Q2 & H1 FY20 Earnings Conference Call Transcript
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Call Duration : 1 hour 5 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 Sachdeva - HSBC
Amit Sinha - Macquarie
Avi Mehta – IIFL
Mohit Khanna - Future Generali India Life Insurance
Naveen Trivedi – HDFC Securities
Nillai Shah – Morgan Stanley
Prasad Deshmukh - Bank of America
Ritesh Gupta - Ambit Capital
Vishal Gutka - PhillipCapital
Vivek Maheshwari - CLSA

Moderator: Ladies and gentlemen, good day. And welcome to the Jubilant FoodWorks Limited Q2 & H1 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 now 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 Q2 & H1 FY20 Earnings Conference Call for Analysts and Investors. Today, we are joined by senior members of the management team, including Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks, Mr. Pratik Pota – CEO and Mr. Prakash Bisht – CFO. We propose to commence with perspectives from Mr. Bhartia. Thereafter, we will have Mr. Pratik Pota sharing his views on the progress JFL has made operationally, strategic imperatives that lie ahead and the outlook. After the opening remarks from the management, the forum will be opened for question-and-answer session.

A cautionary note. Certain statements that may be made on today's call could be forward looking in nature, and the actual results may vary from these statements. A detailed statement in this regard is available in Jubilant FoodWorks' Q2 & H1 FY20 results release and earnings presentation, which are both available on the company website under the Investor Relations 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 Q2 & H1 FY20 Earnings Conference Call of Jubilant FoodWorks.

In the last two and a half years, you have heard me talking about giving more value to customers, fortressing our stores to improve service and delivery time, new opportunities to serve our customers through railway ordering and online delivery, continuous innovation with new products, investing in data science and technology to improve customer experience and efficiencies, continuously working on improving operating leverage to improve margins. Here, I must say that these initiatives have continued to help report a healthy double-digit revenue growth in the face of challenging external environment.

We also opened 40 new stores during this quarter, highest in the last 15 quarters. In-line with our ongoing strategy of improving customer experience, all these stores were based on our new store design. I must also add that we continue to see good opportunities for splitting stores in existing markets presently being served by us, and also open new stores in markets not being served by us in existing and new cities.

We continue to invest in technology and further strengthened our digital infrastructure. Our OLO contribution to delivery sales increased to 85% of our delivery sales in Q2.

Domino's Pizza Bangladesh continues to do very well. We opened our second store in Bangladesh. We, at Jubilant FoodWorks, see a large potential in this market.

On Hong's Kitchen, we continue to witness encouraging response from our customers, and we will be scaling up this brand gradually and increasing its store footprint.

Notwithstanding the temporary challenges, we believe that the organized food services industry has a huge potential and will continue to deliver sustained growth.

With this, we are confident that we have the right strategy and levers in place to help us drive profitable growth.

With that, I will request every CEO – Mr. Pratik Pota, to share his thoughts on the performance.

Pratik Pota: Thank you, Mr. Bhartia. Good afternoon and a warm welcome to everyone.

Faced with a challenging demand environment and high inflationary pressure, we delivered a strong performance last quarter. Our operating revenue during Q2 was Rs. 9,882 million, an increase of 12.1% over the last year. This was driven by like-for-like sales growth, that is the growth of non-split stores, of 6.5%. Same-store sales growth was 4.9% in Domino's Pizza on a high base of 20.5% in the previous year.

We continue to see strong growth in delivery, led by the online channel and on the back of strong order growth. At the same time, there was a visible pressure on dine-in sales. During Q2, our online sales improved further and now stand at 85% of total delivery sales. The Domino's Pizza app continues to do well and recorded 3.7 million downloads during the quarter.

EBITDA for Q2 stood at Rs. 2,350 million, at 23.8% of revenues. This represents a sequential improvement of 50 basis points over the preceding quarter. This is despite the significant inflation in commodity prices, especially in dairy and in manpower that we witnessed during the last quarter. Despite these pressures, our margins improved sequentially through, number one, a small price increase towards the end of quarter one, number two, smarter, more targeted promotions, number three, improved delivery efficiencies and number four, increased manpower productivity.

We opened 40 new Domino's Pizza stores and closed six. Our restaurant count now stands at 1,283 restaurants in 276 cities. We entered the new market of Agartala during the quarter, and exited Ramnagar in Karnataka.

Domino's Pizza Bangladesh is progressing well. We have added another store this quarter and plan to open five stores by the end of the year.

At Dunkin' Donuts, there was no change in number of stores, which stands at 30 restaurants across 10 cities.

Hong's Kitchen continues to show encouraging trends, and we remain enthused around the overall opportunity in the Chinese segment. We shall be extending our Hong's Kitchen footprint in a gradual and calibrated manner, starting this quarter.

With this, I would like to hand over to our CFO, Mr. Prakash Bisht, for his comments.

Prakash Bisht: Thank you, Pratik. Good afternoon, everyone. I will take you through the financial performance of the company during Q2 & H1 of FY2020.

