



Transcript of the Q1 FY17 Conference call for Investors & Analysts

Call Duration : 1 hour 31 mins

**Management
Speakers**

: Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks
Mr. Ajay Kaul – CEO of Jubilant FoodWorks
Mr. Sachin Sharma – President & CFO of Jubilant FoodWorks
Mr. Arvind Vats – Chief Investor Relations Officer of Jubilant FoodWorks

Participants who asked questions

Mr. Manoj Menon - Deutsche Bank
Mr. Avi Mehta – IIFL
Ms. Mubina Kapasi -ET Now
Mr. Abneesh Roy- Edelweiss
Mr. Prasad Deshmukh - Bank of America
Mr. Amit Sachdeva - HSBC
Mr. Vikash Mantri - ICICI Securities
Mr. Vivek Maheshwari- CLSA
Mr. Mangalam Malu - CNBC TV18
Mr. Naveen Kulkarni - PhillipCapital
Mr. Pankaj Tibrewal - Kotak Mutual Fund
Mr. Anand Krishanan - Infina Finance
Mr. Abhishek Ranghanathan - Ambit Capital

Moderator: Ladies and Gentlemen, Good Day and Welcome to Jubilant FoodWorks Q1 FY17 Earnings Conference Call. 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 for an operator by pressing ‘*’ followed by ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Urvashi Butani from CDR India. Thank you and over to you.

Urvashi Butani: Thank you, Ladies and Gentlemen for joining us on Jubilant FoodWorks Conference Call where we shall discuss the Financial and share Operating Highlights for the First Quarter-ended June 2016. I have with us on the call today, Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Ajay Kaul – CEO; Mr. Sachin Sharma – CFO; Mr. Arvind Vats -- Chief Financial Relations Officer.

We will initiate this call with opening thoughts from Mr. Hari Bhartia followed by Mr. Ajay Kaul and Mr. Arvind Vats, after that the management will be happy to respond to any questions that you may have.

Just to state as a standard disclaimer, certain statements that may be made on this call today could be forward-looking in nature and the actual results may vary significantly and a note to that effect has been made in the statement sent out to you.

I would now request Mr. Hari Bhartia to share his perspectives with you. Over to you, sir.

Hari S. Bhartia: Thank you and a warm welcome to all of you. Last quarter with the minimum change in consumer sentiment had an effect on the overall performance. Since then the exciting new product introductions, we believe have played an important role in driving sales. We are hopeful that Q2 we will see improved performance and positive same-store growth.

We have expanded Domino’s Pizza and Dunkin’ Donuts’ restaurant network with the focus on getting proper return on investment. We have also continued to make investment in new ERP digital technology initiatives and commissaries. We believe all these investments will help us in bringing efficiency in supply chain, enhance customer experience and capture growth through the expansion of network.

We are optimistic that the introduction of GST will have a significant positive bearing on us, although the exact quantum of benefit can only be assessed once the Act gets notified.

Before I turn the call over to Ajay, I would like to take this opportunity to introduce everyone to our new Chief Financial Officer, Mr. Sachin Sharma. We are excited to have him join the team. Mr. Sharma brings with him an extensive 21-years of work experience in Media, Entertainment, Digital, IT and Infrastructure.

I would now request our CEO – Ajay Kaul to take this call forward and provide you with greater insights on the quarter.

Ajay Kaul:

Thank you Hari and very warm welcome to all present with us on this call today. I would start by going to the Euromonitor Report, which came out a couple of months back. Because it is issued once in a year and it gives you the full summary of what happened in the full year of 2015, I want to spend a moment or two on that. The good news is that Domino's Pizza, not only is the #1 brand in the country in the Food service space which it always was even last year, but we have further increased our market share and we have become a formidable #1 ahead of all other honorable opposition of ours like McDonald's, KFC and everybody else. On the Pizza front, we always had the #1 position for a long time but we have further increased our market share. So that puts us in indomitable #1 position in the Pizza space.

Having said that for the full year 2015, let me now move over to precisely this quarter: Over the past few quarters, while we continue to do what we do like doing the best, is offering our customers a delightful experience. We have also been navigating the changes in the industry and market conditions adroitly. During Q1, we have increased our revenue by 7%; however, our same-store sales declined by 3% due to economic conditions and I would say calendarization impact like Ramadan falling in Q1 this year. Revenue were also impacted by a delay in the launch of our new product Pizza Mania Extremes by a few weeks; however, with successful launches of new products and other initiatives, Q2 performance is far better than what we saw in Q1 and we should definitely end up in the positive same-store growth territory.

I will address the three core areas that we have our focus and highlight how they continue to drive opportunities for us. These three areas are Network Expansion, Innovation and Technology. Starting with our Restaurant expansion, during Q1 we opened 23 new Domino's Pizza and 7 Dunkin' Donuts Restaurants. As we speak, our total number of Restaurants stands at 1,062 for Domino's and 73 for Dunkin' Donuts.

Talking of Innovation, besides elevating customer experience, it also enhances operational efficiencies. On the products side, we have introduced Pizza Mania Extremes which aims to give our value conscious pizza lovers a Culinary experience. Our recent BurgerPizza launch is also a

result of the company's focus on innovation and is an attempt to create a new category by bringing Pizza-ness in a consumption segment that is addressed by Burgers and Sandwiches. It is already doing very-very well. In Dunkin', our DunkyDoos is the newest range of Donuts that embodies fun and exuberance for the younger audience. Big Joy Burger is an outcome of delivering the differentiated and delightful Dunkin' Burger experience for the value conscious customers.

To provide further thrust to Innovation agenda of the company, we have brought on board Mr. Subroto Gupta as the Head of Business Excellence and Innovation to lead and drive the efficiency across organization. Mr. Subrato brings 19-years of extensive work experience in the field of Enterprise Scale Innovation, Digital Technology Solutions, Social Strategy and Enterprise Collaboration.

Thirdly, on the Technology front, our Online Ordering is highest in the industry and continues to grow quarter-on-quarter. Today, in Domino's our average Online Ordering sales contribution to delivery sales stands at 44%, significant growth over previous quarter and Mobile Ordering sales contribution to overall OLO at 41%. We extend our Digital strategy with the recent introduction of OLO auction for our Dunkin' Donuts customers also. We have also invested in cutting-edge technology across business functions which will only further strengthen our efficiency. We have implemented SAP-HANA, ARIBA platforms and Oracle Transport Management System which will strengthen our Supply Chain and Logistics across the company. Last but not the least; we have deployed Speech Recognition-based Order taking platform for select restaurants where customers would be greeted by a virtual assistant who can interact like a normal human person. Also, I am pleased to announce that Mr. Ramandeep Singh Viridi has joined us as the Chief Technology Officer. I am sure with his expertise we will be able to further leverage technology to achieve business objectives. Mr. Viridi brings with him 21-years of extensive work experience in field of Key Strategic Transformation Solutions, IT Infrastructure and Security.

Moving on, with respect to the outlook for restaurant addition, our motto is to open profitable stores. We have opened 36 new Domino's Pizza Restaurants thus far and are in a good stead and position to achieve our planned objective of opening around 130 to 140 profitable new Domino's Pizza Stores for full year '17. For Dunkin', our plan is to open around 15 new Dunkin' Donuts profitable stores and so far, we have launched 8 new restaurants.

