**Jubilant Foodworks' Q2 FY22 Earnings Conference Call**

**Transcript**

**October 20, 2021**

**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 the Jubilant Foodworks Limited's Q2FY22 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Jajodia from Jubilant Foodworks India. Thank you. And over to you sir.

**Deepak Jajodia:** Welcome to Jubilant Foodworks Q2FY22 Earnings Call for Investor and Analyst. We are joined today by senior members of the management team including our Chairman – Mr. Shyam Bhartia; our Co-Chairman – Mr. Hari Bhartia; Our CEO – Mr. Pratik Pota; our CFO – Mr. Ashish Goenka and our Group CFO – Mr. Arvind Chokhany.

We will commence with key thoughts from Mr. Hari Bhartia, Mr. Pratik Pota, will follow him with his perspective on JFL's progress on the Quarter ended 30th September. After the opening remarks from the management the forum will be open for the Questions & Answers.

As you may be aware, on 30th September, we announced our intention to increase our shareholding in DP Eurasia through a reverse bookbuild process. Investors wishing to ask question in relation to this should note that as the reverse bookbuild remains open to the shareholders of DP Eurasia, we are unable to comment further on this matter. We would request you to refer to our publicly available announcement in this regard.

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' Q2FY22 results release and earnings presentation, both of which are available on the Company's website under the Investor Relations section.

I would now like to invite Mr. 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 Quarter 2 Earnings Call.

I hope all of you and your families have been keeping safe. It looks like COVID-19 is coming under good control in most parts of India. And of course, it is supported very well by the vaccination effort of the government

Indian economy has continued to make solid progress and we also see food service industry being set for strong growth in the remaining quarters of this year. So, we come to you with a renewed sense of optimism, and I am happy to present the Company's record performance with the highest ever revenue, strong profitability and highest ever store expansion in a single quarter.

After a difficult Quarter 1 our operating performance improved further as mobility restrictions were being lifted.

- While the percentage of operational stores reached almost 95% there was also a noticeable uptake in demand, which more than compensated for the lost operational hours on account of closed stores.
- The dine-in channel showed encouraging signs of recovery, with orders and revenue coming back through the quarter, albeit still being below the pre-COVID levels.
- The delivery and takeaway channels continued to do well and helped us drive our strong overall revenue recovery.
- Notwithstanding the challenges situation on inflation, which we have been facing in the food industry we have delivered a strong EBITDA margin.

Our store opening accelerated once again after the difficulties in Quarter 1.

- We opened 63 new stores last quarter, including 3 new stores in the Sri Lanka market.

I am pleased to share with you that India became the first Domino's market outside the U.S. to cross the milestone of opening 1400 plus stores, now with a total of 1435 stores.

Notably, basis our current assessment in the medium term as we have said before, we continue to see a potential to open more than 3000 stores in India.

During the quarter we announced some key strategic initiatives, which are in line with the Company's stated goal of building a multi-brand and a multi-country food business powered by technology. With more than 25 years of experience in Domino's India, we hope to add value and learn from best practices in the key international markets.

- As we have announced, we have proposed to increase in the direct shareholding to 90% in Jubilant Golden Harvest Limited which holds franchise of Domino's in Bangladesh.
- Also, we have launched reverse bookbuild subject to the final result to increase indirect shareholding to 49.99% in DP Eurasia, which holds franchise for Turkey, Russia, Azerbaijan and Georgia.

We at Jubilant continue to see strong potential for growth in all our international markets. Overall, we were happy with our all-round performance last quarter. Moving forward, we are excited about the future growth prospects and will continue to invest judiciously in what will become the future drivers of growth.

With this, I would now like to invite our CEO Pratik Pota, to continue this discussion by sharing his perspective and insights.

**Pratik Pota:** Thank you Mr. Bhartia. Good evening, everyone and thank you for joining us on the call today.

I am pleased to share our results for Q2FY22. We reported a very strong quarter.

- Revenue from operations was at Rs. 11,007 million, up 36.6% versus prior year and up 11.6% versus the pre-pandemic levels of Q2FY20.
- The revenue growth was driven by a recovery in the dine-in channel and continued momentum in the delivery and takeaway channels.
- When compared to Q2FY20 growth in delivery and takeaway channels stood at 36.8% and 72.2% respectively. Dine-in recovery was muted at 46.9%.
- While we grew across all town classes, the growth was much stronger in the non-metros and in the smaller towns.
- EBITDA stood at Rs. 2,860 million up 33.2% versus Q2FY21, and EBITDA margins stood at 26%. This we believe was a strong performance in the face of continued inflationary pressures.
- Profit after Tax at Rs. 1,215 million, a growth of 58% over last year, and a margin of 11%.
- We opened a record 55 new Domino's stores during the quarter and entered 9 new cities taking our tally to 1,435 stores in 307 cities.
- As committed we remain on track to open between 150 - 175 Domino's stores in this financial year.
- Our continuing focus on improving the customer experience yielded good results. Our delivery service KPIs improved significantly both sequentially and year-on-year, with an increased number of orders being delivered under 20 minutes. This led to an encouraging improvement in customer satisfaction levels, as reflected in our NPS.
- Continuing our focus on driving our digital agenda our app installs increase in the quarter and was 7.2 million. Our own app sales grew significantly faster than aggregators, and a dominant share of our revenues continues to come from our own assets.
- On our emerging brand portfolio, we opened five new stores two each for Dunkin and Hong's Kitchen and 1 for Ekdum!
- In Dunkin, we are focusing the brand on a coffee first strategy that will help drive frequency and will build greater stickiness. Hong's Kitchen showed and delivered a strong performance with an encouraging same store growth and increase in order count.