Before that, let me share that all financial reporting and discussions has been done in accordance with the standalone Ind-ASInd-AS financial statements of the company. We would also like you to recap that the company adopted Modified

Retrospective Approach for transition to Ind-AS 116 with effect from 1.4.2019. And accordingly, the FY20 numbers are as per Ind-AS 116, whereas the FY19 numbers are as per the old applicable accounting standards and are not comparable. For the reconciliation between comparable numbers, as per old applicable accounting standard and Ind-AS 116, as reported, please refer to Note 3 of the published results.

As confirmed by Pratik, our operating revenue during Q2 was Rs. 9,882 million, an increase of 12.1% over the last year. EBITDA for Q2 stood at Rs. 2,350 million, at 23.8% of revenue.

Before coming to profit after tax, we would like to share that the tax expenses for the current year have been recognized on the basis of reduced rates in accordance with the Taxation Laws (Amendment) Ordinance, 2019. These include a onetime charge towards re-measurement of deferred tax assets and liabilities and also true-up of tax expenses of Q1 FY20. Deferred tax assets created through reserves at the time of transition to Ind-AS 116 has also been reversed through profit and loss accounts on account of re-measurement.

Coming back, our reported PAT for Q2 came in at Rs. 759 million after providing for exceptional items and onetime tax charge. However, as explained in our earnings presentation, our normalized PAT under Ind-AS 116 before onetime tax charge and exceptional items for Q2 came in at Rs. 961 million, that is 9.7% of the revenue.

For Q2 FY20, the total CAPEX stood at Rs. 537 million, mainly towards opening of new stores and maintenance CAPEX.

Coming to H1, we reported operating revenues of Rs. 19,283 million, a growth of 11.1% over last year. EBITDA for H1 came in at Rs. 4,541 million, at 23.5% of revenues. Profit after tax stood at Rs. 1,507 million, at 7.8% of revenue.

With that, I would like to hand over the call to the moderator for question-and-answer session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: My first question is on your delivery time. And just wanted to understand if is it possible to share what would be an average delivery time for the Domino's system as we speak? And with the aggressive split store strategy which you are following, what is the target going forward in the medium-term?

Pratik Pota: Thank you for the question, Amit. As you are aware, the brand, Domino's, has been built over the last 20-plus years on the back of reliable, consistent delivery within 30 minutes. That focus and that rigor continues. It is enabled now and multiplied by technology and a lot more tools that we have in the store. Obviously, as we split stores, one reason why we do that is to get closer to our consumers, closer to our consumption areas and micro markets, and that does help in improving the delivered time. We do not share, as you know, numbers on exact delivery time, but you can be sure that this is a very sharp area of focus for us. And fortressing markets will only help us do better on this count.

Moderator: The current participant has moved out of the queue. So, we move to the next question from the line of Mohit Khanna from Future Generali India Life Insurance. Please go ahead.

Mohit Khanna: Congratulations on a strong set of growth numbers here. I just wanted to understand what has really worked in your favor. Because last quarter, the previous quarter, we had World Cup, and that was supposed to be working in the favor for SSG, and this was supposedly the consumer slowdown quarter. So, what exactly has worked in our favor? And why do you think this will continue in the quarters to come?

Pratik Pota: Thank you, Mohit. I think as we look back at Q2, what has worked for us is our very disciplined focus on our strategy that we have been pursuing for the last couple of years. I think our continued delivery of strong value for money, our continued focus on product quality and on innovation, our focus on driving improved customer experience and, of course, our investments in digital and in technology. If I can just build on that, our strategy of fortressing markets by having more split stores has clearly helped improve customer experience, has helped bring the brand closer to consumers.

Our investments in digital have helped drive a very strong online growth. As we spoke about earlier, online is now 85% of delivery. We had 3.7 million downloads of the app. Our app rating on the Play Store is 4.4, which is ahead of any other food tech app in the country. So, just the disciplined approach to making sure that we execute our strategy has helped us deliver double-digit growth. In terms of the bottom-line, I think, again, a lot of investments in ensuring we drive productivity, extract inefficiencies from our operations. That has really helped deliver sequential margin improvement despite, like I said in my remarks, a reasonably strong inflationary environment.

Mohit Khanna: Would you like to talk about specific product or any offers that helped you guys? Also, please share what is the recent traction that you are getting on the in-house beverages that have been launched. Thank you.

Pratik Pota: Yes, Mohit. So, the growth has been fairly democratic across the entire portfolio. We have seen growth in our core pizza range. We have seen growth in Pizza Mania. We have seen growth on sides and on beverages. The only difference that we have called out is that there was significant growth in delivery, within that, of course, in online delivery, which more than compensated the headwinds that we faced in dine-in.

Coming to your question about the value-add beverages, we have launched that in a few markets, in a few stores by way of an experiment. I think the early indicators are very positive, and we are learning from that experiment. And we will take a call on scaling that up as we go along. But I think the important point to also take out is that our investment in creating fountaining infrastructure, fountain machines in our stores is allowing us to innovate a lot more in beverages and to offer products to consumers which are margin accretive and offer variety to consumers.

Mohit Khanna: Fair enough. If I can just shove in one small one here. There have been reports that Swiggy and Zomato are not very favorable to the pizza delivery system. How do you see the relationship with Swiggy and Zomato continuing forward?

