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Jubilant FoodWorks' Q1 FY20 Earnings Conference Call Transcript
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Call Duration : 59 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
Aditya Soman – Goldman Sachs
Amit Sinha - Macquarie
Avi Mehta – IIFL
Manoj Gori – Equirus Securities
Naveen Trivedi – HDFC Securities
Nillai Shah – Morgan Stanley
Vivek Maheshwari - CLSA

Moderator: Good day, ladies and gentlemen. And very warm welcome to the Jubilant FoodWorks Q1 FY20 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 an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Welcome to Jubilant FoodWorks' Q1 FY20 Earnings Conference Call for Analysts and Investors. Today, we are joined by Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks, Mr. Pratik Pota – CEO and Mr. Prakash Bisht – CFO.

We propose to commence with perspectives from Mr. Bhartia, thereafter we will have Mr. Pota sharing his views on the progress JFL has made operationally, strategic imperatives that lie ahead and the outlook. After the opening remarks from the management, the forum will be open for questions-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 Q1 FY20 'Results Release' and 'Earnings Presentation', which are both available on the company's website under the Investor Section.

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

Hari Bhartia: Thank you. Good afternoon, everyone. And welcome to the Quarter 1 FY20 earnings.

We are pleased to have started the year on a strong note, registering a healthy system sales growth and same store growth for the quarter.

During the quarter, we scaled up our focus towards investment in brand building and innovation by participating in cricket season with our latest range of cricket themed pizzas offered under 'World Pizza League'. Throughout the quarter, we received positive feedback from our customers.

We continue to invest in our digital platform to improve customer experience and efficiency. Our OLO sales are now accounting for 81% of our delivery sales. Use of technology, automation, digitization, to improve efficiency, customer experience and agility continues to be a strong focus across all functions at Jubilant FoodWorks.

As you are aware, a substantial part of our sales come from dine-in and carry-out customers. The new store design which we introduced last quarter has received tremendous customers' response. We have begun to roll out this new Domino's store design in the quarter one of FY20. And 9 out of our 26 stores for Domino's this quarter are based on this warm and contemporary design. We have also introduced digital kiosks to improve customer experience in ordering. We encourage all of you to visit our new design stores.

We stayed on course to focus on providing value to our customers. But towards the end of the last quarter, we undertook some price increase to offset the inflationary-led pressures in some of our cost lines and this has happened almost after three years since we took the last price increase.

For Hong's Kitchen and Domino's in Bangladesh, we continue to receive encouraging response from customers and believe this is a great start.

On new stores, we remain on track to achieve our store opening guidance for FY20.

To conclude, we have the right strategy for growth. We are excited with our prospects in this market. With that, I'd 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 on the call. I will share with you the key financial and operational highlights for Q1 FY20.

So, before I start, let me state that the current quarter's numbers are as per IND-AS 116. Consequently, operating lease expenses have changed from rent, other expenses to depreciation and amortization expenses and finance costs. The company has adopted the modified retrospective approach for transition to IND-AS 116 with effect from 1st April, 2019.

This approach, as you know, does not require restatement of comparative information and the same is therefore not comparable. We have provided the impact of IND-AS 116 from current quarter in note number one to the results. In the investor presentation, we have also provided key numbers without IND-AS impact for Q1 FY20 on a memorandum basis for the purpose of easy comparison.

Moving on, the quarter's key financial numbers were as follows:

Operating revenues during Q1 were Rs. 9,401 million, an increase of 9.9% over last year. This was driven by same store sales growth of 4.1% in Domino's Pizza, on a strong base of 25.9% last year.

Our like-for-like sales growth, which is a new metric which provides data on sale growth from stores that were not split in the period 1st April, 2018, to 30th June, 2019, came in at 5.8%.

EBITDA during the quarter was Rs. 2,191 million at 23.3% of revenues. Q1 saw a significantly increased advertising and promotional spend, and continued investment in technology. Profit after tax in Q1 came in at Rs. 748 million, at 8% of revenue.

I will now share some operational highlights of the quarter:

We opened 26 new Domino's restaurants in India and closed four, thus taking your restaurant count to 1,249 stores across 276 cities. During the quarter, we entered three new markets, Neemrana, Motihaari and Bilimora.

We kicked off the quarter with the launch of an exciting range of 10 pizzas, five veg and five non-veg under the brand of 'World Pizza League'. Towards the end of the quarter, we took a small price increase. This increase was made necessary on account of inflationary pressures in raw material costs, especially dairy. Our everyday value headline price remains unchanged at Rs. 99 to Rs. 199, and we continue to offer superlative value for money to our customers.

Our online sales in Q1 FY20 improved further, and now stands at 81% of total delivery sales. Our app saw a record number of downloads of 3.8 million during the quarter, partly on account of a concerted campaign to have our dine-in customers download the app.

