



Transcript of the Q1 FY16 Conference call for Investors & Analysts

Call Duration : 1 hour 11 mins

Management Speakers : Mr. Hari Shankar Bhartia – Co-Chairman of Jubilant FoodWorks
Mr. Ajay Kaul – CEO of Jubilant FoodWorks
Mr. Ravi Gupta – President & CFO of Jubilant FoodWorks

Participants who asked questions

Mr. Avi Mehta - IIFL
Ms. Latika Chopra - JP Morgan
Mr. Abneesh Roy –Edelweiss
Mr. Jubil Jain - Phillip Capital
Mr. Vivek Maheshwari - CLSA
Mr. Prasad Deshmukh - Bank of America
Mr. Sanjay Singh - Axis Capital
Mr. Pulkit Singhal - Motilal Oswal Asset Management
Mr. Amnish Agarwal - Prabhudas Lilladher
Mr. Manish Poddar - Motilal Oswal
Mr. Arnab Mitra - Credit Suisse

Urvashi Butani

Thank you for joining us on Jubilant FoodWorks conference call where we shall discuss the financial performance and share operating highlights for the quarter ended June 2015.

We have the senior management on the call with us, including Mr. Hari Bhartia – Co- Chairman of Jubilant FoodWorks, Mr. Ajay Kaul - CEO and Mr. Ravi Gupta – President and CFO. We will initiate with key thoughts from Mr. Hari Bhartia and follow that with the operating and financial discussion with Mr. Ajay Kaul and Mr. Ravi Gupta. After that the management will be happy to respond to any questions that you may have.

Just to state our standard disclaimer, certain statements that may be made or discussed on the conference call today may be forward looking statements and the actual results may vary significantly from the forward looking statements made. A detailed statement in this regard is available in JFL's Q1 FY2016 release & presentation which are available on the company's website, under the investors section.

I would now like to request Mr. Hari Bhartia to share his perspectives with you.

Hari Bhartia

Thank you. Good afternoon and welcome to everyone present on this call.

Q1 FY16 results for us were encouraging as it stood proof to our proactive measures which are generating positive results in a stagnant environment. In the quarter we continued to deliver on our key focus areas such as network growth, innovation and customer satisfaction. Towards this end we continued to evolve our menu and offered our customers with a wider selection of some innovative and versatile products which we hope create many more occasions for indulgence.

Our strategy for FY16 remains focused on expanding our brands Domino's Pizza and Dunkin' Donuts in order to reach a broader universe of customers and simultaneously strengthening their brand equity in the Indian food service industry.

On that positive note, I will request Ajay to take the call forward. Thank you very much.

Ajay Kaul

Thank you, sir. Good evening and Happy Independence Day in advance to everybody. We thank you for joining us today to discuss our performance in Q1 FY16, which is an encouraging set of numbers amidst an environment which is still coming out of a tepid consumer sentiment. We are not yet witnessing an improving trend in consumer sentiment. We have created new opportunities to broaden the appeal of the brands, reach new customers and thereby drive market share growth. According to the latest Euro Monitor Consumer Food Service Report, Domino's Pizza has strengthened its market leadership in the chained pizza market with ~72% market share in India. We continue to be the number 1

Food Service brand in chained food service in India with a market share of ~14% climbed from ~12.5% in 2013.

In Q1FY16, JFL's topline increased 20% to Rs 5,707 million and at the same time we reported 20% increase in EBITDA margin. Same store sales growth showed improvement and stood at 4.6%. We believe this is purely a result of our initiatives not just in Q1 but throughout the whole of last year and this does give us confidence that our overall strategy is headed in the right direction. It is also giving us the ability to operate nimbly and efficiently. However having said that, we are still to witnesses that very visible upswing in consumer demand in the industry. So I would reiterate that we are optimistic about the future but not sure when such an upward trajectory in the segment will happen. Whenever it happen across Food Service Industry, it would surely reflect a turnaround in demand and by design we would have to be the natural beneficiaries of such a trend.

Moving ahead with details of our quarterly performance. As part of the food service industry, it is essential that we differentiate and evolve our brands continually in an ever-changing marketplace, where today there are far more players from say 3 years ago. And thus we try to enhance our offerings in various categories and address more of our customers' preferences. Our launches in Domino's Pizza included the Zingy Parcel at Rs 29. Our in-house Research & Development led by experts and food specialists combine our market research, customer feedback and preferences to design and create new flavors which are not only innovative but also satisfy customers taste buds. Gaining positive reactions from consumers is also the launch of the Italian Pizza range which we call the Chefs Inspiration as it has been conceptualized by our Domino's head chef Narendra Javarta and Michelin Star chef Vikas Khanna.

While a strong product line up is part of our core beliefs, we also want to enhance accessibility of our brands. We wish to bring to customers a seamless experience across multiple touch points. And this would be defined by their interactions with Domino's Pizza both online and at the stores. We were one of the early adopters of technology in our business and had launched Online ordering in 2011, and ever since we have continued to enhance our technological capabilities. The results too have corroborated our efforts and in Q1, online ordering contributed to 33% of total delivery sales. With respect to our restaurants, we opened 35 new restaurants. As we speak the total Domino's Pizza network stands at 921 restaurants. For the full year we are confident of opening at least 150 new Domino's pizza restaurants as communicated in the last call.

Taking the discussion towards Dunkin' Donuts, we are moving well on our learning curve and are gaining traction on our restaurant roll-out and well as on the menu. We have launched 61 restaurants till date. We also introduced some exciting new flavoured beverages like- Salty Jamoonade- which is one of its kind as it combines refreshing ice blended slushy Coolatta with flavor of sweet, tangy, & salty Jamun, the Virgin Mojito Coolatta and the Classic Lemonade Coolatta. In the burger segment at an attractive price of Rs.49- the Crunchy Joe Burger is a runaway hit and continues to be in popular demand. For the full year we are on track for opening 30 new Dunkin' Donuts restaurants, of which we have launched 5 restaurants in Q1.