Pratik Pota: So, Mohit, we see aggregators as partners in helping us grow both the pizza category specifically, and more generally, the eating-at-home category and in building frequency, driving new customer acquisition. So, we work very closely with them. And this partnership is based on insights, on data, on consumer understanding and we share with each other's knowledge of how do we grow the pizza category. On the solution, as you can imagine, would be different in different markets. It will be different in a market like, let us say, a Mumbai or a Bangalore, Delhi, with a bit smaller market. But it is this knowledge sharing and this insight sharing that let us work together and grow the category.

At the same time, however, we recognize the importance of building and investing behind our own assets, which is why the investment behind digital in our own app, in ensuring that it is the best quality out there, ensuring we have app downloads. Equally, we are also investing in dining-in. And Mr. Bhartia called out in his opening remarks, the fact that we have build up a new store design and all our new stores are carrying this new design. So, we recognize the importance of dine-in as a channel for maintaining customer connect, for recruiting new customers. And therefore, even as we work with aggregators to drive market expansion and pizza category expansion, we will also invest in building our own digital assets and investing in strengthening dine-in.

Moderator: Thank you. We move to the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: So, my first question is on, again, the third-party app. So, I understand that you are sourcing some demand from third-party apps. But are you also using the third-party delivery force to bolster your own delivery or is this still completely in-house?

Pratik Pota: Aditya, we believe that owning the last mile is a very, very inviolable and essential part of the customer experience. So, even as we work with third-party aggregators to drive category expansion, the entire delivery fleet is Domino's. They are our employees, they are trained by us, they follow our SOPs. And we do not use third-party manpower in any form or shape.

Aditya Soman: I understand. Very clear. One of the concerns we had was just on employee cost. Again, this quarter if you look at employee costs, they are up about 16% year-on-year, and there is talk about sort of minimum wage coming in. So, how do you look, how would you plan on reducing this, given that same-store sales, obviously, has been much lower than this?

Pratik Pota: I think the employee costs that you see there in the P&L, the sequential increase is something that we see every year on account of the increment cycle that kicks in at this time of the year. So, even as that increase plays out and we see minimum wages increase in some markets, which will bring obviously the pressure on manpower cost, we have a very clear program which is in that improving manpower productivity and manpower efficiencies. Our investment in delivery technology and rider tracking is allowing us to drive far better delivery efficiencies. So, this quarter, for example, what you saw in the P&L was a net outcome of inflationary pressures on account of increments in minimum wages, etc., compensated partly by productivity and improved efficiencies, and also operating leverage.

Aditya Soman: I understand. Thank you. And lastly, you mentioned that there was a small price increase. Can you elaborate further on how much of the price increase would have been transmitted on, given that you also had some targeted sort of promotions?

Pratik Pota: Yes. So, we had a small price increase, Aditya, which we spoke about. And like in all price increases, there is a short-term impact and then there is a medium-term impact. Happy to report that the price increase settled down well and we do not see any material sort of pushback or response to the price increase.

Aditya Soman: All right. Any number you want to call out in terms of what the breakdown of the SSG will be, or that is not something you would share?

Pratik Pota: Aditya, we do not normally call out these numbers. I think the important point that I would like to underline is that the price increase has been accepted well and is not into any other downward pressures.

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

Avi Mehta: Pratik, just in the first half you have done very healthy store additions of almost about 66 stores. In that context, would you revisit your annual guidance of 100 stores? And what would be the related CAPEX for the same? If you could kind of help us.

Pratik Pota: Yes. Actually, if you will recall, we had called out store opening guidance of 100 stores for the year, and we have already, at the end of the first half, opened 66 stores. As Mr. Bhartia said in his opening remarks, we remain very confident about the opportunities for fortressing the markets and opening stores in new markets, both in existing towns and in new towns. Consequently, we intend to open more stores than originally planned. We are looking at opening 30 stores-plus in both quarter three and quarter four. So, that will take us to about 120 stores-plus as we exit this year.

Prakash Bisht: CAPEX for the year is likely to be in between Rs. 200 crore to Rs. 250 crore.

Avi Mehta: Okay. That is very good to hear. The second question was on just understanding the input cost environment, especially because if I remember in the first quarter call, you had said that input cost pressure that you had witnessed should moderate because of the price increases percolating through. But if you look at the RM cost-to-sales, that has kind of increased further from Q1 levels. So, is there one-off over there? Or if you could kind of help me understand this part.

Pratik Pota: So, Avi, I think in this quarter especially, the inflation that we saw and experienced on dairy was significant, both on a sequential basis as also versus same time last year. And that was very, very pronounced. I think despite that inflationary pressure, we were able to mitigate the impact of that on account of what we think, one is, of course, the price increase helped mitigate that impact. I think we had much more targeted promotions, which helped us bring our promotion costs down. And also, we had some other productivity in other cost lines, which helped mitigate the impact of dairy increase.

Avi Mehta: So, has this moderated? I am sorry, I just wanted to understand this. Is it kind of at the same level or has it come off, or is it kind of still going up? If you could give me a sense.

Pratik Pota: Yes, Avi. The good news is that it stopped going up now. It is flattened and we see it moderating in the months and the periods ahead.

