Jubilant FoodWorks' Q1 FY21 Earnings Conference Call Transcript
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Management Speakers : Mr. Shyam S Bhartia, Chairman
Mr. Hari S Bhartia, Co-Chairman
Mr. Pratik Pota, CEO
Mr. Prakash C. Bisht, CFO

Moderator: Ladies and gentlemen, good day. And welcome to the Jubilant FoodWorks' Q1 FY21 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. Siddharth Rangnekar from CDR India. Thank you and over to you, sir.

Siddharth Rangnekar: Thank you and welcome to Jubilant FoodWorks' Q1 FY21 Earnings Conference Call for analysts and investors. Today, we are joined by senior members of the management team, including Mr. Shyam Bhartia – Chairman of Jubilant FoodWorks; Mr. Hari Bhartia – Co-Chairman of Jubilant FoodWorks; Mr. Pratik Pota – CEO of Jubilant FoodWorks and Mr. Prakash Bisht – CFO of Jubilant FoodWorks.

We propose to commence with key thoughts from Mr. Bhartia. Thereafter, we will have Mr. Pratik Pota sharing updates on the progress that JFL has made operationally, in response to COVID-19 and the strategic imperatives that lie ahead. After the opening remarks from the management, the forum will be opened for question-and-answers.

A cautionary note, some of the statements that may be made on today's call could be forward-looking in nature, and the actual results could vary from these statements. A detailed statement in this regard is available in Jubilant FoodWorks' Q1 FY21 results release and earnings presentation, both of which are available on the Company's website under the Investor Relations section.

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

Hari Bhartia: Good evening, everyone. And thank you for joining us today. I hope you are all safe and doing well.

As we navigated COVID-19, our first priority remained ensuring the safety and well-being of our colleagues and our customers. The Company is fortunate to have an incredible community of employees and partners, who have helped us maintain business continuity in the wake of the pandemic. This in turn helped us to serve our customers and our communities with a convenient, affordable and safe food and a great service experience.

In India, with an intention to contain the COVID-19 spread, the Government responded with four phases of lockdown, which were in effect from end of March till May 31, with various levels of stringency. It became increasingly clear that COVID-19 will not disappear immediately, and the economy will need to be managed alongside persistent infection risks. Hence the fourth phase of lockdown was followed by Unlock 1.0, wherein, barring containment zones most of the business activities were allowed to resume their operations.

We continue to see uncertainty in the operating environment, as sales are impacted due to localized shutdowns. But we also see that the authorities are working towards opening up so that economic activities can resume in full force in the coming weeks. We have also seen gradual improvement in operating hours, week-on-week and, we are starting to see consumer confidence coming back.

Let me now turn to Q1 performance:

Owing to COVID-19, during a large part of Q1 FY21, we were faced with acute supply as well as demand challenges.

On the supply side, the lockdowns resulted in lost revenues on account of temporary store closures. Also, temporary closure of dine-in and takeaway formats, and of course, curtailed operational hours across major cities.

On the demand side, there was consumer anxiety about making the contact with the outside world, which led to a reduction in delivery orders during the quarter. Reflecting on quarter's performance, I would like to comment on two key attributes that clearly made this quarter unique in the face of adverse operating environment for the Company.

Firstly, I must elaborate on our efforts to swiftly restore the operations:

We were among the fastest to reopen our stores, where we opened 1,000 plus stores within 53 days of the announcement of the national lockdown despite significant ground level challenges. We were the first to introduce zero contact delivery and to extend it later to zero contact takeaway, and zero contact dine in. Our strong supply chain infrastructure in commissaries and distribution centers across India helped us to respond faster to operational needs, in terms of new requirements of sanitization and food safety. This gave us tremendous agility in responding to operational needs and reduce dependence on third parties.

Our own digital platform helped in direct connect with our customers when most of the orders were coming through digital. We saw additional traffic on our platforms and increase in our app downloads. We saw business recover progressively through last quarter, and the months of July and August were especially very encouraging.

Secondly, we made bold structural moves, made to manage the short-term and prepare us better for the longer-term:

With an intent to mitigate the adverse impact of pandemic, we tried to variabalize as many cost elements and reduce discretionary expenses. We have decided to shut down 105 unprofitable Dominos' stores. These stores were part of margin improvement programs during the pre-COVID period. Most of these stores had Dine-In focus and were located in malls, food courts and tech parks. Closure of these stores will lead to an improvement in our margins in the future. We will, however, be opening 100 new Domino’s stores this year, and hence our network will be of a similar size as last year. We plan to make our store portfolio to become more profitable by the end of this year. We also introduced a delivery charge for the first time to recover the increased cost of doing business. Since delivery charges are now accepted norm in the industry, we expect these delivery charges to continue in the future as well.