For FY16, our priorities will remain centered around crucial ingredients for success in this dynamic food industry, which includes our drive to deliver innovative and compelling offerings, provide higher accessibility and a unique experience for customers. On the other hand as an organization we wish to strengthen JFL's operating structure, infrastructure such as supply chain, our systems and processes, all in order to enhance our ability to be more responsive and flexible.

With that I shall hand over the call to Ravi, our CFO and President to take it forward. Thank you Ladies and Gentlemen.

Ravi Gupta

Thank you Ajay and warm welcome to all of you. I shall briefly discuss the financial performance for the quarter.

Over the past few quarters, as Ajay mentioned, strenuous operational environment has been prevalent and as a result there has been a constraint on consumer spends. However we took forward our growth agenda with goals that are consistent with our long-term plans and hence we made several strategic investments in our brands. We at Jubilant FoodWorks are committed to increasing productivity and profitability. We introduced new offerings, penetrated existing cities further with new restaurants as well as entered 12 new cities for the first time with the intention to expand our audience base and strengthen our national footprint and at the same time focused on leveraging the online platform.

This combination has resulted in JFL reporting 20% growth in revenues to stand at Rs 5,707 million in Q1 FY16 and improved growth rate for same store sales growth at 4.6%. Total Expenditure in Q1 FY16 increased by 20% and was at Rs 5,002 million. The increase is directly aligned to JFL's overall growth. Our focus on cost management initiatives have been consistent and more relevant in testing times where we can gain some leverage from our scale and efficiencies. In Q1FY16, EBITDA increased 20% to Rs 705 million and PAT was at Rs 295 million.

For the future, we will continue our commitment on factors that have been key to our success equation. There will be a clear focus on strengthening our connection with customers for both Domino's and Dunkin' Donuts, creating exciting offers and menus which in turn will provide opportunities for us to increase sales and profitability for our business

With that I will conclude my remarks and hand over the call to the moderator for the question and answer session.

- Moderator** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta** Just wanted to understand a bit on the performance, you have done 5% SSS growth and you have a flattish EBITDA margin which means that the cost inflation is close to the SSS growth. How do you see this behaving, do you see the trends remaining at current levels and what are the key reasons if you believe that it won't?
- Ravi Gupta** See Avi, as far as the margins are concerned, this quarter, cost inflation was lower than the same store sale growth, as a result margins improved on same store basis. But as we have discussed in the past that new stores are margin dilutive. Although they are profitable on standalone basis, their margins are lesser and that's why on a net-net basis you see that margins are neutral. Here we are comparing Q1 last year with Q1 this year. This time after a long time probably the margins have improved on a same store basis. Now going forward also the relationship between EBITDA and sales will behave in a similar manner. The only change is that inflation numbers which in the last concall we said were 6% - 7%, probably will be lesser, maybe around 5% - 6%. It is primarily because on the raw material side we believe that inflation could be lower. Last con-call we have discussed 2% to 3% but we believe it could be 0% to 1% or even it can be lower. As a result even if the same store growth is slightly at a lower level than initial estimate, logically the margins can be maintained even at the lower pace of same store growth. But since we do not give a color about the same store growth, what exactly same store sales growth will be, it will be difficult for us to comment on what kind of EBITDA margin we will be able to deliver in the future.
- Avi Mehta** Sir and the second bit was on a sense on while you are currently at 200 odd towns, what I wanted to understand is how in your calculations what is the opportunity size, could you kind of share how many towns have only one stores? Just to get a sense on how the growth opportunity pans up. And just a last bit sir, book keeping, what is the tax rate that we should look at for FY16 sir? That's all from my side.
- Ravi Gupta** About 65% to 70% cities where we are present right now are single store cities and as far as the potential is concerned we believe that like last year where we have entered 46 new cities, I think this year again we can enter at least 40 new cities and that is also part of our strategy to reduce the impact of the cannibalization by entering in additional new cities. So that is first part of your question.
- Second part of the question is about the tax .Tax provisions this year will be in the range about 31% to 32%, to be precise this quarter was at 31.5%, last year it was 28.5%. The reason in the change is because last year if you remember we have taken an investment allowance benefit for two years together because the limit was Rs 100 crores and we could not pass that Rs 100 crores limit in one year so we took the benefit of two years investment allowance in one go. And on top of it there was capitalization of three commissaries last year. This year there is no such commissary capitalization which will happen.

- Avi Mehta** And sir sorry, you said you can add 40 new sites, I meant the opportunity overall as in just to get a sense on how large the industry still is for us, you do that calculation and the math which suggests how many cities you can further enter, if there is something like that exists, like can the 200 become 500 or right now it is actually 1000 and we believe it can be more, that kind of an answer.
- Ajay Kaul** See, as we speak, Ravi probably did answer this question partly, we believe around 1300-1400 Domino's Pizza restaurants can be opened today if we had a magic wand or something like that. And to reach that number probably from where we are currently it will take us let's say two three years but we also believe that the way market will expand and enough evidence has been demonstrated coming out of the past that by the time we reach there probably the potential will be 1700, 1800 and so on. So to make a general statement I think opening 150 Domino's Pizza restaurants year after year for the next few years is possible and only as it unfolds will we realize the real opportunity and if the economy which we are really positive about is going to open up, consumer sentiments will improve, these numbers will only look more northwards than anywhere else. As far as towns is concerned, we do not see that as a limiting factor at all, in fact we have mapped even the next 150 odd towns in India and some of them are surprises, there are populations of 1 - 2 lakhs also but they throw up fantastic sales numbers. So we believe there is still enough opportunity in these small towns and by the time we penetrate them the places where we have one stores will come up for opening their second and the third restaurant and so on. So in some ways it is an endless game and it will only become more positive from here on, we are only waiting for the consumer sentiment to improve honestly.
- Moderator** Thank you. Our next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** My first question is on same store sales growth in first quarter, is it possible to get a breakup in terms of volume, price and mix? It appears there would have been some impact of low price products that you introduced recently on the growth rates.
- Ajay Kaul** We do not share granular information ever like that, but since you have asked the question let me qualitative try to answer. Invariably coming out of the past the revenue growth is always a bit ahead of the volume growth because there is some impact of price increases. So the difference is normally a low single-digit and that is what probably is in this case also.
- Ravi Gupta** Latika we have taken two price increases between last year and this year aggregating about 5% to 6%. So that is the best additional inputs we can give.
- Latika Chopra:** And wanted to also check on your thoughts on your pricing strategy, you have not taken a price hike in this quarter but I believe you are experimenting with selective hikes in some of the regions or with some of the products, so what is the feedback that you are getting and how would you expect pricing growth to pan out over the course of the year?