It is pertinent to share here that in Dunkin' Donuts as we speak during this year, six Restaurants have been closed, last year we had closed three restaurants, these nine restaurants were a part of the early formative days of Dunkin' Donuts introduction wherein varied iterative formats were tried

out. Having now formulated and crystallized by and large which model works best for us, we deemed it appropriate to close these restaurants at this stage as they were not delivering our expected return on investment. Needless to say that profitability is our driver for both Domino's Pizza and Dunkin' Donuts especially with regards to new store opening and that is reflectable in the closure of these Dunkin' Stores.

In conclusion, I would like to highlight that we have set the enablers in place which will help drive growth for the coming quarters. Given our solid business platform and optimism for improvement in overall economic parameters, we are expecting positive performance in near future.

I will request Arvind Vats, our Chief Investor Relations Officer to guide you through the Financials.

Arvind Vats:

Thank you Ajay. Before we dwell on the financials, a quick note that the published numbers for this quarter have been drawn up as per IND-AS. Also, the other quarters and FY16 numbers have also been restated to make them comparable. Reconciliation of Net Profit as reported under erstwhile I- GAAP and under IND-AS has been provided as notes to account.

In Q1 FY 2017, our total revenues has grown by 6.7% and stood at Rs 6,089 million. This system level growth is driven by our efforts to increase our reach through restaurants network and online presence along with other initiatives to drive sales.

Moving on to expenditure, in Q1, total expenses have increased by 9.5% to Rs 5,512 million. The increase in rental cost is attributable to the overall growth in restaurant network in both the brands and the pre factored increases in rentals of existing restaurants. On employee costs, the increase is mainly due to increase in wage rates and annual increments. We did see some respite in raw material costs, which has helped us to partially offset the increases in other cost lines.

With respect to earnings, in Q1 FY17, EBITDA stood at Rs 577 million i.e. 9.5% of revenue and net profit at Rs. 190 million i.e. 3.1% of revenue. This is the reflection of subdued revenue growth.

Going ahead, we are committed on leveraging the brand equity that we have for Domino's Pizza and focusing on establishing Dunkin' Donuts and providing it with the requisite support for development and expansion. We have consistently made prudent investments in our brands and infrastructure which we are confident of leveraging going ahead in order to meet all the needs of our customers and capture market opportunities.

On that note I hand over the call to the moderator for the question and answer session.

Moderator: Thank you very much, sir. 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: Hi! Ajay, just a couple of questions: First, on the revenue. So while you alluded to the Euromonitor Report and the mid-market conditions part of it, but internally looking do you still think is there an element of price value angle which is still there in the market? I am aware that you tried to correct it about 18-months back. Where are we in that journey and what consumers are saying on that?

Ajay Kaul: Look, price does play an important role at any time in any industry and surely for us also. Last year if you recall we had communicated with all of you, that with one leading consultancy organization, keeping price elasticity fully in mind we had taken some price increases, which has given us very good results. Having said that, I think the industry in general over the last two-three years has kind of taken price increases beyond what they should be taking. I am talking here on behalf of the whole industry. So our view is that while we ruthlessly keep watching our value for money score and that is very-very critical to us, we have taken the decision almost of not taking any price increase this year. That is our thinking so far. As a result, since I would say December last year and going up till probably November-December this year we would not take any price increase because we believe that enough price increase have been taken in the past. So now we need not take any price increase going forward for the next few months.

Manoj Menon: Just quickly on the new industry trend which you alluded to, which probably resulted in you actually launching this Burger type product actually, because it is basically KFC offering Chizza or you are offering a Burger type product, I think the product differentiation is probably significantly blurred in India at this point in time and that probably happening at a time when consumers are still probably getting used to what each brand stands for. Is it something unique and how do you look at it? I would rather see it is a bigger opportunity for you. Is that the right way to look at it?

Ajay Kaul: Look, in the formative years, I would say, 20-year-old industry for both Burger and Pizza, when you look at larger expanse of a life of any category, it is still early days, but I would put it like this; by now I think significant imagery of what pizza categories and what burger categories is, is created in the minds of consumer. So it is not blurred today. By launching Burger Pizza, we very clearly say a few things that it may look like a burger. The construct of the product from a distance on outside looks like a burger, but

it is clearly a pizza, it cannot be confused with a burger unlike maybe some of other honorable opposition how have been also trying similar things, but they were probably not too clear about it. We do realize in that burger in itself is a very good category, it ends up being a large category in most countries, the fact that burger can be consumed all day long at any point of the day unlike pizza which is mostly restricted to meal replacement, which means majority of consumption happens around lunch and dinner. So it is that way a bit more versatile, although it maybe singular in its consumption as in one person consumes one burger at a time, unlike a pizza where the versatility is that multiple people can eat the same pizza and thereby sharing and all that happens, which is great in the Indian context. To give a short answer to your question, I think the categories are evolved, they are distinct. While lot of work still needs to be done, the effort of ours is to be in the pizza territory but try to say that this is kind of in the burger-y zone but it is definitely a pizza.

Manoj Menon: While the opening remark as well as in the presentation you talked about the improving trends sequentially, that is September quarter over June, but when I look at the number of employees that is largely flat as of June versus March. The question here is that if you are expecting a recovery there is a necessity to ramp up the delivery boys. Am I reading it correctly or something bigger here?

Ajay Kaul: Actually, you are not reading it rightly. Let me give you a better example; compared to same quarter last year, which means exactly a year back, when we had something like 28,600 employees, after having added around 160 new stores in this one year, our number of employees has actually reduced, marginally low. When we look at the same number on a same store basis which means the same-store which existed last year and continue this year, we have reduced number of employees by store by around 1 to 2 people. The underlying message is this is that as our revenue has been growing at let us say a small positive single-digit number, we realize the importance of process efficiency, productivity, employee efficiency and so on. So as a result, we have been constantly reducing the number of people in our stores. Needless to say, Online Ordering, we will talk about that in detail at some stage, I am sure which is becoming significant part of our overall delivery business, is also lending efficiency and productivity gains on our employees. So the right way to look at it is that on one hand we are driving efficiency at all levels definitely employee efficiency and productivity quite ruthlessly, making sure however that we do not compromise on service which we stand for, because we always have been and want to be synonymous with best service in the business. As our business picks up, there is enough elasticity for us with our existing staff to kind of take care of let us say a few percentage points improvements in growth and so on. Only if it were to increase by 15, 20, 25%, do we need far

more staff. But otherwise, we are adept and nimble enough to kind of respond to growth like this as far as people is concerned.

Moderator: Thank you. We have the next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, actually, wanted to understand on the promoter holdings, in this quarter we have seen reduction to almost 45%. What is the level that they would be comfortable with now that is almost at 45%, which we had alluded to in the earlier quarters? If you could share the reasons for this – what has driven this reduction, is there a requirement at the other entities which has triggered this?

Hari S. Bhartia: As I had stated many times in the past, we are comfortable at 40s level. I would say and in the past as you may have seen, we have only reduced our holding when we had need of funds at our corporate holding level which obviously invests in other entities also. So, I do not see major changes here and I have always said that in 40s level we are comfortable and we have no desire to go below that.