Recently, as you are aware, we forayed into FMCG segment with the launch of RTC range of products under the brand name - ChefBoss. Given the increased interest in home cooking and experimentation, our entry into this exciting and fast-growing category could not have been better timed.

These bold measures have not only helped us to mitigate the COVID impact last quarter, but more importantly, have also positioned us better structurally for the future.

Our performance in the international segment was encouraging, both in Sri Lanka and Bangladesh, doing well in navigating the COVID-19 crisis. The business recovery in both countries have been healthy. With Sri Lanka becoming profitable last quarter, we continue to see strong potential in both markets and plan to open five stores each in both countries.

To summarize, our team displayed tremendous agility, flexibility and boldness in the way we responded to the crisis. We moved quickly to restore operations, to adapt our business to new realities, even as we made structural changes that will help us to emerge stronger from the crisis.

Looking ahead, we are hopeful that the business will continue to improve gradually over the next few months. We expect near normalcy by the exit of Q4 FY21. We remain excited about the medium to long-term potential of our category and our business, and we have no doubt that we will emerge from this crisis better positioned to participate in the opportunities that lie ahead.

Now, I would request our CEO, Pratik Pota to continue this discussion by sharing his perspective.

Pratik Pota: Thank you, Mr. Bhartia. Good evening, everyone. And thank you for joining the call.

Q1 FY21 was undoubtedly one of the toughest quarters we have ever faced as a business. As a crisis, COVID-19 was unique, as it brought with it challenges both on the supply side and the demand side. There was also the unpredictability in the way the crisis unfolded, and continues to do so even today, which required us to be extremely vigilant, swift and flexible in the way we responded.

Our execution strength, a strong brand that has earned consumer trust and credibility, our robust and resilient supply chain, and the agility of our own actions helped us in dealing with the crisis.

However, above all, it was our team and the people on the ground that rose splendidly to the challenge of the crisis. The store and the commissary teams braved difficult odds and adverse conditions to continue serving our customers and keeping the business running. This quarter truly belongs to them.

We faced several challenges during the quarter.

We entered Q1 FY21 just after the nationwide lockdown had been imposed, resulting in the closure of all our stores for dine-in, takeaway and delivery. Thereafter, since delivery have been called out as an essential service, we began opening our delivery stores progressively from April. The national lockdown was followed by local restrictions and lockdowns, which also disrupted operations and led to store closures and revenue loss. In addition, curtailment of our operating hours till only 9pm until June, meant that the dinner day part was severely compromised. More than 250 stores had to remain shut on weekends, which also impacted peak periods adversely.

We took several urgent steps to deal with the crisis and to ensure business continuity.

- We took all necessary and possible steps to firstly ensure the health and safety of our employees and their families. We reached out and maintained a continuous line of communication with them, reassuring them and keeping them motivated.

- We were the first to launch zero contact delivery, and subsequently, zero contact takeaway and zero contact dine-in. We worked with the local authorities across the country to open our stores. We were amongst the fastest brands to restore operations, with more than 1,000 stores reopening in Q1 FY21 within about 50 days.
- We continued to drive brand visibility, and we actually increased our digital marketing spend during the quarter, with a record number of 4.4 million app downloads in Q1. As a result, the contribution of our own assets to our delivery revenues also increased significantly during the quarter.
- In addition, recognizing the severity of the crisis, we also moved quickly to conserve cash and to cut costs. We revisited and revised payment terms with our business partners so as to manage cash flows in Q1.
- We moved quickly to cut non-essential costs, and we optimized our restaurant operating costs in areas such as Energy, Maintenance, Fuel and so on.
- Early in the crisis, we reached out to all our landlord partners to help them understand the on-ground situation and sought rent waivers or reductions. I am happy to share that we achieved reasonable success on this front in Q1, with rent reductions amounting to Rs. 294 million having been secured in the quarter.

We also used the crisis to effect some structural changes in our business. These are fundamental improvements that will strengthen our operating model and hold us in good stead even post-COVID.

- First, we variablised our manpower: As we shared in the last earnings call, we have moved to convert all our erstwhile full-timers and part-timers to flexi-timers who are rostered by the hour. This will provide us with the necessary flexibility to ensure that our labor deployment in stores mirrors the demand curve more closely, and thereby drives efficiency.
- Closure of unprofitable stores, as Mr. Bhartia said, there were several stores where profitability outlook for the next two years looked uncertain and challenged. Some of these stores were also borderline unprofitable in FY20. We have therefore decided to shut down 105 Domino's stores. Of these, more than half were in Malls and in Food Court, with others being in Tech Parks or in the Travel channel.
- Introduction of delivery charges – as you are aware, we had not been charging for delivery earlier at Domino's. However, given the growth in the home delivery segment across multiple categories, and customers willingness to pay for it, as also the increased cost of doing business during COVID, we decided to introduce a modest delivery charge from June. The delivery charge was introduced at Rs. 20 and moved then to Rs. 30, which is a steady state charge we intend to stay at. The delivery charge has been accepted by customers, and what was extremely reassuring was that our net promoter score and the value for money scores did not drop even after the introduction of the delivery charge.
- Extension into FMCG with the launch of ChefBoss, we have entered the ready-to-cook packaged food segment. It is an emerging category which will grow in the future with consumers seeking greater convenience and ease in their kitchen. We see that FMCG foray as an extension of our capabilities, as well as an opportunity to serve our customers, both through RTE and RTC solutions.