- Ajay Kaul** See, yes this is as per our strategy that we did not take a price increase, however at the same time we are experimenting/trialing various models of pricing all over the country, nothing decisive has emerged as yet but as and when it comes out and we think in the next few months some things should unfold where we may launch a differential pricing model. I think I won't be able to share more than this information with you right now.
- Moderator** Thank you. Our next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy** Sir OLO is at all time high, jumped sharply quarter-on-quarter also, so any specific reason? You have earlier maintained that OLO leads to higher ticket price because he sees those pictorial things so he orders more, but why has 33% all time high is not translating into higher SSG?
- Ajay Kaul** See the 4.6% is an aggregated number which has come out of several directions, part of it maybe OLO but it becomes difficult to granularly kind of take it aside and say that out of 4.6 let's say x came out of OLO activity. Similarly there are so many other levers which we play around with. But let me answer the question on OLO, you are right OLO has reached 33% which means almost out of every three orders on delivery we do one is coming out of online ordering. And our aim is to clearly be ahead of the curve, not only competition but market place in general because today we are competing even with the Flipkart's of the world because the customer experience in switching to mobile site, the apps and so on they look at all of them and reach conclusions. So the platform investments on hardware and as much as on customer experience which is navigation and so on is happening and our aim is to take that number to maybe in excess of 50% in the foreseeable one or two years and we have some great examples and learning coming out of some of the other markets of Domino's like the USA, Australia, UK and so on where we constantly keep learning from, as to how we can actually eventually take it to 50%, 60% and so on. Another interesting fact to this is the mobile ordering, because we believe the future is there and a lot of our investment is going also in that direction not only in terms of the app but also in terms of popularizing it which means spending advertising dollars on that and that number has now reclined to 27% of our total OLO orders which again is an all-time high. So to cut a long story short, investments and our direction strategically in this space is only going to grow more and more. Now coming to this quick question on that they did not have an impact on our ticket size. The ticket size of online ordering tends to be marginally higher, so it probably has some impact somewhere but granularly to pick it out and say that this was the result is not possible.
- Abneesh Roy** Sir, one or two follow-ups on that. This ticket price higher you said already in India has started, but when we compare with the international benchmark are we there and similarly on app is it even higher than the non-app OLO?
- Ajay Kaul** To compare exactly with some other countries and believe that we will follow that trajectory or we will exactly take that trajectory is not possible. Whatever is happening in India is happening at a much faster pace than it had happened in the USA over a 15 year period and in UK over probably a similar time period. So we are not following similar trajectories, so it is not right to compare but it is

following a path which is not very different and that is what we need to be focused on that is the transaction size a bit higher, it is. You know what kind of impact it will eventually have on maybe incremental costs or reduction of cost is yet to be seen.

Abneesh Roy

Sir my second question is in terms of your new initiatives and new growth drivers, for example this IRCTC thing was supposed to be reasonably significantly, so if you could talk about that, is there any bottleneck you are facing there but long-term is the potential quite good in there, if you could talk about that. Similarly, I see very high advertising of the Vikas Khanna so that thing is more towards the brand equity so making it more aspirational strengthening the imagery or you are targeting the premium end of the consumption through this?

Ajay Kaul

Do not get me wrong, you have asked four, five questions in one question. So I do not know which order to now take them in. Let me start with the reverse. Vikas Khanna product is doing exceedingly well, not only because of endorsement from Vikas Khanna who is an expert but also because a certain segment of our customers are high frequency customers who were clearly telling us that they are now wanting to get into some, call it gourmet for lack of any other term, pizza zone and Italy being the home country for pizza so we tried to bring that authenticity in the way we craft the pizza, the way the toppings are and so on and it is doing very well. But it is only one part our strategy, simultaneously we are also having a Rs.29 Zingy Parcel product in the market which we are advertising and that is also doing very well. So they all go hand in hand, so it is not only one unidirectional way in which we would go.

Coming to your question on IRCTC, and I will take them in the reverse order. The potential we believe eventually is going to be humongous, whether it is in terms of orders which come on the trains or by way of creation of an ecosystem where every platform, every station will have a Domino's store or most will have a Domino's store and that will all mean incremental business in new occasions; when people are travelling, they are on the board they need hygiene in food. The numbers so far we have never said are very high, in fact the numbers are still very-very low but they are encouraging. As far as bottlenecks are concerned, we will not blame anybody, I think while it is a unique idea but it requires several agencies including government agencies to come together and popularize it and we on our own cannot just fulfill the whole thing. So it is taking its bit of a sweet time but we are not discouraged because of that, we believe this is going to have humongous potential in the next few years and we are patient.

Moderator

Thank you. Our next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

Jubil Jain

My first question is on the contribution of new innovations, so last quarter as well and this quarter as well we have introduced various innovations. So can you just give a ballpark figure as to how much these innovations would be contributing to the overall sales, would that be in mid single-digits or very low?

