Jubilant Foodworks' Q1 FY22 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. Ashish Goenka, CFO

Moderator: Ladies and gentlemen, good day and welcome to Jubilant Foodworks' Limited's Q1 FY22 Earnings Conference Call. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I now 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 FY22 Earnings Conference Call for Investors and Analysts. We are joined today 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. Ashish Goenka – CFO of Jubilant Foodworks.

We will commence with key thoughts from Mr. Bhartia. Mr. Pota will follow him with perspectives on JFL's progress and strategic imperatives. After the opening remarks from the management, the forum would be opened for question and answers.

A cautionary note, some of the statements made on today's call could be forward-looking in nature and the actual results could vary from the statements. A detailed statement in this regard is available in Jubilant Foodworks' Q1 FY22 results release and earnings presentation, both of which are available on the Company's website under the Investor Relations section.

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

Hari Bhartia: Thank you. Good evening everyone and welcome to our Q1 Earnings Call.

The recovery momentum that had commenced in the second half of financial year 2021, as you know was interrupted by the second wave of the pandemic, mostly in April and May of this year. The second wave has taken a grievous toll both in terms of lives and livelihood.

During a quarter where every day brought new challenge, we have been gratified by the resilience and adaptability with which our team members not only delivered on business continuity, but also rose to the occasion and lent their support to one another, in time of this unprecedented health crisis. We swiftly responded to this crisis and offered all possible assistance to our employees and their families.

As the COVID caseloads increased, we were faced with multiple restrictions. Dine-in operations were largely shut across the country, mobility restrictions severely impacted

our takeaway channel, state specific delivery restriction enhanced the on-ground challenges further. However, despite the reduction in operating hours, reduction in operational stores, and the impact of restrictions on dine-in, our sales recovery in Domino's was led by strong growth in our delivery channel.

In this challenging environment, we are happy with our performance in Q1. When compared to respective period in FY20, our revenues for Domino's had almost fully recovered by June 2021 resulting in sales recovery for Q1 at almost 94%. With easing of restrictions, our restaurant operating hours will increase further which will result in sequential improvement in operating performance.

We opened 29 stores in India. This included 20 new stores of Domino's, 3 stores each for Hong's Kitchen, 'Ekdum!' and Dunkin' Donuts. The lockdowns and allied restrictions due to the pandemic presented a lot of on-ground challenges and it interrupted our store expansion momentum leading to a lower number of new stores compared to the last quarters.

Going forward, we expect to see some significant structural changes in the category which will play to our strengths.

- The pandemic has accelerated the push towards digitalization and the early movers which continue to invest in their digital capabilities will benefit in the long-term.
- A fair share of portion of delivery growth will be incremental as Tier-2 and Tier-3 cities has adopted well to the delivery in an accelerated manner during the pandemic. Dine-in with a different consumer cohort will mostly add to and not cannibalize the overall growth.
- Consumers will increasingly look to trusted brands and those with proven quality and hygiene credentials.
- Restaurants will increasingly look to build their own digital channels and gain control and insights on their customer's data and grow in a sustained and profitable manner.

As these trends play out, JFL is well-placed to lead and participate in the growth of food service industry with our fundamental strengths in delivery, growing digital capabilities, varied product offerings and deep understanding of consumers.

As we look ahead, we are excited at the growth potential that lies ahead. Towards that, we will be making two significant investments in our supply chain network, that is increasing our capacity in Bangalore and Mumbai. We also intend to accelerate our new store openings and plan to open at least 150 to 175 stores this year.

Before I conclude, I am happy to share with you that we are progressing well on our vaccination drive. Our endeavor is to vaccinate all our employees and their families to ensure theirs as well as our customer's safety. This is quite simply the single most

important priority for us.

With that, I would now request our CEO – Mr. Pratik Pota to continue this discussion by sharing his perspectives.

Pratik Pota: Thank you Mr. Bhartia. Good evening and welcome to our Q1 FY22 Earnings Call. I trust that you and everyone around you are safe and well.

I am glad to share our performance for Q1, delivered in the face of significant difficulties on account of the COVID second wave.

- Revenue from operations was at Rs. 8,790 million, a growth of 131.1% over last year.
- Domino's witnessed 131.4% sales growth during the quarter with a growth in delivery of 123.7% and take away growth of 116.7%. Dine-in growth on the low base of last year was 475.5%.
- Against the corresponding base of FY20, it will be a more meaningful comparison, Q1 FY22 saw a recovery of 94% driven by delivery recovery of 149.1% and takeaway recovery of 99.9%. Dine-in remained challenged, with the recovery of just 12.3%.
- EBITDA came in at Rs. 2,115 million and EBITDA margins stood at 24.1%.
- Profit after tax at Rs. 626 million, translated to a profit margin of 7.1%.

I will now share some of the highlights of last quarter.

- Growth picked up post the easing of the curbs on operations in the second wave and the momentum in June was markedly stronger with almost complete revenue recovery.
- We opened 29 new stores during the quarter, including 20 new Domino's stores which marked our entry into 5 new cities. We also opened 9 stores for the new brands, 3 each for Hong's Kitchen, 'Ekdum!' and Dunkin' Donuts. While the store opening was lower than the earlier quarters on account of the pandemic related challenges, we intend to accelerate our store opening momentum as Mr. Bhartia said, and with a target of opening between 150-175 stores this year, on ground conditions permitting.
- Continuing our focus on driving our own digital assets, our app installs during the quarter were 6.8 million. We continue to build upon our digital capabilities and made some changes on our app and our PWA with a focus on enhancing user experience. Our dominant and growing share of our delivery orders continue to come to us from our own assets.
- We also reintroduced the "Hello Domino's" Toll-Free number to allow customers to call and use voice to place orders. While a dominant majority of our ordering will remain online, there is a small cohort of customers who are much more comfortable with telephone ordering and this functionality will help adhere that need.
- On the international front, Sri Lanka and Bangladesh registered a sales growth of 55.4% and 111.2% over FY21 respectively. We opened 4 new Domino's stores in international

markets, 2 each in Sri Lanka and Bangladesh. Both these markets delivered strong EBITDA margins last quarter.