I will now talk about the numbers for Q1 FY21:

The operational revenue in Q1 FY21 was at Rs. 3,803 million, a recovery of 40.5% of our total system sales last year and 52.7% recovery of our operational stores. Within this, delivery recovered 66.7% of total system sales of last year. Takeaway recovered 43.1% of last year total system sales, whereas dine-in recovered nearly 2.1% as it was shut for most of the quarter. EBITDA came in at Rs. 241 million and 6.3% of revenues. The profit after tax stood at Rs. -726 million.

We opened 24 new Domino's stores in Q1 FY21. And these were a spillover from the last quarter's count.

The Company continues to have a strong cash position and a strong balance sheet. The Company has liquid funds equivalent to Rs. 6,401 million as on 30th June 2020, as compared to Rs. 6,914 million when we opened the quarter. The Company, as you know, does not have any debt.

Moving to international, we had an encouraging performance in international business.

- In Sri Lanka, post the imposition of the lockdown on 20th March, we were the fastest to restore operations. We had an encouraging recovery of our business, with delivery and takeaway both now ahead of pre-COVID levels. In addition, owing to disciplined cost management, we managed to breakeven and deliver a positive EBITDA in Q1.
- In Bangladesh, which is a much younger business as you know, with a major dependency on dine-in, the pace of recovery was a little slower. However, we used this opportunity to drive our delivery and takeaway sales higher. Notably, we were the only brand in the country, which did not witness a single day store shut down. We opened one new store in Bangladesh in Q1, taking the total count to four.

Moving now to July and August, the sales recovery that we had seen in Q1 accelerated in July and August. And this was, of course, despite local level restrictions imposed by various states periodically. We recovered 69.8% of our total system sales in July and 84.6% in August. On the like-for-like basis, the sales recovery was 77.8% and 89.3% in July and August, respectively.

Among channels, we returned to growth in delivery and takeaway channels in the month of August, while dine-in remained soft.

Going forward, while the COVID caseload continued to increase, making predictions difficult to meet, based on the current evidence, we are hopeful of returning to full business recovery as we exit this financial year. Our plan is to open 100 new Domino's stores this year. We will also be scaling up Hong's Kitchen in Delhi NCR this year, with 15 new stores being planned. We expect the pace of new store opening on Domino's and on Hong's Kitchen to increase next year. We will be opening five stores each in Bangladesh and Sri Lanka as well.

Over the medium-term, we expect to see some significant structural changes in the category, which will play to our strengths. There will be a reduction in restaurant numbers as the pandemic exacts its business toll, it will lead to lower competitive intensity. Consumers will seek out and gravitate to brands that they trust, and whose quality, hygiene standards are visibly better than others. There will also be an increased adoption of and move towards delivery, especially using digital ordering channels.

These shifts, along with the fundamental improvements we are making in our operating model will ensure that we come out of this crisis stronger and better placed to grow faster.

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

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: First question is on the rental. So, the Rs. 29 crore reduction which you have seen, it looks like almost one month of rent. Is that a fair assumption that you got full waiver for April and are you seeing any permanent benefit in terms of lower rentals going forward?

Pratik Pota: Kunal, the rent reduction that we got of Rs. 29 crore for the first quarter required us to engage with hundreds of our landlords and have an individual discussion pertaining to the store context. In many cases where the stores were completely shut for April or for the month of May, we were able to get higher reduction. And in some cases, the stores that reopened we were able to get lower reduction. That number happens to total up to approximately one month of rent, but it required a lot of individual discussions across hundreds of landlords. Does this answer your question, Kunal?

Kunal Vora: Yes. I just wanted to get some sense on the permanent reduction. So, I get it that in the June quarter you would have got some concessions, but are you seeing any permanent reduction in rental, the long-term benefits in terms of lower costs?

Pratik Pota: The reductions that we secured, Kunal, and that's reflected in the P&L were specifically for Q1. We are engaged in an ongoing dialogue with landlords for reductions in the subsequent quarters as also for a permanent resetting of rents. That task is a non-trivial one, it's a little bit more difficult, because in many markets, in fact, in most markets the commercial rent hasn't yet recalibrated. But we expect that to soften and we expect to have some more success in resetting rents permanently. But it's an individual discussion, case by case discussion. The rent reduction that you see right now is secured only for Q1.