Ajay Kaul

I would put it like this, never in the past have we given out such information, so we would consistently want to say that we will not be able to offer granularly this

kind of information. Secondly, I must also admit that even internally for us to exactly to the last penny segregate the impact of a new product launch is not so easy because sometimes it is only a replacement of an existing order which the customer would have done and may not be necessarily incremental to that extent. So the question as it is not so easy to answer but even if it was and we have some internal norms by which we do find that out, we will not be able to share that with you. But qualitatively let me tell you that on both the brands in the case of Dunkin Donuts we have launched some Coolattas but on the product front we launched a Crunchy Joe Burger at Rs.49 and very recently we have launched the Voodoo Wraps which is more in Q2 rather than Q1 and the customer response to them is outstanding. And on the Domino's side we had the Zingy Parcel which was at Rs.29 which was more of a value for money "side order" offer and then there is the Italian range of pizza; again the customers' feedback, likability, recommend ability scores are extremely high.

- Jubil Jain** Sir and can you throw some light on the revenue and EBIT numbers for Dunkin Donuts, at least ballpark figure as to whether the revenue per store is similar to Domino's or far below Domino's and what is the EBIT impact right now for Dunkin Donuts.
- Ravi Gupta** See, first of all let us see how the Dunkin' Donuts is performing? From the consumer point of view Ajay just explained the consumer is liking the products, even the new products launched have been very successful. So from product acceptability point of view for all the three categories- burger, donut, coffee or beverages, all these categories are being well liked by consumers and the feedback is all positive. Now as far as the overall contribution or EBITDA dilution is concerned we have indicated that last year was about 180 basis points and this year will be in the similar ballpark range.
- Jubil Jain** Okay. So this quarter as well would be similar?
- Ravi Gupta** See quarter wise we do not share the number, quarter wise there could be some fluctuations but overall for the year will be about in the similar ballpark range.
- Jubil Jain** 180 bps for EBITDA?
- Ravi Gupta** Yes.
- Jubil Jain** And sir can you also throw some light on the market share in chains versus Q1 FY15 for Domino's?
- Ajay Kaul** Yes, that is where lies an interesting story that while market share is not a statistic which we are chasing, we are trying to follow our own path but in the process in 2014 over 2013 and this is based on Euromonitor numbers which are in public domain, our market share in the organized pizza space has increased from around 67% to 72%. And as far as the overall food service market is concerned which means not just pizza, but all of organized food service market we continue to be the largest food service player in the country bigger than other equally reputed brands like McDonalds, KFC, Pizza Hut and so on and our market share has climbed from 12.5% to 14% this year.

- Jubil Jain** And sir last question, the other expenses to sales dropped by 60 bps this quarter, so will that sustain for the next few quarters, I mean what is the reason for that?
- Ravi Gupta** See these expenses fluctuate from quarter to quarter, I think 50, 60 basis points typically due to various reasons, marketing expenses could be different in one quarter to that quarter, it also depends on the inflation level between quarter to quarter. Like this quarter we got some benefit on the power and fuel vis-à-vis last year's Q1 but on quarter-to-quarter basis there was a negative variance in power and fuel also. So you cannot see a 50, 60 basis points as a trend emerging, that much fluctuation will be there in the numbers of other expenses.
- Jubil Jain** Sir last question, share of delivery versus share of dine-in?
- Ravi Gupta** Around 50:50.
- Moderator** Thank you. Our next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari** My first question is, I know it is a very quarter-to-quarter there can be quite a bit of swing but you did fourth quarter 6.5% same store sales growth and first quarter it is 4.5%. On this consumer sentiment side is there anything worth noticing because there has been a deceleration and the base was somewhat better this time compared to previous quarter. As I said u understand the risk of comparing on a quarter-on-quarter basis because there maybe 2% is not a big number but nonetheless anything that you want to highlight?
- Ajay Kaul** I would only repeat here but I think it is important for us to put this question and the very answer to rest. So the point is that 4.6% compared to 6.6% may look adverse but I think that is not the right way to look at it, I think the larger picture is that 4.6 per say is comparing with our quarter last year where we had done a negative same store growth, so it is cosmetically looking good, the moment we look around in the environment which is the food service space and when we focus on some of our respected opposition for whom we have lot of respect, they have been reporting severely negative numbers. So our submission is that it is our ground level execution supported by some good product launches and obviously coming out of a sound strategy all of these are lending to the 4.6% kind of same store growth numbers. But at an industry level the sentiment from the consumers' perspective is still the same, it is not showing any statistically significant shifts which we can report here or which we can feel optimist about.
- Vivek Maheshwari** And typically you take up prices beginning June, right?
- Ravi Gupta** Yes, in the month of June in the past two years we have taken a price increase.
- Vivek Maheshwari** So if you are not taking up prices now does that mean that there can be some pressures in second quarter? I understand gross margin side you have indicated 0% to 1% inflation but from a same store sales growth as first quarter would capture or would have an influencery effect, the second quarter onwards the SSG can further slip right if that is the case?

- Ajay Kaul** Yes, till the point that the price increase has not been taken in June when we compare it with exactly same period last year it is natural that it may look adverse. However, as I was saying earlier also, we are trying and experimenting with various differential pricing models in various parts of the country and after we get some clear cut results from there which should not be too far from today, we would be launching some price increases as a result. So it will catch up is what my point is.
- Vivek Maheshwari** Sorry for dragging but right now you are talking about say experiments so I presume that second quarter is about to get over, we are like midway in to the quarter, this means that certainly second quarter will not have a significant component of price hike, is that a fair assumption? So whatever growth we will see has to be primarily led by either mix or volumes?
- Ravi Gupta** Vivek, we cannot give a specific color exactly when and what price increase will be there because it is confidential information.
- Vivek Maheshwari** Sure, I understand but I am saying till the time that happens, at least till 15th of August there is going to be an impact because there is no price hike?
- Ajay Kaul** You are right.
- Vivek Maheshwari** And the fact that say 6% is the average price hike and 4.5% is SSG, volumes are perhaps in negative either because of volumes or because of mix, that can have a serious impact right as you move ahead in this quarter basically?
- Ajay Kaul** No comments.
- Ravi Gupta** I think Ajay mentioned saying that there is a negative consumer sentiment and that is the reason the situation is prevailing, I think that comment stands true.
- Vivek Maheshwari** And second bit was, Domino's International used to give about say 1200 was the last number that I remember in terms of total market what India can absorb in terms of Domino's outlet, where do we stand in today's demographics, has been any update since then?
- Ajay Kaul** See, the last time we did this exercise, it was around 1.5 year back from their perspective and since then obviously we believe the number is today standing at around 1300- 1400 stores and I was saying a little while back which you probably may have missed that we believe the potential today is of around 1300 to 1400 stores.
- Moderator** Thank you. Our next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh** Sir two questions, first you mentioned that this year you are focusing on strengthening your supply chain system and processes, so if you could throw some light on this? And second just wanted to know how has been discounting in this quarter versus same quarter last year?

