are the conversations, whether it is margins, benefits on revenue, etc.?

Pratik Pota: Thank you, Manoj. I think it is important to recognize that aggregators we believe are playing a very important role in helping grow this home delivery market. This is the market that we have been growing by ourselves for many years, and we are happy to have allies and partners in growing home consumption and in driving frequency. We enjoy a very strong partnership with all aggregators. We have very strong discussions, long-term planning discussions, short-term planning discussions, specific tactical discussions, and we keep talking about how we can collectively grow the market. Our growth in the last quarter, I talked about the pressure in dine-in, but conversely, we had a strong growth coming through in delivery, and within that, in online, both on our own app and also on aggregator platforms. So, we remain very confident about the prospects going forward as well and we believe we have a shared and a mutually aligned interest in helping grow this market. We bring to them a very strong brand, we bring to them a network of stores across 273 cities, we bring to them quality, we bring to them scalability, we bring to them consumer insights and delivery capability and a great customer experience. So, this is a partnership of equals, partnership where we have aligned interests in growing the market.

Manoj Menon: When I order on Zomato app today, it essentially acts as a pipe, everything else is actually done by Domino's. There have been recent media reports saying that maybe Domino's will get out of some of the aggregators, etc., So, any comments you would want to make on this?

Pratik Pota: So, Manoj, you are actually correct that we land orders from aggregators but we deliver and we control the post-ordering delivery experience. We believe that is an important part of the customer experience value chain, and we intend to own that. In fact, the media speculation has been just a speculation which is completely unfounded. Like I said earlier, we have a very strong partnership with all aggregators and we are in active conversations with them every day on how we can grow the market together.

Manoj Menon: And you believe that you will be able to retain the same equilibrium for a reasonably long period of time?

Pratik Pota: Manoj, I think the fact that we have a common shared strategic interest in growing consumption and frequency, the fact that we have a large network, the fact that we are expanding a portfolio of brands we talked about, we have Dunkin' and Domino's, we just entered into Chinese with Hong's Kitchen All of these collectively give us the conviction, the confidence that our strategic interest will remain aligned and we will enjoy a strong partnership to come for many years.

Manoj Menon: Any comments on the pricing outlook including mix? How are we seeing this currently? One is how is the revenue mix trending? The second point is the general thoughts on pricing given that it has been more than probably 24-months we have actually seen a consumer price increase.

Pratik Pota: So, Manoj, let me respond to the mix question first. You are aware that we've just launched a couple of months back our 'World Pizza League' offering, a range of 10 pizzas that I talked about in my opening remarks as well. These are all at higher price points, none of the pizzas are in the entry level Every Day Value slab. So, we are growing the mix of slightly more premium products and helping drive revenue realization upside through the mix management, that's #1. #2, I talked about the beverage partnership and the margin impact. What has also happened and what we are driving deliberately is beverage portfolio growth. We had a very robust increase in beverage mix vis-à-vis same time last year. That again is helping us improve realizations and helping improve the flow-through. That said, coming to the first part of your question, pricing is a lever that we will be deploying sometime this year. We have not taken price increase for almost two and a half or close to just under three years now and we realize that this is an option open to us. So, that is something that we intend doing sometime in this year. As to how much it would be, when it would play out, cannot comment on that, but absolutely price increase is on the card at some point of time this year.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on International business. So, Bangladesh launch has happened and also you have taken a loss in the Sri Lanka business in terms of fair value diminution. So, my question is what happened in Sri Lanka and now that things have got worse in terms of law and order there, would there be further diminution? And any learning from Sri Lanka which you are applying to Bangladesh?

Prakash C Bisht: So, Abneesh, thank you for the question. So, obviously, we believe in the long-term potential of Sri Lanka market. The provision that we have taken for the diminution in the value of the investment, that is towards the 'closed stores'. So, like you are aware that as a part of our business process, we continue to review and we continue to open and close stores. In case of consolidated accounts, all the losses gets absorbed but in the standalone this was reflecting in our value of investments. So, as a prudent accounting practice, to the extent of closed store, we have taken a write-off in the value of investment. We remain upbeat about the potential of Sri Lankan market, and we believe that the current situation is only temporary. In the long run, we believe that our investment is good and recoverable.