Kunal Vora: Sure. Second and last question, on the stores which you are shutting down, so can you just talk about the total expenditure per store which you incur and what will be the cost on equipment? And what will be that can be salvaged? And what could be the kind of write-offs which you might need to take because of the 100+ store closures?

Prakash Bisht: So, the closure of the stores, Kunal, would not have any significant impact on our P&L or on our cash spends. Let me explain you this. When we close the store, we are able to salvage at least 50% of the equipment that is available there. And if this 50% equipment we were to buy new, normally those costs double. So, in terms of money, we would spend the same money. In terms of P&L, why it does not affect is, because on one hand you have this 50% asset which will not be used and will have to be charged-off. But at the same time, in the IndAS, you also have an asset which is ROU - Right-of-Use asset, and a lease liability which is pertaining to these stores, that will also get reversed. And when it is reversed, it results in an income, so that income will set off the expense. So, P&L will not be affected.

Third point is that these are old stores, they are not new stores. So, they are appearing in our books only at WDV. And as you might be aware, typically our store expenditure has remained in the range of Rs. 85 lakhs to Rs. 1 crore per store. But these are old stores, where WDVs are much, much lesser, but it would not have any significant impact on profitability.

Moderator: Thank you. The next question is from Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Hi, good evening. A couple of questions for me. So, firstly, again, just on the store closures, given that you mentioned these are older stores. Would the sales contribution be higher? I understand these are probably not profitable, but from a sales contribution I am assuming that sort of shutting hundreds of them and opening new stores, it would still take time for the new stores to sort of reach the old stores' sales levels. Would that be a fair assumption, or would that be wrong?

Pratik Pota: Aditya, that would be a fair assumption to make ordinarily, but in the wake of the COVID-19 situation, and the revenue recovery that we were anticipating in these stores, the difference would not have been sizable. Because these stores, as we mentioned earlier also in our opening remarks, were predominantly dine-in focused, with more than two-thirds of the revenue coming from dine-in, either fully from dine-in only or more than two-thirds. And given the expected pace of recovery of dine-in, the numbers of these stores were not looking promising. And if we look at opening hundred new stores, these stores will be optimized for delivery and carry out. We have opened them in locations where we see an upside potentially into these channels, in growing channels. So, I would not expect there would be a big dispersion between the erstwhile impact of the dine-in stores that we are closing and the new stores.

Aditya Soman: Fair enough. Very clear. Thanks, Pratik. And the second question is on the stores that are not fully open or operational. So, you indicated that only 83% of stores are operational, but from a customer perspective, are there many customers that, let's say, cannot order delivery? I am assuming that where stores are shut, customers would still get serviced from neighboring stores.

Pratik Pota: That's true, Aditya. What we have done is we have re-cut some of the store delivery areas to service larger areas and service therefore lots of customers. So, unless there is a store that is in a containment zone, from where delivery is not possible to make, other than that, most customers looking for delivery would get access to it.

Aditya Soman: Fair enough. Very clear. I will come back in the queue for more questions. Thanks.

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

Prasad Deshmukh: Hi Pratik, two questions. One, in terms of the industry overall, are you seeing that many restaurants are not renewing their licenses? And do you have any estimate as to by the end of this financial year how much of the industry capacity in out-of-home food service would have shut down?

Pratik Pota: Prasad, that's a good question. I think there are two things that we see very clearly that the impact of the crisis on a lot of restaurant players has been fairly brutal and it has impacted their viability. So, we expect a significant number of restaurants to close. Some have already done so; some we see would play out over the next two or three months. A few restaurants also are looking for the festive season and to see how that performs before they take a call on shutting or not. I think our estimate of a shrinkage in restaurant inventory is between 20% to 30%, we expect that kind of shrinkage in the restaurant industry to happen. It will be more in the casual dining and differing by cities, again, we see a much greater impact on dining focused stores, but that's the kind of number we see playing out. In fact, not all have happened now, but it will happen we believe over the next two or three months.

Prasad Deshmukh: Sure. And second question is, if tomorrow the situation arises that maybe delivery grows significantly from here and dine-in remains where it is, what kind of changes would you have to do in your restaurant infrastructure? I mean, is there any possibility of aggressively scaling up a cloud kitchen kind of a restaurant in this context and then maybe permanently shut down a greater number of stores?