Ajay Kaul

Okay. I will take them in reverse order, discounting is at a similar level so we are very clear that discounting is something which we need to watch. Being market leaders we also have a role to play in the way we offer discounting. Online ordering discounting which we have always said, whenever we do campaigns of online ordering to popularize it, discounts for that segment tends to be a bit higher. As far as supply chain is concerned, I do not know at what stage we said that because we cannot recall but let me still answer your question. We realize that we are building a business for future, the short-term blips on consumer sentiment and all that do pull us back and it forces us to focus on the immediate present, but we realize that for building a business of future we have to create commissary infrastructure, we have to create supply chain ecosystem through vendors and business partners committed to us and so on which is mission critical for our success. So one of course is keep building 150 odd restaurants in Domino's and 30 for Dunkin' Donuts year-after-year but we are also investing a lot of money on commissaries or to say factories. Last quarter actually which means in quarter four of last financial year we commissioned three new factories- one in Nagpur in Central India , one in Hyderabad to help our Bangalore commissary and one in Guwahati for the Northeast penetration. So as we speak today our number of factories has jumped from six to nine and while we again speak we are working on building one mammoth facility in Greater Noida which will then be looking at maybe our serviceability, capability could be of around 1600 - 1700 stores. So all these investments are being made because we are looking at the next five years and not just being focused on today. We do believe that the consumer sentiment has to start looking upward which I was saying even a little while back and the moment that happens and the industry comes out of the woods we will be the people who will hit the road running before anybody else.

Prasad Deshmukh

Okay. Let me put the question a bit differently, are there any cost cutting initiatives that you are taking in a supply chain right now for current year?

Ajay Kaul

Yes, of course. Cost cutting not only in supply chain, we are doing that across our business, we are probably the only company who deploys, in this industry I am saying, Six Sigma in a very aggressive way and that does tend to bring in efficiencies and also in tough times when your margins are under tremendous pressure, we look at our supply chain system very-very closely and all other facets of our business to bring in efficiencies.

Ravi Gupta

Actually we do not believe in the term cost cutting, we just look at cost efficiency and optimizing the cost because in the growth phase which is what we are today, there is a dilemma always saying should you cut the costs or should you invest back in the business because the speed with which you are growing i.e.150 restaurants for Domino's, 30 for Dunking, that means we need to continuously reinvest back in the business and also we need to continuously also become more and more efficient as well. And that is the reason Ajay mentioned about Six Sigma and other initiatives.

Prasad Deshmukh

So if I may just one more question, do you still stand by that guidance of two to four quarters for same store sales growth reaching a high single-digit to low double-digit?

- Ajay Kaul** We believe that four quarters from today reaching a high single-digit same store growth consistently is doable.
- Prasad Deshmukh** So this is slight change versus what you were saying till last quarter, so is there any change in consumer sentiment because of which now you are more cautious?
- Ajay Kaul** As we said there is no change, but if there was a bit of an upward movement, would we have been more confident and since we are seeing almost a stagnancy and not even a small needle shift, it is forcing us to make this statement of our confidence in achieving a high single-digit number in four quarters from today.
- Moderator** Thank you. Our next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.
- Sanjay Singh** Sir just wanted to know, in this quarter if you typically take the average number of stores for the quarter, this quarter and similarly same quarter last year then sales per store is down by almost 2.5% whereas the SSG is 4.5%. I understand that this gap is always there because of new stores opening at a lower amount, but in this case earlier if you look at full year last year this gap was around 4.4%, this quarter it is 7.2%. What this essentially means is while your same store is 750 stores or so which have grown at 2.5% probably the other 200 stores including Dunkin' have grown at a much lower than the system average which was historically 75%, 80%. So how do we read this that this gap of difference in same store sales growth and the average sales per store increasingly quite sharply, in fact this is the highest I have ever seen in so many years?
- Ajay Kaul** See, in terms of Dunkin' Donuts average sale per store, as Ravi had said earlier also is lower than a typical Domino's store and the reasons are obvious because Domino's is that much more an established brand and so on and so forth. Now this difference I think we are trying to read too much into it, we need to granularly get inside and understand all the various segments and then see where this difference is probably coming from, but it is a mix of too many things and to read too much into it probably also is not right. All it basically tends to say is that yes, there was a pressure on order growth even till when we were for example registering 0% same store growth, order growth was in the negative territory at that time and we know that because it is always a few percentage points lower than our revenue growth. So I think we are probably trying to read too much into it, although you are saying the difference is the highest throughout the times we have been noticing it.
- Ravi Gupta** See there is an additional factor also, when you look at last three -four years we have opened about 50% of the restaurants and year-by-year when you apply the same principle of saying that we are opening the restaurant at 70% to 80% level and then try to populate through excel sheets, you will see that as you go further and further this number will only keep on increasing because the weight of the new restaurants is only increasing out of it and the same store growth which used to very healthy earlier has come down to almost zero level, last year was flat and the year before was 1.6%. So while same stores are not pulling the averages up and the new stores are diluting, this diversion is the outcome.