Pratik Pota: If I can add to what Prakash just spoke, I want to reiterate the fact that we believe Sri Lanka market has potential in the long-term. We believe that the current unfortunate set of events that are playing out will pass, and the market will recover soon. We have a very clear game plan in play for the Sri Lankan market which will help us we believe to turn the business around. We also have a new management team in place that has been deployed. So, therefore Sri Lanka we believe should start seeing positive signs soon. On an aside, this is very important for us, we were very relieved to know that all our employees and their families were safe through this unfortunate set of events. Coming to your other question about the learning's from Sri Lanka into Bangladesh, I think the very fact that Bangladesh launch had got off on such a great start tells us and should sort of highlight the fact that indeed the lessons from Sri Lanka have been well learnt. Let me call out two or three things that we specifically sort of introspected about from Sri Lanka, and we put into play in Bangladesh: The first one was that we created the menu and the set of products in Bangladesh ab-initio- from scratch. We went to the Bangladeshi consumer, spent about a year doing consumer research, consumer work, product testing iteratively. I think there were four iterations that we did on the products to make sure that we got the products right. Bangladesh is a very different market from India, even from Bengal and it was important for us to acknowledge that and incorporate that in all the work that we did. That is the first point. The second point was about the importance of differentiated offering to customers. Our largest pizza competitor there has been there for more than 10-years. And it was important for us to differentiate ourselves, so our products and pricing were differentiated. We entered with BDT 149 pricing when the incumbent had pricing starting at BDT 249. The market was constrained, it had not seen growth. Pizza category was not democratized, and in many ways, it still is a premium category. So, the attempt in Bangladesh is to grow the category to expand the market and therefore value pricing, customized products, great in-store experience, all of these have helped shape demand. The other point and it is interesting that while we have broken the world record and we called it out earlier, it is largely on the back of dining in, because we have just begun to open it right now. That should tell you how much of latent demand exists in that market that we are working to unlock.

Abneesh Roy: Two follow-ups here. So, why have you closed the stores in Sri Lanka? And what number of stores out of the total universe you have closed? And you also closed 3 stores of Domino's in India. So, could you get into the reasons where and why?

Pratik Pota: Let me talk about the Sri Lanka market, the first part of your question. We closed three stores out of the network of 25, so we have 22 stores now. These were stores which were loss-making for many years, where we believe after doing all the modeling and all the forecasting, would not turn around or break even in the foreseeable future. We tried all avenues, including rent renegotiation, cutting other fixed costs. But I think that our prognosis was that these three stores, we were better off just closing them. So, that is the response with respect to Sri Lanka. Coming to the India question, we closed three stores; one was in Kolkata, one was in Jaipur and one was in Chandigarh. Two of them were for reasons linked to the property and the real estate there, where the mall was undergoing renovation or was getting closed down. And in one case again we had similar issues of store viability. The landlord refused to renegotiate the rent and therefore we took the hard call of moving out.

Abneesh Roy: Sir, my second and last question is on this Cloud Kitchen, for example, oven story had come up on Swiggy. So, what is the impact you are seeing because they are aggressive on pricing and obviously, food tech apps are promoting them very aggressively. Second is any synergy benefit between Domino's and Hong's Kitchen in terms of delivery can happen?

Pratik Pota: So, coming to the first part of your question, Cloud Kitchen is a format that many brands are using. I think it is important to know, and we talked about it in the last call as well, that Domino's also has very few, but we do have some Cloud Kitchens going. Our learning's on Cloud Kitchens is interesting that wherever we have Cloud Kitchen, we have customers coming to us and asking for takeaway and for dining-in orders. So, given our brand strength, we have realized very quickly that by having a very small and a very compact delivery carry-out store, we get better economies and better throughput than just having a pure dark kitchen store. Now coming to your point about Hong's Kitchen and Domino's, absolutely, we see efficiency as a possibility, and we see the possibility of cross using manpower, using platforms, using technologies. Of course, we have the common supply chain in the back end, we have all the other common synergies that exist. But prospectively, as we start scaling up Hong's Kitchen, the synergies in delivery could also be open to us.