- Our total store count for Hong's Kitchen stands at 13, all of which are in Delhi NCR. We are also progressing well towards the target of launching Popeyes ® in India within this financial year.

Turning to our international business in Sri Lanka, we delivered a very strong quarter with record revenues and a growth of 88.4% led by a delivery growth of 200.2%.

- Notwithstanding the inflationary and the currency pressures, we delivered a strong double digit EBITDA margin in the country.
- Our OLO contribution in Sri Lanka increased significantly, from 26.6% last year, to 63.9% last quarter.
- We also opened three new stores during the quarter, taking the total network count in Sri Lanka, up to 31.
- In Bangladesh too, our performance was extremely encouraging. We delivered a growth of 33.3% on the back of delivery growth of 82.1%.
- During the quarter as you are aware, we initiated the process of increasing our shareholding in Jubilant Golden Harvest Limited to 90%.

The Bangladesh market has low QSR penetration and tremendous promise and we are confident that we are well placed to lead and participate in this category growth.

Looking ahead, we believe that the food service category driven by the growth of the organized sector, the growing preference for trusted brands and increased omni-channel adoption is entering an exciting period of innovation, market making and sustained growth.

JFL is extremely well placed to lead in this exciting phase of growth, which is broad based strategy articulated earlier. And we are confident of growing into a strong multi-brand multi-country food business powered by technology and thereby creating value for all our stakeholders.

With that, I would like to call upon the Moderator to open the floor for the Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My question is on the store expansion store openings, will it be fair to say that now the upper limit of the guidance say at 175 stores that will be more likely given in the last four quarters, three quarters has been 50-55 store opening and first half has already seen 75 stores and with normalcy now, far more, there in terms of opening and demand also being robust, won't your guidance be more at upper limit rather than lower limit?

**Pratik Pota:** I think as you are aware Abneesh in the last two quarters, it's been a tale of almost two cities, Quarter 1 was when we faced the sudden and full fury of the second wave, we slowed down the expansion. And then of course in the last quarter, we saw normalcy return like you said, and therefore we could open 55 stores. Our intent would be to move ahead and try and sustain this momentum. And therefore, to be like you said towards the closer end of the band as we have guided on. But even as I speak I am keeping my fingers crossed, because it's hard to tell for sure how COVID will play out in the next two quarters.

So, our intent will be to absolutely move ahead and open as many stores as we can. But there will be that external factor or there could be an external factor beyond our control, which might slow us down. But our intent would certainly be there to push closer to that limit.

**Abneesh Roy:** One follow up on this on, so 9 new cities added in Q2 and 26 in the last four, which is I think, a very interesting number. So, could you discuss what kind of cities? And what kind of response you have seen? Any new micro market you have entered? Or is it largely the suburb for the top 20 - 30 cities only?

**Pratik Pota:** So, I think the cities that we are entering now are the Tier-III Tier-IV cities and we are seeing the consistent pattern across all of these store openings and all of these new entries is that we see a very encouraging response from customers. We see across all channels delivery, dine-in and takeaway a very clear adoption and very clear acceptance of Domino's. And as you can imagine in all of these markets, there is universal brand awareness and people are typically waiting for the brand to make an entry.

So, if I give you an example of the kind of towns we are entering in, just to give you some color. We have entered a market in Telangana called Karimnagar a 3-lakh population town. We have entered a market again in Andhra Pradesh called Eluru again 3 to 3.5 lakh population town. Jalna in Maharashtra, Muktsar in Punjab. So, those are the kinds of markets we are entering, which are really markets which haven't seen any organized QSR and we are the first organized QSR play. In more than 150 towns actually Abneesh, we are the only QSR present. So, our experience has been very positive. There's a fair amount of pent-up demand that comes out and shows up when we launch in these markets. So, experience has been fairly positive.

**Abneesh Roy:** My second question is on the demand going ahead yesterday the two FMCG companies said in some of their home consumption for example sauces, jams, etc., there is a slowdown. You also gained in the last one year because of the trust factor a lot of the local cuisine and local stores were shut. So, as the normalcy returns in India, whatever is shut will eventually come back. So, how do you plan to still grow at a reasonable level, because consumer clearly will have much more options and he would also like to try new stuff because he is also bored of the same two to three options he has been trying in the last few months?

**Pratik Pota:** Abneesh from our perspective, the way we see the category and this is a difference that you have to keep in mind which would be versus any other FMCG category, our category has extremely low penetration levels, we are at a very low frequency level and therefore this is a period where we believe there will be market expansion and market growth both through increase in penetration has also increased in frequency.

As COVID happened, we saw dine-in come under pressure, but we saw that lag has been picked up by delivery. As dine-in comes back and therefore we are seeing more of normalcy and more of mobility come by delivery corrects moderately, but it holds up much more elevated levels compared to the pre-COVID levels. So, to answer your question, we do not expect to see any demand compression quite the contrary actually, given the way COVID has played out there is a much greater demand for brands especially in food which can be trusted, whose quality standards are known.

So, we are seeing actually a very encouraging trend of demand sustaining across all channels, across all Tier towns. And as I mentioned in my opening remarks, even in the Tier-II, Tier-III, Tier-IV towns where delivery was much smaller part of the mix earlier as dine-in has reopened, we are seeing delivery sustained at higher levels. So, we do not see a challenge as of this point of time, on demand, not at all.

**Abneesh Roy:** My last question and a small one on Bangladesh. So, if I see OLO data Bangladesh is standing out, in India we are at 98%, Sri Lanka also OLO has gone up from 26% to 63%. In Bangladesh in the last one year, it has fallen from 68% to 63%. And it is well below India levels also, why has this fall happened in Bangladesh?