- Sanjay Singh** No, actually Ravi it should be the other way round because now the number of new stores as the percentage of your overall stores is coming down, as a percentage, absolute number does not matter. Mathematically the percentage of new stores are coming down and hence the difference between the same store sale growth and the average should come down. I understand Dunkin could be a part of the impact but forget the mathematical part of it, but even qualitatively because we are opening in Tier-II, Tier-III, Tier-IV towns or is that there the store sales is lower than the system average which could be quite logical also because it is a much smaller population town etc?
- Ravi Gupta** See, on an average , sales of a new restaurant is in the ballpark range of 70% to 80%, but I will encourage you to do an excel sheet working and you will realize that what the fallacy there is in the numbers that will come in front of you because what do we look at in numbers, we look at only the new restaurants opened in the year and we say that percentage is same, but the point is we never see what is the weightage of all the restaurants which have been opened in last three, four years. If we just look at all the weight together then you will realize that this is the prime reason for it.
- Ajay Kaul** See let me just make concluding statement on that, if you look at 900 odd restaurants which we have on Domino's today, nearly 430 out of that are coming out of the last 2.5 - 3 years. Now all these three years new stores have not reached the levels still, they will take still some to reach the average sales of rest of the universe, so they will keep being a drag that way, if I may use that term for lack of a better one, on the overall average our weighted average sales per store for the whole universe and they are nearly 50%. If I go back one or two more years then we are talking of nearly 60% of the stores have come in the last four years. So do your math and you will probably realize there are too many variables and factors in this for you to reach any conclusions like what you just mentioned.
- Ravi Gupta** Actually not only the sales, for EBITDA also the similar equation works.
- Sanjay Singh** On the demand side just taking a bit further, while we know sentiment has been down severely across the board but you are still reporting a positive number as some of your esteemed competitors they are reporting negative numbers now for consecutive years, so negative number on a negative number. And hence what it takes us to is it just really consumer sentiment or is there something more to it because even as we speak I mean Shoppers Stop or some of the other apparel players they have reported double-digit or at least high single-digit SSG. So is there something more to the food space that you can see, if I recall correctly Ajay you mentioned in one of the CNBC interviews that the number players in the space has increased or likes of Foodpanda, etc., so can you comment more, the sentiment we all know but still adjusting for the sentiment do you think it is still lower than what you would have thought it to be?
- Ajay Kaul** If I have understood your question correctly, the consumer sentiment what we have explained twice over in the last one hour I think that remains in its place. We try to looking at our internal data to see whether there are ways in which some parts of our business are doing better than the others or whether it is by geographies, whether it is by consumer segments, whether it is by ageing of cities

and the answer to all these hypothesis by and large is that the impact is all over the country. We also do qualitative and quantitative research extensively to reach conclusions on what are the consumers telling us. Now consumers clearly are telling us that we love Domino's Pizza, we are emotionally connected highest on your brand and there are 3-4 different ways in which this data comes to us. But they are also saying that we are clamping down on eating or consuming food outside of home and this is kind of conclusive though qualitative in its nature. So the moment the sentiment changes a little bit we will kind of ease out on our purses a little bit, we will come back to your Domino's Pizza do not worry. So we believe that at an aggregate level consumers if they were going out, across sub segments, people who are consuming twice a year, 5 times a year, 10 times a year, 20 times a year, they are clamping down a little bit. It is affecting our competition more, than us maybe because we are still able to do innovatively a lot of things on various axes from promotions to new product launches to execution on the ground to online ordering and probably the overall halo around the brand and so on and so forth. Now what is making this situation a bit more complex and I must admit is that in the last 3-4 years however insignificant or small their contribution still maybe, brands like Dunkin' Donuts, Burger Kings, Starbucks these guys have come in and we try to monetize or we try to kind of put all their revenues together and figure out how much are they lending into this hole and the numbers are still very-very small, as a percentage they are very low single-digit kind of numbers, even all put together at an industry level. When you look at investments made by PE companies in some of these emerging Indian concepts that number is even smaller because these are really fledging 5, 10, 15, 20 store operations and so on.

Now coming to food aggregators, and I did mention all this in my CNBC interview and that is why I am taking a bit more time to clarify. The food aggregators are creating new equations; they are popularizing food to be consumed at home even more and more. Now again when we look at some of these top 3-4 players and see what kind of orders they do everyday, every week, the number tends to fade out still. But does it mean we are not having them on our radar screen? We are actually watching all these players like hawks and all these segments or all these facets of our business. What we realize is that in the short run while they maybe causing a bit of damage, for example Burger King probably has had an impact on some of the other two burger players who are already to be present for so long, but they will all eventually lead to growth of the market and that is the beauty, the market is only going to grow, more and more occasions of consumptions are going to get created whether it is the PE investments in brands like Fasoos and Ammi's Biryani and Adiga's, whether it is these large brands like Dunkin' Donuts, Starbucks, Burger King and Wendy's and everything or whether it is people trying to popularize delivery as a concept. So we are very-very optimistic about the growth of the business, all we need is some change in consumer sentiment which I spoke about earlier which is affecting us a little bit but it is affecting our opposition a bit more and that is why those severely negative numbers.

Sanjay Singh

On employee cost, this quarter the cost per employee was quite high in double-digit inflation, on the full year basis of last year it shows again in double-digit.