Abneesh Roy: Delivery uses Domino's shirt. So, how will that be overcome?

Pratik Pota: Abneesh, I do not want to go into the specifics of what we can do, but we are challenging ourselves to find the synergies between Domino's and other parts of the business. Obviously, the first priority is to ensure that the Domino's experience stays superordinate and does not get compromised. So, that is the #1, #2, #3 priority. So, we will not let that happen, we will not dilute that. But as we expand Hong's Kitchen, we will look at possibilities of how we can use the Domino's experience and the Domino's platform to get some synergies working for Hong's.

Moderator: Thank you. We take the next question from the line of Prasad Deshmukh from Bank of America.

Prasad Deshmukh: A couple of questions. Firstly, you mentioned analytics to be a part of your growth strategy in the next year. Just wanted to know how will it be different versus what you have been doing until now in terms of gathering customer data and targeting customers to encourage them to purchase more, is there some change in the strategy there?

Pratik Pota: Prasad, you are right, we have been collecting data from customers for many-many years. I think what has happened in the last three months is that we have built a huge capability or we built a data lake, we built huge analytics engine on top of that. So, we now have the ability of being able to work with these terabytes of data almost on a real-time basis and get very sharp and actionable insights. We had the data, but we did not necessarily have the singular view of the customer and the infrastructure and the capability and the tools of being able to look at the data minutely and with very specific segmentation. So, we now have the capability of being able to slice and dice the data and get information for segment of N is equal to 1. And that is the value add, that is the build we have done over what we had earlier. And you can be sure that given the importance of data and the role that data will play in driving growth and driving customer behavior, we will invest even more in sharpening our capability of extracting those insights. So, we are in the process of creating a 'strategy and insights team' that will be based out of the corporate office, working with the digital team, with the marketing team, with the operations team and whose day job will be to look at customer level data day in and day out, by segments, by day parts, by types of stores and find ways of customizing our offering and our promotions to segments, very sharply targeted. Essentially, we are growing our capability. We realize the importance of this. We have the data but now we have and we are building on the capability of being able to work with large amounts of data and get very specific insights.

Prasad Deshmukh: So, just last follow-up question on this. In terms of financial impact, will this have an impact on your advertising spend or will this have an impact on the revenue generated, just to arrive at a number, how should one look at it?

Pratik Pota: So, two things, Prasad. Of course, it will help us sharpen our marketing ROI, it will help us get a much sharper sense of which marketing dollar is giving us what kind of ROI and therefore some kind of media mix modeling will certainly be interesting by-product of this, and I am not sure if that will help us cut back on marketing cost, but it will certainly help improve the ROI on marketing spend, #1. #2, by customizing our products, our promotions, our messaging to customers, based on very sharp personalization, we will be able, to hopefully get the revenue impact as well. It will be in terms of increased frequency, in terms of higher ticket. So, it will certainly help the top line.

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

Amit Sachdeva: I have one question on the SSG of 6%. You mentioned three, four reasons why it is 6%, which is fairly logical. But if I were to look at coming quarters as well, probably all the factors are going to stay the same because base is high. You will continue to open stores in existing locations and so these factors would probably persist. So, should we assess that going forward we are looking at SSG growth in the same range? I am not looking for guidance but just how to think about this when you think about FY20, especially Domino's SSG growth?

Pratik Pota: So, here is the way I want you to think about it and here is the way we are thinking about it. If you heard our opening remarks, we reiterated and we underlined our confidence in the long-term growth potential of this category, in the long-term potential of Domino's and of Jubilant. And we talked about a set of strategic themes that we are deploying to drive growth. And nothing that has happened in the last quarter has shaken our confidence or made us believe that we need to have a rethink. What the growth will be quarter-on-quarter, next quarter, the quarter after that, I am unable to comment. But you can be sure that our longer-term confidence is undiminished.