**Pratik Pota:** So, Abneesh that is a good question. I think one reason for elevated levels in the same time last year was the fact that on account of COVID, a lot of the call-centers and the contact centers were closed and they was almost a forced adoption of the online ordering channels and as that has reopened, a lot of our traffic and revenues actually have moved to the voice channel as well. That said, our attempt is to very clearly build our online channels aggressively and invest in growing our own assets. One nuance that I want to call out which is different in Bangladesh from India is that in Bangladesh, we do not work with aggregators so all of these revenues that you see and contribution that you see on OLO are entirely from our own assets. So, our clear strategic goal is to make sure we grow our own assets. And make sure these drive a much larger share of delivery revenues through our OLO.

**Abneesh Roy:** Any particular reason for not working with aggregators in Bangladesh

**Pratik Pota:** No, it's just a phasing, we just need to make sure we agree on the right commercials, which are win-win, which work for them and which work for us.

**Moderator:** Thank you. The next question is from Percy Panthaki from IIFL Securities. Please go ahead.

**Percy Panthaki:** My first question is, during COVID times what you had mentioned earlier is that the average bill value had increased, but the number of bills cut per store had reduced. Now with COVID almost out of the picture, where do we stand in terms of normalization? Are we back to pre-COVID levels in terms of average value per bill and number of bills cut per store? And where do you expect this to stabilize?

**Pratik Pota:** I think in many ways, that's a really important data point for us to keep tracking regularly. And I am pleased to report that we have seen a very encouraging recovery in order levels, in our order count and we are almost now close to our pre-COVID levels of orders at the system level. And we expect that trend to continue as dine-in becomes more normalized.

And on the ticket size, yes there is a moderation in the ticket size given the channel mix changing and given dine-in reopening, but the ticket remains higher, partly because of the fact that we have introduced delivery charges last year, which weren't there in the pre-COVID period. So, that was one.

And the other one was that even today, the mix that we have is more biased towards delivery compared to pre-COVID, which obviously influences the BPO and the ticket a little higher. So, ticket is still higher compared to pre-COVID levels, order recovery is close to pre-COVID levels now and we expect that trend to continue. And we expect all account to build further going forward as dine-ins reopen.

**Percy Panthaki:** So, there will be on lasting improvement in the average bill value. Once the COVID situation absolutely normalizes, the bill value will also return to pre-COVID levels except for the increase in delivery charges and some price increase?

**Pratik Pota:** Well, there will be two counts on which the ticket will be higher than the pre-COVID levels. One, of course, is the delivery charges. The other one is the fact that our delivery mix has increased significantly compared to pre-COVID levels across different town classes. And even as dine-in becomes more normalized, we expect delivery to stay elevated, and therefore there will be a shift in mix in favor of delivery. We have already seen that happen, we believe that will sustain and therefore that will again flow through in form of a higher ticket.

So, those are two sort of, temporal reasons. But if I look at more strategic ways of driving ticket, two or three things that we are working on, one is premiumization. And you have seen some innovations have been done in the last quarter in that direction. You will see us do more of that going forward. The second theme that you will see us working on is personalization. So, when a customer uses our app and our assets to transact he will see a very personalized experience, which again allow us to attach more items and drive higher ticket. So, those are the themes that will play out in addition to the points that I made earlier.

**Percy Panthaki:** Another thing I wanted to ask is, during COVID times, you have done very well in terms of sort of making your business model such that you did not face too much of damage from the operating deleverage because the costs were variablized etc. Now, assuming that COVID is behind us, and we see a ramp up in sales and same store sales growth, which is now like close to zero or a 2% CAGR let's say that ramps up to a 5% - 7% kind of number in the near future. Is there any way we can get operating leverage on our margins or now that the business model has changed, we should not expect operating leverage to come into the margins?

**Pratik Pota:** So, Percy, certainly as revenue growth comes back and as things normalize, there will be some impact of operating leverage. But we also need to keep in mind that we are seeing inflationary pressures. And they will play out over the next few quarters. While there is some moderation in this quarter compared to the previous quarter, but it's hard to sort of have a prognosis on how inflation trends will play out in the next few quarters. But there could be some headwinds there, number one.

Number two, we will clearly need to make investments in driving improved customer experience, in driving better product quality and service quality. And, of course, need to invest in driving our digital and our technologies experience. So, between operating leverage coming our way and some of these investments / cost, it's hard to tell where margins will end up but obviously the attempt will be to make sure we deliver robust and sustainable EBITDA margins going forward.

**Moderator:** Thank you. The next question is from the line of Chirag Shah from CLSA. Please go ahead.

**Chirag Shah:** My question was on the cumulative app downloads. In the last year, we have seen a very impressive app downloads with practically 27 to 28 million addition to the cumulative downloads particularly a 65% growth. Just trying to understand this a little bit better, what is the consumer engagement strategy once the consumer app is downloaded, are these gross or net downloads? And I am not sure how many of these downloads are active and transacting users, just thoughts on the thing? And at what stage do we start data analytics once the app is downloaded, please.

**Pratik Pota:** So, yes, we have seen a significant increase in the last one year on our app downloads and our app installs. And that's because over the last five to six quarters, we have very deliberately and very consciously increased both the quantity and the quality of our performance marketing spends. We have driven a higher traffic, higher downloads. And that's showing up the numbers that you talked about.

What is very encouraging is that the app installs are leading to a very clear and a very encouraging increase in monthly active users and within that in the transacting users. So, there is a very clear flow through the numbers that you see reported there to respond to your question are gross numbers. There are some uninstalls, but the very encouraging part is that we are seeing a month-on-month sustained increase in both the active and the transacting users.

Our engagement with people who download our app starts pretty much on the first day through a welcome message. And then we make sure that we walk them through a very clear life cycle to get them to transact first and having transacted first we walk them through into building their frequency. So, there is a very clear playbook defined by the marketing team on guiding the customers through their life cycle and through their life stage to make sure that we get as many customers as we can to becoming high frequency customers with a highest lifetime value.