- Ravi Gupta** Actually it is not possible to compute the cost per employee in a real sense because about 30% of the employees are part timers and this number keeps on fluctuating between quarter-to-quarter also. So if we simply divide number of employees and try to work out an average cost that may not give you a correct number. But as far as the inflation in the employee cost is concerned, there are two segment of employees, one which are close to minimum wages and others are normal ones. Inflation in employee cost in both the segments tend to be double-digit, 10% to 12% or can be little higher but not lower than that.
- Sanjay Singh** So have we taken any salary increase across the board this quarter or is it more in pockets as and when required?
- Ravi Gupta** For the team members which are covered by minimum wages we have to go as per the law, whenever the law changes we need to increase it. For the rest of the employees we increase it from July 1st every year.
- Sanjay Singh** And lastly CAPEX for the year sir?
- Ravi Gupta** CAPEX will be in excess of about Rs 250 crores for the full year.
- Moderator** Thank you. Our next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management . Please go ahead.
- Pulkit Singhal** You mentioned about same store costs rising at 5% to 6%, firstly what would be this cost excluding the raw material impact?
- Ravi Gupta** We discussed this actually, one was manpower itself, and manpower is 20% of our cost and the inflation in manpower we just discussed. Next is rental, rental by agreement itself there is an inflation of about 5% per annum, we increase the rental 15% every three years and on top of it some rentals are variable in nature, they go in line with the sales and some rentals when the agreement comes for revision after the completion of the agreement , the increase maybe higher than 15%. So in a nutshell, the overall inflation in the rental tends to be higher than 5%. Then all other components such security, housekeeping and other things which are related to manpower will increase in line with of the manpower rate of inflation and some other expenses will go by the general rate of inflation in the economy. So leave out raw materials, rest of them are growing still very rapidly and that is the reason for the average I said about 5% to 6%.
- Pulkit Singhal** Yes, so that's what I was trying to understand, I mean employee and rental would probably grow 6% to 7% or whatever the average. Are there some places where you are seeing actually a decline in costs on a same store apart from raw material?
- Ravi Gupta** No, there is no decline in the cost per say, other than the efficiencies which we basically create ourselves through Six Sigma initiatives, Sankalp and other initiatives that we have, otherwise there is no decline. But just to correct you, on the labor side we just said double-digit inflation, not 6%- 7%.
- Pulkit Singhal** Right. But on fuel you would be surely saving right?

- Ravi Gupta** For the fuel, yes, for some part of the fuel when we compare last year Q1 to this year Q1 there was a decline, but when you compare quarter-to-quarter it was almost neutral.
- Pulkit Singhal** So that's what I am just trying to understand, so relating to the diesel cost or petrol cost what percentage of your cost are due to fuel?
- Ravi Gupta** Overall power and fuel is about 7%, it appears as separate line item dividing it into two separate ones, power and fuel and delivery cost.
- Pulkit Singhal** So it occurs in both that's what, so power and fuel and freight and delivery expenses both are there?
- Ravi Gupta** Yes, some element is there in both of them. And as far as electricity is concerned, because power and fuel includes electricity which is a major component of it, there is no deflation there and there is only inflation sitting there.
- Pulkit Singhal** So for instance this quarter you had 4.6% same store sales and obviously pricing hurt quite a bit, now given that your store level inflation is at 5%, is it fair to say that given no pricing increase you will have to at least grow volumes by 5% to at least have a store level margin expansion?
- Ravi Gupta** Absolutely Pulkit, same store growth has to be at least the level of inflation for the margins to sustain on a same store basis and that is a statement we have been making almost every quarter.
- Pulkit Singhal** And all over India are the prices similar for your products currently?
- Ravi Gupta** See, I think Ajay tried to answer it, it is almost similar, only some tourist spots where the prices are different.
- Pulkit Singhal** And last year how many pizzas did you sell in FY15, do you provide? I mean it used to be in the Annual Report.
- Ravi Gupta** Actually that number can be confusing because people start creating actually average realization per pizza without realizing what the ratio of the small pizza versus medium pizza versus large pizza is. So we stopped giving that number and we stopped publishing that number unless until it is actually required somewhere.
- Moderator** Thank you. Our next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.
- Amnish Agarwal** Hi sir, I have a couple of questions. Sir if we look at the same store sales growth of 4.6% in this quarter vis-à-vis 6.5% in the previous quarter and given the fact that the last weekend in this quarter you had a 50%-Off scheme running, so does that not sound a little bit having more pressure in the system then it actually seems purely from the same store sales growth? But my sense is that but for those two days of 50%-Off on Saturday and Sunday I think it was 28th or 29th, 4.6% would have been further lower?

- Ravi Gupta** See, it becomes very difficult because these weeks are there for multiple times during the year, these are not timed according to the quarter end or something like that, you are reading probably too much into the campaign, the campaigns are not timed accordingly. So this week's off is basically to promote the mobile ordering or online ordering and this time it was specifically focused around the mobile ordering, although the same offer was available on OLO also. So we are consistently investing money through digital initiatives and investments in mobile ordering and online ordering which Ajay has mentioned earlier. So this week's off of 50% off have been done earlier in past also.
- Amnish Agarwal** Were they in this quarter also?
- Ravi Gupta** Yes, last quarter also was there as a result the mobile order and online order contribution has gone up, I think Ajay answered in other question also.
- Amnish Agarwal** And sir my second question is, I think a part of it was asked earlier also regarding some of the food aggregators. Sir if you look at some of these food aggregators in addition to the emerging chains whether they are in pizza, burger, etc, some of these aggregators are actually sourcing you can say the Indian cuisine also and some of the other cuisines also from some of kitchens which are being setup by the new entrepreneurs. So they are actually offering a much wider option to the people who used to order from outside. So is this transforming the food delivery industry in India in some way and how do you think it can have impact on companies like Domino's because you were always there, one can presume that you started the delivery concept in India, pizza's were the first but now there is a whole gamut of cuisines which are available. So is that somehow somewhere impacting the growth of the established players like Domino's?
- Ajay Kaul** See, right now the impact is minimalistic, so the larger question is that in future will it have some role to play. See if you look at evolution of these entities in various parts of the world which are maybe a few years ahead of us, only a few years, unlike in many cases where they have come much earlier but this is a space action happening in USA is almost getting replicated of what is happening in India or Germany or UK or Australia or whatever. Now, the key point is that yes, on the same platform you have option of exercising other option also. See, what you need to look at is three, four things: One, in the fulfillment of food delivered at home there are three four stages, ease of ordering, then choice of menu, then the actual experience of delivery at home, who comes to deliver and so on and fourth also is how fast does that person come, does it come in acceptable time frames or is it after an hour. What we realized is that that most of these players and this is also going into experiences from other counties. While they are clearly doing a good job on offering a wider menu and wider choice, but in terms of fulfillment of the last mile which is delivering on time and also a respectable service at the door where some good person is explaining to you what that product is, consistently he is coming from a company, wearing a certain uniform which is coming from a global brand, on a lot of those things they have lot and lots to still cover. Now they will evolve, they will also improve and I am not saying they won't do all that, fulfillment of 30 minutes and less which has got its own role to play not only in terms of a 30 minute as a number but food arriving on time, hot and piping so that you have full rich product experience which sometimes or many a times