Amit Sachdeva: Just very quickly on Hong's Kitchen, obviously, it is very early days but can you give us like what is your operating plan for say five years? Now that you are basically seeing this format is having good response, what is the gross margin you are seeing this format could operate at, and how many stores we could have in one year, two years, five years from now. Is there a vision that you would share, and what is the size of the opportunity you are seeing, say, 10 years from now and how many stores you could potentially open? How to think about this as well, some guidance will be helpful?

Pratik Pota: Amit, let me repeat what I said earlier in terms of Hong's Kitchen and the way it got off to a very solid start. The one store that we have in Gurgaon, we have seen a robust order count, strong weekly sales. We are seeing even more encouragingly, very good customer response, we are seeing great customer sat scores whether it is for products, whether it is for service, whether it is value for money. Our food that we are offering there in terms of the Indianized Chinese if you will, that has been accepted well. We have got a few products that are a standout for us, differentiated products, those are doing well, our combos are doing well. So, overall the feedback has been very positive and has given us a lot of conviction that we got the right mix going that we can scale up with. Chinese as you know is the second largest cuisine in the country, other is North Indian. It is roughly 3x size of pizzas. So, the potential for Chinese cuisine remains very strong. And the cores that we are deploying for Hong's Kitchen we believe are the right ones to grow this market and to grow this space. Chinese food customized for the Indian palate, great value for money, both dine-in and delivery. So, the potential for this format and the brand is enormous. We have got one store now, like I said, we intend to have at least ten stores this year and they all will be limited to Delhi NCR because we want to first get that density of operations going and next year, we intend to scale it up to other markets as well. I do not know how many stores we will have two, three, four, five years or ten years from now, but the potential is enormous. If we are able to do the right things and the early indicators are fairly reassuring and fairly positive, we believe this format has a lot of potential.

Amit Sachdeva: Pratik, at what gross margin the store is operating, if you can share?

Pratik Pota: We do not share the gross margin number, but we believe that between the gross margins and the fixed costs that we have, the algorithm that we have got going for Hong's Kitchen is strong and it is sustainable. You did not ask the question, the question might come later but even if it does not, it is important for us to state that out, that our learning's from Dunkin' Donuts and the way we scaled that up are very vivid and very sharply etched in our mind. So, we will make sure that we have unit economics, rightly configured, rightly delivered as we scale up Hong's Kitchen. So, gross margins, the restaurant profitability, are numbers that we track very-very closely. And what we have seen in the last month, month and a half has given us a lot of confidence and we believe that we have the right algorithm in the store that we can scale up with.

Amit Sachdeva: What are the table turns that you have got in the first week of experience?

Pratik Pota: First week is misleading, Amit, because there is a lot of trial. I do not want to talk about specific numbers. But like I said, the start is very-very encouraging, and you are hearing us talk with a great deal of confidence. If you had talked to us a couple of months back, it would have been optimistic, hopeful, but still a little anxious. Now the anxiety has reduced and confidence has increased.

Amit Sachdeva: The employee cost per store has risen by 10%. I see an acceleration over the last four quarters. It was flattish last year, but for the last four quarters I think per store employee cost has increased by 11% this year and which was 6% last quarter and 6% previous quarter as well. So, that sort of seems like a persistent trend, and you have to sort of combat this rising inflation of employee cost. Is this a fair assessment given the aggregators are at the quest of hiring delivery personnel, and how we should think about that – will that pressure continue?