Avi Mehta: Second was on the SSS growth per se that has happened in this quarter. Just trying to understand, has the volume declined that we saw in the fourth quarter and the first quarter, has that been similar, in a sense what I am trying to say is the moderation more by realization reduction as we have introduced more new products, I just wanted to kind of get that comment from you Sir?

Ajay Kaul: With SSG growth at (-3.2%) in this quarter, the volume growth is also in the negative territory. It is not very dissimilar from what it was in Q4 but it is in the negative territory. So it is a matter of concern. The reason for that as I stated in my opening remarks also was #1, there was a bit of Ramadan effect where majority of Ramadan this year came in Q1 unlike where it came in Q2 last year. So at a cosmetic level it has had impact on the SS growth for this quarter. We also launched our new product – Pizza Mania Extremes, which did very well. That got delayed a little bit by around 3 to 4 weeks, normally, we launch new products around first week of April, this time, that got launched around end of April and that was more something at our end. So as a result of these two big factors, in April actually performance did not look good because of delayed launch and June was subdued because Ramadan came in this year and it was not there last year. So overall we landed at -3.2%. Having said that, our July, August numbers have improved quite significantly and we definitely will be in the positive territory in Q2. I do not want to throw any numbers here, you will have to wait for the numbers to come in but we will clearly be in the positive territory.

Moderator: Thank you. We have the next question from the line of Mubina Kapasi from ET Now. Please go ahead.

Mubina Kapasi: Now, my question is on the fact that you did speak about how consumer sentiment was weak because of Ramadan and because of various other factors. But if I look at your immediate peers in the listed space, like for example, McDonald's, Westlife Developments, they have delivered about an SSG of close to about 3%. I know of course it is not an apple-to-apple comparison, but it is in the QSR space and the same factors have impacted Westlife Developments as well. So where according to you has Jubilant FoodWorks actually failed to really catch on to that traction?

Ajay Kaul: Look, you are right, Ramadan factor was there for the other honorable company which you just mentioned. Probably a delayed launch in April is our own creation and that led to a bit of dampened April. Having said that, the spaces in which both the companies operate are a bit different although at an overall level they are at QSR. I would put it like this, that in relation to our performance in the previous quarter, if you were to see our (-3) it has gone backwards by a few percentage points. You will have to check out how it has gone for some of the other companies, but look at a much larger window of performance, let us say over the last 8, 10 quarters with due respect to McDonald's we have lot of honor and respect for them, they are a great brand, they have had their own I would say severe downs over a good 8, 9 quarter period. So cosmetically their numbers probably are looking good now and I congratulate them for that. You need to look at a large in totality and in a larger perspective than just looking at one quarter and reaching conclusions.

Mubina Kapasi: But this data that we have pulled up, since the last approximately two or three quarters wherein a company like Westlife Development has slowly been able to really ...of course historically you all have really been the outperformance in the space but since the last two or three quarters there has been a bit of slowdown when I look at it comparatively?

Ajay Kaul: My response to that is the categories are different. I must admit that in the burger space there has been a lot of action in the last six to twelve months. Probably it is finally getting a bit of from where the burger space should belong to and maybe McDonald's is probably getting a bit of gain from there. But I would put it like this, pizza space still is as big or its not larger than the burger space and it is only a matter of a quarter where you probably saw because of the reasons I just mentioned little while back that we look to be sitting at -3% and so on. As I said, July-August, are clearly showing positive signs of improvement. While I cannot divulge numbers to you as has been our policy or our approach all along, you should see us in the positive territory in the next quarter.

Mubina Kapasi: Would you consider Jubilant as being a victim of disruption because up until now Jubilant enjoyed the premium of having delivery like if anybody wanted food, you would not have other restaurants which would come and deliver food, it would be Domino's basically which would deliver the food, but now it is Scootsy and FoodPanda and Swiggy coming in, would you say that premium point has been eaten into?

Ajay Kaul: I would say a big no to that and I will tell you why, I have specifically two-three points to make here. The interesting piece is that ever since lot of these so-called food tech delivery guys have come into the business and some of them are doing well, some of them tend to go through ups and downs and the space is still to be stabilized as you would notice; however, the big thing is that they will all help to grow the delivery market and we always in the life stage in which the industry is, we always believe in people who are trying to grow the market overall, getting more and more habit changed of the people to get used to deliveries is only a good thing in the long run. Even during this period when all these competition has come in, you will be surprised that our delivery business is still being doing better than our dining business, in fact, last quarter when we did around 3% same-store growth overall, our delivery business was actually doing far better than our dining business even in that quarter, despite all the competition. So we are firm believers that all the actions of these aggregators or these delivery companies and so on will only help to grow the market and we are honestly very-very positive and upbeat about it. In the short run, yes, we may do a little bit here and there but we do not get too much hassled with that, we are only looking at the bigger picture and the bigger picture is the delivery as a space or delivery as an opportunity is only going to grow by virtue of all these activities.

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

Abneesh Roy: Sir, my question is on Dunkin' Donuts, you have closed quite a few stores. So was it possible to really relook the menu there, the entire format instead of closing completely, so what is the way forward, what are the impacts in terms of margins in this quarter, earlier it used to be 200 bps because of so many closures and smaller scale, also was the impact on margins higher this time?

Ajay Kaul: Very good question. Four points. Look, we have said in the past also, we are upbeat about the Dunkin' Donuts brand and the way we have gone through the journey so far in the last 3-4-years. The unfortunate bid is because of market conditions more than anything else, the sales level and thereby margins are not stacking up at the level at which we would have wanted to for the brand and the model at the store level and at a business level to have become profitable. That is the unfortunate part. We also

know that when you look around very few international brands who have entered in the last 5 to 10-years are or have ended up making money ...you do not have to go too far, you will see lots of brands which are still struggling even after being in 10-years. But that does not mean our own yardsticks or EBITDA is for profitability or loss otherwise, is increased. We want Dunkin' to become profitable as fast as possible. Now, in the last 3-4-years, the possible iterations on modeling which one needs to do on product, you did refer to menus a little while back, pricing, people, the type of stores, the size of stores, the locations, everything else. I think we have iterated enough, we have had tremendous learnings to tell us what should work and what should not work. Although this journey is always endless but I think clearly 80-90% iterations have happened almost. What we realize is that now that we know probably where and how the model should behave, I think we realize that 9 stores which we have closed down, clearly were wrong decisions primarily on basis of store locations, store size and so on. Because these are the stores which even I as the CEO (no one tells by name) know would not even hover a 1-2-year period given its profitability, so we have closed them down. We do not shy away from this because you have to be fairly ruthless when it comes to making a brand profitable. Having said that I think profitability is the mantra right now as far as Dunkin' Donuts is concerned. We are working on all aspects to not only grow sale on one side, but also making sure that we are going to grow this business profitably over the next few years. We probably will be opening this year, we have already opened 8 new stores and we plan to open another maybe maximum 5 to 10 stores, 15 is the number we are thinking around, but with different modeling, maybe would open Kiosks which we are trying, we are also trying Food Courts stores. So, we are constantly iterating still on that front to check out that what will eventually work, but profitability is our mantra there. The full year impact of Dunkin' Donuts as you had asked on our Jubilant P&L, would be in the range of 250 basis points.