- Our performance in the new brands especially in Hong's Kitchen was encouraging and improved sequentially through the quarter. We now have a total of 11 Hong's Kitchen stores in Delhi NCR.

Looking ahead, we are tremendously excited by the possibilities that lie ahead. The food service market has come upon an inflection point and we believe that the next few years will see period of market making and strong growth.

We are excited about our own future and are confident that we have the right strategy to drive hyper growth for JFL.

- Domino's will continue to power ahead and we see a clear potential of 3,000 stores in India in the medium to long term for the brand.
- We will invest in expanding our portfolio brands through Hong's Kitchen, Popeyes, 'Ekdum!', Dunkin' Donuts, etc., and aim to own a much larger share of occasions.
- We would also grow our business profitably in the international markets. Bangladesh and Sri Lanka have exciting potential and we will use our knowledge and our best practices to rapidly scale up in these markets.
- Our growing strengths in technology and our digital transformation will help us improve the customer experience and improve the employee experience as also drive efficiencies.

To summarize, we believe that we have the right strategy for driving profitable growth in this exciting category and to transform into a multi-brand, multi-country food tech powerhouse.

With that, I would like to call upon the moderator to initiate the Q and A session.

Moderator: Thank you very much. We may now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss Financial Services Ltd.

Abneesh Roy: My first question is on store expansion. You mentioned 150 to 175 stores in FY22. So, wanted to understand for the non-Domino's if you could give us the break-up. Also, you mentioned Hong's Kitchen's performance has been more encouraging. So, what is working better in Hong's Kitchen vis-à-vis 'Ekdum!' if you could elaborate?

Pratik Pota: Thank you Abneesh for your questions and I hope you are well. On your first question of store opening estimates for our new brands, we do not have a number to share with you yet. We are looking to expand the network and as you have seen we have opened stores both in the last quarter and the quarter before. So, we will be gradually scaling up our network, to begin with across Delhi NCR and then in the other towns. So, that is

on your first question.

On Hong's Kitchen and 'Ekdum!', I think we are very pleased with the performance in both the brands, but Hong's Kitchen with the benefit of our longer runway of experience and of learning that we have had, has done better for us. We have seen a strong revenue recovery; revenues are back to pre-COVID levels. We are seeing an encouraging trend in order volume growth, both in new customer acquisition as also in getting repeat customers. Our customer satisfaction levels, our NPS scores are also strong and trending up. And our plan, like I said, is to scale these up in a calibrated way and do that for both Hong's Kitchen and for 'Ekdum!'.

Abneesh Roy: Two follow ups on this. One is Dunkin' Donuts' 3 new openings and after few quarters there is no closure. So, if you could discuss on the profitability, how things are right now? And second, Bhartia Sir mentioned Bombay and Bangalore there will be some scale up in terms of the overall system. So, again, if you could elaborate, is it a preparation for Hong's Kitchen and 'Ekdum!' into these markets?

Pratik Pota: Abneesh on your first question on Dunkin' Donuts, as you are aware Dunkin' has traditionally been a model that has been more centered on dine-in. In the last 15 months, in the face of the COVID headwinds, we had to do a pivot and had the business driven a lot more on delivery. We have done well to recover a large part of our pre-COVID revenues. Once dine-in restrictions are eased, we will see our dine-in revenue stream come back. We will see a greater mix of beverages and of food come back. Our profitability on Dunkin' is under control and you would recall the journey of profitability of Dunkin' where we were earlier and where we transformed to the recent past. So, our resolve of growing Dunkin' profitably remains and we are confident that as dine-in restrictions are revoked and as we are able to drive a lot more of dine-in, beverage and coffee revenues, we will see strong growth and profitability on Dunkin'.

On Bombay and Bangalore, these are investments we are making in expanding our commissaries and growing the capacity. As of now, these will obviously service the large network of stores of Domino's. Respectively however, we are creating headroom in these commissaries to allow us to service other stores and other brands as and when we enter these markets.

Abneesh Roy: My second and last question is on small restaurants bypassing Swiggy and Zomato and starting their own app and through third-party delivery. So, what would be your thought process? Do you see this becoming mainstream, or this will be niche? And second is on your own endeavor of toll-free number at this juncture, what is driving that?

Pratik Pota: So Abneesh, on the first question, it is understandable that restaurants seek to gain

greater access to their own customers and get a lot more control on their business, to get a lot more access to customer data and therefore on customer insights, and we believe that this trend will grow. Restaurants will look to invest in building their own digital channels, even as they partner with aggregators. So, this will not be an either/ or decision for restaurants. You will see restaurants play-in in both spaces, partnering with aggregators, while at the same time investing in building their own digital channels to be able to get customer, to be able to have much more control on their business and also to help improve their margin profile. Aggregators are a high-cost channel for most restaurants. This will also help them mitigate that headwind. I see this as a very clear ongoing trend that will continue.

On the toll-free number, I made the point in my remarks as well. This is just in response to customer feedback from a small but loyal band of customers who believe that they would like to have the voice ordering assistant back. Some of the older customers are not comfortable with using smart phones to order and we responded to that request and that is why we have got the toll-free number back.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies India Pvt. Ltd.

Vivek Maheshwari: Two questions, first your store guidance of 150 to 175 stores for FY22, that is despite 20 store additions in first quarter. So, that essentially means about let's say 45 to 50 stores every quarter. Do you think in the current context is that achievable, one? And second is, is the rush also because you are getting attractive deals from the landlords, and which is why there is a rush to build those stores?

Pratik Pota: Our store opening guidance of 150 to 175 stores despite the fact that we opened 20 stores is a reflection of our confidence in our ability to be able to execute and to open these many stores. If you look at the preceding two quarters, just before this one, we have as you know opened 50 stores of Domino's each. So, we have the capability, the bandwidth, and the ability to be able to go and open that many stores. We do not expect therefore this to be a challenge. Of course, short of something completely unforeseen happening, we think this is well within scope and we will get to 150 to 175 stores in this financial year.