Pratik Pota: Prasad, we obviously keep watching this space very closely. And then take a call on our store configuration, depending on how it plays out. However, I think important to note is that the 100 stores that I spoke about, apart from a few stores that we are going to be opening in new towns, will be full service stores, most of the other stores that we plan to open will be store optimized for delivery and for takeaway. They will be less than 1,000 square feet in size, located close to the market. However, located in front facing customer facing areas so that we get walking customers as well. And in our experience, we have seen that a delivery carry-out store is a more effective store than normally a cloud kitchen, the cloud kitchen then depends solely on home delivery. The takeaway, which is going to be an increasingly important channel for us, as dine-in remains under pressure, I think the delivery carry-out format is going to be more effective and give us a better return on capital for us than a pure cloud kitchen.

Hari Bhartia: And Pratik, I will also add here. More and more it is important to bring transparency. So, when we build a store, it's an open kitchen, people when they walk in even for carry-out, they can see the kitchen, they can see how the food is being prepared, they can see the sanitization and hygiene standards. So, I think visibility from a brand perspective and confidence perspective is very important also. So, I think while the store format will shrink, but we continue to give a lot of importance to carry-out and visibility.

Moderator: Thank you. The next question is from Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi Pratik and team, that is a brilliant execution which we could see in the last five months. I have a couple of questions. One, just curious to understand the conversations which you would have had internally, before you decided to implement the delivery fees. Because historically, when I look at it, whether the pizza price what I pay for a medium size in Mumbai versus, let's say, Manhattan, I mean, there will be enough understanding or observations the pizza is an expensive product in India from a consumer lens.

So, while I understand that now consumers are not necessarily prioritizing a price and value. So, FY21 or even FY22 is fine, but then it was an important one, because, let's say, for example, as an analyst in April, it was not even in my wildest dreams that this is something which is feasible. So, good luck on that. So, just want to understand the affordability angle on pizza, the gross margin is what we have currently. That's the first question.

The second question to you and Mr. Bhartia is on the general thought process on M&A opportunities which may be available in the market today. And then also to see in the context that Jubilant FoodWorks is probably the only restaurant/ sort of similar Company which has got a good balance sheet. And more importantly, you have got a currency of the stock as well. Just trying to understand these two things.

Pratik Pota: Thank you, Manoj. Let me respond to the first question on delivery charges. I think as you rightly alluded, there was a lot of internal deliberation last quarter when we decided to introduce a delivery charge. I think if I wind the clock back a little, we had begun charging for delivery for extreme use cases, even earlier last year. So, we have begun charging for late night delivery, for deliveries after 11pm across the country in the second half of last year. We had also begun charging on aggregators for orders below Rs. 300 without a minimum order value threshold. So, we have tried and experimented with these delivery charges, and our experience has been reasonably positive.

When COVID struck us, our first response, was to just get business continuity restored. As you will appreciate, getting business back, putting in all the SOPs for hygiene, for sanitization, required us to embrace a much higher cost structure, the cost of sanitization, cost of PPEs, etc. And the cost was significant, and we began asking the question that, can we absorb this or would customers be willing to pay this cost?

We also saw the larger delivery ecosystem where all deliveries service providers, whether it's food service aggregators, or whether it is any other e-commerce player began charging for delivery. And we also saw customers' willingness to pay for this. Customers began to appreciate the value of having food or grocery items or any other item delivered to their doorstep hygienically and safely. And all the consumer work that we did in the last three or four months, told us the consumer was ready to accept this. And only after that discussion and that debate did we introduce this.

However, I want to make one point abundantly clear, and I think we need to do that as well, we are clear that we are a value-for-money focused brand. And we will remain that way. There's nothing that we will do that will compromise our value credentials. So, for example, even after increasing the cost of delivery charges, our value for money scores have actually improved and customers have realized the value that we are providing. Number two, contextually it's important to know and I am sure you recognize this that even after the delivery charge, we remain much more cost effective for a customer than taking orders on aggregators, because there is a delivery charge, there's a distance fee, there's a surcharge and then the packaging charges. Compared to any other service provider we should remain the cheapest. So, look, we have value for money front and center in our process, we will do nothing that will compromise it. You can be sure of that.

Hari Bhartia: I will comment on that. Firstly, just to add to what Pratik said on delivery charge, I think customers have started attaching some value to the whole delivery and convenience part. And thanks to the aggregators, as Pratik pointed out, people have realized that for a service like this where we are guaranteeing a delivery time beyond what everybody else does, that there is a value to this. And it also helps us in differentiating for a person who comes and picks up the pizza from the store. So, I think to that extent he gets an advantage. So, I think customer, and as Pratik said, there was a lot of work done before we introduced this charge.

Now coming to M&A. I just wanted to add that we are a bit conservative.

Firstly, in the last 25 years we have always seen a very large opportunity for Domino's itself. Even today, we see a possibility of growth to

3,000 stores and a single-minded focus to make this very efficient and continue to scale this business. And I am sure as the economy grows, the potential of number of stores will grow, the format, everything will grow. In the meanwhile, we have also developed Hong's Kitchen as a brand, which we see has a huge potential. We are experimenting with an Indian brand where we see the potential to take it up. But seeing all this, we will stay focused on what we are doing and scale that up because we see potential is very large. Sri Lanka and Bangladesh together offer a big opportunity, almost to a level of, if I say, combined between 300 to 400 stores in the next many years.