these other companies are failing in. But having said that, we are watching this space very-very closely, we know one thing will happen, while they may probably eat a little bit of our business, at an aggregate level they may, but they are helping this delivery ecosystem to grow so significantly that in the end everybody will be a gainer. More and more consumers are going to be ordering food at home as a lot of demographic variables change in terms of traffic conditions and in terms of working women and double no kid situation and so on, more and more families will order food at home and our job is to make sure that Domino's share of that market still remains substantive and huge so that we are ultimately a gainer and we are absolutely positive about it that it is going to eventually benefit us but we have to be at this execution game better than anybody else and that is what we are focusing on.

- Moderator** Thank you. Our next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar** Sir I just had one question, could you give us any outlook on the subsidiary, the Sri Lankan subsidiary now?
- Ajay Kaul** We opened two outlets, we did not close any outlet there.
- Manish Poddar** And what about the commissary status, we were looking at one, right?
- Ajay Kaul** We already have one commissary there which is supplying stuff to all our 17 restaurants.
- Moderator** Thank you. Our next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra** First question, I wanted to know how do you look at price elasticity of demand in pizza's? So why I am asking this question is, let's say you have not taken a price hike this year, does it any ways help volumes and what is your past experience that when you take a price increase does it depress volumes initially and then it normalizes and how do you look at this whole price versus volume equation?
- Ravi Gupta** Arnab it is actually very difficult to work out what the exact elasticity of demand is and I think we have tried to answer earlier also in this case, not today but in the past. In FY12 we increased prices by 12% but despite that our same store growth was 30%, in subsequent years we have done a 6% price increase but our same store growth was flat or zero. So working out elasticity of demand in solo becomes very-very difficult, you need to always look at in line with the economic sentiment and it becomes very-very difficult if you combine both the factors together because there is no way you can measure what the consumer sentiment has been, how the economic growth is helping the business. Since there is no measure for controlling it or measuring it, it becomes very difficult to compute the elasticity of demand.
- Arnab Mitra** So in that context just wanted to understand why you were actually postponing this price increase, is it something to with the value for money equation which you have spoken about in some calls in the past or anything to do with

competition or taking up prices or lowering some prices, if you could just put in context this not taking a hike in June what it is kind of based on.

- Ravi Gupta** See we tried to explain that we were doing some trials around price reengineering and those trials were continuing in Q1, some of them continued in Q2 also. So after the results of the trial we will analyze them and then we will decide whether we need to increase the price and if yes then to what extent we should increase the price and accordingly we will take the steps.
- Arnab Mitra** But you were not calling out any other factor like value for money or anything to do with competition in this?
- Ajay Kaul** No.
- Arnab Mitra** Just one question on this issue around minimum wage, so there has been this thing that the Central Government might raise the minimum wage by 25% for unskilled labor, so just wanted to understand are the state minimum wages already higher than central and are your people on the unskilled level of minimum wage or on the semi skilled level?
- Ravi Gupta** See, in bigger cities it is close to the central level to what they are proposing according to newspaper report said but in the smaller cities some of the states actually are not increasing the minimum wages with that speed, although actual wages are running higher in those locations. So state to state there is a difference between the minimum wages.
- Arnab Mitra** So do you see this basically as a risk or you think current levels in some cases where you are seeing market wages are higher or in bigger cities where it is almost equal it should not be a very big factor?
- Ravi Gupta** Actually it is a two edged sword, we always say that; Increase in wages, it works as a higher cost personnel cost for us, on the other side it also helps because these same become consumers on other side. So it always a double edged sword, good for us and also bad for us.
- Arnab Mitra** No, what I was asking more is that whatever numbers were quoted if those were to be there, on a cost basis does your cost significantly go up or it is more or less in line with the 10%, 12% which you were anyways expecting?
- Ravi Gupta** It would be a more than 10% to 12% in that case.
- Manish Poddar** And just one question on Dunkin', so your commentary seems to suggest that you have kind of got the format right, the menu is working well, any reason why the rollout cannot be faster than what you are currently doing because in Domino's you now have the capability of adding lot more stores and capital is probably not a constraint. So any reason why it is still five to seven stores a quarter and not faster than that?
- Ajay Kaul** See, if you would have seen Jubilant FoodWorks strategy or call it tactical strategy, even store opening is concerned is always been very calculated and measured. We

do believe that we can probably open more stores in that also but making sure that at a brand level, at an entity level Dunkin' Donuts starts hitting overall profitability faster than before. We believe we got to go in a measured fashion, 30-35 stores is a good number and at the same time focusing on all other aspects of as we have said the model and making sure that the costs are also driven in a particular fashion that is our primary aim. And we believe that by doing this we are opening the right size stores, the right stores, we do not make any mistakes so that we have to close down stores later on, so that is it. At the moment when we realize that now the risks in opening up are low and it warrants opening 40-50 stores also we will do that, but right now we believe 30-35 is the number.

- Arnab Mitra** Just one small question, the service tax increase would have happened mid quarter, so that would have been passed on automatically to the consumer, that 0.65% hike?
- Ravi Gupta** Yes.
- Moderator** Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Ajay Kaul** Thank you Ladies and Gentlemen for taking the time and joining us on this call today. Hope we have been able to address your queries. Should you need any further details please feel free to get in touch with us. We wish you a very Happy Independence Day in advance. Thank you and good day.
- Moderator** Thank you. Ladies and Gentlemen, on behalf of Jubilant FoodWorks that concludes this conference call. Thank you for joining us and you may now disconnect your lines.