Abneesh Roy:

One follow-up on this; you mentioned sizing was one of the areas where improvement was needed, you also mentioned Kiosk and Food Court. So does it mean that now most of the stores might be smaller in size versus average size earlier?

Ajay Kaul:

I would put it like this; we are trying some models which will be smaller in size. A conventional Dunkin' store we have over the years realized that the rightsizing is around 1100-1200 sft, but we would try out smaller models, selling all the three categories that we have which includes food, which includes burgers and wraps, donuts of course what it stands for and beverages. We are also going to try out kiosks which are not only smaller in size but probably they are only donut and coffee stores. So we will be trying, iterating these models and as a result the weighted average size of the store would come below what our conventional Dunkin' Donuts store

is. Lastly, I want to mention one thing to you which gives us a lot of positivity, when we started Dunkin' Donuts in India, we positioned it as neither quintessential or archetypal QSR like Domino's or McDonald's or somebody else. Neither did we want to position it as a typical a coffee shop or a café because we realize that the sweet spot in between these two where you could offer food, where you could offer donuts, and even coffee and beverages, but not an ultra-quick QSR format at the same time not leaning back café format. As a result, the idea was to be inspired by putting something in place which had all day part relevance, which means throughout the day at every hour there will be some offering to the customer which would be relevant for them. So as a result, we can probably say today that between 12 p.m. which means sometimes in the noon to right after around 8, 9 o'clock in the night, if you were to take up our hourly sale, it is almost like a table top. What that means is that at every hour whether it is 3 to 4, whether it is 7 to 8 or whatever, there is something in menu which is relevant to the consumer and that is why they walk in. Our only objective now in this dampened customer sentiment environment is how do we still take the sale up of this table top from wherever it is by another 15 to 20% and that is the challenge. You are probably aware that in the month of April, the person who used to look after as our COO of Domino's Pizza has moved in as Chief Business Officer of Dunkin', Tarun Bhasin is his name and he is already doing a lot of interesting and exciting things there and similarly Dev Amritesh who used to be our CBO for Dunkin' has now moved over to the Domino's side and he is also doing lot of exciting things there which included this Burger Pizza and so on. The idea also is to create leadership pipelines to build people assuming bigger leadership positions tomorrow. So on the side, I thought let me also cover that for you.

Abneesh Roy:

Your one-on-one offer has increased substantially but your gross margins are at a near all-time high, your EBITDA margin on the other hand is at a multi-year low. So, is the one-on-one offer really delivering for you because same-store sales growth does not reflect that, any rethink on instead of one-on-one offer, can you go for a blanket price cut of say 5% because that will be all round the year, all round the time. So now customer knows that, every second day or third day one-on-one offer is going to come. So that excitement is not there. On Wipro cost saving if you could elaborate that part, is that already yielding numbers?

Ajay Kaul:

Let me take the Wipro question first; Wipro Energy Management Saving System is already operational in almost half of our stores, we plan to take it to the rest of stores now and post analytics which happens after you install the machine, is continuing to give us gains and we are hopeful that it will continue giving us gains going forward also. As far as the first question is concerned, firstly, we are not going to take any price increase during the course of the year. That is one decision we have taken. The second point is

as far as this “Buy one, get one free” as an instrument is concerned, from where we used to around a year, two years back, where it used to come every week and every Wednesday and so on, in fact, the frequency has only gone down. But I want to assure you one thing, whether we do one-on-one offer or we do any other offer, we do multiple CRM activities where customers based on their past behavior are thrown a stimuli in a most scientific fashion to which their likelihood of response is very-very high so that we get our return on investment also. We are extremely ruthless. On the way we measure ROI of all these things which we do, they have to give us net positive EBITDA trickle and anything where we are not sure, we do not do those activities. In fact, lot of analytics companies who do we deal with and even otherwise think that we have taken this part of the business, the customer lifecycle management and the customer CRM to a different level and we are probably one of the best examples across industries but I do not want to make this a discussion from our side. Basically anything which we do is to make sure that in the best possible fashion and the highest ROI we get our returns, we are constantly trying to reduce the one-on-one offer and the idea being that more focused offers we give to in a fashion where each customer gets exactly the kind of stimuli they need, it would be our direction that we would take in future. Apart from that, I would say more on the cost line, because you seem to be worried about a bit about margins, you know our deployment of Oracle Transport Management Systems, usage of Ariba for getting the best rates out of our vendors, you may have seen our raw material lines compared to whatever maybe happening in the industry, we have only improved our margins coming out of which means at a gross margin level we are going to improve by virtue of some excellent price negotiation on raw material that we purchase that we have done. Apart from that, I did talk about employee cost a little while back. We are probably the only company in our industry who deploy Six Sigma and through some intense manpower productivity models, we have actually been able to reduce the staff in every store by at least a couple of people which is a good 5-10% reduction. Finally, I would say while our rental line which we may also talk in a moment, may seem high. We have at least renegotiated rentals; on the Dunkin' side around 15, 20% of the stores, on the Domino's side also a fairly large number to bring it down, if not for a long period but definitely for one or two years and that is again giving us some benefits. So overall there is pressure on margin. Some of the sales schemes may seem to show that our discount is on the rise but it is a focused discounting strategy that we have rather than mass, for instance, 5% and all that is something which we will never do and there is an intense work happening on improving margins by virtue of working on the cost.

Moderator:

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

Prasad Deshmukh: My first question is, how much percentage of your revenue in 1Q was from Pizza Mania Extremes and Burger Pizza? What kind of growth do you think such a portfolio can see going ahead?

Ajay Kaul: Look, we cannot share exact numbers with you, but both the products specially the Burger Pizza is a reasonably high level of contribution to our revenue....when I say reasonable means it is like a high single digit, probably more than that also and so on without giving you the exact number. Burger Pizza we believe as we call it a side-category, has got lot of life, it is not a conventional pizza, although it tastes like pizza, it is actually curb on the name pizza there, but it somewhat looks like a burger though it is not a burger, it is like a newish semi-category that has been created and we believe for some time to come it will stay there. As far as Pizza Mania Extremes is concerned, it is like our Pizza Mania range and that will continue to sit in our menu and we will continue to offer value for money offers in that range for a long time. That is also a good sizeable double digit of our overall revenue.

Prasad Deshmukh: Second question, this year the focus of the discussion has always been on affordable price points. So should it be assumed that there is a clear shift in terms of thought process that this is that Rs. 100-150 price point or close to Rs. 100 price point is something which will remain under focus as far as new launches are concerned or these were just one-off?

Ajay Kaul: Your observation seems to be right that on Dunkin' Donuts where we launched our Big Joy Burger starting at Rs.55 and Pizza Mania was starting at Rs.49, they seem to be in the value for money zone. When we are offering these products, we have a huge customer base and it comprises of all types of customers how are value conscious, there are also old customers who are constantly seeking variety, especially on the Pizza side. So we have 4-5 offerings during the year, they tend to kind of vary from one campaign to another based upon the objectives, for example in December, when everybody is in the mood to celebrate in festivities and so on, at that time clearly we launched an indulgent pizza and that is not a side item, it will be a proper pizza. So, every part of the year depending on what the objectives are, we would launch products, in December, it was indulgent pizza, but you are right, we are constantly watching the value for money space, our value for money rating and we would constantly keep looking at launching products at good price for our consumers on both Dunkin' Donuts and Domino's Pizza.