Is it in response to opportunistically to better the rental deals? No, not so much. I think we have talked about it a couple of quarters ago as well, that our confidence that this is a category and ours is a business that is poised for hyper growth and we see a lot of opportunity for opening Domino's stores in existing towns, we see opportunity for opening stores in our new untapped markets and our accelerated ambition is in response to that demand and that opportunity, not something that is more short-term or more temporary.

Vivek Maheshwari: A quick follow-up Pratik, will it also lead to cannibalization because of the stores splitting and is that something that we should bear in mind while forecasting?

Pratik Pota: Vivek, you have seen our performance in the few quarters where we have opened aggressively new stores, and we have called out separately the impact of some of these stores and we have as you know introduced a measure of like-for-like growth as well. So, while there may be some cannibalization if you see split stores and opened stores in the existing micro markets. Between the stores that we open and the old store, there is significant incrementality in terms of revenue, profitability, and customer experience.

Vivek Maheshwari: The second question is with Yum!, their two franchisees are looking to list and looking at aggressive growth, how do you think about competition because you are by far the market leader, but do you think there could be some customer fatigue from a Domino's standpoint and does that change in some way the market share equation? How do you think about this market share bit as the 2 franchisees of Yum! get aggressive?

Pratik Pota: So, whether it is competition from traditional competitors in the QSR space, or whether the investments being made by the platforms in the food tech marketplaces, we believe strongly that any investment being made in the category and in driving category growth is good for the category. The discussion we should be having Vivek is not a market share discussion, it is a market size and a market growth discussion. In a country like India, where the penetration of the food service category is still low, frequency is very low, any investment made in the category in driving behavior, in creating more excitement, in driving innovation, creating incremental supply, all of this will play to grow the category.

Given our towering strengths in delivery and a strong presence on the ground across the country, as the category grows, it will give us incremental growth opportunities. Far from fatigue, we are actually excited by the opportunity that lies ahead. Our customers are not feeling fatigued. They are looking for more and looking for more and more innovations from us. So, I think as investments grow in this category, it will be good for the entire ecosystem as it will help grow the category.

And Vivek, you would recall that only until 2018 and 2019, we went through as a category and as JFL, a period of intense competitive activity with aggregators resorting to aggressive discounting to grow their size and to grow orders. Despite that aggressive competitive context, over those two years JFL actually emerged from it stronger with a higher market share for Domino’s. So, we have been through this space, and we are not deterred by it. We believe that any investment like this will help grow the category.

Vivek Maheshwari: Pratik, you mentioned inflection point in your opening comments, that is essentially because of what? Is it because of the trusted brand factor or is it because customers

are more used to ordering and therefore as world normalizes, they will be ordering more? Because inflection point to me looks like a very strong word. So, there has to be a strong reason why you believe so.

Pratik Pota: So, several reasons Vivek. The first one is that in a category like ours which has been predominantly unorganized in nature, we believe that COVID will prove to drive a much faster movement from the unorganized to the organized sector. That is the first point. The second point is within the organized sector, consumers will navigate and seek trusted brands. Brands whose quality and hygiene standards they can take almost for granted, one they can believe in and that will again ride the share upwards of big credible trusted brands, number two. Number three, customers have got used to omni-channel behavior and they have embraced delivery and embraced take-away in the last 15 months. That behavior change will for the larger part endure, which means that we will see over time incremental locations and a lot more omni-channel behavior. Fourth point, digital. Customers have got used to and have embraced digital means of ordering and digital means of participating in the category. And again, this will mean that there will be a fundamentally new kind of customer who are more comfortable with trusted brands, delivery, and digital. All of these trends point to a fundamental inflection point and that will, of course, as you can imagine play to our strengths.

Moderator: The next question is from the line of Manoj Menon from ICICI Securities Ltd.

Manoj Menon: I just have one small observation which actually turned into a question as I was going through the current quarter presentation as well as the previous one. I am actually referring to the last slide which talks about the key focus areas, what you have presented this time versus the previous one. There seems to be two subtle changes. I am sorry if it is even relevant actually. So, one important thing what I find is, you are now talking about the journey to a food tech powerhouse which was really not there earlier, so which means that there is something you are incrementally trying to convey. Second, there is one pillar which was really not there previously. Since I am just comparing as we speak, it used to talk about build digital strengths earlier. Currently it is all about the digital and data strength. So, just two things here, one, what exactly is this change about digital and data currently versus digital? Or is it too subtle to just ignore? And if yes, from a decision tree thought process point of view, the second question is that what is your take on differential pricing as a strategy? Is it feasible in India currently given the data strengths which you have?

Pratik Pota: Let me respond to your first question. On what you are seeing in the slide that we have called out and the changes we have made, I think the fact that we called out food tech specifically in our ambition, it refers to our intent of making digital and making technology at the heart of everything that we do. So, we intend to use digital and more technology to completely transform and revamp our customer experience, our internal

employee experience and to drive operational efficiencies and business efficiencies. And towards that, as you know we are building a strong digital team, we have built a large team and we are investing in that even further, both in product and user experience and in technology and engineering. We also are building a strong data science team, and that speaks to your second point about how we have nuanced the pillar as digital and data strengths, because we are investing in building much stronger data science capabilities. We also intend to invest in growing our ML and AI capabilities. So, all of these are the reasons why we believe that we called out specifically the fact that our ambition is to transform into a food tech powerhouse. So, that's your first question. On your differential pricing question, I want you to clarify, how do you mean differential pricing – driven by channel, by data, by geography, how do you mean that?

Manoj Menon: So just to give you an example, honestly what I had in my mind, looking at your last quarter number of 5.7 crore or 57 million downloads. So, you know exactly as a consumer XYZ's behavior, whether an XYZ actually clicks on the discount button or doesn't or what he or she actually orders, etc., so based on the actual data availability what you have about a consumer, is there an opportunity to actually do differential pricing directly to me if I am a consumer?