But to your point, we look at opportunities, we see where we can add value, where we have strength in terms of either digital. As you know, we have a unique supply chain system which can help reduce the cost in a new brand. We do continue to look at opportunities. And if we find something where we can add value and help them scale up, and which is not competitive to our existing play, we will look at it.

Manoj Menon: Okay, understood. Thank you so much, Mr. Bhartia, and thank you so much, Pratik, for those very detailed responses. The only context which I just quickly highlight on my second question on the M&A opportunity was, point number one. As an analyst I have been advising investors on one aspect, saying that look Jubilant is probably the only Company, at least in my understanding, listed or unlisted, which has got a good balance sheet. And a lot of the other companies would probably need a growth capital infusion, which technically means that there might be distress and otherwise opportunities.

And top-down, for example, when I look at the ChefBoss launch recently or theHong's Kitchen, or the comment six months back about looking at some of the global opportunities, it's very clear that top down Jubilant FoodWorks as an organization might be willing to look at opportunities for growth outside of Domino's. In India, possibly there may be a burger opportunity, there may be an xyz opportunity. That was my background of asking that question, because the timing was more important, maybe I would have not asked this question one year back.

Hari Bhartia: No, your point is right. And we are looking at it, but we must be careful, we are just not jumping at it. And if we feel that we can add value and create a sustainably large business, we will even look at it.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: My question is on the operating hours of the stores during Q1. On an average, we would be operating what, 50%, 60% of the regular time, what is your understanding?

Pratik Pota: Dhaval, that would be a function of which area you are talking about, and which geography in which towns and which store. We saw the operating hours improve from Q1 into July and August. And in July and August, the operating hours curtailment was confined to a few stores. But until early July, we had all stores shutting at 9 pm. So, it's a function of, again, like I said, which store, which geography and also which channel. I mean, some channels were allowed to operate for longer hours, but dine-in was shut a lot earlier. The interesting thing is that wherever we have seen operating hours unconstrained, our recovery there has been much, much stronger. So, this is a combination, as you can imagine, of stores which were constrained in terms of operating hours and operating reasonably, and stores that were unconstrained. And a large number stores that were unconstrained have returned to normalcy at pre-COVID levels.

Dhaval Shah: So, just was trying to figure out the employee cost, the entire staff has moved to the variable part. So, if the stores start operating to near normal hours, what sort of numbers should we keep in mind on the employee side? So, I mean, would it be upwards of Rs. 250 crore?

Pratik Pota: Dhaval, hard to put a number to it, it will be a function of various different things. But I think the important point as we look back at the Q1 results that we were seeing, our move to variablisation happened mid-quarter. So, you aren't seeing that benefit being captured in Q1 fully. Also, the fact that through Quarter 1 and through, I guess, even July and August to some extent, the demand conditions and local restrictions were fairly unpredictable. And therefore, we had to keep our staff in the store to service orders as and when they came. But potentially, if I look ahead, that is exactly the idea that once we are able to get a more certain and more definitive demand environment, how can we ensure that the supply deployment of manpower mirrors and matches what we expect the demand curve to be like.

Dhaval Shah: True, fair point. And what sort of trajectory do you see in terms of the GP, we have expanded by a couple of basis points?

Prakash Bisht: Dhaval, as you have pointed out, the GP margins have been better this quarter and primarily the raw material cost has been good. We expect the commodity trends to be benign throughout the year. So, we expect that we will have the benefit of the low prices in the coming quarters as well.

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

Amit Sachdeva: Hi, good evening everyone. Just very, very quickly wanted to ask the logic of FMCG venture. Basically, obviously, you have a restaurant business so there is a culinary expertise there. But this is about brand and distribution is very different, and it's also perhaps a different battle. So, it may be like a short-term need where people want to work at home, but building a business of this scale, if you could share some vision and how do you see this? Should we really take it seriously, all I mean to say is that, or it is something that is an experiment and you probably will see how it goes?