Avi Mehta: Okay. That is good to hear. And with your permission, a last question. We have seen SSG growth improving marginally from Q1 levels, despite there being a reduction in these one-off events like IPL. Does this not suggest that our initiatives and the industry dynamics are kind of more favorable versus other consumer companies? And is that how I should read this, that even in the sentiment that everyone has kind of arguing, calling out weakness, we should continue to see at least this kind of level of growth continuing?

Pratik Pota: So, Avi, we experienced pressures on dine-in, which I think, was a reflection of the overall sentiment that exists. We also saw pressures in our smaller towns. If you will recall our earlier calls, we talked about how small towns have been growing at a very healthy rate. In quarter two, we saw moderation of growth in our smaller towns and smaller markets, again reflecting the overall damping of consumer sentiment. However, what helped us prop up SSG and like-for-like especially is the focus on delivery, our focus on our strategy, which has worked. Going forward, we remain confident that we have got levers that we can deploy to keep driving sustainable growth. Again notwithstanding the pressure on dine-in, we are looking at initiatives and projects to drive dine-in growth as well. And of course, we remain invested in looking at how we can accelerate delivery growth.

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

Vivek Maheshwari: First question is on dine-in. Is dine-in growing or is it kind of declining? And do you think this move towards delivery is a structural one?

Pratik Pota: Vivek, thank you for the questions. You are aware, we do not give specific numbers. Suffice it to say that dine-in has been underperforming. It represents two things. One is like you called out, a structural shift happening in the industry. As consumers seek more convenience, they want the option of home delivery. And there are many more brands giving them delivery. So, clearly, there is structural shift happening in favor of delivery. Equally, there is also an impact, and all data shows that, of the current consumer sentiment, the prevailing demand environment in the country. So, it is a reflection of both.

Vivek Maheshwari: Okay. And secondly, could you quantify the price hike that you have taken and the time when you took it?

Pratik Pota: We took at the end of the first quarter, so there was no increase taken in Q2 additionally. We took it in June, the second half of June, the last week of June. There has been no further increase thereafter.

Vivek Maheshwari: And what was the quantum, Pratik?

Pratik Pota: It was very small, Vivek. Very, very small. I think the important thing to also underline, and this goes back to the point of value for money that Mr. Bhartia called out, that even today, post tax our pizzas are as affordable as what they were four years ago. So, consumer would pay the same amount, in fact a little less than what you will have paid post tax for Domino's Pizza in November 2015.

Vivek Maheshwari: Sure. And lastly, due to the store addition guidance being upped, there would be cannibalization as we go ahead, right? So, that is going to put pressures on like-for-like comps, right, as in the SSG?

Pratik Pota: Well, I think the logical outcome of having a split store and fortressing market is that it would impact same-stores downwards. It will not impact the like-for-like growth because like-for-like is the growth of non-split stores. But that is a mathematical point. I think the larger point, Vivek, that I would like to call out, is that, as we look ahead and look at all the options available to us, we believe that we have enough opportunities for driving sustained, profitable growth, whether it is in delivery or indeed it is in dine-in. So, I would put the mathematical point aside, I would go back to the larger point of growth opportunities.

Vivek Maheshwari: My only question was can we go back to the couple of years back regime where macro was tough, you were splitting stores aggressively and SSG actually faltered so much that margins started coming under pressure. So, I mean, if you adopt the same strategy, macro is any which way is not looking conducive, can't you go back to the same period of challenging margins? Just from what we saw, the downgrade cycle started and so on and so forth. So, that is only worry that I have.

Pratik Pota: No, Vivek. That is a fair question. I will say a couple of things. First one is that the learning from that period, and we have called out the last couple of quarters as well, we carry those learnings and we make sure that we keep those in mind as we look at expansion of our store network. That is the first point. The second point is that as we look at fortressing our markets and splitting stores, we are seeing a recovery of the mother stores coming back much faster. We are seeing the cash-on-cash return and the payback being well under three years of new store. And therefore, we do not see that outcome happening as we go forward.

Moderator: Thank you. The next question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: Congrats on a good set of numbers. I have two questions. Firstly, we have noticed that a ground check suggests that you have taken a good amount of steps to reduce employee costs, to rationalize the employee's costs with regards to the payments made to the floaters and the part-time employees that are likely to increase in Diwali season. What we noticed is that we are hearing from the market that Amazon and Dunzo, both are planning to enter food delivery market. Do you think the steps taken to rationalize the manpower cost are sustainable? A second question is basically on your tax rate guidance for FY20 and FY21.

Pratik Pota: So, Vishal, on the first question, we have been in this market now, and we have worked in a market where there has been competition for delivery talent, whether it comes from conventional food aggregators, or comes from any of the e-com players doing delivery. We have now developed the playbook by which we can recruit large number of delivery manpower, train them, deploy them, make them work productively and efficiently. You must pay up to do all of that. If Amazon enters the food delivery space, that would be a great entry because it will help us to be our partners in expanding the category even further. Yes, there will be some additional markets for delivery talent. But we do not feel deterred by that. I think we have the playbook. And of course, we refine the playbook as we learn. We experiment, we try new things, we use technology, we use partnerships, and we learn. So, I do not think that is a headwind that I would call out. I think we have also had demand for delivery manpower in the first half of this year. We managed that. I mean you have seen already management and manpower costs. We do not see that as a material headwind going forward.