Pratik Pota: Manoj, if I may say build on the larger theme and talk about that, the fact that we have access to a vast reservoir of customer data where ordering behavior in the past, the way they have responded to new products, the way they have responded to promotions and discounts, allows us to personalize the experience a lot more. So, the broader theme of personalization is a critical workstream that we are working on. Within that prospectively, we can separate customers in different cohorts by their purchase propensity and their discount affinity. So, the customer is more discount driven versus the customer who is less discount driven, we can prospectively serve up different offerings to them. So, to that extent we will be able to target discounts a lot more efficiently to customers where we can be fairly certain that there would be incrementality of the discounting spend.

Manoj Menon: Understood Pratik. So, actually it is feasible. But my question here is, this is more from a volume driving point of view if I have understood correctly that you are able to push messages to me if I am not using, etc., that I understood part of the volume side. But from a value maximization point of view, just simply on a price basically just to put it simply, is it even feasible to think about actually using this as a lever to even reduce discounts. And also, if yes, the question there is from a recessionary point of view is there a consumer dissonance angle which needs to be kept in mind?

Pratik Pota: I think before we get to differential pricing by customers, I think there are opportunities available in looking at differential pricing by geography, by channel, by daypart, and those are areas that we can certainly evaluate. And I think before we get to pricing for

each customer or customer segments very sharply, I think there are these opportunities that lie before us. So certainly, we will be evaluating some of these opportunities before we get to anything that could create like you said consumer dissonance.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: My first question is, since we are now having the aspiration of becoming a food tech Company, not becoming but I mean going in that direction even more strongly, I would really request if you could share metrics which are relevant to food tech companies. So, if you look at companies like Zomato, Swiggy, etc., the kind of data that we would also expect from you is something like what are the monthly active users, how many are the monthly transacting users, what is the average ticket size? If you could share any of this data either on an annual basis, quarterly basis to whatever extent you can that really helps us to analyze, and it also brings you in line with the industry in terms of data sharing. So, in this call is there anything on these aspects that you would be willing to share?

Pratik Pota: Percy, thank you for your feedback. It is certainly something we will discuss and evaluate internally. That said, you can be sure that these are metrices that we look at very closely internally. We look at the monthly active users, we look at the monthly transacting users, we look at the active base and we have, of course, a very close look at the conversion funnel. So, these are data point that we track very closely. And we will certainly discuss internally and evaluate whether we would be sharing them with a larger investor group or not. So, we will come back to you on this. Thank you for your feedback.

Percy Panthaki: Sure, that will be useful. Secondly, I just wanted to understand from the portfolio point of view, now you have a portfolio of several brands. What I see missing here is burger. Now you can say that you are playing burger through Dunkin' Donuts, you might be able to play it partially through Popeyes but this is rather a tangential sort of play to this big industry of burger. So just wanted your thoughts on this. Would you be opening to entering this via a separate format organically or even inorganically if any opportunity exists or do you think that no, you will just play burger through your existing formats?

Pratik Pota: Percy, we have as we speak an exciting portfolio of brands, all the tremendous potential whether it is Domino's or Dunkin', Hong's Kitchen, 'Ekdum!', Popeyes, we have mapped large number of occasions with these brands. Like you rightly said, on burger specifically, two brands play, Dunkin' and Popeyes will play as well. And beyond these brands and beyond this, we have no plans of entering the burger market.

Percy Panthaki: My third and last question would be on your variablization of costs, especially employee costs. Does this work just because we are in a pandemic and employees do not have

too many options outside? What happens once everything is normal and in normal sense, there is a variability in your SSSG like let's say without any pandemic without any one-off, just a normal variability or SSSG for a year goes into a (-1), (-2) kind of a level. In that case, does this initiative really help to protect you from the operating leverage hit that you normally have earlier got in 4-5 years ago? Does that really help, or this is just a pandemic kind of a measure? And how does this even work? Because your employees are not gig employees. They have committed their entire time to you. So, if there aren't orders and you are paying them lesser to that extent, does that really create a problem for them?

Pratik Pota: Percy, conceptually what manpower variablization does is it allows us to match the manpower deployment very close to the demand pattern and the demand curve. If we have fixed manpower, then there is a huge amount of wastage at the shoulders and sometimes we end up servicing the peak sub-optimally. So, the moment we variablize the manpower, as you can imagine, we are able to match them a lot more closely and therefore drive a better customer experience in the peaks and much better efficiency in the troughs. This is a conceptual point that is unrelated to the pandemic. I think the pandemic, the peaks and troughs were sharper and more aggravated, the troughs especially, but the conceptual point remains valid even in a period that would be post-COVID or unconstrained by COVID.

Percy Panthaki: So, is this done by getting more gig employees or contract labor versus your permanent rolls?

Pratik Pota: See, every employee or every person who comes and delivers to a customer's house has been screened by Domino's, has been trained by Domino's and is on our rolls. I think the way this works is that we have a large pool of manpower, and we roster them for differential times depending on the need.

Percy Panthaki: I will probably take this offline. I really wanted to understand this a little better. But thanks anyway. Thanks a lot.

Moderator: The next question is from the line of Jaykumar Doshi from Kotak Securities Ltd.

Jaykumar Doshi: My question is what is the format of stores that you will open? So, 150 to 175 Domino's stores this year, in terms of size and revenue potential will it be comparable to the size of full-service stores?

Pratik Pota: I think, as we have said in the last couple of calls, the stores that we open are a combination of stores that are full-service stores and stores that are optimized for delivery and takeaway. The 150 stores plus that we intend to open this year will similarly be an assortment of these kinds of stores. However, given the context and given the fact that in our existing towns, the growth will be led by delivery, a larger share of these

stores will be smaller, more compact, more efficient stores which are delivery carry out focused. And the few food service stores that we open will typically be in the smaller towns. We do not expect these stores to have a lower revenue structure than existing stores, and we do not expect them to have any differential payback to what we have seen in the past.