In online, we saw healthy growth coming from our own assets, as also from our aggregator partners. We continue to work closely with aggregators in growing the pizza category and in bringing in new customers.

In Dunkin' Donuts, we closed one store, taking the total store count to 30 restaurants across 10 cities.

Hong's Kitchen has got off to a good start, and we are excited with the overall opportunity in this segment. As stated earlier, we plan to open 10 stores by the end of this fiscal year.

Domino's Pizza Bangladesh continues to do very well, and ahead of our expectations. We are seeing tremendous opportunity in this vibrant and young nation and we remain on track to open at least five stores by the end of this financial year.

Let me conclude by reaffirming our confidence and belief that the Indian food service industry is poised for a period of sustained growth and in this growing category, JFL has the right strategy and the right leavers that will help us drive growth and build sustainable competitive advantage. A strong brand, delivery expertise, deep innovation capabilities, a strong national supply chain network and growing strength in technology.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Two questions from me. Firstly, we are seeing that a lot of these food aggregators are now stepping up their intensity in smaller towns. So, historically Domino's was the only food service player in small towns. So, are you seeing any sort of increased competition from the aggregators? Or on the other side are you seeing a significant benefit from aggregators pushing into the smaller towns?

Pratik Pota: Right. Thank you, Aditya, for the question. As I mentioned in my opening remarks, I think aggregators are playing a very useful role in helping drive consumption, helping build a habit and helping build, in general, home delivery. And by doing that they are helping grow the market significantly. We are in close partnership with the aggregators. As India's largest QSR brand, we believe we have a lot to offer them by way of helping grow the Pizza category. We are also working with them to help us drive new customer acquisitions. At the same time, Aditya, as you are aware, we are investing in strengthening our own digital assets, our own delivery experience and continue to invest in improving our dine-in revenue stream. We also are investing, as you saw in last quarter, in strengthening our own brand, in brand building and innovation. So, I would say, while the aggregators are helping us grow the market and helping us get new customers, we work with them, at the same time we work towards strengthening our own assets and improving dine-in.

Aditya Soman: Understand. And in this regard, we saw that for some part of the quarter you were offering a discount, and we have not seen this over the past couple of years. Is this just because of more price competition from some of these aggregators or this was a concerted effort given that you would have increased pricing?

Pratik Pota: So, Aditya, as you would have seen, our primary strategic lever of providing sustained value is everyday value for regular pizzas and medium pizzas. We do offer for specific customer cohorts using our CRM program, discounts that are outside of everyday value, but those are more tactical and more transactional. The sustained discounting logic we use is everyday value. Within that, yes, we do experiment, we do try a few things. But even in last quarter, as was the case in the preceding quarters, our primary and the bulk of our discounting was through everyday value.

Aditya Soman: Understand. And then this price increase that you have taken, so should we expect that to flow through from 2Q onwards or do you think part of that would get offset by discounting or everyday value or a shift to everyday value?

Pratik Pota: So, it's early days, Aditya, to see how the impact of price increase will play out. We took the increase only towards the end of quarter one. So, I would say that it's still early days, but we certainly expect that a part of that price increase would go into the P&L.

Aditya Soman: And just one last follow-up. In terms of the new store design, is the CAPEX meaningfully different from the traditional stores?

Pratik Pota: Aditya, in the new store design, apart from having significantly improved interiors and better ambiance, the one additional investment we are making is in putting in technology in the store, whether it is a self-ordering kiosk or whether it is digital screens. So, other than that, the CAPEX is on parity. There is a small delta cost which comes on account of these tech investments in store, but other than that the CAPEX is on parity.

Aditya Soman: So, if it was Rs. 10 million earlier, would that be a substantial 10%, 15% increase or not?

Pratik Pota: It will be it about a 10% delta on the earlier CAPEX on account of these tech investments.

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

Abneesh Roy: This is Abneesh here. My question is on Hong's Kitchen, you have mentioned on track to open 10 stores in this financial year. And you also said good response. So, my question is, in terms of losses how much should we build? It's a small number of stores, but are you spending on the ATL, so could that lead to higher losses?

Pratik Pota: So, Abneesh, we are clear that in Hong's Kitchen, we have to get unit profitability before we scale up meaningfully, number one. Number two, we intend to remain focused on the Delhi-NCR market and not go beyond that in phase one. So, marketing expenses, if any, would be hyper local in nature, and would not be substantial in terms of quantum.

Abneesh Roy: And, in terms of timing, Hong's Kitchen is coming at a time when SSG is slowing down, sentiments in the country are weak, overall gloom and doom everywhere. So, from that perspective isn't this the wrong time to scale up?