Pratik Pota: Amit, the story in this quarter vis-à-vis Q3 is actually a positive story and let me tell you what I mean. There is clearly the impact that you are seeing of deleverage in Q4 versus Q3, that is impacting the personnel cost. There is inflation on account of minimum wage increases. Number of states have given wage revision, especially in the Northeast in Odisha, in Jharkhand, that clearly flows into the cost line. This is very important, however, I think a lot of good work is done by the operations team in mitigating this cost inflation through productivity measures. So, two or three things: one is that using technology that we have now got in play in our stores, we are able to monitor the orders per hour that are delivered by our delivery partners. And needless to say, without compromising on safety or on food quality, we are finding smart ways and efficient ways of improving the orders that we deliver per manpower per hour. So, that efficiency has flowed through, #1. #2, I think the operations team has done a really good job of managing the different kinds of manpower. So, part-timer headcount has increased and that has helped again deliver some efficiencies. And the third thing is that we have also had reduction in our fixed costs as we increased spans of control of our store managers and the schemes outside the store using technology, they have more data, they are able to therefore have a wider span of control. All of those things have helped mitigate the personnel costs. So, going forward these trends will play out. There will be inflation on account of minimum wage increases, but again we believe that our initiatives that we are putting into play in driving productivity will help combat that inflation.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL.

Avi Mehta: Just if we look at the start as well, you were highlighting an increasing focus on expansion to new cuisines, new geographies. Just wanted to kind of get a sense, does this suggest that you are seeing some sort of limit in your ability to grow Domino's given the size that you achieved in India?

Pratik Pota: Quite the contrary, Avi actually, because the first strategic pillar that we have called out and now that your question has come I want to repeat and reiterate is that we remain very- very confident about the prospects of Domino's in India. In existing towns, the market is much deeper, so markets like Bombay, Delhi, Bangalore, etc., we believe the market has got a lot more headroom to grow, #1. #2, in markets where we have only one store, for example, we can open two, we can open three, and very importantly in new markets as well. So, right now, we have got 270-odd towns. There could be many, many more towns, 500 more towns, 600 more towns where we believe the Domino's store can be profitable, now as we speak, #2. #3, there are formats, there are channels, travel and transport, formats like food trucks etc., which can deliver higher growth for us Domino's. So, Domino's will remain in the bullish side of our growth plan. I think the point we were making was about the prospects of Hong's Kitchen because the question came up, but you can be sure that our center of gravity is Domino's and will remain that in the foreseeable future.

Avi Mehta: Just wanted to understand the expansion that you are kind of contemplating. Are you concerned about it kind of impacting margins or given that this center of gravity would remain Domino's, this is not going to be material change in your trajectory?

Pratik Pota: So, Avi, given that Domino's will remain the predominant part of our business, #1. #2, given that the learning's from Dunkin' are not going to be forgotten, we do not expect the expansion to have a material impact on margins.

Avi Mehta: Lastly, just on accounting bit on what was asked earlier. IndAS 116, is there an impact that you could quantify for us?

Prakash C Bisht: Avi, not at this point of time because in the transition, there are many options that are available. We are evaluating those things now. So, when we come back at the Q1 time, obviously, you will have all the numbers. This is early to share those numbers.

Avi Mehta: What Amit asked was probably the FY '20 store additions, are you able to give any guidance on that one as well?

Pratik Pota: Yes, you will recall that we have opened 102 stores last year. We intend to maintain the same trajectory in FY20. So, we are planning to open 100 stores of Domino's this year.

Moderator: Thank you. We take the next question from the line of Nishit Rathi from CWC Advisors.

Nishit Rathi: Any guidance for Dunkin' because if Dunkin' has broken even, any kind of sense if you are looking to expand that brand or are we happy with what we have achieved?

Pratik Pota: Nishit, our Dunkin' plans for FY20 are clear. We do not intend to expand the network as of now. We intend to get Dunkin' to full year breakeven. Watch the space, see how the contours of growth change if at all they do, and in the next 12 months, chart the path for the next phase of growth for Dunkin'. As of now, it is not going to be expansion mode for Dunkin'.

Nishit Rathi: Pratik, 100 stores in light of what you achieved and the kind of resources at your disposal appears to me on a lot more conservative side. So, I just would love to understand what is the biggest constraint for you to open much more stores out there?