Hari Bhartia: Firstly, we take this seriously. It's a small start, I agree. But it is something that we believe we have already a lot of expertise in this, in terms of ingredients, in terms of flavors. As you have seen, we have entered the area of cooking sauces-based gravies right now, mainly just to start with, in the ready to cook. Ready-to-cook market is quite large, could be Rs. 5,000 crore to Rs. 6,000 crore, but this part of the market is growing very fast. Because for convenience, where the life at home is busy for anybody who's cooking and it's not only in the COVID situation, but it's the way lifestyle at work, at home is evolving, that convenience is becoming very important. So, in terms of buying ingredients and then preparing food to making it convenient for a housewife or somebody who wants to cook at home, to make it easier to put together in a manner that they can also be creative and add their creative aspect in a very short period of 15-20 minutes. And this is the kind of thing which has been evolving, whether it is pre-COVID or at post-COVID levels, we will see that this kind of market will grow. And we do believe that we have built some deep knowledge in this area because of the different cuisines that we work in. We have good supply chain capability to reduce this at an effective cost. And as you have seen, we have launched it digitally right now through e-commerce mainly, and we want to take it to modern trade next year and expand the range of products also. So, we expect this to be a large and a serious business in the future. But we are also taking the steps by getting more consumer response of the products that we have made. I think we have looked at pricing very carefully to make it affordable. And, of course, high quality. So, that's where I would say the whole thought process is.

Amit Sachdeva: Sure. So, I think it's a slow build and basically going from small channel in e-commerce to maybe modern trade and then institutional. So, I got it, that's very helpful.

Hari Bhartia: So, I would say, we will also expand the range of products while we go forward. So, of course, take it to all channels and expand the range.

Amit Sachdeva: Got it. Now, that's very helpful, Mr. Bhartia. Thank you so much. Just a small one, if I may ask Pratik about the variabalization of staff cost, which is obviously a great idea. And you probably would like to retain some part of it as the situation evolves as well. But I would assume the delivery staff was already on the variabalized structure, if I am correct, right? Largely it has been achieved over time last year as well, quite a lot of it. And is the per hour costing from the fixed staff that works in the stores? Or to what extent is it incremental, what I want to know is that what was already there, what is new structure coming, does it mean that cost has now gone up? Because if somebody is going to variable structure from fixed structure, is it wages are higher now adopting to this structure, what does it mean for if we look at this cost as a percentage of revenue of some sort?

Pratik Pota: Amit, going back to the first part of your question. I think this move from full-timer to flexi-timer, covers both our inside-the-store employees as also our delivery staff. Our delivery manpower earlier was a combination of full-timers, part-timers and pay-per-delivery. And therefore, this move to flexi-timers, wherein we roster and ask people to come by the hour covers them as well. Now, as we move from a fixed cost to a variable cost by hour, what happens is that while there may be a marginal increase in the per hour cost, the efficiency that we extract by ensuring that we indent and roster people only when they are needed, versus carrying surplus capacity when they are not needed, I think there's an advantage to that, which is why we get efficiency at the operating level.

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

Abneesh Roy: Thanks. You mentioned that new Domino's stores are being optimized for delivery and takeaway. My question was on Hong's Kitchen, Biryani and the Indian offering also are you doing something to take care of these?

Pratik Pota: Hi Abneesh, absolutely, I think our new stores for Hong's Kitchen or indeed for the Indian brand will be optimized for delivery and carryout for two reasons. One is, of course, the faster growth that we expect in these two channels. But also, the point that Mr. Bhartia made earlier about the importance of having a customer touch point where he or she can come and experience the brand, see the quality, see the open kitchen. So, for both those reasons, even for the new brands when we expand in Delhi NCR region, we will be looking at delivering carry-out stores. Very efficient and optimized for delivery and takeaway.

Abneesh Roy: And could you share some more insight on how the performance of Hong's Kitchen and the Indian offering is? I understand the Indian offering on the delivery and takeaway, is not that suited versus a pizza. So, are you also talking about expansion in the Indian offering in the next six months?

Pratik Pota: So, first coming to your question, Abneesh, on Hong's Kitchen, I think Hong's Kitchen, we are very pleased to see a very strong recovery in performance through the quarter and especially in July and August. Apart from the fact that there was the reassurance of a credible brand with an open kitchen, delivering quality products at good prices, what also helped us was that during the last quarter we introduced a new-value-for money range, priced at Rs. 99, we called it 'The Incredibles Range'. And that has really helped us drive our order count. So, recovery has been very robust and that has given us the confidence to therefore expand and scale up in Delhi NCR. On The Biryanis of India, we had only one store during the quarter which was in a mall, and its operation was intermittent. So, it's hard to sort of know, therefore, give out and say what the recovery was. But whenever we had operations going in and to whatever extent we did operate, the feedback was very reassuring. But we will be looking at scaling up that gradually over time.

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

Avi Mehta: Hi. I had a question on the cost savings program. Do you have a target in mind in terms of rupees crore saving that you are planning to achieve in FY21?

Prakash Bisht: Avi, of course, we have a target, but I think it's a future forward-looking statement, so we can't really share this number.

Avi Mehta: So, I am just trying to get a sense on how much to expect, and more importantly, how much it can sustain. If you give us any guidance on that, that is what I was looking for.