Prakash Bisht: And Vishal, with regard to the tax guidance, as I also told you during our opening presentation, that we have moved to the reduced rates of tax. So, from earlier 34.9%, now we are, I think, our tax rate is 25.17%. And if you see the ETR, if you take out that one-time tax adjustment, our ETR is coming about 24.9%. I think that is the rate which is likely for the year. Vishal, has that answered your question?

Vishal Gutka: Yes. Thank you.

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

Nillai Shah: Prakash ji, my first question is on tax again. There should have been a reversal of the tax rates from Q1, so why is that not reflected in this quarter?

Prakash Bisht: Can you just repeat it, please?

Nillai Shah: There should have been a reversal on the tax rate from the first quarter or the taxes from the first quarter. So, the tax for this quarter should have been lower than the 25% that you reported underlying.

Prakash Bisht: Yes. So, if you see, there are two one-time adjustments. So, first one-time adjustment is the reversal of tax for Q1, which is correct. So, we provided higher tax in Q1, which has got reversed in Q2. So, on account of that, the tax expenses were lower by this amount. So, now there are other adjustments, which is on account of re-statement of deferred tax assets and deferred tax liabilities. So, when we have done the re-measurement of deferred tax assets and liabilities, so there is a charge. So, the net impact of these two items is what we have reflected as one-time expense in our quarterly financial statements.

Nillai Shah: Correct. But your underlying tax without the DTA rebalancing is 25%. It should have been lower than that, right?

Prakash Bisht: Why? It is because your enacted rate is 25.17%.

Nillai Shah: No, because of Q1, sir. But I will take it offline. No worry. I will take it offline with you. The second question is on the exceptional charge which you have for this quarter. The IL&FS and all of that was stressed and kind of known even last financial year. So, why did you wait for so long to take these charges on your P&L?

Prakash Bisht: So, if you would see that this represents three investments. And what we have done now is that we have taken a very, very conservative approach wherein we have taken the entire expense without taking any credit or surplus, which was available in our PF Trust. We had surplus in our PF Trust. And earlier, the entire amount was not required to be provided for. Therefore, the provision that you see now is the most conservative provision that we have taken wherein we have not taken any benefit of that surplus, which was available in our trust.

Nillai Shah: Okay. But why now? Has it come up? Has it matured at this point in time in this quarter?

Prakash Bisht: No, this has not matured. We had also been watching because if you see this sequentially on a quarter-on-quarter basis, we have been observing these investments. The performance was going down. Therefore, we thought that at this point of time, it is better to be prudent and conservative.

Nillai Shah: Okay, fine. Pratik, the next question is on your sub-franchising. Are you building up the business for sub-franchising? I see that there had been some posts on social media regarding certain sub-franchising that you are thinking about.

Pratik Pota: So, Nillai, on the first question, we do not have any specific plans to open up sub-franchising in the country. We believe that our model of running corporate stores is what is required for the Indian context. Having said that, we will always keep exploring all business model options available to us.

On the second part of what you referred to, we have been made aware of some fraudulent elements trying to secure and extract money from unknowing people in promise of a Domino's sub-franchise. So, we file police complaints, we have made this evident on our social media handles, we also run press-ads to make people aware of these fraudulent elements and to prevent these events, this fraud from happening.

Nillai Shah: So, nothing in the immediate horizon to sub-franchise out your Domino's stores?

Pratik Pota: No, Nillai. Not even in the near future.

Nillai Shah: Just two more quick ones if I can, please. Any update on the 20 minutes delivery, how fast you are going to roll it out? And what is your pilot study telling you at this point in time?

Pratik Pota: I mean, we keep looking at different ways of improving the speed of delivery. We have tried the pilot in a few stores, in a few markets. I think it is still early days. As you can imagine, looking at 20 minutes delivery at national scale is a tremendously complex exercise. What I also want to underline, and highlight is that we will not transgress the boundary conditions ever in having faster delivery, and those boundary conditions and ground rules are: number one, food quality, number two, traffic rules compliance and number three, rider or pedestrian safety. Those three remain inviolable. So, there are many complexities involved in going to faster delivery. We are trying various experiments. We learn. And when we are ready, we will circle back. But as of now, I think it is still at pilot stage.

Nillai Shah: Okay. All right. Got it. And Mr. Bhartia, last question on dividends. Given the kind of bonanza that we have now with corporate tax cuts and given that our CAPEX for this year at least is about Rs. 200 crore to Rs. 250 crore, should we expect a marked improvement in the dividend payout for this financial year?

Hari Bhartia: This is Hari Bhartia. The Board continues to look at, from the dividend point of view, how to increase it. We had increased it recently also. So, I think end of the year the Board will always revisit and see what should be the level of dividend to be given. So, I cannot commit or give any indication unless this is all reviewed by the Board.

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

Abneesh Roy: Congrats on a good performance. My question is on city coverage. So, if I see last three quarters, you added very few new cities. In fact, last two quarters, there is no addition and you added many stores last two quarters. So, what does this portray? Is this is saying that now new cities is a challenge? You also said that in the smaller cities, demand slowdown seems to be on the higher side. So, if you could comment. And what was the reason for exiting Ramnagar in particular?