Hari Bhartia: Chinese is the second largest cuisine in India. And you really see there are very few organized players in this segment. Actually, we see a very good opportunity for somebody who brings in high quality product at affordable prices, and in a great

ambiance. I don't know if you have got a chance to visit the store, you will see that. It's very fresh, high quality and affordable.

Abneesh Roy: My second and last question is on SSG, after four or five quarters of double-digit very good performance, last two quarters have been quite slow. So, what is leading to this, is this largely the split store or is it the cloud kitchen impact? Because this quarter also had the beneficial impact from World Cup, but still any which way you will see the number, 4% number of 5.8% ex-of split, it's a very weak number, right? Suddenly what has happened?

Pratik Pota: Abneesh, I think the same store number that you have put of 4.1% is a result of two or three factors. The first one is that, as you are aware, we have very deliberately embraced a strategy of quadrupling our key markets by splitting stores, getting to tighter trade areas, to improve the service levels for customers. That obviously is impacting growth in same store growth, and the impact of that as you called out is 1.7%, which is a like-for-like growth of 5.8%. So, that's one clear factor.

The other factor is that, if you would recall, same time last year we had launched Everyday Value 99, which led to a very high revenue momentum and very high same store growth, and we are lapping that high base this year, which has optically reduced the same store growth, but it is off a base of 25.9% same store growth. That's the second reason.

The third reason is, what we are seeing is some pressure in our dine-in business, and that is not just us, it's the larger category issue. But that is getting mitigated by us doing specific micro marketing activities and making sure we drive delivery even, even higher. So, those are the two or three things the reasons why we believe our SSG has been a little lower than trend line. But I think a lot of it is I think for reasons which are more optical in nature.

Hari Bhartia: And you know, I would also like to add, that if you really look at it for three years effectively, we have not taken any price increase. And why would we do that? Because, A, we want to build pizza as a very valued category, and so we continue to attract large number of customers, both in dine-in and delivery, so to really expand the market. And when we are expanding the market, we are also fortressing it, because we are starting to see in some of our stores the volumes are not serviceable. Now, we don't want bad service, so we are trying to fortress the areas. So, what it helps us continue to build growth in terms of at systems level open more stores. So, to some extent it is, I would say, not increasing the price also impacts the same store growth revenue.

Abneesh Roy: Just two follow-ups here. So, one is, are you able to quantify, is this significant impact from cloud kitchen and the World Cup? And second, you said you are not able to service because of a very high utilization, so are you looking at pure cloud kitchen in some of the key cities also or you would want a store everywhere?

Pratik Pota: Abneesh, I didn't understand the first part of your question, to be honest, with reference to the cloud kitchen. I didn't get that.

Abneesh Roy: Swiggy and Zomato have also launched their own, either exclusive of their own pizza brand.

Pratik Pota: Yes. So, in response to that part of the question, Abneesh, as I called out as well, both in my opening remarks and in my earlier answers, we have actually aggregated a partnership that has been a source of growth for us. So, I don't think there has been a reason why we have lagged.

To answer your second question about our willingness to look at alternate models, of course, we keep looking at different store models as we look at scaling up, including cloud kitchens. However, our experience has shown, we mentioned last time as well, having a delivery carry-out store or delco store which is more compact, more engineered for doing delivery, but yet having some minimal dine-in and carry-out capabilities, that works much better from both a growth point of view, as also a profitability point of view. So, that model works better for us, given our sheer brand equity. But we remain open to looking at all models

Abneesh Roy: : And World Cup, no benefit, right?

Pratik Pota: Well, okay, so let me answer that. Again, going back to my earlier point about the SSG being a little lower optically. If you look at the absolute numbers during the quarter, on a trend line basis they were very robust. So, absolute order counts, absolute revenues per store, those numbers held up, those numbers were fairly robust. So, yes, we did see the impact of the two sporting events play out. But it cannot be reflecting entirely in terms of growth numbers. Part of it was moderated on account of dine-in, like I said earlier, being a little soft. But the numbers don't reflect the overall momentum that we saw in a business.

Abneesh Roy: And dine-in slowdown started this quarter, and that's because of sentiments or competition, what is the reason?

Pratik Pota: So, Abneesh, for dine-in, it was called out in last quarter as well, as a headwind. It's been on for the last five or six months now. There are two reasons for that as we see it, there is an overall sentiment challenge and a footfall issue, that's certainly one larger macro issue that we are seeing which is impacting not just eating out, but other categories as well. Impact is obviously, as you can imagine, a little bit more pronounced in discretionary categories, rather than staples. So, that's one part.

The second part is that as delivery gets a lot more focused on aggregators, as discounting is being driven in delivery, we are seeing behavior change happen of customers moving away from dine-in and becoming delivery habituated. So, those are two reasons why dine-in is under pressure.