Prakash Bisht: No, I think it's difficult to put a number around it. But be rest assured that the Company is totally focused on costs and we would make every effort to optimize the costs.

Pratik Pota: Just to add to what Prakashji said, I think there were two parts to our cost optimization exercise in the last quarter. The first one was an urgent and immediate response to the lockdown in the business impact, which we needed to do, so we cut costs very particularly, restaurant operating costs, energy costs, maintenance costs, manpower costs. So, there was a lot of urgent actions taken to cut our costs for the immediate Q1. However, we also put in place a lot of work streams to help optimize cost for the longer term as well. And the intention obviously is that once this pandemic abates and once, we emerge from this, we will come out stronger, with a more efficient, more optimized operating model. That's exactly the intention.

Avi Mehta: Okay. And my second bit, again, I am still not able to understand, gross margin should logically expand further from the current levels in first quarter, because you obviously had a delivery charge which you would not recoup for the entire quarter. What is the flaw in that understanding and where am I going wrong? Shouldn't margins logically move up only as we go forward?

Pratik Pota: So, just to add to what Prakashji has said earlier about gross margin expansion. One of the drivers of gross margin expansion, sequentially and versus last year was the fact that owing to a much reduced competitive intensity and owing to the fact that the restaurant supply had gone down significantly, and owing to the fact that consumers were choosing to order, not driven by discounts but driven by credible and trusted brands they could rely on, we had pulled back on discounting in Q1. And that also was a significant contributor to the gross margin expansion. As stores have reopened, as other brands have come back, as a semblance of normalcy has returned around and with our numbers on delivery now, we have brought the discounts back. And therefore, there will be that headwind on gross margin on account of discounts rationalizing which will be compensated, as Prakash Ji said, through food inflation remaining benign.

Avi Mehta: And the delivery charge, shouldn't that logically add to the margins as well? Because that has been implemented in June, would that not be the case? I mean, unless delivery charge is something that was present for the entire quarter.

Prakash Bisht: No, it was not there for the whole quarter. So, yes, it started from June, so you will see the full impact in the coming quarters.

Moderator: Thank you. We take the last question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Thanks for taking my question. Just on the store expansion bit. Could you accelerate from a long-term point of view, because let's say the delivery and the takeaway format is viable, so should the 100-150 store expansion guidance from 2022 onwards, should it accelerate as opportunities become better and rentals probably get more rationalized?

Pratik Pota: Ritesh, first of all, I think for this year our 100 store plan that we talked about, of which we have covered 24 so far, has to be seen in the context of the COVID related practical constraints on the ground, and the need for us to execute within those constraints. So, that itself, I believe, is an aggressive number. However, going forward, is there room for us to expand faster? I think the answer is yes. I think Mr. Bhartia also called out in his remarks saying that he sees a much larger potential for Domino's as a brand in the future. So, yes, next year, and hard to predict right now, but depending on how the COVID situation plays out, we could see potentially an acceleration in store expansion.

Ritesh Gupta: Sure. And just to clarify a bit from the previous participant's question also. I mean, historically, your gross margin range has been around 74% to 75% and that has been consistent. Should we now see relatively better long-term gross margin trajectory, given the delivery charges have emerged and that has become much more acceptable to the consumers? Should we see a band change in the gross margin itself from a two, three-year view or from a four, five-year view?

Pratik Pota: Ritesh, I would not move to the conclusion quite yet. I think this quarter and what we are seeing now is a very soft commodity cost environment, dairy costs are at historic lows, quite unlike what we saw in the past. Some of the margin expansion has been driven by that. The last quarter margin expansion was also driven by the discount rationalization that I spoke about earlier. So, as that plays back and winds back, as inflation normalizes, there will be the pushes and pulls between that and the delivery charge. Now where that leads us can't be sure, but I think it is premature to conclude that there will not be an expansion in gross margin for perpetuity.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Pratik Pota: Thank you, everyone, for joining us on the call today. We hope that we were able to address all your queries.

To conclude, we believe that notwithstanding the unpredictable and the high impact nature of the crisis that hit us, we have done a good job of dealing with it in the immediate short-term last quarter.

We moved swiftly to drive business continuity and get most of our store network operational. Most of our targeted stores are now operational. Our powerful brand, strengths in delivery, and a strong set of digital assets and programs have helped us drive our sales recovery. Delivery and takeaway sales are back to or higher than last year's levels in most parts of the country.

We have also used the crises to make some fundamental improvements in our operating model through variabalization of store manpower, culling of unprofitable stores and introduction of a delivery charge.

We have complete conviction that we will emerge from this crisis stronger.

Should you need any more clarifications or have any more questions, please feel free to reach out to us. Thank you. Have a good day and stay safe.

Moderator: Thank you very much. On behalf of Jubilant FoodWorks Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.