**Chirag Shah:** Just one follow up question that I had on the volume numbers that you mentioned, right, so if I look at the system wide sales today for this quarter, it is up 11% over Q2FY20 levels right. Now, since FY20, we have had an introduction of delivery fees, some increase on the delivery fees that we did recently for the fuel cost pass through, which we should be reflecting in this 11% growth number. So, in that context, how should we think of volume growth during this period, right, you mentioned about a higher tickets that we have had on the stores, but the 11% number, does that add up to that higher volume numbers?

**Pratik Pota:** No, it goes back to the question that was asked, I think by Percy earlier. So, our recovery has been driven during the COVID period more by the strengthening of the ticket, which compensated partially for the drop in the volume of the order count. However, for the last two quarters, and especially in the last quarter, and even within the quarter, the second half of the quarter and the more recent period, we saw a very encouraging return of the orders. And as we exited the quarter, the order recovery was almost back to pre-COVID levels.

So, we almost had the same level of order turnaround as we had pre-COVID levels during the exit of the second quarter. So, going forward, and this is obviously an important quarter, there is more normalcy, improved mobility, less restrictions plus the festive period. We expect order count to come back strongly in this quarter and to start showing positive growth over pre-COVID levels.

**Chirag Shah:** The volume numbers while the revenue numbers has staged a very smart recovery right, would you say that the volume numbers are back to the pre-COVID numbers?

**Pratik Pota:** Yes, I mean, I just answered that question Chirag that as we look at last Quarter 2 gone by, we saw a very strong and a very consistent and very encouraging trend of order recovery. And as we exited the quarter order count and order recovery was pretty much back to pre-COVID levels.

**Chirag Shah:** We have been running this scheme of improving the delivery time from 30 minutes to 20 minutes the “Tees se Bees!” scheme. And you I think touched upon a little bit on that, but if you can just elaborate a bit around where are we in terms of getting to the 20-minute delivery number?

**Pratik Pota:** Yes Chirag, I think we have a very clear work stream aimed at improving our operational KPIs and our delivery experience to our customers. And one big element of course of that is time taken to deliver the order. And we have seen a very consistent and a very strong improvement in our delivery times. Most of our orders now get delivered, absolutely bang on time and under 30 minutes.

We also have kicked off a plan to move to faster delivery. And we are seeing an encouraging trend again, of greater number of orders being delivered within 20 minutes. I must clarify in the same breath that the faster delivery happens, as you are aware, not on account of either making food ahead or faster or speeding on the road, it happens on the back of having tighter geographies and more compact store areas and therefore reduce drive time which allows us to deliver the same order faster. So, we are seeing a significant improvement in orders being delivered on time and that is reflecting as I said earlier in improved customer satisfaction levels.

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

**Manoj Menon:** Just a couple of questions, one, when I look at the expansion thought process which you have, which is broadly about 10% odd on the base, and also observing that there are many other QSR brands who are also looking to expand at the same time. When I look at the history, this is probably the first time when almost every, I would say, entrant or a known brand would be looking to expand at the same time. I also understand that there is a tailwind of the market opportunity, which is probably visible in many other, foods and food services business.

Just trying to understand from your point of view, how are you looking at it, this is not about FY22 this is also about FY23 and FY24 just about the medium term. I mean, how do you look at the expansion opportunity, because it can also result in a situation of significant, let's say, what happened with our Company itself five years back of, maybe expanding a little more than required, at a particular point in time.

**Pratik Pota:** If I am able to sort of understand your question, you are referring to potentially competitive intensity increasing with all other QSRs also expanding faster. If I can respond to that, I think we are at a stage of evolution in a category Manoj, as you know where the more innovation that comes by, and the consumers see, the more will be the adoption, the trial and adoption of the category, across towns. We have very low penetration as a QSR segment. We have a frequency of consumption of non-homemade food is very low compared to even neighboring markets and peer markets in Asia. So, the headroom for growth is tremendous. And I think the more activity and the more innovation that that consumers see, the better it will be in driving category creation and category building.

So, we do not expect to see any headwinds or any challenges on account of these activities and these entrants. As you are aware Manoj that we have an extremely well-developed playbook when it comes to dealing with competition. And you saw that on vivid display in FY19, and FY20, when there was possibly the most intense of competitive headwinds that we saw from aggregators. And in the midst of those competitive headwinds Domino's was able to not only hold, but also grow market share.

So, we believe that the category opportunity is what we need to keep in mind, we need to be aware of what's happening in the competitive space. But our focus needs to be firmly on the consumer and on the changing consumer behavior, and the changing consumer expectations. So, many of the things that we are investing behind, for example, faster delivery; for example, digital; for example, premium products are exactly towards those changing consumer expectations and trend.

So, as long as we focus on the consumer, and make sure that we are delighting her and delighting him, at every moment of truth, I don't think we need to worry about the competitive headwinds. In any case, like I said those are good for the category and good for category creation.

**Manoj Menon:** Thank you Pratik because I was actually looking for this sort of confidence, because I remember again five years back, the narrative of, at least amongst majority of consensus about maybe in sell side about Swiggy, Zomato being a disrupter versus, this is actually a tailwind. I do remember that we were probably the minority at that time. So, understood, so I was just trying to understand whether the same playbook I can apply even today, thank you for that.