And Abneesh, just to finish off, that the response, anything that helps drive delivery, helps drive habit in home consumption obviously plays to our strengths and to our advantage.

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

Amit Sinha: My first question is on your store expansion guidance in Domino's and you had guided for around 100 stores in this year. The question is, I mean, can this number change if this slowdown persists? Or this is a kind of a fixed number which you will do any which ways?

Pratik Pota: So, Amit, as you remember that we had given a target guidance of 100 stores being opened in Domino's this year. All the data that we are seeing as of now, there is no reason for us to revisit that number. And we remain on track for delivering that 100 number. But this is a dynamic business, we look at it every month, and we will be open to looking at revised numbers, both upside and downside. So, I mean, it's not a number that we are married to, but the data that we are seeing right now, all the numbers tell us that that number is absolutely doable.

Remember one thing, Amit, one of the largest drivers to open new stores is to improve the service levels in existing store areas where we are seeing the need for us at the right time to cut down grey areas. And we have seen that a payback of new stores remains well under three years, even stores that we opened last quarter, the quarter before that, the payback hasn't slipped. So, our profitability matrices in new stores have remained robust and therefore there is no reason for us to revisit the store opening numbers.

Amit Sinha: Okay. I mean, basically the kind of growth which you expected maybe at the start of the year and probably that is how it is panning out, right, I mean, broadly. Okay. My second question is on your cost, I mean, both on the employee cost and also you mentioned that the A&P cost has seen a significant increase. So, just wanted to understand firstly on employee costs that has increased meaningfully during the quarter. And if you can help us give a broad kind of indicative number of how much was increase in the A&P cost. That's it from my side. Thank you.

Pratik Pota: I will respond to that. Let me start with personnel costs first, and then respond to A&P thereafter. With respect to personnel costs, the increase that you see vis-à-vis same time last year is on account of three or four things. The first one is on account of the volume impact that we have delivered, the incremental volume that we have had over same time last year. There is a significant portion also on account of minimum wage inflation that's playing out across states. The full year impact or the full quarter impact of B and C stores that opened through the year last year, the new stores opened last year basically, of course, annual increments impact that was given in quarter two of last year and that you are seeing the impact of this year. Also, as we have called out several times, the investment we are making in strengthening our technology teams, in digital and in customer experience areas, in data and analytics, that has led to a very planned increase in G&A, and that is why we have seen increase in personnel cost. Mind you, we have also had a very significant work still going on in driving productivity in our stores. And that has been productivity driven in our stores. So, the net impact, the pressure on account of volume and inflation versus productivity is where you see the numbers having ended up.

Now, with respect to your A&P question, while we don't give numbers, I can tell you that the increase in other expenses that you see are largely on account of A&P being scaled up. Versus quarter four of last year, there was a significant scale up because there was no events last year, vis-à-vis Q1 of last year when we had IPL, even compared to that there was a step up in A&P. Also, the investment that we made in digital marketing, in TV, in the Royal Challengers Bangalore partnership this year, so that's obviously a delta versus quarter four of last year.

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

Avi Mehta: Just on the SSS growth, I am sorry, I joined a little late, sorry if I am repeating, but you highlighted there is a 1.7% impact due to splitting. How do you see the pace of store splitting, is it going to moderate as we go forward or is this the pace that we should kind of assume as we go forward, this kind of impact?

Pratik Pota: So, Avi, as you came in late, so let me touch upon two answers that I have already given, one on SSG and one on store growth. On the same store growth, we talked about three reasons why the numbers are at 4.1%. So, the like-for-like same store sales growth was actually 5.8% as we called out and the fact that we split stores by design and by intent in last quarter. That was one. The second one was the reason that we had a very high base sitting last year of 25.9% same store growth, and then obviously it pulled down the numbers optically in quarter one of this year, which is

the base impact. The third reason was, and we called that out as a hotspot, was a slowdown that we are seeing in dine-in. Part of the reason is because of the overall sentiment being what it is, plus the behavior change, moving away from dine-in to delivery. So, that will be the SSG point to the question that you asked.

In response to your question about store openings, we opened 26 stores last quarter, our guidance is to open 100 stores this year. All the numbers that we are seeing of the new store profitability, the new store payback, tells us that 100 store guidance, there's no need to revisit that and that remains unchanged.

Avi Mehta: Sir, sorry. My question was not regarding the store additions. I understood the concept about that 6% seems to be the underlying SSS growth adjusted to the split. I just wanted to understand this 2% pull down, if I may say, which is happening on the headline reported number, is that a pace that I should kind of factor in as we go forward as well, because we will continue to do the splitting in order to improve the customer experience, given that is the focus.