Pratik Pota: So, Abneesh, thank you. I think on your specific question, I think it is important to recognize and underline and remember what Mr. Bhartia said in his opening remarks. I think with respect to store opening, we have a problem of plenty. There is opportunity for us to expand and open stores in existing markets, both in existing areas and also in virgin markets and existing towns. There is also obviously the chance for us to open up a frontier and outpost in new markets. Given our strategy of fortressing markets in existing towns, of improving service levels, reducing delivery times, we have chosen to prioritize for the larger part existing towns.

We are absolutely looking at opening up stores in new markets as well, and one part of our revised guidance that I talked about earlier is towards that. We have zero doubts and zero ambiguity of our about the tremendous potential that awaits us in these new markets. By way of illustration, let me talk about Agartala where we entered in this quarter. We had queues and we had a record opening, we had queues lining up. We had a strong uptick in both dine-in and delivery. And in quick succession, we opened a second store in Agartala as well in under three months. And that is a bellwether we believe, that is an indicator of what awaits us as we enter new markets. So, I do not think that our store opening pattern is a reflection of our view on opportunity in new markets. Quite the contrary, it reflects our prioritization.

With respect to Ramnagar, I think there was a very specific local reason. We had to relocate the store on account of road widening work, and we will be looking at alternate options in Ramnagar shortly. Ramnagar as you probably know, is an important town on the highway between Bangalore and Mysore. But it is also, for a trivia part, a place where the movie Sholay was shot. So, it is an important tourist destination. So, we will be opening a store there soon, relocating the store.

Abneesh Roy: That is comforting. But in Q1, four stores closed. And in Q2, six stores closed. I understand one or two because of this highway expansion, etc. If you could discuss a bit more. 10 stores closed in six months. That seems to be much higher than what you have closed, I think, in the many years of history.

Pratik Pota: No, Abneesh. Actually, I think, and we have called it out earlier as well, we look at every store and its performance very closely. Our first attempt, obviously, is to make sure that we turnaround underperforming stores by both driving top-line higher and also by looking at costs very, very critically. Only in cases where we do not see immediate potential to turn the store around do we take this call very objectively, very unemotionally, very clinically to shut the store down. Remember, in our store network of 1,200-plus odd stores, 10 stores are a less than rounding off error, it is nothing. I would much rather shut down these unprofitable stores and open 10 more profitable stores rather than hold on to these stores. So, I want you to see this in a larger picture. And looking at stores and looking at profitability is something that we will absolutely keep doing. That is how we deliver margin improvement and sequential improvement. So, that is really been part of our strategy, but it is a very, very small portion of our larger store network.

Abneesh Roy: My second question is on cloud kitchen. We have seen private equity funding coming to these players. So, now in 276 cities wherein you operate, how many will have competitors who have cloud kitchen? Second is, obviously, the fixed cost for these cloud kitchens is very low. No store cost, very limited marketing cost and the capability to ride the food tech apps. So, how serious is the competition from here in the big cities? And in the 276 cities, how many cities have this presence?

Pratik Pota: So, Abneesh, you have to repeat the second part of your question, your voice broke a little bit. The first part was clear, which I will answer in just a minute. But will you repeat your second part, please?

Abneesh Roy: Essentially, in the big cities wherein cloud kitchen has been there for a fair amount of time, there has the competition worsened? And in the 276 cities, in how many cities cloud kitchen is there?

Pratik Pota: Sure, Abneesh. So, out of the 276 cities, under 25 of these towns have any meaningful presence of cloud kitchen. And even within that, many of them actually have got cloud kitchens only recently. So, it is a very small part of the overall network of towns. In these towns, do we see a material increase in competitive intensity? Not entirely so, because cloud kitchen network has, I think what it does is offer a variety of cuisines, not just pizzas. So, we do not see a significant delta in competitive intensity, and nothing that we cannot mitigate. Our large towns and metros have done really well in quarter two and have outperformed the smaller towns. So, we do not see competitive headwinds having any impact on our growth on account of cloud kitchens or otherwise.

Abneesh Roy: Right. And last follow-up. Recently, we have seen food tech apps go through their own amount of pain in terms of listings from restaurant and of course, delivery persons also protesting. So, both of these could have some benefits for you in terms of lesser competition and lesser inflation at the salary level and easier hiring.

So, have you seen any of these? And do you see that as a benefit which can accrue in the coming quarters?

Pratik Pota: Abneesh, I think this is a space that is still developing and playing out. I think the food tech players and the NRAI and the restaurant industry are in discussion in an attempt to find a win-win model that works for both them, and for the small restaurants. So, I think this space is still evolving. There has been no material delta on the ground yet. So, I think it is still early days.

Moderator: Thank you. We move into next question. It is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Congratulations on a good set of numbers. Pratik, my first question was for your app downloads. If you see the last one year, there has been a tremendous amount of growth in downloads, that reflects impressive customer acquisition. So, what plans to drive frequency? And can we expect a loyalty program in FY20?

Pratik Pota: Naveen, sorry, I did not hear the first part of the question. You said we had a number of app downloads, then we lost you.