Jaykumar Doshi: That's very helpful. Now in case of new brands, can you give us some color in terms of what is the average size of stores? What is the kind of CAPEX that you incur for HK and Ekdum? And how is the revenue potential for these stores, the ones that have matured as of now and how does it compare versus Domino's?

Pratik Pota: So Jaykumar, on Hong's Kitchen and on 'Ekdum!' in terms of the store format, the Hong's stores are a combination of full-service standalone stores and combined with a delivery carry out store, that is a combination of Hong's plus 'Ekdum!' plus Dunkin'. So, some stores are shared stores with delivery carry out focus. We also have some standalone stores. I think it would be unfair to compare Hong's Kitchen's financials with that of a brand like Domino's which has many years of experience behind it. But I think the intention and objective for Hong's with its own broader order volume is to be profitable and be sustainable and therefore be scalable. And we feel good about where we are on Hong's especially in the older stores where we have obviously been opened for a longer time in terms of the overall business health and overall store level economics.

Jaykumar Doshi: So, I gather that your current arrangement with Dunkin' Donuts allows you to open a single store which also has Hong's and 'Ekdum!' brands, a Delco format. Is that the right understanding?

Pratik Pota: That's right Jaykumar.

Jaykumar Doshi: Can you also include Domino's in that store at some point of time, for single location with 4 brands, all Delco formats?

Pratik Pota: If there's a market like that which requires a delivery carrier for Domino's, of course, we can potentially do that as well.

Moderator: The next question is from the line of Ashit Desai from Emkay Global Financial Services Ltd.

Ashit Desai: My question is on your sales recovery. If we look at June recovery it seems a little lower compared to what we hear from other consumer companies. So, when we look at June versus May, the recovery seems a bit lower. If you could throw some more light on that in terms of what has been the impact, maybe region-wise we have seen different levels of lockdown and you may also have different level of stores being operational

throughout these 3 months. So, if you could put some color on that?

Pratik Pota: Thank you for the question Ashit. Actually, I have a bit of a disagreement with the question and the premise of the question. I do not think the revenue recovery that we had in June was lower. I think we should just go back in time to what we went through in April and May in terms of the sudden onslaught and the severity of the second wave and the environment of fear and anxiety that had set in. I think to pulling back almost to total recovery was a reasonably good performance, especially given the fact when we look at the dine-in recovery in the months of May and June, May dine in was pretty much zero and June it was under 10% compared to the FY20 numbers. So, given just the onslaught of the second wave of COVID and its impact on a large revenue stream of dine-in, I think a recovery of almost 100% was reasonably robust. Now, of course there was a pattern of distribution where some towns recovered stronger, the smaller towns had a slightly higher recovery than the metros. Of course, as we know the channel-wise, within delivery our own assets are better than the aggregators, so there was a pattern of distribution, but I would say the overall recovery was very robust.

Hari Bhartia: And I would add to what Pratik said, the operating hours available still in June was lower than a normal month.

Pratik Pota: Absolutely right. And just to add to that, we had a significant reduction in operating hours through all the three months including the month of June. While there was some relaxation in restrictions in June, nevertheless I think this performance of 99.5% recovery was delivered in the face of a major restriction in operating hours.

Ashit Desai: And was there a material change in the number of operational stores? Because if I look at your overall number of stores, these were higher by 10% versus Q1 FY20.

Pratik Pota: I think Q1 FY20 Ashit, because it did not have the COVID related restrictions. And in Q1 FY22, the quarter just gone by, we had several restrictions in terms of stores in operational, in corporate parks, in educational campuses and travel and transport locations, plus the curtailment of operating hours in stores that were even operational as well, whether it was in terms of restrictions on the weekend or closure by 8:00 PM, so effectively the operating hours were far lower than what we had in FY20 despite the stores being higher.

Ashit Desai: My second question was on competition. Beyond the increased options to consumers, you now have a lot of QSR players which have announced big expansion plans. So, based on that wanted your thoughts and outlook on employee and rental inflation. What is the outlook on these two cost lines ahead?

Pratik Pota: So as far as the impact of growing competition or employee cost line, I think it's important to recognize that when we look at our talent pool outside of the given

manpower, our talent pool is not limited to restaurants and to QSRs. We hire from companies across the board, FMCG companies, other consumer companies or technology companies increasingly. So therefore, as far as the non-store manpower is concerned, the fact that there is greater competition emerging from QSRs, we are not having material impact on employee cost. As far as the store manpower is concerned, we have been living over the last two years in an environment where there's been a dramatic growth in delivery, not just in food service, but in e-commerce space in general across delivery spaces. So, we have refined the play book on we deal with employee costs when there is much more demand for delivering manpower and we have seen that reflect in all our productivity measures. The fact that we moved from fixed manpower to flexible manpower, the fact that despite our revenues being so variable, we were able to pull back on employee costs in a very agile way and not impact margins and avoid operating deleverages has been testament to that. So clearly, I think as far as employee costs are concerned, we don't expect that to play out materially.

Ashit Desai: And rentals?

Pratik Pota: On the rentals part Ashit, again given the fact that there is a very clear market and a very clear kind of stores that we are looking for, we do not expect to see any rental inflation. If anything, I think what has happened in the last 15 months is on account of COVID, there have been significant closures, not just of restaurants but of small businesses in retail businesses in general, and therefore there are many more options opened in the market in terms of real estate. Both in larger towns in metros and in the smaller towns. So, we don't expect the fact that restaurants are expanding faster to have any material impact on rental side.

Ashit Desai: One last quick check if I may, since you mentioned that some of the new stores are smaller in size and offer delivery carry out, but you look at a similar revenue potential. Given these are smaller and may have lower rentals and lower employees also, do these operate at a materially higher margin profile than versus your full-service restaurants? If you could give some sense on that based on stores that you have already opened in the last one year?