Pratik Pota: The answer to this part of the question is, yes, this is a very clear strategy that we have articulated at the beginning of the year which is to ensure that we fortress our existing markets to improve customer service levels. And therefore, you can expect the store split to continue with a similar kind of trajectory in the rest of the year as well. I don't know what is the impact of that on like-for-like, but yes, we will be splitting stores in the rest of the year.

Avi Mehta: Okay. And the second bit was on the gross margin. I just wanted to understand if you have touched this, but what drove the moderation in gross margin, was it mix, promotions, input costs? And how do we look at it in the context of the price increase that you have taken in June?

Prakash Bisht: Avi, the gross margin in this quarter, so I will answer you in two contexts. First, in context of the price increase, the price increase came only towards the end of the quarter. So, therefore, the impact of the price increase on the gross margin is negligible. In terms of raw material cost, of course, this quarter the raw material costs are higher. And the reason for that is the commodity, especially milk and mozzarella, the cost has gone up.

Avi Mehta: Okay. So, essentially, it's the input cost that drove of the moderation?

Pratik Pota: Yes. So, just to add to that, Avi, the primary driver of gross margin moderation is on account of dairy prices. This is a seasonal increase that we have had vis-à-vis quarter four last year. So, that's playing out in terms of gross margin moderation. However, as you know, vis-à-vis same time last year gross margin has in fact expanded a little bit.

Avi Mehta: Okay. I was essentially trying to kind of, and correct me if I am wrong, the price increase that you have taken should kind of help us offset some of these impact in addition to also probably aiding SSG assuming that the volume impact has not been seasonal?

Pratik Pota: Yes, Avi. That was the reason why we took the price increase. Mr. Bhartia pointed out earlier, we have been very, very circumspect about taking price increase, we have not taken any price increase in the last three years almost. So, yes, this was in response to the inflationary pressure that we saw primarily on account of dairy. And that should help us mitigate some impact of these inflationary pressures.

Avi Mehta: And lastly, any comment on the competitive intensity, has it risen, especially from the aggregators/other peers? That's all from my end.

Pratik Pota: Yes, Avi. I mean, I think the fact that there has been an increased level of activity, both on media and in terms of promotions and discounting by aggregators, I think that everyone has seen that just as evident. However, rather than seeing that as a competitive headwind, the way we work with aggregators is to use their aggression to our advantage in helping us drive new customer acquisitions, helping us drive the growth of the pizza category overall. So, while yes there has been a lot more competitive intensity from the point of view of more media spend by aggregators, more discounting, we see aggregators being our partners and allied in driving growth and drive new customer acquisition.

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

Vivek Maheshwari: First question is on price hike, so can you quantify the level of price hike? The other part is, in the context of aggregators giving so much discounts and aggressive promotion, is it a good strategy to take up prices at this point of time? While I understand you haven't done it for three years, but isn't timing wise it's an incorrect one?

Pratik Pota: So, Vivek, the price increase was very moderate. And like I said earlier, was made necessary on account of the commodity inflation that we have seen. It's important to remember that even post price increase, our pizzas post tax are at the same price, or in fact lower than the prices that we had in December 2015. So, from the customer point of view, we are still offering great value for money. And we don't think that this is a headwind in this area that you called out, but aggregators are becoming more aggressive. Because there is a menu price and then there is a way, we continue to offer everyday value. At you know, our EDV price points of Rs. 99 and Rs. 199 have not been disturbed, have not been changed. So, I don't think there is an either/or, I think there was a very clear cost pressure. We responded to that by taking a very small and very calibrated price increase. We remain invested in driving growth by looking at both strategic discounting which is everyday value and tactical discounting, which is occasional, which helps us drive customer acquisition, helps us drive growth. Both can coexist peacefully.

Vivek Maheshwari: Okay. And can you quantify the price hike percentage?

Pratik Pota: Vivek, it was very small. I would not like to give a specific number; we haven't done that in the past as you are aware. But it was low single-digits, very low single-digits.

Vivek Maheshwari: Okay. My second question is on the like-for-like as you have defined, 5.8% SSG. I mean, your base is also high until the third quarter of last year. I mean, 5.8% SSG on a like-for-like basis isn't also a very impressive number. So, I mean, with inflation deck being higher, what is your expectation on a full year basis, can margins come down further because this is the first quarter after long that like-for-like margins have actually come down. So, how do we look at this for the rest of the year?

Pratik Pota: So, Vivek, our margin pressure that we spoke about was on account of two things, and you saw it in Q1 Vs. the previous quarter, commodity inflation and a very sharp step up in advertising & promotion expenses. The commodity inflation we spoke about earlier, we have responded to that by taking a small price increase. Our advertising & promotion expenses were stepped up because of the events and activities that we had in quarter one. We don't expect this high level of A&P to continue in the balance of year. We also have significant work streams going on, on driving productivity and driving efficiencies in response to ongoing inflationary

pressures that we see in the business, ongoing competitive issues that we see in the business. So, we don't expect the margin challenges to be significant. That said, as you are aware, we don't give a margin guidance, but we are not seeing, because the two big headwinds on margin we have responded to that, one will go away the A&P pressure, or will get reduced significantly. And inflationary pressure we have responded to.