Pratik Pota: So, Nishit, you will recall that we opened in the past many more stores, we have gone up to 150 stores a year. But the one thing that we will not let ourselves forget is the fact that more than the number is the quality of stores that is really important. So, we do not intend diluting the process, diluting the rigor that we have deployed in the quest for speed. So, we believe as of now that given all the opportunities out in the market, given what we believe is our own plan and our own set of resources, this is what we believe to be the best place to be, which is opening of 100 stores. But through the year, if we need to recalibrate this upwards or downwards, we will get back to you folks. But as of now, we believe this is our best bet right now on what we think we can open without compromising on the rigor, without compromising on the thoroughness and the processes that we put in place in store opening.

Moderator: Thank you. The next question is from the line of Bhavesh Shah from CLSA.

Bhavesh Shah: You mentioned some moderation in growth rates in your dine-in segment. Can you shed some more thoughts on this -- Is it more of a market or something specific to your chain of fast food segment per se, any more insights you can share on this?

Pratik Pota: Yes, Bhavesh. This is, we believe a trend that is across the food service segment as consumers morph their behavior, evolve their behavior and are getting increasingly comfortable with ordering food home. Certainly, the entire industry, and we were no exception last quarter saw the impact on dine-in very clearly, whether it also includes some moderation on account of a larger slowdown, I am unable to comment. But certainly, there is this visible behavior shift of dine-in coming under pressure and delivery growing faster. If anything I believe Bhavesh, that our dine-in operations were impacted less than maybe some of the other restaurant brands given our sharp focus on value for money, given our hyper-local presence, but this is a trend we are indeed seeing. I think the fact that aggregators are offering aggressive discounts, consumers are becoming much more convenience seeking, this shift is happening, and this is an industry-wide phenomenon.

Bhavesh Shah: Quickly on your Capex figure for FY'19, what is the total amount that you have spent, and if you can give some breakup in terms of how much you have spent on new stores, maintenance, anything on the back-end supply chain? Finally, what is your guidance for FY20, especially given that you are now indeed a new format, so what is the Capex per store you are planning for this particular format of new store in Domino's?

Prakash C Bisht: Bhavesh, for the last year, obviously, the Capex was in the range of about Rs.160 crore. Mostly, it has gone into the new stores. And apart from new stores, we had also done some reimaging. So, part of it has also gone into reimaging, and we have some regular replacement Capex where we need to replace the old ovens and all, so part of it has gone into that, but mostly, it has gone into the new store. So, far as the next year is concerned, we are expecting currently that the Capex should be in the range of around Rs.220 crore to Rs.250 crore within that range.

Bhavesh Shah: The new format which you unveiled for Domino's i.e. self-ordering kiosk, etc., what is the Capex per store expected for this particular format? It looks like very refreshing so is it higher?

Prakash C Bisht: Bhavesh, we believe it will be more or less cost-neutral, only some self-ordering kiosks we are putting in. So, to that extent, the cost will go up, otherwise, by and large it is neutral.

Pratik Pota: I would say you need a number to work with Capex for the new store vis-à-vis the existing design all inclusive including self-ordering kiosks, the delta would be about between 7% to 10%.

Bhavesh Shah: The new store opening, are you opening at, say, 10 million plus or minus or little higher than that now?

Pratik Pota: That is the range, yes.

Moderator: Thank you. We will take the next question from the line of Pranav Tendulkar from Rare Enterprise.

Pranav Tendulkar: What is the amount of proportion of delivery in the restaurant dining for Hong's Kitchen and how does it compare with the current mature Domino's outlets?

Pratik Pota: The Hong's Kitchen store that has begun is just about month and half old. As we have seen with all new stores, it begins with dine-in. So, the business is right now predominantly dine-in, but in the last two to three weeks, we are beginning to see a very encouraging sign of delivery growing, #1. I think in Hong's Kitchen, what you may not know is that we also have our own app. We also do delivery by ourselves and of course, we have a voice ordering engine as well. So, we are beginning to see an encouraging growth in delivery orders, both on our own platform as also on aggregator platform and we are getting a lot of positive feedback on deliveries, we are getting repeats as well. Therefore, in the next two to three months, we see delivery growing significantly in line with what is happening in the rest of the market. But as of now, the Hong's Kitchen revenue is much more dine-in centric, which is not surprising for us, it is as per plan.