Moderator: Thank you. We have the next question from the line of Amit Sachdev from HSBC. Please go ahead.

Amit Sachdev: Actually just one question on rental side. While you were alluding to it that some renegotiations have happened, I think I can clearly see improving

trend here because if I look at the store growth which is 16-17% and there seems to be no inflation practically that has gone into with 19% increase this quarter. So would this picture continue for the coming few quarters as well, where effective rental inflation per store would be very muted?

Arvind Vats: The point here to be noted is that as far as rental is concerned, as per the agreement which we have entered with our landlord, that is around time period range from 9-years to 15-years, we have an escalation clause sitting in the agreement, that is around 15% every 3-years. So on an average around 5-6% inflation per annum is sitting in our agreement. We have talked about that we are renegotiating back with our landlord that can it be either postponed or can it be diluted to some extent. Point #1 as you have rightly said that in Rent line item, there is impact of 16% new restaurants opened in that period, thereby that impact is also sitting into it. Point #2 yes, net-net this line is getting efficient and we expect it to continue doing so.

Amit Sachdev: We should expect the similar sort of delta to persist for some quarters. I am sure that this will catch up later as some breathing window that has been given by landlords for some time. Is this fair understanding?

Arvind Vats: I think it should.

Amit Sachdev: Second question on SSG front. Can you split like the SSG growth between the delivery and the dine-in?

Arvind Vats: No, we have not shared the SSG number between the two sub-sections, that is delivery versus dine-in; however, as we have already shared that our delivery SSG is better than the total overall SSG which we have reported in past few quarters.

Amit Sachdev: So in this quarter also, delivery was on positive SSG or was it also negative?

Arvind Vats: Sorry, I would not be able to share more detail except our earlier answer that is our delivery SSG is better than dine-in including this quarter.

Moderator: Thank you. We have the next question from the line of Vikash Mantri from ICICI Securities. Please go ahead.

Vikash Mantri: Two questions from my side: One is trying to understand just the Domino's same stores margin, how it has changed over the last one year, we see 230 bps reduction in overall margins, but if we can adjust for Dunkin' and also the impact of maybe new stores, to understand how our same store sales doing given that there is a 3.2% decline in SSG that way? Second question is in case for whatever reasons just trying to understand for one or two years

we continue to have muted SSG. What levers do we have to maintain our margins at the store level?

Arvind Vats: The same-store level margin keeps on increasing as we progress; however, in this quarter, because of negative SSG, there is a pressure on the margin but it is not that they are not doing good, point #1. Point #2 is that within same store also, the bucket is comparatively big and still there are few restaurants which are sitting into this bucket which are not in line with the average restaurant margin which other same stores are delivering. So thereby to that extent some of the restaurants sitting into same-store category are yet to cope up and reach to the level of stabilized store margin. Point #3 is that what are the levers to drive the same store margins in future. Broadly, the answer lies in the same-store sale growth numbers. To the extent it is closer to the normal inflation which is sitting into economy, it is good for maintaining the margin and by the time it is lower than that then it is creating a pressure on the margin of same store level. Having said so, still we have few levers in our hands as mentioned earlier today, rentals that we are trying to renegotiate, similarly employee cost we are working on deploying Six Sigma techniques and trying to get some benefit out of that and likewise other cost line items, where we are trying to deploy efficiency so that we can get some leverage from cost, if not coming from the sale side.

Moderator: Thank you. We have the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: For the last few years, there was a concern about you taking aggressive price hikes and you indicated last year that the consultant study suggests that you are not doing so. In six to eight months, your realization is totally different from what the consultants indicated. What suddenly change which makes you believe that the price hikes are aggressive and what you said about industry I am not sure if McDonald's for example taken aggressive prices as you have taken, so do you not think it is more of Domino's thing than the industry?

Ajay Kaul: Look, when I made the statement about industry level price hike, I was talking of 2-3-year period and you need to go back a bit into history and what you will realize is that consumers also form perceptions if at all over a longer duration. Now, as far as our working with consulting organization is concerned, I think they did a great job for us because based on pure scientifically arrived at price elasticity, SKU by SKU we increased prices only on those items which would give us almost around 100% trickle on the EBITDA without impacting the orders. So all that has happened. Having done that in the most price elastic and scientific fashion, we are also convinced because we also watch our value for money scores, we do similar studies for our competition, we also realize that while disregarding

this price increase which did not have an impact overall on volume, but in the past I would say I am going back 2-3-years when service tax also came into being, that was the time when inordinately high price increases had been taken. So time was ripe for us now to take a stiff stance despite pressure on margins and so on that we should not take any price increase for at least 12-15 months, thereby last price increase which was taken in December we believe that during the course of this year also we will not take any price increase and it would only be next calendar year is when we may think, contemplate to see whether we should take a price increase.

Vivek Maheshwari: In that context, would there be a risk to margins because one of the important drivers of margins was essentially the price hike. So does that mean that margins could come under threat because inflation except for input it is still reasonably high be it staff, be it rental, etc.?

Ajay Kaul: As far as the inflation on utilities and some of the other things beyond food is there. The classic 'Chicken and Egg' story is that by not taking price increases, your volumes over a period of time then stay at a certain level unlike what you may have some ditch because of price increases. The calculated call which we have taken right now is that the time is not right for price increases, we need to keep them stationary and make sure that we build on our volumes and this may not happen immediately in half quarter and one quarter but over a period of time so that we get our volumes back. As far as margin pressure is concerned, it will be there and we will have to manage this somehow.

Arvind Vats: On margin side, I would also like to add what Ajay has said that on gross margin side we are confident and we would be able to maintain our margin due to deployment of several initiatives as far as raw material procurement is concerned. So thereby we are expecting comparatively benign inflation on the raw material price and whatever benefit we expect to get from raw material side in terms of inflation, we will try to use that to counter the inflation in other line items apart from other efficiencies. So net-net, you are right that pressure is there but we are also geared up to face that challenge.

Vivek Maheshwari: Second thing, on the Pizza Mania Extremes and BurgerPizza, both products whatever as a consumer I like, but is there a risk of cannibalization or consumer down trading because they are seeing more value here which means the average ticket size can come down or any sort of downgrading risk that you perceive?

Ajay Kaul: Anytime we launch either a pizza product or a side product, there is always a bit of fear of cannibalization. It can never be utopian world, but while trialing and with all the judgment that we have, we have to launch products to make sure that net-net there is a gain in revenue and also

EBITDA. This is precisely what Burger Pizza is doing. It has given us significant gains on the sale side also with minimal cannibalization and thereby good trickle on EBITDA also. I cannot give you more numbers than that other than qualitatively what we have shared about Burger Pizza so far. So it has done good to us ever since we have launched it there has been improvement in sales, as we said, our July, August look definitely far better than what our Q1 was, wait till you see a number in a couple of months.

Moderator: Thank you. We have the next question from the line of Mangalam Malu from CNBC TV18. Please go ahead.

Mangalam Malu: A couple of things I wanted to ask you. The first one is that your margins were the lowest level since the IPO and your new stores this year so far have been 36 while you guided for 130 to 140. So does that mean in the remainder part of the year we can see 50 stores being added per quarter on an average and what does that do to your margins as the operational expenses do increase?