The second question, rather, the sub-question here, actually, is that when I look at the number of cities which you are present in currently versus the number of cities, which is only two left now actually, which is Swiggy and Zomato at percent, I mean, while 9 new cities it's a welcome number, is it not underwhelming, I mean, you are at like 200 odd cities versus they are 500 plus. I mean, I understand that you are a QSR and kind of they are, you know, maybe addressing a very different market out there. But also, even when I do look at Swiggy and Zomato very closely as an analyst, kind of you know, they also rely a lot on the Zero restaurants, right, I mean so in that context, are you; I mean, how do I think about your expansion, because it seems that you are still prioritizing expansion in the larger existing cities versus entering new cities. What is the thought process here?

**Pratik Pota:** So, Manoj, let me reframe the question a little bit. I think rather than look at the number of cities as an underwhelming number, the way I would reframe it to say that, in 55 stores that we have opened, 46 of them have been in cities where we already have a presence which means from an opportunity point of view, we continue to see abundant opportunity in markets like Mumbai, markets like Bangalore, markets like Delhi and the other towns. And we also see opportunity in the towns that we aren't present in right now. So, this is what we mean when we say that the category is going to see sustained tailwinds, a sustained growth over the next few years. So, when it comes to prioritization, and when it comes to choosing stores and choosing where to open our stores. I think we have possibly a problem of plenty, rather than a scarcity of opportunity. And I think that's a good place to be.

And going forward you will see a balancing, you will us balancing the need for us to go deeper and closer to customers in existing market and opening up new beachheads in towns where we aren't present in. There will always be a balancing act. In some quarters we will hopefully delight you, in some quarters we may underwhelm you, like you mentioned. But I think for me, the encouraging context that is underlying, in that there is opportunity in all kinds of town.

**Manoj Menon:** When I look at the outside of Domino's, the activities or if I can call it as the diversifications or extensions which you have done, maybe extension is not the right word actually. So, I mean how do we think about the template which you are following, because there is Dunkin or rather there was Dunkin which was started earlier than there is Hong's and there is Bangladesh opportunity, there is Sri Lanka, there is Eurasia. There is also a Chef Boss which was tried out last year.

At one level I do truly appreciate the entrepreneurship, because it's all about trying out multiple things and playing the probability game. But I mean if you could just help us understand about the templates which you have internally, of let's say the newer ventures which you are attempting. Also, it would be very helpful if you could talk about let's say, how we have staffed the M&A teams and kind of you know, let's say are there specialists who are looking at these aspects, some of the qualitative HR comments also would be super helpful. Thank you.

**Pratik Pota:** So, let me answer the question at a slightly broader level. You have heard us articulate very clearly, our strategy for growth, which involves, first of all building a dominant Domino's business India, and ensuring we get to our bullseye target of 3,000 stores soon. We have talked about building and curating a portfolio of brands and of course our portfolio of brands that we have currently, which is Hong's, Ekdum!, Dunkin and ChefBoss is towards that.

We have talked also about that we want to grow our international business and international footprint and strengthen our business there. We have talked also about building and investing in our digital and data capabilities and all of this towards a goal of becoming a multi-country multi-brand food tech business. So, the investments that we are making are very thought-through, very specific. And all of these investments are strategic and in one of these four or five themes that I spoke about.

Our capital allocation strategy is very clear and based on what we expect to see as strategic returns in the future. And of course, the Board has complete oversight on this. There is a lot of debate and discussions when we look at new opportunities. And we decide only those which we see to be clear strategic spread for us as a business.

And of course, you are aware that we have got a very strong balance sheet and we have strong cash reserve, we don't have debt. And therefore, we are fairly confident, Manoj, I mean we are able to invest behind the strategic growth drivers as we deem necessary.

We have a team, a small team but a dedicated team that is focused on looking at these opportunities. Many come up for discussions. Many of them get passed over and only a few get into the shortlist and get into a point where we believe that there is merit in going ahead. So, this is a continuous and ongoing process and we are getting better as we go along.

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

**Vivek Maheshwari:** So, continuing from the earlier one, I also have a similar question because as, I mean I have attended obviously your conference calls over the years and I am seeing increasingly focus on multi-brand, multi-country. Now multi-brand is still an experiment, it's a low investment, you can experiment with the few stores etc. But multi-country, although you have answered in your earlier response, but my simple question is, do you have a target, let's say of the revenues or of the total capital employed how much could be deployed overseas? Because that's one big concern that we keep sharing from lot of investors and you should draw parallel to lot of FMCG companies or even for that matter, telecom Company etc., the experience has been very tough, either because of country risk, political risk or currency risk and so on and so forth. Can you just give any number in terms of target beyond which you will not take your overseas business to?

**Pratik Pota:** Vivek, rather than give a target, let me give you one sense of comfort and one commitment that nothing that we do will lead to us under investing in growing the Domino's business in India. We are very excited with the potential that Domino's has in the country. We are nowhere close to a 3000 stores target that we see very clearly in the line of sight. We see opportunities as I mentioned earlier, both in existing towns where we want to get closer to our customers, deliver faster, as also in markets where we don't have a business yet, we have a 700 towns in this country with more than 1 lakh population, we are present in more than just about 300 of them. So, there is a huge runway to grow the Domino's business in India. And we are completely cognizant of that. So, even as we focus and even as we go out and build multi-brand, multi-country portfolio, our priority will remain on ensuring that we invest and grow the Domino's business in India that is something we will not dilute our focus on.

**Vivek Maheshwari:** Sure, I mean that completely we understand. The only thing is if you can still guide something like what the overseas capital employed, beyond a particular percentage you are not looking at or revenues. Anything that you have on that front will be really helpful, maybe not today but in future if you can give some insights into that, I think investment world will particularly appreciate that bit, because that is one key question we keep getting from investors that you know the fact that where the valuations of the stock are, it's for the India business premium, it's not for what you try to do overseas.