Pranav Tendulkar: So, there is no behavioral change in consuming ordered Pizza and ordered Chinese right? The user will kind of pursue both as same like the hotness and freshness everything?

Pratik Pota: Yes, all the work that has been done on delivery shows that Chinese retains flavor, retains temperature as well if not better than pizza. That is one of the cuisines which is very delivery-friendly.

Moderator: Thank you. Next question is from the line of Trupti Agrawal from White Oak Capital.

Trupti Agrawal: Just a quick question on this phenomenon that is happening in India of people changing trends of eating-in versus dining out, all that we have spoken about. What

I am very curious to know about is that how do you see the fact that there could be a potential threat to pizzas, which perhaps was one of the few categories which was available for delivery and in-house consumption versus now when there is such a wide plethora of choices that a consumer has in the changing times, that is one. And two, I just want to know, maybe it is too early but in any of the micro markets, are you seeing trends in terms of this playing out with your deliveries or your orders are going down because of the competition from the aggregators?

Pratik Pota: So, we are seeing this a little differently from the way you posed the question. We believe that the growth of the delivery market, the fact that consumers are becoming more and more comfortable with ordering food from outside of home more frequently, we believe that is a trend that plays to our strength, it is to our advantage, and therefore, we are very comfortable and we are very happy that we have allies in growing this space. Yes, there will be more cuisines and more choices and more options available to consumers in their ordering process at home, but the pie will grow so much more, that it will help us drive overall growth. I think it is important to also to acknowledge that the frequency of ordering food home and the frequency of ordering pizzas home, both have tremendous headroom for growth vis-à-vis even comparable markets in the neighborhood, whether it is Thailand, whether it is Singapore, Malaysia, not to say anything about the more developed markets. We believe that there is a lot of headroom for growth, both in the pizza category in terms of recruitment, getting new customers to try the pizza category, in terms of frequency, getting customers to order pizzas more often, in terms of ticket realizations, getting people to order more food per order as also of course, in growing overall frequency of ordering food home. So, we believe that this is not a threat, we believe this is an opportunity.

Trupti Agrawal: But by your own admission, Pratik, you said that the categories of Chinese, for example, is so much bigger than pizza and the North Indian is much bigger. Now these were traditionally not available to all consumers to order in which are now available. So, how are you so confident about pizza being the preferred category even in the light of the kind of situation that we are in?

Pratik Pota: Yes, I think it goes back to the point about the place that we are starting from. The fact that Domino's enjoys tremendous equity and even today notwithstanding the competition, we remain the first choice of consumers. We understand consumers, we understand their requirements and their needs, and we are best placed to offer that across a variety of locations. So, yes, the category will, I think multiply in terms of choices, but the category will also grow in terms of frequency and in terms of expanse and width. So, we have seen like I said, it is not a threat, I mean, all the work that we are doing, all the consumer data points are showing undiminished regard and love for the Domino's brand, undiminished preference even in the face of increasing choices on aggregator platforms.

Trupti Agrawal: This was on the rent. Year-on-year in Q4, rent increased by 2%. But we have added about 30-odd stores. So, why has the rent expense not gone up, can you please help me understand that?

Pratik Pota: Trupti, two parts. The rent movement that you are seeing of course has the impact of new restaurants that were opened. It also has the impact of nominal inflation in rent in contracts. However, it was mitigated partly by productivity. Now the impact was also mitigated because a lot of our store opening was biased towards the latter half of the quarter. The full impact of the new stores did not necessarily play out entirely in this quarter, but also important to recognize that we have gone back and, in many cases, renegotiated rents and driven productivities as well.

Trupti Agrawal: I just want to know if you are seeing any changing trends in the app downloads over the last few months -- Are they still at the same pace as they used to be earlier or is there any decline or increase?