Pratik Pota: I think it's difficult to answer your question Ashit, because in the last 15 to 18 months, last 15 months especially, there has just been a fair amount of noise and therefore it's hard to sort of clean up that noise and talk about what could be a long-term sustainable margin profile of these stores. I think the encouraging part is that despite the constraints and despite the headwinds in the form of COVID, the stores that we are opening and that we have opened in the last 15 months have delivered on target and delivered on plan.

Moderator: The next question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra: My first question was on the new brands, and you mentioned that some of the stores will be more delivery takeout stores. Do these brands also have a potential to purely go into a dark kitchen format in which there is no frontage at all? And would that be a part of the expansion as you go ahead over the next few years in these new formats?

Pratik Pota: Arnab, we talked earlier about the importance of building consumer trust in this new category and that's especially true of our emerging brands and in our new brands. We believe very strongly that one critical way of building that trust would be to have a physical presence of stores even if they are delivery carry out focused stores for customers to come and feel an experience of the brand. And dark kitchens, while they may offer some economies, will not allow us to engender and build that trust. So, the way we see our model going for the new brands, is a combination of full-service stores along with some delivery carry out stores which are smaller and more efficient, but we do not expect to see completely dark kitchen form a material part of the whole portfolio.

Arnab Mitra: And one related question to that is, today the food aggregators having increased their radius of delivery, the number of stores you actually need to let's say cover a geography like NCR, if it was, let's say, I don't know the number, but if it was like 100 stores in Domino's, is it possible to today physically cover like the total pin codes of NCR with much lesser stores given the aggregator's larger radius of deliveries?

Pratik Pota: I think the most important thing Arnab as we plan the store footprint in any market is the customer experience. We know that time is the enemy of food. We have to ensure that we give our customers food that's hot and that's fresh and that allows them to have a great experience. And the more we expand the given radius, the less we are able to offer that. So, we have to be efficient, but we also have to ensure that we provide the right customer experience.

Arnab Mitra: One last question from my side, from most of the food aggregators what we have seen is that the monthly transacting users are still not back to pre-COVID levels, so the business is back to pre-COVID levels and above. I know you don't share MTU (monthly transacting users) data exactly, but in general is your customer set or the number of customers back to the pre-COVID levels or there is still a big gap between where you were before COVID and where it is now given that order values could be higher now?

Pratik Pota: Arnab, let me answer your question in two parts. I think given a very conscious strategy of building our own assets and driving our own app installs and our own performance marketing strengths, in the last one year we are seeing a very strong recovery on our own assets, and we have seen significant delta growth compared to the rest of the delivery channels on our own assets. And we have seen customers' orders recover and grow over the pre-COVID levels. More generally, as a brand, given the fact that dine-in has been constrained, the recovery on orders is still below 100%.

Moderator: The next question is from the line of Amit Sachdeva from HSBC Securities.

Amit Sachdeva: Pratik, my question is on the new formats but more specific to say Popeyes and how one should imagine the next five-year journey. I know maybe it's too early, but I just want to sort of, see, given the format is well set, given that market development work is already done in this category quite a lot for many years and given that you have already pan-India presence with Domino's and network rollout is already in place, you have deeper consumer insight, should we assume that Popeyes, once this initial phase is over, should get a trajectory of like 100 plus stores a year like Domino's and in 5 years' time, picture could look very-very sizable presence in India? How should one think about Popeyes vision for next 5 years? Can you please help us think through it?

Pratik Pota: Thank you for the question, Amit. I must say that we are extremely excited by our partnership with Popeyes and we know that the chicken category is one of the largest segments in the country and one with a very strong growth potential both on penetration and on frequency, given that India is a largely non-veg market and largely poultry driven market. We have the Popeyes team in place and the team is hard at work trying to put together the launch mix and to get to the market before the end of this year. Given the fact that the chicken category is established and therefore investments in building the category will not be required, even as we launch, we are fairly clear the trajectory of Popeyes and its scaleup would be faster than what you see in some of the other brands that we have. This is a category that's growing and established, but with a lot of runway for growth even now. So, when we launch Popeyes we believe that once we have our learning curve behind us, we will scale up faster on Popeyes, but specific store opening numbers, I think certainly the runway would be faster.

Amit Sachdeva: That's very helpful Pratik for getting that understanding because the market has already developed so I think the opportunity could be captured sooner than probably other new formats like Biryani or for example, maybe Hong's Kitchen which may have larger element of dine-in for example. Thank you so much.

The second very quick question is that I see that margin profile has changed in part because of delivery fee and given that delivery is doing so well. But at the same time, do we see that the value capture this category is now giving you like 24%-25% kind of margins EBITDA level and gross is 77-78%, are we in a zone where these margin structures are more permanent or are we looking at this is a one-time impact because of COVID, and consumers are willing to pay for convenience, safety, and trust and everything and that's the reason these margins are one-off? I am not saying that whether you give us guidance for lower or higher margin but is it just a new shift and you are happy to operate at that level of operating economics for the stores. It's a broader question, it may have deliveries more, it is more profitable, dine-in is slightly less, costs are higher, it could be many moving parts there, but I am just asking whether

you are happy to operate at 78% or would you much rather have revenue throughput coming at expense of margins as well? How do you think about this in the next 3 years as the COVID recedes?

Pratik Pota: So, Amit I think the one thing you have seen us do is that even as revenues are moderated on account of COVID, we have taken a number of steps that allowed us to deliver strong EBITDA margins and more recently we have done that even in the face of increasing inflation and increasing food cost. As we look ahead there will be several pushes and pulls on our P&L. We see inflation playing out now but that will moderate in the longer term. We are seeing some impact on account of fuel costs, etc. There will also be investments required to be made in digital, in technology, in driving innovations, improving customer experience. At the same time, of course, we will be driving efficiencies and ensuring that we are able to run a very tight operating share. Now, where this will land up in terms of operating margins, EBITDA margins is hard to forecast now to tell. But the one thing I think it's fairly clear that this is not a "one-off" like you said, these are not one-off margins. I think we will come out of the pandemic more efficient, stronger as a business model and more de-risked. We have been able to insulate ourselves against a revenue reduction and against channel mix changing significantly. So, we feel good about where we are, and we don't think this is a "one-off", like you said.