**Hari Bhartia:** If I can, Pratik, just add here, of course we will give you a sense of that how much capital we will deploy in the international business. But probably what you have seen, is our first expansion was in the Domino's brand in the adjacent market which was in Sri Lanka and Bangladesh. And I think the results are quiet encouraging for us. As we stated earlier we see a potential of about 150 stores immediately in the next two to three years.

And our investment in DP Eurasia also was because it was a dominant brand in Domino's. Now what do we bring in, we bring in our learnings from India into these markets. The investment that we are making in technology, in product development, in supply chain, some of them can be quite well applied in these international markets also. So, we are leveraging that.

So, our focus on international growth is more around our experience in Domino's. And let me tell you, Domino's whichever country that it has operated in, it has created huge value for the investors as well as for the operators who are doing it. And because of its huge strength being a good in food technology as well as leader in delivery. And I think these two things continue to be very important. So, our international growth is as you probably have seen is purely around the strength in Domino's.

**Vivek Maheshwari:** My second question is Pratik on cost heads, one is the material cost for let's say gross margins and the second is employee cost. In both is it fair to assume that the next couple of quarters we will see reasonable inflation, at least on the manpower side that's what our checks are suggesting. So, can you comment on both gross margins as well as employee cost?

**Pratik Pota:** I will answer your question and request Ashish to add. So, on gross margins what you see reflected in the P&L, is the impact of food inflation and commodity inflation, mitigated by the price increase that we took earlier this year and productivity. We saw inflation trend play out, it was the same time last year in all commodity, on dairy, on oil, on packaging etc. versus Quarter 1 of this year sequentially we saw some moderation on dairy prices, which helped mitigate the continued inflationary pressures in oils and packaging etc.

So, going forward again it's the function of how inflation will play out, but we expect dairy to be moderate. And as you know Vivek in our business, dairy is a huge savior to cost. So, we expect dairy to be mitigating the inflation that we are seeing in other commodities. So, that will be something that will help mitigate the impact. Ashish, do you want to comment on the gross margins, here before I go to the personnel cost.

**Ashish Goenka:** Yes, Pratik you are right and as we have been doing in the past, we will continue to drive productivity across lines and especially on food cost, we will continue to drive food wastage down. And that should also help us cushion the impact of any inflationary headwind that we are facing.

**Pratik Pota:** So, on your question, Vivek on the personnel cost, the personnel cost that you see there reflect in the P&L is the sum total of accumulation of a few broad things. The first one is that we brought in a very sharp focus on manpower productivity and we saw an improvement especially in delivery productivity over the last few quarters, and in the last quarter in particular. The second theme that's showing up there is the increased deployment of business associates in our delivery fleet, our delivery manpower which are basically gig employees. And the cost of the gig employee get booked in the manufacturing and other expenses cost line. So, they don't show up in the personnel cost line. And I will talk about the cumulative impact in just a minute.

There is also obviously the impact versus last year of operating leverage. And there is some cost impact as you can imagine of the annual increases and increments. So, what you see reflect there in the P&L is a sum total of all of these themes. Now even if I look at the personnel cost, including gig and the normal employee there was a significant productivity increase versus same time last year and versus Quarter 1. We do not expect, certainly there will be some increase in the manpower requirement in Q3, given the festive period. But we do not expect to see a material headwind on personnel cost. Over to you Ashish.

**Ashish Goenka:** I think you have covered it well, Pratik, I totally agree with what you have said, that we would probably continue to see these levers, because most of the inflationary impact, particularly on personnel cost have already been factored in this quarter. And we should see it sustain at the current levels.

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

**Avi Mehta:** You called out that inflation is kind of coming off, you highlighted that employee costs are under control productivity, would that not mean that from a margin point of view, things should only kind of rise from current level, this is probably the bottom? I am not asking about quantum but Yes, I mean just a directional sense. I can’t think headwind per say that’s why I am just trying to understand, you were worse off in first quarter, when they called it out, its better now so, just any comments would be helpful?

**Pratik Pota:** As I mentioned in my earlier response, I think there will be some impact of operating leverage as revenues come back. There will also be however the need for us to ensure that we continue to invest in driving and improving our customer experience. There would also be the need for us to ensure that we stay competitive, in case there is an increase in competitive intensity. There would be also a need for us to ensure that we keep having our product measure up to customer expectations as we are evolving and as we are growing. So, there will be the pulls and the pushes on margins. And of course, our attempt will be to make sure that we drive margins and make sure that we hold up margins at least. But it’s hard to say right now whether equation will balance out.

**Ashish Goenka:** If I may just add to that Avi, we continue to face the inflationary headwinds, as you are aware you know crude itself has been hardening. We are seeing almost 40% plus inflation over last year, on both petrol and diesel which is impacting our delivery cost. We are also seeing inflationary headwinds on packaging cost, other commodities other than cheese. So, there are these inflationary headwinds which we will continue to counter. And as you rightly said some of the actions that we have taken, may cushion the impact of some of these inflationary headwinds.

**Avi Mehta:** So, where I was, I mean I was just pushing back that you highlighted these same points in the last quarter and you actually delivered this quarter. I am not able to understand, this is just being conservative that you are doing or, that’s where I was coming from, that was the only point. Because I can’t see any headwind, maybe I am missing it out.

Because Pratik, the point that you have highlighted are something that you already do, it's not something new, so this is not an additional headwind on margins how I would see it and leverage will clearly play out as recovery pans. So, that was where I was coming from.

**Pratik Pota:** I appreciate that perspective, thank you.

**Avi Mehta:** The second point I just wanted to have on the demand side, just in near term sense. From an SSS growth on a two years CAGR, this quarter is more or less flattish, has this moved back closer to the 3Q, 4Q levels in September, if you could kind of give us a sense on what is the underlying demand trend as we exited the quarter or even in October. Thank you.