Naveen Trivedi: Hence that reflects that there is an implicit customer acquisition. So, what plans to drive frequency? And can we expect a loyalty program in FY20?

Pratik Pota: So, Naveen, like you said, our strong focus on driving digital sales, on driving app downloads and using our dine-in asset to drive digital as well has helped bring this thing about 3.7 million download that we saw, and also helped us drive digital sales. That is reflected in both, an increase in new customer acquisition and an increase in existing user frequency on the digital front. We keep looking at various ways of improving frequency of existing customers. We have a lot of investments going in data analytics and data science and using data to drive segmentation, to drive specific personalized offers to various co-horts and to use that to drive frequency. All of the initiatives that can be taken to drive frequency, including loyalty, are absolutely on the table. As to when we deploy them and when we launch, that remains to be seen. But driving both new customer acquisition in an expanding market and focusing on improving frequency are both work areas that we are focused on.

Naveen Trivedi: Okay. That is helpful. Any plans for new pizza launches during the festive season, particularly when you rolled back your World Pizza League?

Pratik Pota: Naveen, the World Pizza League, as you know, it was for last quarter as well. Worked well for us in quarter one, helped drive new customer acquisition, helped drive trials. In keeping with the overall strategy of focusing on new product innovations and driving excitement in the category, we will keep looking at various initiatives from time to time. Beyond that, I would not like to comment for competitive reasons, but this is an integral part of our strategy, especially in a market which is seeking variety. Young millennials, as you know, are looking for variety, looking for experimentation. So, innovation will be a cornerstone of our strategy going forward.

Naveen Trivedi: And lastly, if I may. Can we expect any change in the formats, particularly given the number of large opportunities in the metro stations. So, can we expect new stores in those areas also?

Pratik Pota: Naveen, absolutely. We are looking at various different channels and different formats, travel and transport is a channel that is seeing tremendous growth. We have opened a few stores in Mumbai. As you are aware, there are ongoing stores there. We also looking at opening stories in other areas and other transport locations, including railway stations. And yes, that will be an area of focus for us. It will also help us deliver on trains and do delivery much better, much more reliably.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Two questions, Pratik. One on Hong's Kitchen, now the store has been operational for more than two quarters now, so as far as store economics is concerned, would there be any possibility to give some numbers?

Pratik Pota: Prasad, yes, that store has been opened for under six months now, and I think we are pleased with the progress that we are making. Given that is the first store, it is a sort of best bet for us to learn more about consumer preferences to make sure we get the food right, to make sure the proposition is right. And we are pleased with the progress we made. And from the point of view of the store economics as well, I think the numbers that we are seeing are very, very encouraging. And it is because of that that we intend to scale up gradually over the next two quarters.

Prasad Deshmukh: Okay. Secondly, in terms of, again, food aggregators, we keep hearing that they are expanding very aggressively in Tier 2, Tier 3 cities and towns. So, are we seeing any positive or negative impact from this on delivery sales, material impact rather?

Pratik Pota: Prasad, you are right. The aggregators have gone into new towns aggressively in the last quarter and a half. One of the challenges that they face as they enter a new markets is the availability of quality and credible supplies. So, in all of these new markets where they have a presence and where they enter, they reach out to us and work closely with us in helping grow their business and help build quality supplies. We do not see aggregators as a headwind. We see them as partners in helping us grow the category together. At the same time, like I said in response to an earlier question, we also keep investing in strengthening our own digital assets and our own dine-in experience.

Moderator: Thank you. The next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just one on the Dunkin' side. You rationalized a number of stores. And now if we can take your comments on the strategy going forward, are you trying to change the product a bit better. So, what is the learning that you are trying to take over the next 6 to 9 months before you probably started looking at expansion again? And what are the key monitorables on that side? And probably on the profitability side, have they grown sequentially as you rationalized the number of stores?

Pratik Pota: Ritesh, on Dunkin' as we called out earlier, we are looking to build a profitable business. In response to your specific question, the operating profitability has not changed sequentially. It is remained at the same level as quarter one. We are looking to build a model which has the right combination of food, beverage and donuts, which has the right operating cost structure, the right store format. And as we get that, we will be expanding the network in a calibrated way. You will see us trying some experiments in quarter three and quarter four, and that is to allow us to get into that sweet spot where we get the right store model, the right portfolio model and the right price point and the right value proposition.

Ritesh Gupta: Got it. And a last one on the beverage side, as you expand more fountains, etc. would it be margin accretive? I mean generally, bottles are supposed to have less gross margin than fountains, and fountains are supposed to be far more profitable.

And beverage is, let us say, 10% of the portfolio. Should we see some benefit on the gross margin side as content gets rolled out?

Pratik Pota: Yes, I mean, the larger point is valid, which is that as greater sales come through fountain machines. Fountains certainly have a higher gross margin than do PET bottles. So, that will help the beverage profitability.

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

Amit Sachdeva: My question is purely, again, coming back to aggregator sort of value chain. So, when I hear you, you probably comment that they are sort of an enabler for you and you see them as partners and you probably do not see them as a headwind at all, while there is an exponential rise in the intensity with which they have sort of built their business and leased out in your cities particularly, especially Swiggy. Now do you call out that in the last one year, has there been any impact on SSG on their rise? Or you see them actually benefiting you and you probably think that they are great that these things happen and not that they should not have happened to you? What is your overall feel when you do your business every day? How do you sort of deal with this?