Arvind Vats: Yes, you are right, that our margin are lowest since our IPO. The reason for same has already been shared with you that the subdued revenue which has led to the negative same-store growth.

Ajay Kaul: To your second question on store opening, we have opened 23 stores in Q1. So far we have opened around 36 stores or so and we are also saying that we are confident of opening 130 to 140 stores by the end of the financial year. I do not know where your math was bringing the number of 50, we need to open around let us say 35 stores every quarter from now on, that is what we have done it in the past, we have opened even 40, 45 stores in the past. So we are confident of doing that but let me add one string to it. While we are committing to open 130 to 140 stores on Domino's and let us say overall around 15 in Dunkin' which means another 6, 7, 8 in Dunkin', profitability is what is going to drive everything that we do, including store openings. At some stage if we believe that profitability is getting questioned even in this 130 to 140 stores, and the number actually is only 120, we will then open only 120. So far as far as visibility goes, we think open 130 to 140 Domino's stores and 15 Dunkin' Donuts stores which are almost profitable from day one is possible and that is why we are sticking our neck out and saying that we will open these many stores.

Arvind Vats: That is the reason, as against our last three years trend of opening 150 restaurants, our target for this year is only 130-140 for Domino's and again to reemphasize what Ajay said that the objective is to maintain the profitability starting from day one of the restaurant opening. Having said so, seeing the market conditions and the subdued environment in terms of

revenue, yes, the new restaurants which we are opening are comparatively not as profitable as they used to be three-four years back though still they are very much profitable and giving benefit to us.

Mangalam Malu: So you spoke about profitability and opening new stores, but if I look at your last four years, your net profit has declined from about Rs 135 in FY13 to Rs 114 in FY16 and in the trailing 12 months also it is just about Rs 104, so the profitability growth has not come by. So in that regard, what kind of EPS can one expect in FY17? Secondly, and most importantly, is the company at a risk of pizza as a category or at the risk of concentration in your product as far as the category is concerned, you are diversifying into different products, but is the management thinking of other brands rather than Domino's and Dunkin' Donuts as well?

Ajay Kaul: The second question is what I will answer first; you will have to probably rephrase your first part, I could not understand it fully. Look, it is a totally different question and area you are talking about. Firstly, let us leave the new brand alone for a moment. I think at the life stages in which both Domino's and Dunkin' Donuts are and if I specifically look at the categories they are in, which is pizza and the other one is in Donut development, it is in coffee development and beverage development and so on, there is still so much headroom for us and all the other players in the industry to only increase and grow these categories. So if I were to share some frequency, I will let numbers with you as to what is the average frequency of consumption and thereby you will realize that the market should be probably 5x of what it is currently in a decade from today. So there is lot of headroom to grow. We are not concerned about any fatigue or any such thing setting into these categories too early. There is still lot of things to happen. But having said that, "Are we thereby not looking at any third brand?" Honestly, we are, we have always mentioned it that we are constantly in discussion with some global brands, regional brands to understand which are the ones, which are relevant for India, which can have a good trajectory in India but are we at a stage where we are kind of concluding any such discussions, no, I must also admit that lot of these big brands have come into India in the last three-four years, Dunkin' Donuts Starbucks, Burger King, Wendy's where some of these big brands that they were all in, ones left now are not too formidable and we are obviously having our thoughts on that. We are in discussion with most of them. But we are in no hurry to launch one tomorrow. I would also say in the same breath that we are also looking at maybe creating our own brand although it is still at a very-very initial stage, it is still months and quarters away from launch if at all, but that also cannot be ruled out.

Arvind Vats: Coming on to EBITDA trend, while seeing these numbers, one should also be cognizant of the fact that this includes numbers for Dunkin' since its launch. If you see the standalone Domino's number, your interpretation

would be totally different. Our new of restaurants are genuinely adding EBITDA to our kitty, however, Dunkin' brand has diluted the EBITDA which we have reported at JFL level, thereby whatever you are calculating you also have to differentiate these two brands and then arrive at any conclusion that whether these new restaurants addition is EBITDA accretive or decreative. However, I cannot share with you brand wise EBITDA number. But what I am sharing with you is that at Domino's level, our EBITDA is increasing.

Moderator: Thank you. We have the next question from the line of Navin Kulkarni from PhillipCapital. Please go ahead.

Navin Kulkarni: So sometime back we were talking that Dunkin' Donuts is profitable on the store level but on an aggregate basis because of the supply chain cost and other costs it is not profitable. So how is the business doing now – do we still see that it is profitable on the store level and what is giving us confidence that we are moving in the right direction with Dunkin' Donuts because the positioning of the product is still not very clear. Second question is again on margins. So at what same-store sales growth do you see that the margins can see a meaningful improvement because lot of other costs still will see rising in line with probably CPI kind of a number. So from that perspective, profitability, how do we see that changing meaningfully over the next 1 to 2-years?

Arvind Vats: I would start answering from the last one, because that is comparatively easy one to answer and which we have answered two-three times even in this con-call itself that EBITDA margins primarily depend upon the same-store growth which should be closer to the normal inflation which is sitting in the market. What we see is that more or less the average inflation which is there from economy side considering all the utilities and all the cost line items, is at around 6% level or so. Plus our own initiatives from business excellence do help us to maintain our margins. So these are the two basic answers to your question on EBITDA margin. However, again I would repeat that one needs to see Domino's EBITDA margin and thereby the impact of Dunkin' on that so that you can understand the business model rightly. Coming to Dunkin' part, we have said in past also that some of our restaurants are generating profit at restaurant level, some of them are not. What we have done recently is that we have evaluated each and every restaurant's performance and aligned it with our going forward strategy on Dunkin', how the brand and the model are going to shape up and thereby after evaluating we have closed a few restaurants which are not going to generate the desired level of profitability in the coming quarter or years and that is a conscious call which we have taken and again the focus is on profitability. Your other question on brand positioning of Dunkin' would be answered by Ajay.

Ajay Kaul:

This question also we did answer in detail a little while back, but does not matter, I will reattempt. The brand has been in existence now for around 3-4-years. Compared to the way Dunkin' Donuts is present in anywhere in the world including USA its mother market, we have made some strategic changes to that at the time of launch itself in India where we started calling Dunkin' Donuts and more because the larger thinking was that the opportunity in India was not just being a Donut player or being a café which means a coffee or a beverage player, but it was being a much larger player also in the food space and food means various categories, thereby occupying the sweet spot between an archetypal QSR and let us say a traditional café. We believe the strategy is still right because it brings in the best of all the worlds. A slightly slower service or slightly leaning forward and not laid back like a café would give but at the same time normal assembly line like approach where you are kind of standing there and within half a minute your order gets turnaround, not like that also. As a result, the positioning was focused around youth. I am talking a moment or two extra to explain the whole thing to you because probably my earlier answer may not have appealed to you in totality. So the target audience was youth and still continues to be. The positioning is Get Your Mojo Back. Basically, telling the youth, that in this today's world while at all the times of the day and the week one gets somewhat cut off between what I would call a good world and a bad world which means you have a great job but your boss may not be the best guy, you have a great girlfriend but her mom for some reason is not and so on and so forth. So there is a continuous dilemma in this youth's mind and Dunkin' Donuts is precisely the place which helps you to Get Your Mojo Back. Now, we have been persistent with this positioning and it has resonated very well with our consumers. Often when we have done research and it has come back to us that how they can actually relate to such a concept positioning and thereby the place. The sole which we have crafted, the look and the feel also is sitting in the same zone and needless to say the menu and the pricing also aligns itself with this kind of positioning. So what has happened as a result is between let us say 12 o'clock in the afternoon when the store opens almost and going right up till around 8, 9 o'clock, we have been able to craft a strategy by way of which our all day part sales which means every hour sale is almost kind of similar which means that every time in the day there is something relevant for the consumer, our target audience to visit us, whether it is meal replacement situation, at dinner and lunch time where burger come into play, or just maybe a coffee and a donut at 5 o'clock where he just wants to have a quick snack and move on and so on and so forth. However, what has also happened is that I must admit in the last two or three years also have been probably the worst for the industry and you know it where even some of the formative dine in player without naming them have been going through quarter-after-quarter of negative same store growth and I am talking of large formidable American brands there. So Dunkin' Donuts also being in the same space has had its rough