**Pratik Pota:** Sure, just to make sure I got your question right. You are asking about how does it holds up versus compared versus the trend in Q3 of last year, right?

**Avi Mehta:** I am looking at the same stores sales growth. We did almost about, you know if I look at -20% was the base that we were working with and we saw almost about 26% kind of number which means that, if I look at from FY20 perspective, we are up close to about 1% or half a percent on two-year basis. If I look at the same number on the third quarter, the fourth quarter, when recovery was panning out we were close to about, that number was more like 2% or 4% on a CAGR basis, 2% to 3%. So, I was just trying to understand was September, close to that 2% to 3%, if I look at it on a two-year basis, because that I thought would be better to get away from this noise of YoY given COVID is there. Thank you.

**Pratik Pota:** No, so you are right, Avi. I think we are seeing I think strong momentum come back on the same store basis also, especially in delivery and takeaway channel. And of course, as you can imagine dine-in still remains a bit of a drag, but if I look at the numbers trending out, even as dine-in becomes more normalized, we see even at the same store level, delivery and takeaway revenues and growth holding up. They come off a little bit of the elevated levels of the lockdown period. But they hold up reasonably well, even after full resumption of dine-in.

**Avi Mehta:** So, September is kind of the reflective, this quarter did it have any impact of June, July or was this 0.5% more or less represented across the three months. Or was there an increasing trend, was there a volatile trend maybe that would kind of help answer the question.

**Pratik Pota:** I think we clearly saw improvement over the quarter play out in the dine-in channel mix and dine-in growth, because in the month of June coming off the worst impact of the COVID second wave, there was a little bit reservation about going for dine-in consumption, but that improved over the quarter. But overall, I would say the momentum was strong right through the quarter.

**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

**Jaykumar Doshi:** My question is in the markets where you see full recovery in dine-in, where is delivery settling, it is 10% to 15% higher than the pre-COVID levels or much higher?

**Pratik Pota:** I think we haven't commented on the precise number and I would refrain from doing so even now. But I think the encouraging part is that the delivery revenues hold up significantly higher than the pre-COVID levels. And it helps drive a much more balanced mix, especially in the smaller town, in the Tier-II, Tier-III, Tier-IV towns which were more, which had a much higher dine-in bias pre-COVID. Even as things have gone back to normalcy in the dine-in front we are seeing delivery revenues and delivery mix, the channel mix hold up. I don't want to sort of comment on precise numbers there, we haven't done so in the past. But these higher numbers are reflective of a very fundamental and a very significant behavior change in the smaller markets, which is what gives us so much encouragement.

**Jaykumar Doshi:** Would you be able to give us some color on the roadmap or scale-up of Hong's Kitchen from here on, I think in the recent conversation you indicated that you are quite confident of the format and model?

**Pratik Pota:** Yes, on Hong's Kitchen, I think we have seen as I mentioned in my opening remarks as well, a very encouraging trend play out. And both our new stores of Hong's Kitchen and the earlier stores have done well and have shown strong recovery, post-COVID. And therefore, based on these learnings and based on this experience, we intent to invest in two things, one is increasing brand awareness in Delhi NCR, and we rally with calibrated expansion of the network, both in Delhi NCR and outside. And you will see us doing that over the next few quarters.

Hong's Kitchen as we have talked about in the past, has a very important role to play because it is in the middle of the market, the space between the unorganized of the street side Chinese food market and of course the casual dine or the fine dine Chinese market. And that space, there is a large opportunity and a large vacuum there, and Hong's plays there. And again, all the data that we are seeing on customer feedback, our own experience, our own revenues, we are seeing that this opportunity is going to be quite exciting in the future so we will be scaling up the brand progressively or in a calibrated way in the future.

**Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** First question pertains to the inflationary headwind that you spoke at length about. Any plan of making pricing interventions and any read through on consumer sentiments as of now to absorb price hikes. And would you be able to save or retain rental savings that we would have got last year, once the normalcy comes back, so two questions on margins.

**Pratik Pota:** So, Tejas, on your first question, on the headroom for pricing, you would recollect that we took a small pricing earlier this year. And then have gone down and settled down. We, as a QSR brand that is focused on a very value cautious consumer segment we make sure that our proposition is one that is offering superlative value for money to our customers. We know that our role is to grow the category, to recruit new customers, to grow frequency and build new occasions. So, this is something that we are very conscious of. And therefore, we walk a very fine line in ensuring that there is great value for money, at the same time while defending margins and making sure we have the right margin profile. Going forward, in case inflationary pressures continue and we see the need to take a price increase we certainly see elbow room for us to do. But that will be something we will look at only as a last resort, given the importance of providing value for money to our customers.

So, Tejas on the rental, I think during the course of last year, as you are aware we went to our landlord partners and requested them to give some concessions, given the nature of the headwinds that we were facing. And we were grateful that most of our landlord partners saw the merit and agreed to some rent concessions. As the situation has become more normal those concessions have become lesser, as you can imagine. And going forward even as we try to drive productivity, the COVID related concessions will probably not be there. But that doesn't mean that we don't drive productivity in rent, we will continue to do so. But the COVID related savings will not come by.

**Tejas Shah:** And last question, Pratik, historically you have as a team also you have got it very right on expansion opportunity, empirical evidence also suggest that you saw opportunity of 1,400 stores when we all had our doubts. And now when you actually guide for 3,000 stores, and when we step back and look at the other retail formats and lifestyle part of the consumption basket at current count you are already the largest penetrated single brand retail network in the country. In fact, I would believe 50 stores more than Bata now.

So, you actually explained at length that there is an opportunity in how we are seeing opportunity even in sub one lakh or sub three lakh population towns also. But when we see the size of opportunity some of those other categories have which is Rs. 30,000 to Rs. 40,000 crores category and still they are not able to make case of more than 1,400 to 1,500 stores. And when we see our category size, pizza in particular Domino's or the cuisine that it is catering to, somewhere the size of the market and the penetration that we are going for does not add up. So, just wanted your insights on the same?