Pratik Pota: Amit, it is more different than what I called out in the last couple of questions. We believe aggregators have an important role to play in helping expand the delivery market for food in general and, of course, in our context, the pizza category. That category growth can come either from discounts and promotions, which is one way, but more sustainably and fundamentally through sharing of insights and data. Towards the latter, we work closely with aggregators and share our insights as they share their data and their insights in arriving at a sustainable way of growing the pizza category.

Over the last one year, as aggregators have grown their footprint, so have we. Our digital assets have strengthened. Our downloads have increased. So, we work with them from position of strength. They recognize the brands that we have. We have the largest brand nationally, the largest brand on their platform as well. So, this is a partnership of equals without any shadow of doubt. And that data and those insights help us work together in growing the category.

Amit Sachdeva: Sure, Pratik, where I am coming from, to be honest, is that delivery was your core competitive advantage which you have built, which others did not have. Now because of these guys, this is more democratized, and everybody has it, while you also have it and you value it as it is an experience for you. But at the same time, this now has enabled a lot of other players to be on the delivery side of things. While it has also benefited you, but there competition has invariably come as a result of it. Do you see that you would have exploited them a little bit more? For example, while the delivery is no longer your core, at least relative to others, would you not have exploited them by selling more formats, very quickly exploiting them or basically increase your value proposition in some other way that sort of you stand out against other brands or other local players as well? Or you will just keep on defending the pizza bet and exploiting it? Has it materially changed your thinking how you want to sort of work as a business in this new world? Or it is more like a new enabler and let us work it out? It is probably you ask for a more radical overhaul. What is your view on this?

Pratik Pota: So, Amit, I think your point about delivery becoming more democratized is a correct one. However, distribution is not the only way of ensuring brand preference. And you can switch to FMCG context to understand what I mean. Distribution is entry barrier for sure. And once that is broken, it is access. But from access to preference lies at least with strong brand mix. And I think the strength of brand Domino's is that we are not just the default leader. We were leaders by design. We provided a great delivery experience. We have provided a great product and yet a compelling brand with a compelling value proposition. That remains undiminished.

So, in a platform, whether it is multiplicity of choice, consumers are navigating and reaching out for Domino's. They are choosing Domino's. It is not the default option, but it is the preferred option. And therein lies the difference between a commodity and a brand. So, I would want you to understand and we will want you to appreciate the strength of brand Domino's, which did not come only by delivery and access. It was built on a number of platforms, great product, great innovation, technology, great customer experience, of course value for money, all of those fundamental enablers that make our brand and will sustain competitive advantage. So, that is one part of the answer.

The second part of the answer and the question you posed about thinking about this new world differently. And that is a Jubilant answer, not a Domino's answer. The fact that there is a consumer market out there that is evolving, that is looking for more and more variety, more and more choice is a reason why they are looking at formats like Hong's Kitchen. We have entered the Chinese segment. It is early days yet, but like I said, we are excited by the prospects that lie ahead. We have called out in the earnings call of two quarters ago our strategy of looking at more cuisines in the future. So, this new world is indeed making us think differently and plan differently. But there is a very different context for Domino's and a very different context for Jubilant as a whole.

Amit Sachdeva: Sure. Understood, understood. No, that is very helpful, Pratik. But where I was coming from is could you not have done a lot of cloud kitchens yourself, exploiting your own digital infrastructure and also using your own delivery infrastructure which you already have, which probably others are building, but you could have done it yourself?

Pratik Pota: Yes. Look, I think when we look at the word cloud kitchen, I think we need to unsee that a little bit. A cloud kitchen is nothing but shorthand for a profitable kitchen. In the case of Domino's, the combination of dine-in and delivery gives us great operating leverage. It is a very profitable operation. So, we do not necessarily need to be a cloud kitchen alone. In stores, where we have a small delivery, a small dine-in area like a delivery carry-out store, we see the impact of dine-in coming in and helping strengthen the entire financial viability. So, the larger point behind cloud kitchen, how do we ensure that we have a large number of profitable delivery supply centers, I think that works very well for Domino's. And that is one reason why we are fortressing markets and opening many more stores and many more profitable stores. Now if that requires in some micro markets to be only delivery and only cloud, we will be that. But our strength lies in this democratic business model which allows us to offer delivery at proximity to customer markets as also dine-in. And that gives us a potent dual model.

Moderator: Thank you. Ladies and gentlemen, this was the last question today. I now hand the conference over to the management for their closing comments. Over to you, sir.

Pratik Pota: Thank you, everyone, for joining us on the call today. We hope we were able to address all your queries and questions. To summarize, we are pleased with our strong all-around performance in quarter 2, that delivered a combination of robust top line growth and healthy margins, which improved sequentially. We remain confident about the prospects for the future and the ability to drive sustainable, profitable growth.

Should you need any more clarifications, please feel free to reach out to either us or to CDR India. Thank you once again for your time. Wish you a good evening and wish all of you a Happy Diwali in advance. Thank you.

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