time, as the sale has not been as high as it should be and as a result some restaurants are not profitable and we realize that some restaurants will not continue to be profitable and thereby with least emotion we have closed around 9 restaurants. There are still a few candidates there who we are working on closely. I am personally as a CEO also involved in them. Lot of stores are profitable and which is a good news. We believe it is still a few years away from generating EBITDA positive result at a full business level. Change in economic climate, economic sentiment will only help. When you look around lot of other international brands who have come to India in the last 5, 10-years you will realize that there are hardly any successes of people who have started making money. So to that extent Dunkin' Donuts in 3-4-years' time is no exception but we are personally very-very upbeat about it and with all these changes and a little bit help from the economy, it will come out of the woods.

Arvind Vats: Thereby we are still very much confident about our Dunkin' brand. Finally, we are working on our model of how to make restaurant profitable as soon as possible even in the present environment which we are working in and we are working to bring in more efficiency in the CAPEX cost of the Dunkin' restaurants to improve its payback period/ROI which is our mantra for both our brands.

Moderator: Thank you. We have the next question from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.

Pankaj Tibrewal: A couple of questions: When you look at your return on capital, it has been on a declining trend for the last 4-5-years partly with all the concerns and a few things that you alluded. From a management standpoint of view, does that bother you now because you are almost reaching... last year it was 19% and looking at the trend what it is, does not give any more further confidence, do you think that we have trust on that count and from incremental here whatever, because it is a block of 4, 5-years where this thing has been trending down and over a period that is something should bother you, so can you help me understand that part?

Arvind Vats: So far our belief was and continues to be that good times are going to come and it is going to come soon though it has dragged from the economic side. In the past also we have continuously invested back into the business by opening good number of restaurants and also by building our capacities to serve more and more number of restaurants as we believe the opportunity is sitting in the market. So we have continuously kept on investing back in the business; however, because of the subdued sentiments, the response was not as speedy as it could have been. So yes, you are right that pressure is there on ROE but we are still upbeat and confident about the positivity which is going to come from economy side

and thereby as and when that time will turn up, we are fully geared up to catch that opportunity.

Pankaj Tibrewal: That is fine to be optimist. I am saying from a realistic perspective. Last two years' you guys had the tailwind of raw material coming in and your gross margin expanded. Despite of that we have seen huge pressures on your overall profitability and returns. So assuming tomorrow that the reversal of that food deflation which we saw in the last two-three years does not work to our advantage, what are the metrics you guys have so that maybe a year or two years down the line we should not see that return on capital further deteriorating to the levels which we have not even imagined, so are we prepared to handle a food inflation rather than from a food deflation which has been a tailwind for us? Second point is that if you look at your last six years number, your average stores have grown at a CAGR of 24-25% but when you look at a total revenue per store, that has grown in less than 4-5%. So clearly you have grown stores and that seems to be still the idea. But the productivity of per revenue, per store is not increasing at the same pace. Can you help me understand, one is the gross margin which has worked to our advantage if it turns around what will be our stance on that, second will be on the per store revenue and the average number of store CAGR?

Ajay Kaul: We are building this business with clear sight on the next 5 to 10-years and not for today and that is a point which we have made time and again and you need to believe in this story. In the interim, I do admit that this period has been a bit more protracted where consumer sentiment has come into discussion far too often and this is probably coming out of the whole FMCG space when 2, 3-years back they said that this is the worst year for FMCG as a whole, consumer space grew by some 7-8% and the next year was even worse than that and this year also it is not kind of taken off well. So it has been a protracted period, no doubt and that does surprise us, I must admit, it should not I have gone on for that long. But our investments prudently done, judiciously done with intense ROIs in mind for any penny that we spend on building new stores or commissaries and so on or building our brand, or technology on Online Ordering and so on is all keeping the next 5 to 10-years in mind. In the interim, yes, we are living with this period but we do believe optimistically that it cannot hang on for that long. However, in the interim, we are also making sure that we do not make wrong decisions or we do not make decisions where the ROIs and the profitabilities are getting compromised upon...I am talking specifically about Domino's here. So return on investment or even the restaurants which are apparently or seemingly reducing our ROC overall, they all are giving payback periods in acceptable timeframes of 3 to 3.5-years, the moment we realize that we are not going to be able to open 130-140 stores which gives us that kind of payback period we will open lesser and we will come back to you and tell you that now the number is not 130-140,

it is only 120 or it is only 110. But we do believe there are still sizeable number of stores which is 115, 120, 130 which can be profitably opened and which we have opened last year also and so on. Yes, the big thing is that the moment the market becomes positive, and our same-store growth starts inching into the regions of let us say 8 to 10%, you will see a reverse exponential effect that will start showing and at the time hopefully, Insha Allah, you will be asking us that why did you reduce the number of stores you opened during the tough days, you should have continued opening 150, 160 stores and hopefully you will ask us that question at that time. So a long and short answer to your question is prudent and judicious investment right now in infrastructure and store building and people and online ordering, making sure that we are not compromising on profitability below a certain threshold level for sure and hoping that things will improve with the Seventh Pay Commission and the good monsoon, the government and everything, should lend itself to the macroeconomic level improvement which will translate into higher disposable income, discretionary spends and thereby impact on a category. We are hopeful that that will start happening now from October-November-December onwards. So it is a mix and longish answer to your question but I had to spend a time to kind of build the whole picture in front of you.

Moderator: Thank you. We have the next question from the line of Anand Krishanan from Infina Finance. Please go ahead.

Anand Krishanan: I just wanted to understand your SSG number in detail with respect to what would be the highest SSG number for you and what would be the lowest SSG number for you and which geography would actually contribute to the same?

Ajay Kaul: Look, we do not share SSG number with that kind of granularity ever. You may call us a bit conservative but that is what we are. SSG number is as we said is at (-3.2%) but I can only add some qualifying statements to that it is generally the trend is the same almost all over the country give or take a few percentage points here or there. So in terms of dispersion, the dispersion is not too much which means the consumer sentiment which we are often talking about, the depressed one, is affecting all parts of the country almost in an equal fashion.

Anand Krishanan: Sir, with respect to your oldest tier-III stores that you would have actually opened, what would be the directional SSG – is it getting positive for you or is it still in the negative territory, can you just throw some light on that?