Vivek Maheshwari: Just a follow-up to that, 5.8% like-for-like is that good enough for you?

Pratik Pota: Vivek, again, it's important to unpeel this growth. I talked about three reasons why the growth is optically lower. One is of course at 1.7% delta which gets us to the like for like of 5.8%. The other one is the significantly high base of same store growth from same quarter last year. And that also adds a significant delta. So, again, if I look at my absolute number, not just the optical growth numbers, the number that we are seeing in quarter one are robust, they are healthy and in the right direction.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: The first question would be, if you look at couple of quarters back we had highlighted like delivery would be approximately 50% of our total sales. So, how has this proportion moved? And are we able to cover up the lost sales of dine-in because of the higher demand for your delivery sales?

Pratik Pota: Manoj, you are right, we had called out delivery and dine-in being roughly 50:50 a couple of quarters back. Our delivery growth over the last few quarters has been higher than dine-in. So, the mix has moved more in favor of delivery. And in answer to your question, I think it's important to recognize that we drive both dine-in and delivery, it's not either/or. We are investing in dine-in, as you are aware, whether it is through improved store ambience and store interiors and store design, whether it is through driving Pizza Mania, which is our entry level products in the dine-in category, whether it is through improved store network by adding more proximity of stores. So, dine-in continues to be an area of focus for us. It's an area where we need a lot of new customer acquisition as well. So, that will remain in focus. We also drive delivery panel, fortressing existing markets, getting to better tighter drive time, tighter trade areas, one way of driving delivery, using technology and investing in online ordering, and improving customer experience is another way of driving delivery. Aggregator partnerships I spoke about is another way of driving delivery. So, both of these channels remain important assets for us. And we keep investing behind both significantly.

Manoj Gori: So, now when we look at our base is no more favorable, so obviously this was one of the reasons you highlighted for the lower SSG number. So, going forward, if you look at, now our base is like pretty healthy base. So, if you look at World Cup being in the quarter, so can that be a possibility like there could be lower growth in terms of absolute numbers? And if you look at the quarter like from April to June, if you if you go by the month, has the situation or the sentiment deteriorated like on month over month basis and how is the sentiment in July?

Pratik Pota: Manoj, let me answer second question first. We have not seen the sentiment deteriorate over the quarter, if anything, we have seen it strengthen and even get a little better. So, there is no trend that we have seen that April was not better than June, we haven't seen that sustained headwind. Number one. Number two, going forward, while even tailwinds may not be there, for example, you talked about the World Cup, we are confident that we have got a very strong set of plans in the driving growth, online sales, our assets being strengthened using conversion improvements, using digital marketing, SEO to both drive traffic and drive

conversion, on our own assets, number one. Number two, working with aggregator partners, we have a very good and strong CRM program we are investing behind which will help us drive both customer frequency, and of course drive retention. We also are looking at aggressive innovation, you saw WPL that we did last quarter. Innovations will remain a significant area of focus and investment for us going forward as well. And we have many more innovations in the pipeline.

I talked about dine-in, the fact that dine-in is of strategic importance to us, so you will see us take specific measures to drive dine-in growth as well. And lastly, the price increase that we took in June which didn't really impact us in quarter one, will play out in quarter two, the quantum of that remains to be seen, but that is certainly going to be a tailwind as we go forward.

Manoj Gori: One small question, if you look at you definitely highlighted that there are new additions to your customer base. But how are you looking at, like how are you actually figuring out the frequency patterns? Because if you look at over the last two years whatever initiatives you have taken has definitely increased the frequency of older customers. So, how is that frequency panning out because of the food aggregators? So, that could be very helpful.

Pratik Pota: Manoj, like I said earlier, our investments in many of these growth drivers, whether it is technology, whether it is CRM, whether it is a customer experience in dine-in was driven towards two objectives. Number one, increasing the pace of customer acquisition; number two, increasing the frequency of existing customers. And we feel happy, we feel good about how frequency of existing customers has held up. We know that most of our high frequency customers have downloaded our own app, and our habitual customers on our own app. They are typically more with a higher ordering frequency, higher ticket size and therefore a greater value to us. So, both from a customer acquisition point of view and the frequency point of view, we believe we have the right drivers to influence and impact growth positively.

Moderator: Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: My first question is on IND-AS 116. There is a drawdown effect, if I can call it that, on the profit after tax and profit before tax on account of IND-AS 116. Could you spend some time explaining what has really happened out there? And there's also an absolute finance cost charge which is there on the numbers on a comparable basis, what is the reason for that?