Amit Sachdeva: It's very good to hear that, Pratik. But my question was also purely from the gross margin point of view at 78% odd which is probably highest in QSR, if I may say. And would that be a good margin to continue with or would you rather say well, this is because of the situation because delivery is high and we are able to charge delivery fee, but eventually what you are comfortable with, one is cost efficiency at the EBITDA level, but at the gross level are you okay to drive purely from 78% kind of margins largely coming in Domino's I assume, but is it a comfortable margin structure for you at the gross level?

Pratik Pota: Let me pull back and answer the question a little differently, Amit. I think our objective and our singular focus in the brand has been and has remained offering value for money for our customers. We have, as you know, been very-very careful and very guarded about taking pricing despite having inflationary headwinds. Our NPS score value for money remains very strong and we keep a very hawk's eye on the way customers evaluate us on value for money. So that's our primary objective. The good part is that we are able to deliver great value for money by having healthy gross margins. So, that's the balance we will strike as we go forward. There will not certainly be margins at the expense of value for money or by vice-visa.

Moderator: The next question is from the line of Latika Chopra from JP Morgan Chase & Co.

Latika Chopra: Basically, my question is extension I think of the previous question, wanting to check were there any kind of price changes that you initiated over the last month or so? And also, have you seen any specific changes on the promotional intensity dynamics with the markets reopening?

Pratik Pota: Thank you Latika for the questions. In response to your first question, we have taken a small pricing action recently towards the end of June and that's a very small correction that we made in prices, and this was in response to some of the inflationary headwinds that we spoke about earlier. And that's something that will only help us cover for inflation. We don't expect that to have any impact on margins materially. On your second question on the promotion intensity, yes, there has been some increase in promotions and in discounts, but nothing that is out of the ordinary, nothing that we have not been exposed to earlier and nothing that we have not responded to earlier. Of course, given the unlock that has happened post-May, there is some increase in promotions and discounts, but I think we are well placed to handle that.

Latika Chopra: So, we do keep seeing more value added higher priced variants being launched by you from time to time in the Domino's portfolio mix. Is there a meaningful change in the salience of such products from a consumer acceptance perspective?

Pratik Pota: So, I think as we have introduced some of our new value-added products, depending on the product we have seen a greater acceptance of the new products, and which has helped improve our mix over time. So, very recently we have introduced two new innovations in the last quarter. We have introduced an extension of our Lava Cake, the Red Velvet Lava Cake on the platform of Lava Luscious . We also introduced the stuffed garlic bread, one vegetarian version and one non-vegetarian version, chicken pepperoni version. And both of these new launches are seeing encouraging adoption and both of them have led to an increase in the platform per se. In other words, we have seen an increase in the stuffed garlic bread platform with addition of these new variants. And the Lava Cake variants together are now larger than what Choco Lava Cake was earlier. So, we do see increased adoption and we see some of these innovations landing well with consumers.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: First question was on delivery fees. I noticed that there was some increase in delivery fees. When was this increase taken and is there any impact on Q1 numbers due to this?

Pratik Pota: Aditya, thank you for the question. We had a small correction in delivery charges that we did towards the end of June. This was in response to the increase in fuel prices. We rounded off our delivery charges from Rs. 32 to Rs. 35. And because that happened

mostly towards the end of June, you don't see the impact of that in the Q1 P&L.

Aditya Soman: Another thing on this I noticed was that at a lower end the delivery fee seems to scale rather more, and I remember in the previous call you indicated that there was obviously an increasing volume growth at the lower end or at entry level price point. Is this something that you are trying to address where you are seeing the mix or lower end volumes go up and to offset that you are seeing delivery fee go up disproportionately at the lower end?

Pratik Pota: Aditya no, I think the fact that we have a structured and a tiered delivery charge, is a reflection of the cost of delivery and what it takes to recover that cost. If you remember, until a year and a half ago, we used to have a minimum order value of Rs. 300 as a threshold to enter a brand and to enter the category. We have broken that, and we have allowed customers to place orders of any value and we service that. And that has led to, like you said, increase in orders and increase in volumes. However, because servicing those orders comes at a cost, our delivery charges been tiered as to recover the cost. And we have seen from all our research and all our work that customers are not averse to paying high delivery charge because that's something that they want at that point of time. So, it is a single user looking to order one pizza or just one side and a beverage, the fact that we are able to deliver it to the customer and we get a small delivery charge, I think the customer is comfortable with that. So, all the things that we need have been post extensive customer validation.

Aditya Soman: I understand very clear. So, the impact of this would be felt from Q2 onwards, right?

Pratik Pota: The impact of the slight increase in delivery charge would be felt from Q2 onwards. However, the tier delivery charges have been in operation since earlier.

Aditya Soman: My second question, just a quick one on Domino's Eurasia, we noticed that now you sort of have associated income from there. Is this now profitable this year, given the increase in SSG, because if I look at your financials for the past two years, they were not profitable, but we clearly see an addition to the profit in this quarter.

Pratik Pota: Thank you for the question. I think as far as questions on DP Eurasia are concerned, we would request you to refer to them. They are independent listed company, and we would not be able to offer any comments on their financial performance. You may refer to their most recent release which they put out last week for their revenues and for their performance of the last quarter.

Aditya Soman: Thanks Pratik. The reason I asked was because that release, that's just a sales release, they don't talk about profit, but I'll take it offline.

Pratik Pota: That's right, they will talk about it when they do, and we can't comment on that ahead

of them.

Moderator: The next question is from the line of Tejash Shah from Spark Capital Advisors India Pvt. Ltd.