Arvind Vats: SSG number does not differ from the year of opening of restaurants. It is more or less into the same zone. So restaurants which opened 10-years back versus restaurants which got opened 3-years back, the SSG in terms of percentage is not significantly different. There is a logic to it because the

older restaurant after witnessing good growth sometimes we split and new restaurants get carved out and thereby that restaurant does not remain to be the same restaurant as it was 10-years back. So, thereby the SSG number does not vary significantly if you see the restaurants age wise.

Anand Krishanan: With respect to your employees, what percentage of your total employees would be actually more than three years old overall in the company and what would be the attrition rate for you as a company as a whole?

Ajay Kaul: The employee attrition is different at different levels, it has not changed despite whatever you maybe hearing about these delivery companies, these e-Commerce companies, who are trying to take a lot of our delivery people, but at the front end level which is the delivery people inside the store the attrition level is fairly significant, and we are constantly trying to see how we can reduce it but the moment you start getting the managerial level, in the head office level, the attrition is a single digit number annual attrition which is very-very healthy and similarly at other levels also it is in reasonable limits. So that is the answer to your question. To your first question, off hand I do not remember this, but we have around 27,000 employees. So I would reckon there will be thousands of such employees. I do not know what is the point of arrival of this question, what does this leading as to?

Anand Krishanan: Sir, you had actually said that you are actually reducing the number of employees and stuff like that. I just wanted to get a directional trend as to what sort of employees are like your fixed cost employees which should actually have an annual inflation and what percentage of your employees have an attrition rate so that they do not actually have an inflationary cost attached to them?

Ajay Kaul: Majority of employees who are within the restaurants are effected by the Minimum Wages Act and if you ask me that is something which is not within our control because these are minimum wages changes and they come quite regularly state-by-state are quite hefty. The Bonus Act which was like universal in its applicability which came out 8-9-months back had a far-reaching consequences, it was quite hefty and substantial and you have just to take it, you cannot even negotiate it. The regular salary increases are still within your control because to some extent lower it or make it higher. So there is an overall inflationary line, no doubt, thereby as we have been harping about one fact that profitability at an overall theme driving sales obviously is a part of that, but also bringing productivity and efficiency gains into all cost line including employees has been our mantra... I am saying this probably for the third or fourth time today, pardon me for that, compared to last year on a same-store basis we have reduced employees per store by almost two people which means we have significantly reduced the employees per store which are obviously

delivering the same productivity overall. So that is the kind of path we are taking for improving efficiency and productivity.

Moderator: Thank you. We have the next question from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

A Ranganathan: On your technological side, you have mentioned about two notable additions on the team. Could you paraphrase as to what are the initiatives on a longer-term which would be taking place since you are already the leader in the segment, what are these initiatives which is taking place in this particular side of the business? Second is with respect to the manpower, what is the room that we have to actually reduce or to keep, what is the ideal man count or manpower count be at a store level...you have answered that question in one way but just trying to understand, if you were to take a global benchmark let us say if you were to say take the stores in Mexico, South Africa or say possibly in Australia or UK, would a number of 25, 26 be the benchmark or would it be higher in other geographies?

Arvind Vats: This benchmark varies from country to country because of the geographical conditions, local conditions, what type of traffic conditions they are facing with how much percentage of their sales is coming from delivery, how much is takeaway, how much is dine-in. So since these key business parameters are significantly different from country-to-country, thereby the answer to your question also. So I do not think comparing one country with another country is the right benchmark. Though we have the data, we do check and benchmark our Domino's with another country to gain the benefit of the good practices but you cannot compare it straightaway the way you are doing.

Ajay Kaul: But having said that, this is an important cost for us, we are a people-intensive business and as I was saying earlier also, we are like hawks deploying the best techniques, engaging Six Sigma Specialists and using models whichever are prevalent in the Domino's world anywhere and making sure that we constantly bring in efficiency and productivity specially when we are not growing at the pace at which we want to and the end result of that as I was sharing you is that we have shaved off a couple of people from every store on a same-store basis because we realize that we have to increase productivity while reducing the number of people.

Arvind Vats: Without compromising on the quality of service which we are providing to our consumers.

Ajay Kaul: Coming to your first question, which was what are we doing on the technology, we believe that after having been here for 20-years in this business, we are at the brink of seeing what is happening outside of India,

within India and within our space which may seem like a very brick-and-mortar space, making pizza at the end of the day is a fairly brick-and-mortar and state activity, what is the role of technology and innovation. But because we can see the writing on the wall we have done a few things – firstly, at the very senior most level we have brought in new positions, new people who are going to not only reinforce our own thinking but also are going to take us into the next generation on how innovation can be done and how technology can be deployed. So, as we said earlier, we have brought in one Chief Technology Officer - Raman who is reporting directly into me unlike it was earlier and similarly we have we have Head of Innovation and Business Excellence, a new position that has been created, again with the idea of making the company absolutely nimble in terms of innovating and bringing in innovative ideas. Now, something on technology front are how online ordering is going to play a role in our business going forward, nearly 44% of all our orders today come through the online medium and trust me three years back this number was zero and that is the pace at which is growing. So mobile, for example is clearly a thrust which we have. Anything and everything we do starts with mobile first and then it is seen how it can be deployed on other forms of customer accessibility and so on. So today 41% of all these orders which are happening online actually are happening through the mobile medium, our mobile app is being made that much more robust, we believe that if today and you will be surprise to hear this, sitting amidst some eCommerce players and so on who are the #1, #2 and all that, Domino's Pizza is the Seventh Most Transacted eCommerce Brand in the Country and we believe that going forward while we will continue to be a pizza company, we will probably be a pizza company which leverages technologies almost like a technology company but definitely is a pizza company and is selling pizzas. So that is the zone in which we want to get into. So deployment of I would say energy, money and thought process into everything that facilitates like what role does artificial intelligence, what role does robots, do bots have in our business. We are constantly innovating. If I were to stretch our logic a little bit more, could someday robots deliver pizza for us like has been done in Domino's Australia or could drones be used to deliver Domino's Pizza like has been done in New Zealand. So we are working in all directions, some at a very random and fast pace which should give us results in the next six months to twelve months and some is even long gestation projects which could take probably two to three years, but that is the role of innovation/technology we believe can play in our business and we will continue doing that.

A Ranganathan:

Just an ancillary question to this is that would you be earmarking the lot more capital towards this part of the business and if you could just share what would that number look like?

- Ajay Kaul:** We cannot share any numbers with you but our general rule which I tell for our online technology people is that if we have to invest at a qualitative level double of what would normally look normal, they do not have to even ask me because that is the role we want to overinvest, we want to err on the side of overinvestment as far as technology is concerned because it is moving in such a fast pace, we do not want to be left behind. We clearly are leaders in the pizza business, we are in the leaders in the Food Service business, we are the leaders in delivery business and we want to also be the first guys to launch any such initiative in this space which is technology-led.
- Moderator:** Thank you. Ladies and Gentlemen, I now hand the conference over to the management for closing comments. Over to you team.
- Ajay Kaul:** Thank you for bearing with us today and putting some very interesting questions to us, we really enjoyed it. Thank you, we also had a good time and good evening and thanks to everybody.
- Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Jubilant FoodWorks, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.