Prakash Bisht: So, Nillai, thank you for asking this question. So, since you have asked two basic questions, I will take a little time to explain you the change that has happened because of IND-AS 116. So, in IND-AS 116, all the leases which were there have been taken into the balance sheet and an equivalent liability has been created. Now how that is done is, you take the entire period of the lease and consider the lease payments during the period. Those lease payments you discount to the present value. So, that is your asset value as well as your liability.

Now, the asset which becomes the right to use asset, you depreciate over the period of lease. Whereas, the liability you unwind, charge interest at which you have discounted it. So, as a result, this charging of interest, the liability will increase and the rent payments you would set off against this liability. So, at the end of the lease period, the asset will become zero because you would have charged depreciation on it, and at the end of the lease period again the liability would become zero. So, it's a matter of only timing.

So, IND-AS 116, the way it is designed, in the initial year, because of the discounting, the charge will be higher, but in the later years, the profits will go up. But over a period of time, the total profits would remain the same. So, therefore at this period what has happened is the rent expense which used to be there got converted into depreciation and finance cost, so finance cost is coming because of the interest unwinding that we are doing on the lease liability.

Now, your question was that why it has impacted PBT? So, in the initial years the PBT is lower, but in the later years it will become higher. So, over a period of time the profit would remain same. Does that answer your question?

Nillai Shah: Yes, absolutely. But what is this period of time approximately, is it like two to three years or is it like the full period of the assets which will be about nine years?

Prakash Bisht: It is over the period of the lease, it would become same. In our case because again, the period after period numbers are also affected by the number of stores that you would add. So, there can be no clear-cut answer to that what would be the impact in the coming period. But if you were to theoretically assume, the number of stores remained the same, so the impact that you see in this year should almost become half next year, almost negligible in the third year, and then you should see the positive.

Nillai Shah: Understood, very clear. And also, the finance cost, the absolute small number of Rs. 26 lakh. What's that on account of the comparable numbers?

Prakash Bisht: That's some MSME interest that we have to pay.

Nillai Shah: And moving on to the second part, Pratik, you mentioned that the ad spend, only you didn't quantify, you said that the jump in the other expenditure which is there, which is close to about Rs. 30 crore either Q-on-Q or YoY is largely an account of the higher ad spends. So, is that the number roughly, Rs. 30 crore, is it as high as that or is it something else to it?

Pratik Pota: A substantial part of that delta, Nillai, is on account of the advertising and promotional cost. There's also some inflation sitting out there, as we imagined, and some volume impact on account of higher, higher sales. So, packaging, power and fuel, freight, etc. So, volume impact, the inflation impact, significant increase in advertising and promotion and a one off.

Nillai Shah: Sorry, the one-off is?

Pratik Pota: The one-off was on account of contribution that we make, political contribution in quarter one.

Nillai Shah: Which contribution, sorry?

Pratik Pota: Political contribution.

Nillai Shah: Okay. For our understanding, Pratik, although you don't want to do this on a quarterly basis, I understand, but just for this quarter would you be at liberty to disclose this number, just to help us understand the underlying business?

Pratik Pota: We are disclosing this as per the requirements, Nillai, in our annual report. So, yes, you will get to know the numbers then.

Nillai Shah: No, ad spends.

Pratik Pota: For the ad spend? Nillai, I would not like to make an exception and disclose the numbers. But I think you will hear us say that the most significant part of the delta was increasing advertising promotion spends.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Pratik, you mentioned about your growth was also moderated because of the high base of last year. So, if you can like give us some understanding about how was the industry growth during the first quarter? And also help us understand, considering in the second half when your base will also be normalized, so can we expect again that the bounce back of let's say high single digit to low double-digit kind of SSG?

Pratik Pota: So, Naveen, let me respond to your first question to begin with, about the impact on how is this playing out for the industry. While we don't have access to, obviously, numbers from the other leading industry players, I think the larger thing that's playing out is that there is a pressure that everybody is experiencing on dine-in. For those two reasons, the same reason that I called out, one is that overall dampening of consumer sentiment, lower spending on the discretionary categories, that's one. And the second one is the growth of delivery. So, that's clearly one democratic trend that is being experienced by all restaurant brands across. There is also the growth in delivery that is being driven largely by aggregators. And that's also helping mitigate some of the dine-in downsize. So, those are the two common trends that the industry is experiencing as well.

On the likelihood of quarter two and subsequent same store growth, you are aware, Naveen, that we don't give guidance. But I did call out those three reasons behind our quarter one same store growth, the impact of like for like and splitting stores and quadrupling existing markets, the impact on account of making sure that our base impact was very high. So, that was the second reason. And therefore, of course, was the dine-in softness. So, those three reasons will play out differentially over the next few quarters. And that will lead, of course, and there will be our own initiatives that we will be rolling out to drive growth. Where the sigma that will land up, I don't know. But we feel good about the growth drivers that we have for the balance of the year.