Pratik Pota: Trupti, the fact is that we have got a very strong app, I think that is a source of strength for us. It may not be widely known that our app rating on the Play Store are comparable or better than that of aggregator rating. Our app size is 6 MB, which is amongst the lowest apps that we see in this entire space. When we talk to customers, we get a lot of positive feedback. So, the app is a real source of strength for us. Our app download trajectory has not changed, we are not seeing any pressure on that as of now. What we have also began doing, Trupti, and that is something we just started off last quarter is that we began using our dining-in assets and dining-in footfall and traffic to promote app downloads. So, if you walk into a Domino's store in your neighborhood, you will see an invitation for you to download the app and a promotion that will be offered to you on your first three orders when you download the app. So, we are using dining-in footfalls to drive app downloads as well.

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

Amit Sinha: Firstly, on your dine-in commentary, does this slowdown worry you in a way that your contribution from dine-in business is still pretty high for you? And if the slowdown is significant, then no matter how much is the growth in the delivery business it might get muted on account of decline out of significant slowdown in dine-in?

Pratik Pota: That is a fair question, Amit. And of course, the fact that dining in has slowed down is something that concerns us, it is something that we are focused on. So, we are not taking this as a fait accompli or something that we cannot impact and change. We have a set of plans that we are working on that we believe will help mitigate the democratic trends which we talked about earlier for dining in pressure. So, there are plans and initiatives that we will roll out through the remaining part of the year which we believe will help drive dine-in traffic and dine-in growth. How much that will impact us, we do not know. But certainly, it is something that consumes our attention and something that we are focused on.

Amit Sinha: Secondly, on your A&P spend as a percentage of sales, while we do not have FY19 numbers, I am assuming that it has gone up meaningfully from FY'18 level. So, the number which we have for FY '18 is close to around 4.8% as a percentage of sales. So, the question is, how should we look at this cost for FY19 and going forward should we expect a significant ramp up even going forward as a percentage of sales?

Pratik Pota: Amit, clearly, given the fact that what we spoke about earlier that our aspirations for growth are high. The fact that there is now growth of a marketplace where customers have more access, we need to make sure that we invest in strengthening the brand through focused investments and efficient investments in marketing and in advertising. So, yes, there will be investments made in FY20 incrementally over FY '19; however, we do not expect the percentage of spend to materially alter, #1. #2, we are looking at very focused and data-driven ways of improving the ROI on our marketing spend which will also help deliver the same bang for a lower buck.

Moderator: Thank you. The next question is from the line of Vishal Gutka from Phillip Capital.

Vishal Gutka: Can you please tell us what is the potential for Bangladesh market in terms of stores given the high population density over there?

Pratik Pota: Vishal, that is a great question, and it is a question that you can imagine we ask ourselves very often given the start we have had in Bangladesh. So, Bangladesh is one of the most populous countries in the world. It is a market that reminds us in many ways of India of a few years ago. It is young, it is growing, it has six years of 7%+ plus GDP growth rate. There is very young demographic becoming increasingly tech-savvy. But we believe, the market like I said earlier has been kept confined to the top sliver of the demographic. The market has not been expanded enough. So, we believe that when we walk in, and that is what our first couple of months have shown, as we offer the right proposition, the right product, we are helping grow the market. So, the potential in Bangladesh is tremendous, and we expect to tap that as we play out the next few quarters and the next few years. How many stores, by when, we cannot give a guidance. But certainly this year, we expect to have five stores opened in Bangladesh. Just one other sort of caveat that I want to put here is that getting the right quality real estate in Dhaka at the right price points, right floor size, etc., and with all the compliance in place, all the licenses in place, sometimes ends up being a challenge. So, therefore were we to be able to get more real estate, we could open more stores. But certainly, we expect to open five stores this year in Bangladesh and then more thereafter.

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

Pratik Pota: Thank you, everyone, for joining us on the call today. I am hopeful that we were able to answer and address all your queries. Of course, it goes without saying that should you feel the need for any clarification, any further questions, please feel free to reach out to us or to CDR.

And before I sign off, I just want to reiterate given what we have all talked about in the last hour or so that we are optimistic about the growth potential of the food service market in India and we are very confident that we have the right strategy in place to drive growth and drive sustained profitable growth. Thank you very much. Have a good evening.

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