**Pratik Pota:** So, Tejas, I am afraid, I cannot presume to speak for the other categories and other brand. I can certainly speak for what we see. So, we see a profusion of opportunity both in existing large towns and in markets where we don't have a presence or a footprint right now. And as I mentioned in one of my earlier responses, when we have entered these new towns, we have been essentially surprised by the positive response that we have elicited. So, we do not see any scarcity of opportunity in driving market penetration and driving the footprint in these smaller towns.

**Moderator:** Thank you. The next question is from the line of Nishit Rathi from CWC. Please go ahead.

**Nishit Rathi:** Just wanted to get your thoughts, I think if I heard it right, you said you feel confident on not only advertising for Hong's but also taking Hong's outside Delhi NCR. Did I get that right?

**Pratik Pota:** Nishit, so yes on Hong's, having now built a reasonably strong footprint in Delhi NCR. We would like to invest in building brand awareness that's Stage-I. And in Stage-II, yes we will be taking the brand in a calibrated way outside of Delhi NCR into new markets.

**Nishit Rathi:** So, just little bit more color on there, Pratik, because this is very heartening to hear because the biggest challenge that we always faced in Hong's was we always knew the market was there, and you were looking to crack (a) the unit economics, (b) the ability to replicate the taste and the offering across different things, right because it was a very manpower intensive kind of a business and you wanted to get it extremely right before you kind of really do that. So, is it fair to assume that you are broadly there and now it's just a matter of just finding the right location and replicating it across?

**Pratik Pota:** So, Nishit, I would say certainly we have made very encouraging progress on addressing the issues that we encountered early in the Hong's Kitchen journey, whether it's in terms of ensuring food consistency, ensuring that we have as much of these getting done in the stores as possible, ensuring that we have the right economics like you said. So, we have made very encouraging progress, and that's what gives us the confidence to move ahead. I would still say that there is room for us to get even better, but certainly we have had our share of learnings over the last year, and a half.

**Nishit Rathi:** Would you share any kind of number because this is an extremely exciting opportunity, would you like to share any kind of numbers and maybe not now maybe three years out, something that you would be disappointed not seeing Hong's doing.

**Pratik Pota:** I am sorry because you know we cannot share numbers.

**Moderator:** Thank you. Ladies and gentleman, we will take one last question from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

**Aditya Gupta:** Just back on the recovery part for dine-in and delivery so just on the back on the envelope math from the numbers you have given out on the slide deck, is the delivery sales on a quarter-on-quarter basis largely flattish and the improvement that we have seen on the topline mostly driven by our dine-in sales or if there is something I am missing over here?

**Pratik Pota:** So, Aditya, I think look quarter-on-quarter trends in accrued revenues they are sometimes not reflective for the entire story, because of two, three reasons, (a) one is of course seasonality in our category, (b) what we have seen in the last few quarters in terms of the COVID impact. So, it would be unfair and I think incorrect more appropriately to sort of call-out the accrued numbers of delivery or any channel performance for the last few quarters.

But I think the underlying theme, which is what you are hearing us call-out, I think it's important to acknowledge that, which is that we are seeing these momentum sustain. We are not seeing delivery let up except for a minor correction even as dine-in resumes. We are seeing small towns embrace delivery much more strongly than what they did pre-COVID. We are seeing behavior change happen, we are seeing consumers embrace delivery, takeaway, even as dine-in comes back. We have seeing consumers embrace online methods of ordering including using our own app.

So, there is a very fundamental structural shift that we believe is happening in the category. And the numbers may or may not reflect that given the noise that I spoke about earlier. But I think we are seeing a behavior which is fundamentally different from what we had pre-COVID. There is certainly much greater adoption of delivery, absolutely clearly and unambiguously.

**Aditya Gupta:** And the last bit on competitive intensity, I think you have called out last quarter that there was some increase in competitive intensity and so what are we looking at now ahead of the festive season, do you think the competitive intensity is rather benign or are you expecting a pickup in that right off the festive season.

**Pratik Pota:** Aditya, I think the competitive intensity that we have seen is nothing out of the ordinary, and nothing that we believe is cause for concern, this is the normal intensity that you would see in any business. And like I said earlier, I think some competition is good, in fact any competition is good, it will help us drive excitement in the category, stoke demand and drive more and more trials and therefore more and more category creation. So, given the fact that its festive period there will be more intensity and more activities from various QSR players, I think which is great news for the category is and we are not deterred by it.

**Aditya Gupta:** I think on the delivery charge, the fuel costs are going up significantly, is that a number you plan to tinker around with or is that a fixed kind of a number on a per order value, the way it has been segregated now or would that number keep changing as and when fuel cost change?

**Pratik Pota:** Aditya as you are aware, we took a small increase in delivery charges earlier this year. And that was partly to compensate for the increase that we saw in fuel and the overall cost inflations. I think we are comfortable where the charges are positioned right now. And we do not feel the need to make any changes at least in the immediate future.

**Moderator:** Thank you. I would now like to hand the conference, over to the management for the closing comments.

**Pratik Pota:** Thank you so much. I wanted to sort of callout and appreciate the fact that all of you have taken time out, joined for the call today. And I know that there were variety of questions and I really hope that we were able to answer most of them. In case you have any follow-up questions or any clarifications that you would need, please feel free to reach out to Deepak or to our Investors Relations team and we will be happy to respond. Thank you. Have a good day and week. And in advance, wish you a very Happy Diwali.

**Moderator:** Thank you. Ladies and gentleman on behalf of Jubilant Foodworks Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.

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