Naveen Trivedi: And considering you have a higher proportion of delivery, and you also mentioned that the delivery part has done well for the industry. So, can we expect your number is basically, and if we compare to any of the QSR player, both in the listed and unlisted side, you have outperformed significantly?

Pratik Pota: Hard to tell, Naveen. And I wouldn't hazard a guess. But I can tell you one thing, we are investing significantly in improving our delivery experience from the ordering experience to the last mile delivery experience. And fortressing of our existing market is a step in that direction, tighter trade area, smaller drive times, faster delivery, better visibility of orders through GPS tracking, much better quality of ordering experience, our app does really well, our App Store rating is very good on par with any other competitor, any other aggregator as well. So, we are investing in driving delivery and we feel good about the growth drivers that we have invested behind delivery.

Naveen Trivedi: My second question is you started a 20-minute delivery on a few stores. So, could you please share your initial response and what we also found that globally also many, even in Domino's Australia also, we found that they also reduced the delivery time, so how was their experience and how maybe if you can share some like thought process behind this cutting down delivery time?

Pratik Pota: Yes, Naveen, and I think you are talking about the pilot we are doing many stores across the country of 20-minute delivery. Our experience has been very positive. It's early days yet. But we are seeing 20 minutes delivery translate into much better customer satisfaction scores. And that's evident in the feedback we get, both on our own assets and on social media. So, that clearly is visible.

The experience from Australia suggests that having faster delivery, while it may depress same store growth in the short-term, in the medium to long-term, it aides and helps drive much greater customer stickiness and much higher customer frequency. Our own modelling in India also suggests that that would repeat and that would replicate in India as well. So, it is the optics of same store growth getting depressed in the short-term as we split stores, being compensated in the medium to long-term by much higher customer satisfaction, translating in greater stickiness and higher frequencies.

Naveen Trivedi: So, when we reduce our delivery time to 20 minutes, do we need to spend a lot on our infrastructure, because it's just the pilot we are running it. So, if you are to roll out for around 1,200+ stores, do we need to spend a lot on like maybe on the cooking time, and maybe the delivery processes which we have to set up?

Pratik Pota: Naveen, the answer is no. The investment that we need to make is not disproportionate. Essentially, the way it works is actually there's an entire value chain from the ordering to the fulfillment to the confirmation of the order, there's a lot of small things that we do which are more driving process efficiencies and speed of execution without necessarily the commensurate investment or higher costs. Our splitting of stores and having tighter drive times, tighter trade areas of course is one step in that direction, helps us get to faster delivery. But there are a lot of small things that we do, enabled by technology as well, which allow us to cut drive times cut times, cut delivery times, without necessarily adding cost. It's more about process efficiencies, more about data analytics, and using AI and ML, using technology to cut the entire value chain time without necessarily adding cost. It's not about cost, it is more about analytics, about technology, about process efficiencies.

Naveen Trivedi: And my last question is on the menu side, what we observed there is that in the Domino's scale, the beverage is something which we missed out. And while we observe that in the case of Dunkin' and in the case of Hong's Kitchen, we have a very good menu in terms of beverage and dessert side. So, can we expect that those things will also be part of our Domino's menu?

Pratik Pota: Naveen, on the beverage side, as you are aware, the first step we took was we changed our beverage partner last year, that helped us drive both higher incidence and growth, and higher profitability. Number one. Number two, progressively we have in most of our large store fountain machines being installed. So, all our dine-ins will therefore largely move to fountain machines, we found a solution, allowing us for selling many more combos, allowing us also for doing CSD based innovation.

And now coming to your specific question, yes, you will see a step change innovation in beverages as well as we go forward. Getting fountains in the store is an enabler and is a step in that direction. But you will have a lot more happening on beverage innovation.

It may not all happen in the next quarter or so, I am talking about the longer-term strategy of driving incidents, both in dine-in and in delivery. So, beverage will be a big innovation focus for us as we go ahead.

Moderator: That was the last question. I now hand the conference over to the management for the closing comments.

Pratik Pota: Thank you, everyone, for joining us today on the call. This call was a little later than what we have been having traditionally, we appreciate your flexing schedules to be on the call. We hope we were able to address all your queries. And needless to say, should you need any more clarification, please feel free to reach out to us or to CDR India, of course and we will revert to you. Before I sign off, let me just once again reiterate by saying that we are satisfied with our Q1 performance and are excited by the opportunities that lie ahead of us. Thank you once again for your time. Good evening to you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Jubilant FoodWorks, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.