Tejash Shah: My first question pertains to Pratik, the vision that you shared in your PPT, and you spoke about it also on becoming a food tech company and you explained the vision broadly on how you want to put a layer of tech in everything that you do. But that looks as an internal vision or internal application or division as of now. And then perhaps a logical end of this vision will be to leverage our front-end digital assets which is actually growing quarter-on-quarter and especially after pandemic. To leverage the digital assets for all the brands and perhaps on a super app that we briefly touched in the last two calls also. First of all, is that part of our vision on this food tech company journey? Is it part of the vision timeline and if yes, then how far we see that? It could be 3-5 years that's okay, but is it part of that timeline or not?

Pratik Pota: So Tejash, our focus and our work around food tech I spoke about earlier. With respect to your question on super app, I think our priority right now, as we spoke about in the earlier call as well, is to ensure that we build these different brands individually. We have a long runway to grow, to grow Hong's Kitchen, to grow Ekdum!, to launch Popeyes in the country, even as of course we scale up Domino's faster. So that's our number one priority. And the super app is a question that we will come to eventually, but I think we are a little premature talking about a super app, we don't rule it out but that's not for now.

Tejash Shah: So that brings me to the second question, which is the kind of primary capital which is chasing the whole food service industry and QSR in particular. In that parlance and you mentioned that Domino's as a format has survived much hyper competition in past also. So, that format is relatively safer. But looking at the competition and the capital, which is coming, do you see the need to expand your new brands portfolio, be it Hong's Kitchen or 'Ekdum!' very fast? And what are the limiting factor there? Because we have capabilities to open 100 stores, we have shown it in past also, we have cash flow, so what is the limiting factor there to expand it faster than what we are doing today?

Pratik Pota: So Tejash, more certainly our aspiration for hyper growth is not limited to Domino's and we intend to scale up our new brands rapidly. There was a question asked earlier by Amit about Popeyes and we spoke about the fact that we can have a much faster runway to grow Popeyes and absolutely similarly we intend to grow Hong's Kitchen and 'Ekdum!' and Dunkin' as well. There is nothing that has come in the way of doing. We intend to make sure that we have the right store level profitable model. In the last 15 months, there have been obvious reasons why we have been curtailed and we had some challenges, but as we work around them you can be sure that our ambition for

growing new brands rapidly remains and as much as we grow Domino's we grow these brands as well.

Moderator: The next question is from the line of Sheela Rathi from Morgan Stanley India.

Sheela Rathi: My question is that you have talked about the tailwinds from the pandemic and thus the confidence towards the growth opportunity. What I want to understand is off the 3, what has changed the most for you, which is from a new customer acquisition point of view, frequency of purchase and average order value? So, if all these three were X pre-COVID, where are they now? And what is giving you the most confidence, if you could give us some insights on that?

Pratik Pota: Sheela actually, I will have to nuance the answer a little bit, because the answer is a bit of yes for all three. Let me tell you what I mean. Given the fact that with dining having been curtailed over the last 15 months differentially over the quarters and the fact that therefore revenues moved to the delivery channel, there has been obviously an upward impact on the average bill value or the AOVs. They have moved up significantly. So that's certainly been one driver. Equally we have seen a significant tailwind in our delivery growth, in our delivery order growth and within that our delivery order growth on our own assets. While overall orders have yet to come back to pre-COVID levels on account of dine-in being curtailed, delivery orders have shown strong momentum and that momentum has sustained even as dine-in has reopened in parts. And your first point about frequency, we see customer cohorts that frequencies have actually increased. As much as we see customer cohorts, the frequencies have dropped because of dine-in channel being curtailed. So, we see all of these, and we see green shoots in each of these three indicators, it gives us the confidence. And by the way just to add to that, it's not just these three, it is also cost strata, the metro versus the smaller towns, we see a very strong recovery in the smaller towns which was more dependent on dine-in. They have come back very strongly on delivery. So, whichever way we look at, we see strong tailwinds and we see strong green shoots which will help us grow much faster as a category and as a company, once the COVID situation normalizes.

Sheela Rathi: Any quantification here? From X to where they are now?

Pratik Pota: No Sheela, no quantification please. We don't do that traditionally as you know.

Moderator: Ladies and gentlemen, we will take the last question from the line of Avi Mehta from Macquarie Group.

Avi Mehta: So, what we saw from Q1 FY22 from here on it would be rational to expect margins to expand as reopening spurs dine-in to come back. What are the negatives, what is the risk that I am missing out? I wanted to just kind of understand that because all these investments are something that are ongoing. We have always been doing that, we have

never used any pandemic to let go on investments. That's my understanding. So would appreciate your response to this.

Pratik Pota: Avi, I think it's important to recognize that obviously even as we attempt to improve our margins sequentially, there are these various cost pressures that does come in play. There could be personal cost pressures. There could be investments required to be made in driving marketing. And I think we have discussed extensively earlier in the call on the increased competitive intensity and the need for us to scale up faster. So, there could be investments that we will call upon to be made to drive marketing investments, to drive greater promotions, to drive greater digital assets and greater digital sort of downloads. So, all of these will have a role to play even as we try and extract even more efficiencies and even as the impact of pricing flows through. So, where that lands us, we can't be sure, and which is why the call will be made on the margin.

Avi Mehta: Fair enough. Just one bit if I may clarify or if I can delve on the employee bit. Now, clearly there's been a lot of work that you have been doing from the start and not just pandemic. Pandemic has just accelerated that. This variabilization of employee costs, is this not structural in nature? Or what is the risk which you are kind of guiding towards? Is this more a macro risk that you are alluding to or is this more that as reopening spurs, there would be a demand for more employees? Is that what you are guiding to? I am not very clear on that part.

Pratik Pota: A bit of that Avi, but also the need for us to invest in building new capabilities and investing in building new strengths where we want to go forward, such as in digital technologies and in data science, they would be called upon the need. But on the store front, yes, the variablization is a structural change that we need.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Pratik Pota: Thank you and very brief closing comments. Thank you for joining us on the call today and for taking time out. I hope that we have been able to answer your questions. In case you have any follow-up questions or any clarifications, please feel free to reach out to our investor relations team. Thank you. Have a great evening and stay safe.

Moderator: Thank you very much, on behalf of Jubilant Foodworks Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

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